

## Appendix 2

### Comments on the Second Exposure Draft and Task Force Responses

The second exposure draft of this actuarial standard of practice (ASOP) was issued in November 2004, with a comment deadline of March 31, 2005. Nine comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Task Force to Revise ASOP No. 11 carefully considered all comments received. Summarized below are the significant issues and questions contained in the comment letters and the task force’s responses. Unless otherwise noted, the section numbers and titles used below refer to those in the second exposure draft.

<b>GENERAL COMMENTS</b>	
<p>In the transmittal memorandum of the second exposure draft, the task force asked readers whether the revised language in section 1.2, Scope, was clear and appropriate in regards to its application to reinsurance assumed by property/casualty insurers, which involves only life/health insurance. There was consensus among commentators that the revised language appropriately clarified the scope of the standard.</p> <p>In addition, the task force asked readers whether revising the scope to clarify that when reinsurance involves both life/health and property/casualty insurance, the actuary should use professional judgment to determine whether this standard, ASOP No. 36, or aspects of both would apply, was clear and appropriate. There was consensus among commentators that this was also the correct approach.</p> <p>The task force implemented editorial changes in addition to those addressed specifically below if they enhanced clarity and did not alter the intent of the section.</p>	
Comment	<p>One commentator believed that the language of the standard could be clearer in describing situations in which the actuary needed to use judgment to determine which standard applied, noting that such situations should be limited to those in which life/health and property/casualty insurance are covered under the same reinsurance agreement.</p>
Response	<p>The task force agreed and clarified the language in the scope by adding the word “transaction” to section 1.2.</p>
Comment	<p>One commentator was concerned that language in paragraph 5.2 of the original standard had been removed. The language stated that net statement liabilities should “make appropriate provision for all of the company’s unmatured obligations according to the actuary’s best estimate of future experience, considering the reinsurance.” The commentator suggested restoring the language in a manner to make clear that the net liability test is an aggregate test covering the entire company.</p>
Response	<p>The task force carefully addressed this concern but believed that the original decision to delete this language was the appropriate one. The task force did, however, revise section 2.2, Net Statement Liabilities, to make clear that in the context of this standard, the term refers only to reserves and related items affected by the reinsurance agreement.</p>

Comment	One commentator believed the issues of liquidity and collectibility of reinsurance should be highlighted and specifically mentioned in the standard.
Response	The task force carefully addressed these issues and concluded that they should not be addressed in the body of the standard, recognizing that the actuary may or may not be involved with their assessment. The task force did, however, revise the language in appendix 1 to include reference to liquidity as well as collectibility.
<b>SECTION 2. DEFINITIONS</b>	
<b>Section 2.2, Net Statement Liabilities</b>	
Comment	One commentator believed that the language should be clarified to distinguish more clearly between “reinsurance reserve credits” and “amounts receivable from reinsurers,” so that the relationship is delineated explicitly.
Response	The task force disagreed and made no change because any more specificity could result in unintentionally omitting situations that need to be considered by the actuary.
<b>Section 2.4, Reinsurance Agreement</b>	
Comment	One commentator believed that the word “primary” raised the possibility that the scope does not cover retrocessions of reinsurance and suggested revising the wording to say “ceding” rather than “primary (or ceding)” insurance entity.
Response	The task force agreed and replaced the phrase “primary (or ceding)” with “ceding” in this section.
Comment	One commentator believed that the definition of “health insurance” in section 2.1, combined with the definition of “reinsurance agreement” in section 2.4, leaves the scope rather unclear for both employer stop-loss programs and the wide variety of managed care arrangements and recommended that this standard be clarified to state that health insurance does not include self-insured benefits or providers who enter into risk-sharing arrangements with HMOs or health insurers.
Response	The task force agrees that, for example, a stop-loss arrangement written by an insurance company on a self-insured health plan, or agreements under Medicare Part D with the federal government as stop-loss and catastrophic claims payor, are outside the scope of this standard. The task force believes that sections 2.4, 2.5, and 2.6 make it clear that, for purposes of this standard, reinsurance requires both a ceding and assuming insurance entity. Therefore, the task force made no change in response to this comment. However, the task force notes that the guidance in this standard may still be useful in situations that are outside the scope of this standard.
<b>SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES</b>	
<b>Section 3.3, Treatment of Reinsurance Ceded</b>	
Comment	One commentator suggested that the first paragraph be deleted, stating that its language tries to influence the independent judgment approach espoused in the second paragraph.
Response	The task force believes that the commentator has misinterpreted the first paragraph, which is intended to achieve internal consistency of treatment between reinsurance ceded and the direct or assumed business from which it arises, within the scope of a particular company’s financial statements. This paragraph is not intended to refer to consistency between different companies.
Comment	One commentator suggested that the language be revised to clarify that “adjustments for reinsurance ceded” include adjustments to the financial statement items.
Response	The task force agreed, noting that adjustments for reinsurance ceded typically relate to the values of financial statement items. Section 3.3 was revised to clarify this issue.

Comment	One commentator believed that, although section 3.3 states that calculation of the adjustments for reinsurance ceded should be consistent with those underlying the calculation of the direct values, language should be inserted to highlight the impact of the long-term nature of the reinsurance transaction, particularly as it relates to nonproportional features.
Response	The task force disagreed, believing this is already adequately addressed in the standard.
<b>Section 3.8, Reliance on Others (now Reliance on Data or Other Information Supplied by Others)</b>	
Comment	One commentator believed that the language in this section was inconsistent with ASOP No. 23, <i>Data Quality</i> , since there is no reference to the actuary’s responsibility when reviewing data for reasonableness and consistency. The commentator suggested that such a sentence be added.
Response	The task force agreed with the spirit of the comment and revised the title and language of section 3.8 to make a direct reference to ASOP No. 23.
<b>Section 3.9, Documentation</b>	
Comment	One commentator stated that the first sentence in this section covers documentation for items “used” but should elaborate further to state what the items are used for.
Response	The task force agreed and rewrote the sentence to clarify its meaning.
<b>SECTION 4. COMMUNICATIONS AND DISCLOSURES</b>	
<b>Section 4.1, Communications (now Actuarial Communications)</b>	
Comment	One commentator believed the phrase “unresolved, material concerns” needed further clarification and suggested defining the term “resolved.”
Response	The task force disagreed, believing the current language is appropriate. However, the task force did delete the word “material” from the phrase to make the language consistent with other ASOPs.
Comment	One commentator believed that this section should better clarify what “reinsurance information” should include.
Response	The task force agreed and added examples to this section to clarify what items may be included in reinsurance information.