January 28, 2017

Actuarial Standards Board (ASB)
1850 M Street NW
Suite 300
Washington, DC 20036

Re: Comments on Proposed Actuarial Standard of Practice on Capital Adequacy Assessment for Insurers (Exposure Draft)

Dear Colleagues;

This comment letter is on behalf of the Professionalism Policy Review Council (we), a committee of the Casualty Actuarial Society, to provide our comments on the proposed ASOP Capital Adequacy Assessment for Insurers (Exposure Draft).

To start, we would like to thank the members of the drafting committee for the high quality work in drafting the revisions. The work is thoughtful and complete, as we have come to expect.

We have provided our thoughts below and note that they are more along the lines of improved clarity.

1.2 – For clarity we suggest adding “captive insurance companies”, “risk retention groups” (RRG’s), and “public entity pools” to the list of entities in the Scope paragraph. Capital studies for captives have a somewhat different flavor, and RRG’s and municipal pools might not be clearly within scope if they aren’t named.

2.2 – The definition of Capital seems too narrow. For example, it’s not clear surplus notes would meet the definition as stated. Further, it appears to imply that debt capital isn’t capital and that RoE and RoC are the same thing. While that may be adequate for insurance companies themselves (which, at least in the United States, are only allowed to issue debt in very limited circumstances and prescribed forms), it seems inadequate for their holding companies, which often issue debt, and would become inadequate even for the insurance companies if the law changed.

The drafters may wish to utilize an alternative definition, such as: “The available funds an organization has available to absorb losses,” or alternatively “equity plus long term debt.”
2.3 – It seems the definition limiting the **Capital Adequacy Assessment** to be of projected capital is too narrow, as sometimes the Assessment is retrospective as of a past balance sheet date. For example, the NAIC risk based capital assessment isn’t assessed against “projected capital”.

2.5 – **Risk Appetite** doesn’t always mean the level of aggregate risk that an organization “chooses” to take, as it often is that level an organization “is willing” to take. That is, the organization may not expose capital to the full extent of the **Risk Appetite** for reasons, such as market conditions, or inability to acquire that level of business on acceptable terms. However, as stated in the draft the definition is consistent with ASOP 46.

2.6 - 2.7 – The principal for the captive study may not be management. For example, the principal may be the owner (e.g., of a captive) or a regulator. Should these sections be reworded to allow the actuary to consider the risk appetite, the risk capital target, and the risk threshold of the principal? This could be considered with reference to ASOP 47, section 3.1, a, 5 and the discussion of stakeholders in the risk treatment context. Several of these stakeholders could be involved in setting risk capital targets and risk capital thresholds, though it would typically be only one such for any given assessment. As it could be owners or regulators, for example, selecting these thresholds, perhaps it should be stated more broadly than “management”, and perhaps “principal” would be appropriate. Or perhaps the actuary should be instructed to identify the entity by whom or in whose interest the targets and thresholds in the assessment are selected?

The above could also be considered with respect to other definitions in section 2. Definitions 2.6-2.7 seem most urgent because they are central to a capital adequacy assessment and easiest because the terms are not already defined in other ASOPs.

2.9 – Should **Risk Tolerance** be the aggregate risk-taking capacity selected by an organization? (adding the word *selected*). Also related to the point directly above on 2.6-2.7, is it clear when we say “organization” whether that means management, as it could mean the principal or owner? However, as stated in the draft the definition is consistent with ASOP 46.

3.2 b – The last finite verb in this paragraph should be “are expected”, not “is expected”.

3.2, c – The requirement to consider “publicly released reports” should be modified to give the actuary the ability to determine which ones are relevant, that is “publicly released reports the actuary considers relevant.” Examples might be the time periods involved, but also major insurers often are addressed by publicly released reports that aren’t considered relevant. For example, a stock analyst might do work on Schedule P data and release a report that isn’t relevant due to segmentation of the data, or other reasons. This is very common, and there may be many such reports.

3.2. d – Should the actuary really be allowed to rely on another to consider the prior capital adequacy assessments? This should not be beyond the skills of the actuary who is undertaking the assignment. And if the prior assessments are not available for the actuary’s review, this
would seem to require it be called out as a 4.3 deviation. Should this apply only if the prior capital adequacy assessment is available?

3.4 b – Should this say “the principal’s objectives” rather than “management’s objectives”? This is similar to the point related to 2.6-2.7 above. For example, a consideration of the capital target may be to support the holding company dividend strategy and it’s not clear the holding company is “management”; it’s the owner.

3.8 – Should this list include “Guarantees between members of a complex insurance organizations”?

We thank the drafters again for their efforts.

Sincerely;

Chris Nyce, Chair
CAS Professionalism Policy Review Council