

Comment #26- 4/24/17 – 9:54 a.m.

The following are comments regarding the Proposed ASOP on Setting Assumptions.

While I appreciate the Task Force’s time and effort, I agree with the comments made by John R. Pedrick and Jan Harrington. John and Jan provide impressive reasons why this ASOP may not be needed and may instead duplicate, complicate, confuse, conflict, and make it more difficult for an actuary to demonstrate compliance with the ASOPs. It is not clear what “gaps” this ASOP intends to fill and how it has done so. I agree with Jan when she urges the ASB to avoid issuance of unnecessary standards. If this ASOP gets a second exposure draft, please better explain what gaps in guidance it is intended to fill.

The proposed ASOP as written applies to more than just “Setting Assumptions.” A better title may be “Actuarial Assumptions”.

The effective date is confusing. Why not be consistent with other standards: “x months following adoption by the ASB”?

Why is there no definition of “assumption”? Perhaps look at the proposed “Modeling” ASOP that defines “assumptions”.

I believe every time the word “assumption” is used in the proposed ASOP, the intent is “material assumption”. But, the word construction sometimes uses “material assumption” and other times uses just “assumption”. This is confusing and should be clarified.

Why does Section 3.1 not refer to ASOP 23 Data Quality?

While the ASOP refers to “intended purpose”, perhaps more is needed to provide balanced guidance to the principle of parsimony, simplicity and practicality when setting or reviewing assumptions. I like to say the proof is in the pudding. In other words, what matters is not all of the complex assumptions that go into the actuarial work product, but instead how well did the actuary forecast the future contingent events. If a deep machine learning technique accurately forecasts the future on hold out samples, is it really that necessary to document all of the assumptions?

The following language in the CIA standards may provide more clear guidance for Section 3.1.3:

- If all assumptions are independently reasonable but biased in the same direction, the combined effect of all assumptions may produce an excessive *or inadequate* overall provision, or

- if all economic assumptions used in the valuation are independently reasonable but were developed based on different assumptions for price inflation, the assumptions may not be reasonable in the aggregate.
- In such event, the requirement for assumptions to be appropriate in the aggregate would be more important than the requirement for independently reasonable assumptions.

I agree with Sara Frankowiak's concerns with section 3.1.3. Why does it say actuaries should "treat the prescribed assumptions set by law as assumptions that are deemed reasonable"? In some situations, this may be in conflict with our code of conduct to not mislead others.

Thank you for considering my comments.

Sincerely,

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