

Comment #3 – 10/13/14 – 3:36 p.m.

To whom it may concern

Here are my comments on requested questions:

Q: Would an ASOP on life insurance and annuity pricing be beneficial to the profession?

A: Yes! There are many benefits of having such standard, some of which are:

1. Help avoid common pitfalls and errors
2. It will make it easier to follow and transfer work between actuaries
3. avoid the need to re-invent to wheel by each pricing actuary

Q: Are there areas where appropriate practice needs to be defined or current practice needs to be improved? If so, what are those areas?

A: I would suggest following areas of improvement:

1. Discourage theoretically wrong techniques (eg. Fully allocated pricing, IRR, etc) and encourage theoretically correct methods (Marginal pricing, NPV, etc)
2. Description of documentation that should be required to be created for legal purposes as well as to enable to recreate work that was done in the future.
3. A checklist of items that needs to be completed and common pitfalls that need to be prevented.
4. Have a one standard way of doing things and require that any deviation from standard be justified.

Q: Does the proposed ASOP cover the appropriate subject areas? If not, what changes do you suggest?

A: In one way, proposed ASOP is too broad since it lumps together group life, individual life and annuities. On the other hand proposal might be too narrow since it excludes product design, investment strategy implementation etc. For example, actuary should have the flexibility to explore tradeoff between agent commissions vs. premiums and to present the range of options to the company.

Q: How should the proposed ASOP interact with existing ASOPs that provide guidance regarding policyholder dividends and other nonguaranteed elements?

A: Current ASOPs should guide new ASOP, while new ASOP should not result in any changes to the current ASOPs. The idea is to avoid disruption that would be caused by retroactively changing current ASOPs.

I hope that my input is helpful and clear. If there are any questions please do not hesitate to email me.

Sincerely

Mirza Borogovac

DISCLAIMER:

This e-mail message (including attachments, if any) is intended for the use of the individual or entity to which it is addressed and may contain information that is privileged, proprietary, confidential and exempt from disclosure. If you are not the intended recipient, you are notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender and erase this e-mail message immediately.

Circular 230 disclosure: This document or any attachment was not intended or written to be used, and cannot be used, to: (1) avoid tax penalties, or (2) promote, market or recommend any tax plan or arrangement.