

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of this ASOP, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*, was issued in March 2010 with a comment deadline of June 30, 2010. Six 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 Subcommittee on Reserving carefully considered all comments received, and the Casualty Committee and ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses.

The term “reviewers” in appendix 2 includes the subcommittee, the Casualty Committee, and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in this final version.

GENERAL COMMENTS	
Comment	One commentator thought the use of the word “loss” was confusing and recommended it be eliminated from the standard and replaced by “claim” with a note that the term “loss” is often used in practice.
Response	The reviewers retained the references to “loss reserves” as in the title of the standard, as such use is common and understood. The definition of “loss” states that it is also known as “claim amount.”
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	One commentator suggested the scope be changed to include the actuarial opinion summary and supporting reports.
Response	The reviewers disagree and made no change. The actuarial opinion summary and supporting reports are subject to ASOP Nos. 9, <i>Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations</i> ; 41, <i>Actuarial Communications</i> ; and 43, <i>Property/Casualty Unpaid Claim Estimates</i> ; but 36 is intended to apply solely to the statement of actuarial opinion.
SECTION 2. DEFINITIONS	
Section 2.1, Accounting Date	
Comment	One commentator felt the reference to “as of” date was unclear.
Response	The reviewers think the reference helps clarify the definition for some and have left it unchanged.
Comment	One commentator suggested deleting the phrase “as paid.”
Response	The reviewers modified the definition to refer to both “paid” and “unpaid.”
Comment	One commentator suggested changing to “the date on which an accounting period ends”

Response	The reviewers do not believe this adds clarity and made no change.
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2.6, Loss Adjustment Expense	
Comment	One commentator thought this definition should be clarified as to whether it includes both unallocated and allocated claim adjustment expenses, thinking the language of the definition implies only “allocated” (i.e., “defense and cost containment” in Annual Statement vernacular) because it leaves out “adjusting and other” (Annual Statement vernacular for unallocated) as examples of types of costs.
Response	The reviewers note the definition does include “administration” and “determining coverage for” which would be Adjusting and Other expenses. Thus, no change was made to the definition.
Section 2.13, Valuation Date	
Comment	One commentator suggested changing to “the date as of which the actuary’s estimate applies to the opinion.”
Response	The reviewers disagree with this definition, as it is possible for a valuation date to differ from the date at which the estimate applies. For example, if an actuary used data through December 31, 2008 to opine on the reasonableness of a reserve booked at December 31, 2007, the valuation date in this case would be December 31, 2008, while the accounting date would be December 31, 2007.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Comment	Two commentators suggested the removal of the section on Risk Transfer Requirements be mentioned in the transmittal memorandum.
Response	The reviewers do not believe this is necessary and made no change. The reason for its removal, as noted in the appendix of the second exposure draft, was that the reviewers decided this is an accounting issue outside the scope of this ASOP. The deletion of this section does not in any way imply the actuary is obligated to opine that the reserves are established in accordance with regulatory or accounting requirements regarding risk transfer in reinsurance contracts.
Section 3.3, Reserves Being Opined On	
Comment	One commentator questioned the need to identify the reserve amount and accounting date, stating they should be simply disclosed. The commentator further noted the accounting date is not mentioned in the disclosures.
Response	The reviewers note it is reasonable to first identify something before disclosing it. Furthermore, the reviewers note the disclosure in 4.1(d) does include both the reserve amount and the accounting date.
Comment	One commentator suggested changing language to state “if there are specific accounting standards applicable to the stated basis (per section 3.4) of the reserves (for example, US SAP, US GAAP, IFRS, etc.), then the actuary should reflect such stated basis in developing their opinion.”
Response	The reviewers have modified the language by adding the words “if relevant.”
Section 3.4, Stated Basis of Reserve Presentation	
Comment	One commentator suggested the last word in this section be changed from “reserve evaluation” to “opinion.”
Response	The reviewers believe “reserve evaluation” is appropriate.

