



**National Council on
Compensation Insurance**

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April 27, 2017

Re: Response to proposed ASOP draft exposure on "Setting Assumptions"

These comments are being submitted on behalf of NCCI Holdings, Inc. ("NCCI") and The Workers' Compensation Rating and Inspection Bureau of Massachusetts ("WCRIBMA").

One of the important roles of the Actuarial Standards Board is to establish and improve actuarial standards of practice (ASOPs) for our profession. These ASOPs are critical to maintaining our reputation for professional and ethical standards.

While there may be a need for an ASOP on setting assumptions, the language in this proposed standard is very broad and, depending on the interpretation, could have significant implications for us if adopted as is. The actuarial services provided by NCCI and WCRIBMA often include work products that incorporate actuarial advice, recommendations or findings that are based upon actuarial considerations.

NCCI and WCRIBMA strive to maintain transparency in its actuarial products and services. A strict interpretation of the proposed language would suggest that all assumptions and rationale for the actuary's selection of a dataset and methodology are required to be disclosed, which would be excessive and burdensome for us.

If the goal of this standard is to provide guidance to actuaries when setting material assumptions and assessing the reasonableness of material assumptions set by others, then disclosing the information used by the actuary should be sufficient. An independent review of the reasonableness of another actuary's work should not require all the rationale for every selection made by that actuary.

The following questions and recommendations are provided to more narrowly define actuarial assumptions and streamline the level of detail that would need to be disclosed in an actuarial communication.

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

Section 1.2 SCOPE of this proposal indicates the following: *“In some circumstances, the setting of assumptions is largely inseparable from the selection of methodology. This standard should be understood to include the selection of methodology and the matching of assumptions to the selected methodology in such situations.”*

“Setting assumptions includes, but is not limited to, activities that may variously be referred to as developing, selecting or choosing assumptions, and may include an analysis of data or experience, industry studies, trends, economic forecasts and other analyses, as appropriate. “

Section 4.1 Actuarial Communications indicates *“...in the actuarial report, or, if there is no actuarial report, the communication of the findings, the actuary should disclose the following, if practical and relevant:*

- a. material assumptions in sufficient detail to permit another qualified actuary to assess the reasonableness of the assumptions, including rationale if necessary for this purpose.”*

COMMENTS: The phrase *“including rationale if necessary for this purpose”* appears redundant with providing sufficient detail to permit another actuary to assess the reasonableness of the assumption. In addition, it creates uncertainty as to when such information is necessary. For example, selecting one dataset over another may lead to different results.

QUESTIONS:

1. To what level of detail are disclosures sufficient?
2. The SCOPE section indicates the actuary’s selections are part of setting assumptions. Is the disclosure of the actuary’s selection sufficient?
3. Does “selection of methodology” include “selection of data source”?
4. When is disclosing rationale for the selection necessary? (e.g., would this standard require actuaries to disclose the rationale for selecting one dataset over another OR simply disclose the selected dataset?)

SUGGESTION: Remove the phrase *“including rationale if necessary for this purpose.”*

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

COMMENTS: "Assumption" is not defined under Section 2. Definitions. Also, "Data" is defined under this section and indicates "Assumptions are not **data**, but **data** are commonly used in the development of assumptions."

QUESTIONS:

1. Is the selection of using one data source versus an alternate source part of an actuary's assumptions?
2. More generally, are all actuarial selections considered assumptions?

SUGGESTION: Define "Assumption" or "Actuarial Assumption" and clarify whether selections are considered assumptions.

With respect to Section 3.1.3.c Reasonableness of Assumptions

COMMENT: The actuary may have assumptions that unintentionally counteract with prescribed assumptions set by law.

SUGGESTION: Rephrase: "ensure that assumptions are not set to explicitly counteract the effect of **prescribed assumptions set by law** whether directly or indirectly."

Thank you for the opportunity to comment on the exposure draft.

Sincerely,



Kathy Antonello



Rob McCarthy