

Comment #14 – 3/2/10 – 4:17 p.m.

This note represents the viewpoint of several actuaries at Principal Life Insurance Company, as a result of an active discussion of the exposure draft. The items brought up are a summary of comments from individual actuaries and do not represent the viewpoint of Principal Life.

The Exposure Draft asks for responses to three questions. With respect to those questions, here is our response.

1) Is the revised concept of an actuarial report reflected in this draft both clear and appropriate?

The concept is consistent with sound actuarial practice and is clear and appropriate.

2) Is the revised ASB position on documentation appropriate?

The position is appropriate.

3) Does this revised draft incorporate an appropriate emphasis on the need for the actuary to consider the needs of the intended users.

The draft seems to include one area where the needs of the intended users are overemphasized.

Section 3.2 implies that an actuary should always complete an actuarial report when an actuarial document is to be relied upon by the intended user. An actuarial document is broadly defined. There are frequently circumstances where an actuary may create an actuarial document and where the preparation of an actuarial report may represent an unnecessary and expensive burden on an actuary.

There are at least two broad areas where this is too rigid:

(1) Actuaries often present findings on normal day-to-day business issues to intended users where creation of a fully defined actuarial report would be unnecessary and not expected.

(2) Within the broad context of an actuarial project, actuarial findings may be presented, relied upon, and later changed and never included in a final actuarial report.

The actuary should be allowed to use judgment to determine whether and when an actuarial report, with all the disclosures of sections 3.3 and 4.1, is needed. The actuary also may need discretion in determining what is included in an actuarial report. It is too broad to include all actuarial documents.

Other comments:

(1) Section 3.3.4 notes that “an intended user of an actuarial communication will generally expect that the assumptions and methods employed by the actuary preparing the findings within an actuarial communication were endorsed by the actuary.” Disclosure about assumptions and methods is set in Section 4.3.

These sections fail to recognize that there may be methods and assumptions used in preparing actuarial findings, in an insurance company environment, that the actuary does not endorse and does not set. These methods and assumptions may not be within the scope of an assignment to review for reasonableness and may not be within the scope of the actuary’s general responsibility. For example, the actuary may be supplied with a projected sales volume or sales distribution in the execution of pricing assignment and the evaluation of such an assumption is beyond the scope of the actuary’s work or responsibility.

In such a case, it seems the disclosure requirements are too strict. It may not be appropriate for the actuary to say either (1) that the assumption or method conflicts with reasonableness or (2) the actuary is unable to judge the reasonableness of the assumption or method.

The ASOP should allow the actuary, at the actuary’s discretion, to simply disclose that the assumption or method was not set by the actuary and does not represent the actuary’s professional judgment.

(2) Section 3.6 (Oral Communications) states: “where the actuary has a concern that the oral communication will be passed on to other parties, ...” That statement should be clarified and made consistent with Section 3.2. Suggestion: “where the actuary has a concern that the oral communication may be relied upon by the intended user to make decisions, ...”

(3) Section 4.1.3 notes that the “actuarial report should disclose the following information, unless it is inappropriate.”

In an insurance company environment, several of the disclosures are obvious and apparent from the employment relationship of the actuary. Section 3.3.2 allows for a disclosure exemption if pertinent information is apparent; such a qualifier would help here, also.

Suggested wording would be “actuarial report should disclose the following information, unless it is inappropriate or apparent from the relationship of the actuary and the intended user.”

(4) Section 4.3c notes that the actuary should disclose the reason why the other party set the assumption or method. Assuming, in most insurance company situations, the

intended user (the insurance company) is the party setting the assumption or method, what purpose is served in the actuary determining the reason for setting the assumption and disclosing the reason in the report to the intended user (insurance company)? The intended user (insurance company) may not want to document its reason for setting an assumption or method. This item does not appear relevant in an insurance company situation and should be dropped or qualified.

Thank you for the opportunity to comment,

Mike Dulaney

Chris Freese

Marilyn Janzen

Chris Kinnison

Thomas Phillips

Matthew Schafer

Mike Streck

Michelle Vande Loo

Randi Woods

Mike Ziegert

Principal Life Insurance Company