Section 3.5, Scope of the Analysis Underlying the Statement of Actuarial Opinion	
Comment	One commentator suggested revising section 3.5(a) to read “the review date of the actuary’s unpaid claim estimate analysis...”
Response	The reviewers disagree, as it is the review date of the opinion that should be disclosed in the opinion, which may differ from the review date of an underlying unpaid claim estimate analysis. The language in section 3.5 and the definition in section 2.10 were modified to clarify this.
Section 3.7, Reserve Evaluation	
Comment	One commentator suggested changing the word “producers” in section 3.7.2 to “authors.”
Response	The reviewers decided to change the word to “appropriate parties.”
Comment	One commentator stated the second paragraph of this section was educational in nature and therefore inappropriate for a standard of practice.
Response	While the reviewers agree the second sentence of that paragraph is partly educational, the reviewers believe it adds clarity and have retained it.
Comment	One commentator suggested that the paragraph beginning, “If the actuary makes use of other personnel within...” be moved to section 3.7.1., as the commentator believes an actuary making use of other personnel within the actuary’s control to carry out assignments is essentially developing his/her own estimates, so section 3.7.2 would not apply.
Response	The reviewers did not make the change, as it is possible for an actuary to make use of personnel within the actuary’s control in the process of making use of another’s analysis or opinion per section 3.7.2.
Comment	Multiple commentators disagreed with the removal of the references to “review opinion” and suggested changes to allow for a more limited review in certain cases.
Response	The reviewers disagreed, believing that all opinions subject to the standard should be held to the same requirements. The reviewers note that when conducting a “review opinion” the actuary may decide to make use of data accumulations, methods, assumptions and calculations performed by another actuary, so long as, in the actuary’s professional judgment, it is reasonable to do so, as discussed in section 3.7.2. Additional language was added to section 4.2(f) regarding the disclosure of the extent of the actuary’s review of the underlying analysis.
Comment	Some commentators thought the final sentence in the first paragraph of section 3.7.2 was long and could be clarified.
Response	The reviewers edited this sentence, using an outline form, to clarify.
Comment	Some commentators thought the actuary should be required to disclose issues underlying material differences between the actuary’s conclusions and those of an actuary whose work is reviewed.
Response	The reviewers do not believe such disclosure is relevant to the opinion on the reserves.
Comment	One commentator suggested adding language stating the actuary should consider the reasonableness of the unpaid claims estimate.
Response	The reviewers note this is not necessary, as the standard refers to ASOP No. 43, and ASOP No. 43 addresses the topic of reasonableness.
Section 3.8 , Prior Opinion	
Comment	One commentator suggested adding a reference to section 4.2(a).
Response	The reviewers agreed and made the addition.

Section 3.10, Collectibility of Ceded Reinsurance	
Comment	One commentator suggested adding a sentence, “This standard does not obligate the actuary to quantify uncollectible reinsurance recoveries in cases where the applicable accounting standard does not require it.”
Response	The reviewers believe the instruction to “consider” to be appropriate, and did not make any change.
Section 3.11, Statements of Actuarial Opinion	
Comment	One commentator suggested switching the order of the last two sentences in section 3.11(d).
Response	The reviewers agreed and made the change.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Actuarial Communication	
Comment	One commentator thought the requirement of identifying the intended user of the SAO should be removed, stating they are generally addressed to and paid for by the Board of Directors but there is also clearly an intended use for regulators, and that this is confusing and will lead to criticisms about independence and conflicts of interest.
Response	The reviewers disagree with the suggested change, as the disclosure should add clarity. An example of intended users has been added to section 3.2.
Comment	Some commentators suggested expanding 4.1(f) to include disclosure of the valuation date. One commentator believed this would help provide clarity when an unpaid claim estimate analysis is performed prior to the accounting date with a subsequent roll-forward to the accounting date.
Response	The reviewers believe this disclosure is more appropriate in the underlying report than in the opinion, and have deleted the reference to valuation date in section 3.5. The preparation of the underlying report is covered by ASOP No. 43, which states the actuary should disclose the valuation date.
Comment	One commentator suggested that the requirement in section 4.1(h) of the second exposure draft to make a statement to the effect that the actuary does not reasonably believe that there are significant risks and uncertainties that could result in material adverse deviation is inappropriate. The commentator indicated that while this is the current standard for US statutory statements of actuarial opinions, extending this requirement to other opinions could lead to instances of misinterpretation by less sophisticated audiences, especially in cases where the perception of materiality could differ among the various audiences (for example, a state workers’ compensation loss certification for a self-insured employer).
Response	The reviewers agreed and have deleted section 4.1(h) and modified section 4.2(e). The reviewers note that for US statutory statements of actuarial opinion, the actuary would still be required to make such disclosures per the NAIC annual statement instructions.
Comment	One commentator stated the disclosure requirements in section 4.1(e) were burdensome and inappropriate for an opinion.
Response	The reviewers do not believe the requirement to be burdensome, as in many cases it could be satisfied through referring to specific items in financial statements. The standard does not require an exhaustive list of disclosures as suggested by the commentator.
Comment	Two commentators noted the references to ASOP No. 41 correspond to an exposure draft rather than the standard in place.
Response	This final version refers to the final version of ASOP No. 41 effective April 1, 2011.

Section 4.2, Additional Disclosures	
Comment	One commentator suggested editing section 4.2(a) to read, “If the actuary is not able to review the prior opining actuary’s work....”
Response	The reviewers agreed and made the change.
Comment	One commentator suggested limiting the disclosure in section 4.2(e) to only those cases where the material adverse deviation would be within the actuary’s range of unpaid claim estimates.
Response	<p>The reviewers did not make this change. First, the reviewers believe material adverse deviation that goes beyond the actuary’s range of unpaid claim estimates can be a very useful thing to disclose. The range of reasonably possible outcomes is generally much wider than the range of reasonable unpaid claim estimates, and to the extent there are significant risks and uncertainties that could lead to an outcome that would result in a material adverse deviation, it is useful to disclose such information, even if such outcomes are outside the actuary’s range of estimates. Second, there is no requirement for an actuary to determine a range of unpaid claim estimates, which would be needed in order to modify the standard as the commentator suggested.</p> <p>The commentator used the phrase “significant risk of material adverse deviation.” The reviewers note the language in the standard is “significant risks and uncertainties that could result in a material adverse deviation,” not “significant risk of material adverse deviation.”</p>