

COMMENT #8: JANUARY 5, 2009

From: Rowen Bell

Sent: Monday, January 05, 2009 4:12 PM

To: ASB Comments

Subject: 2008 Request for Comments on ASOP Content and ASB Procedure

The following comments are (belatedly) submitted in response to the ASB's October 13, 2008 Request for Comments on ASOP Content and ASB Procedure.

There are three aspects of the existing ASOP development process that, in my view, are less than fully satisfactory:

(A) Frequently, ASOPs are deliberately crafted to apply narrowly to one specific area of practice, when the concepts involved have potential application to multiple areas of practice.

(As an example, there is one standard (ASOP 5) that applies to estimation of unpaid claim liabilities for health insurance, and another standard (ASOP 43) that applies to estimation of unpaid claim liabilities for property/casualty insurance. Certainly there are issues of actuarial practice that arise in health claim liability estimation but not in P&C claim liability estimation, and vice versa. However, fundamentally we are talking about a common actuarial concept -- estimating future unpaid claims -- and hence it is far from clear to me why having two separate ASOPs is in the best interests of the profession, as opposed to the alternative of a single common ASOP on liability estimation with certain sections that would apply primarily to health practitioners and other sections that would apply primarily to P&C practitioners.)

(B) The decision-making process for determining that a subject merits an ASOP appears, from the perspective of someone not involved in the ASB, to be a bottom-up process rather than a top-down process. As a consequence, the set of topics for which an ASOP exists appears to be somewhat haphazard.

(C) The taxonomy of the ASOPs, which reflects the historical timing of ASB actions, is not particularly helpful to users.

In order to address these issues in an integrated fashion, I would encourage the ASB to consider taking the following series of steps.

The first step would be to re-organize all existing ASOPs into a "codified" form whose taxonomy is comprehensive and logical. An appropriate model here would be the Financial Accounting Standards Board's recent Accounting Standards Codification project. Prior to Codification, US GAAP literature resides primarily in a series of Standards which, not unlike the ASOPs, were numbered in a fashion that reflects chronological rather than topical considerations. (For example, the subject matter of SFAS 60 is unconnected to the subject matter of SFAS 59, just as the subject matter of ASOP 5 is unconnected to the subject matter of ASOP 4.) With Codification, by contrast, the existing literature has been re-organized along topical lines, facilitating the user's ability to access the material in an organized fashion.

A key part of this step would be fashioning a topical taxonomy of potential ASOP subjects, which would serve as the overriding organizational structure for the codified ASOPs. I believe it is important that the highest level of such a taxonomy be organized along functional lines, rather than along areas of practice. That is, categories as the highest level of the taxonomy might be concepts such as "Pricing / Ratemaking" or "Valuation of Claim Liabilities" or "Valuation of Pre-Claim Liabilities", rather than practice areas such as "Life" or "Health" or "Pension".

The second step, after the existing ASOP content has been codified, would be for the ASB to actively seek out opportunities to synchronize existing standards that cover similar topics but pertain to different areas of practice (e.g., ASOP 5 versus ASOP 43).

The third step would be to scan the resulting ASOP taxonomy for gaps, and fill those gaps via the issuance of new ASOPs. This would facilitate a top-down perspective regarding the adequacy of breadth of the ASOPs taken as a whole.

I realize that this program would be not only a significant undertaking for a volunteer-driven organization, but also a relatively radical re-conceptualization of the current ASOP structure. Nevertheless, I believe that if such a program could be performed, the resulting set of professional standards would be more robust and better serve the needs of the actuarial profession and its publics.

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