

Feedback on Exposure Draft: Setting Assumptions

We would like to thank the ASB and especially the members of the Assumptions Setting Task Force for their work on this draft. This feedback represents our own individual views and should not be interpreted as an official position of the California Department of Insurance.

First, we answer your requests for targeted feedback:

1. In some circumstances, the setting of assumptions is largely inseparable from the selection of methodology. The standard addresses this issue by including such methodology in the discussion of “assumptions” in section 1.2. Is this sufficiently clear?

We believe that the clarity would be improved by adding definitions of “Assumptions” and “Methodology” to the draft.

2. Does the proposed standard provide appropriate guidance across all practice areas? If not, how should the guidance be modified?

For Section 3.1.5(a) to better reflect considerations in the Life practice area, we suggest adding underwriting to the list of potential internal changes. We understand this may be related to changes in the mix of business, but a recent change in underwriting would likely not be adequately reflected in the mix of business and so merits separate treatment.

3. Is the proposed standard clear on how to handle conflicts with practice-specific ASOPs? If not, how could it be improved?

Section 1.2, Paragraph 3 states that this ASOP defers to other applicable ASOPs regarding assumptions. What if another ASOP has this caveat as well? It creates a circular reference, in effect. For example, the draft modeling ASOP, Section 3.9, has the caveat: “Other ASOPs provide specific requirements for actuarial services that often use modeling, including guidance on selecting assumptions, parameters, and data (see ASOP No. 23) and providing disclosures (see ASOP No. 41). If such specific guidance from an applicable ASOP is inconsistent with the guidance of this ASOP, the guidance of such other ASOP governs.” Which ASOP applies if the ASOP on modeling and the ASOP on assumptions differ in their guidance?

Feedback on Exposure Draft: Setting Assumptions

4. Would it be helpful to define additional terms in section 2? If so, what terms?

We believe that the clarity would be improved by adding definitions of “Assumptions” and “Methodology”.

5. Is the guidance in section 3.1.3(b) that the actuary should consider the reasonableness of the results from using the assumptions, and not simply the reasonableness of each individual assumption, clear and appropriate?

Yes, we feel that this is clear and appropriate. We believe that this is very important to ensure that the intended conservatism underlying prescribed assumptions is not intentionally undone by other assumption selections, as you detail further in 3.1.3(c). We appreciate this clarity.

6. Does the proposed standard appropriately address sensitivity analysis as discussed in section 3.2?

As the use of sensitivity analysis is already restricted to when the actuary deems that it is “appropriate to the intended purpose,” it does not seem necessary to restrict the guidance to only considering using a sensitivity analysis. We would suggest the following for 3.2:

If appropriate to the intended purpose, the actuary should ~~consider using~~ perform a sensitivity analysis to evaluate the potential effects of reasonable alternative assumptions or margins for adverse deviation on the findings.

7. Are the disclosures about assumptions and changes in assumptions in section 4.1 of the proposed standard clear and appropriate?

In Section 4.1(a), it would seem more consistent to require disclosure of any explicit margin for adverse deviation and also disclosure of a known implicit margin for adverse deviation.

Finally, we agree with the prior commenter that the draft would benefit from discussion of how requirements for Communications and Disclosures apply to actuaries who are reviewing assumptions as compared to actuaries who are setting the assumptions.

Feedback on Exposure Draft: Setting Assumptions

Additionally, we offer the following comments:

1. We agree with other commenters that the ASOP appears to address more than just “Setting Assumptions” as the scope includes assessing the reasonableness of assumptions set by others. Possible alternative titles are “Assumptions Used for Actuarial Purposes” or just “Actuarial Assumptions”.
2. We believe that a discussion should be added addressing when an assumption is not prescribed per the ASOP as the selection is not automatically accepted, or “deemed to be acceptable by applicable law,” but rather the assumption is constrained by law, in that the actuary must provide actuarial justification for his or her selection from among a list of allowable options. For example, in Section 1.1, we suggest adding a sentence or phrase about the appropriateness of constrained selections.
3. In the first paragraph of Section 1.2, we believe the intent would be easier to follow with the following minor rearrangement of words: “In some circumstances, the setting of assumptions is largely inseparable from the selection of methodology. **In such situations,** ~~t~~This standard should be understood to include the selection of methodology and the matching of assumptions to the selected methodology ~~in such situations.~~”
4. We suggest for consideration replacing “the principal or another party” with just “others” in Section 3.1 and twice in Section 3.5. The simpler language is used later in Section 3.5, as well as in Sections 1.1, 1.2, 3.1.1, and 3.4. It is unclear to us why the principal would need to be particularly called out as a possible source in 3.1 and 3.5, but would appreciate a discussion of the separate treatment if there is an underlying rationale that is not immediately obvious to us.
5. In the definition of “Entity” in Section 2.2, we suggest replacing the second instance of “actuarial services” with “actuarial assumption”, as this seems to be intended to capture the Entity to which the actuarial assumption in particular is pertaining.
6. In Section 3.1.1, we suggest adding a reference to ASOP 23 Data Quality, similar to ASOP 25’s reference in (b).
7. In Section 3.1.2, we suggest revising the second sentence as follows: “The actuary should document any such adjustments made and should ~~consider making disclosures, as appropriate,~~ **or disclose** any such **material** adjustments.”
8. In Section 3.1.3(d), we suggest deleting “other than prescribed assumptions set by law,” as it still seems appropriate to review and disclose whether non-prescribed and prescribed assumptions are reasonably consistent.
9. In Section 3.1.3(e), we suggest adding “bearing in mind possible differences in the assignments’ intended purposes.” to the end of the sentence.
10. In Section 3.1.4 covering Margins for Adverse Deviation, we agree with prior commenters that the first sentence is confusing. This appears to be discussing implicit and explicit margins, but we suggest redrafting to make this clearer.
11. Our final comment is on the “Background” section on page iv. We recommend an explicit reference to PBR, in particular at the end of the second sentence starting, “The importance of actuarial assumptions continues to increase...”. This does not change anything of substance in

Feedback on Exposure Draft: Setting Assumptions

this ASOP or elsewhere, but serves to emphasize the importance of assumptions in the determination of PBR.

Thank you for the opportunity to comment.

Sincerely,

James M. Beall, ASA, MAAA

Benjamin J. Bock, FSA, MAAA

Rachel Hemphill, FSA, FCAS, MAAA, PhD

Elaine Lam, FSA, CERA, MAAA