

Comment #4 – 12/7/16 – 9:04 p.m.

Hi,

Here are my comments on the exposure draft:

There seems to be duplication of text in Section 1.1.

In Section 2, it would be prudent to define an assumption. What is the scope of assumptions that this ASOP covers? Does it cover my assumption that the principal would prefer my actuarial report to be 5 pages vs. 10, or prefers tea vs. coffee?

Section 3.1.1.b - should ASOP 23 be referenced in addition to, or instead of, ASOP 25? "Credibility" has multiple meanings: both in terms of the trustworthiness of the data (as discussed in ASOP 23), and the data volume/stability (ASOP 25)

The guidance in Section 3.1.3.b is very clear to me. What should the actuary do if the individual assumptions are reasonable, but the collective assumptions do not yield reasonable results?

In addition to the MfAD commentary, perhaps there should be commentary within the ASOP indicating that an actuary may choose assumptions that are conservative vs. best estimate vs. aggressive depending on the intended purpose. Deviations from best estimate should be explicitly stated/documented, along with the rationale.

The actuary may also be forced to accept assumptions prescribed by regulators, rather than by law. Not sure if this is one and the same?

I really like Section 3.1.5 - this is very important.

I think Section 3.2 could benefit from expansion. Sensitivity testing is very important to validate the reasonability and sensitivity of the model results relative to the assumptions used. What should the actuary be looking for when performing sensitivity testing on assumptions? Should the actuary consider expressing a reasonable range of results based on a reasonable range of assumptions? Should the actuary document this sensitivity testing?

I think this standard applies well to P&C, my practice area.

Here are some additional comments based on the CIA Standards of Practice related to assumptions 1710-1740. See <http://www.cia-ica.ca/docs/default-source/standards/sg060915e.pdf?sfvrsn=0> for the full CSOP.

In Section 1710 (Assumptions), definitions are provided for assumptions and some related terms. This relates to my prior comment about defining assumptions and the scope of assumptions being considered.

There is also good discussion here about the balance of simplicity needed for practical calculation vs. complexity in representing reality in the assumption setting process, as well as implicit assumptions that are made when no explicit assumptions are set.

Section 1720 makes a very similar point as Section 3.1.3.b. The last sentence makes me think as well that the relationship between assumptions should be considered. Imagine if two factors are perfectly negatively correlated; this should be considered in the setting of assumptions for each factor. This is described further in 1730.24.

Subpoint 1720.03.5 would also add value in the proposed standard of practice: it is more important that assumptions are reasonable in the aggregate vs. individually.

Section 1720.03.6 makes a good point about not compensating for assumptions prescribed by law by modifying other assumptions. Consider adding a point related to this.

Section 1740.06-.08 specifies that MfADs should not be included if the purpose of an exercise is to produce a best estimate (unbiased) calculation. Thank you,

Jeffrey Baer
FCAS, FCIA