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Setting Assumptions  
Actuarial Standards Board  
1850 M Street, NW, Suite 300  
Washington, DC 20036

Subject: Proposed Actuarial Standard of Practice (ASOP): Setting Assumptions

Dear Members of the “Assumptions Setting Task Force”,

Thank you for your work on the “Assumptions Setting” exposure draft, and thank you for the opportunity to comment on this proposed standard of practice. I will first address the specific questions appearing in the “Request for Comments” portion of the exposure draft, and will then offer a comment specific to section 3.1.4 “Margins for Adverse Deviations”.

- 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?**

*Response: Yes, the standard is sufficiently clear. However, it may strengthen the standard, if so desired, to amend the final sentence of first paragraph in section 1.2 to read, “This standard should be understood to include the selection of methodology and the matching of assumptions, **whether explicit or implied**, to the selected methodology in such situations.”*

*To give a property-casualty ratemaking example, an actuary developing company rates and referencing an advisory organization’s loss costs may develop a loss cost multiplier which fully loads the loss costs for the company’s expenses. In this situation the actuary has implicitly accepted many assumptions underlying the advisory organization’s loss costs (and should presumably state reliance upon such in any disclosures). If, on the other hand, the actuary may development a multiplier that does not fully load the loss costs for the company’s expenses because the actuary does not believe the loss costs are reflective of the company’s exposure. Unless the actuary specifically discloses such an assumption, there is certainly an implicit assumption that the loss development and trends underlying the company’s loss costs are not the same as those of the advisory organization.*

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

*Yes, to the best of my knowledge as an actuary most experienced in property-casualty ratemaking and reserving, the standard provides appropriate guidance across all practice areas.*

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

*Yes, the standard is clear on how to handle conflicts with practice-specific ASOPs.*

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

*The term "principal" is used in sections 3.1, 3.3, 3.4 and 3.5, but is not defined. It is defined in ASOP 1 "Introductory Actuarial Standard of Practice", ASOP 41 "Actuarial Communications", and ASOP 43 "Property/Casualty Unpaid Claim Estimates". It may be helpful to repeat the definition in the proposed ASOP, but one could also argue the term is sufficiently defined elsewhere. I have no strong feelings on this issue and simply point it out for your consideration.*

- 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, the guidance is clear and appropriate and I congratulate the task force for having the wisdom to include such a consideration.*

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

*Yes, the standard appropriately addresses the use of sensitivity analysis.*

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

*Yes, the proposed disclosures appear to be clear and appropriate.*

### Comment on section 3.1.4. "Margins for Adverse Deviations"

The wording in the exposure draft is as follows:

*"Where the purpose of the measurement allows for margins for adverse deviation, the actuary should consider whether it is appropriate to **adjust the assumptions by including such margins, or choose assumptions that have already been adjusted.** For example, such margins may be included to allow for uncertainty in the underlying data or assumptions. The actuary should disclose, in accordance with section 4.1(a), any explicit adjustments made to material assumptions."*

I find the first sentence, especially the boldfaced portion above, somewhat unclear and confusing, although I believe I understand the general intent of the statement. My interpretation would be that the statement is attempting to differentiate between an explicit margin after consideration of assumptions which are presumed to be unbiased versus the implicit consideration of possible adverse deviation by selecting assumptions which recognize uncertainty. I would propose the following counter text for consideration:

*"Where the purpose of the measurement allows for margins for adverse deviation, the actuary should consider whether it is appropriate to adjust the assumptions by explicitly including such margins, or choose assumptions that implicitly anticipate uncertainty in data or the assumptions themselves. The actuary should disclose, in accordance with section 4.1(a), any explicit adjustments made to material assumptions."*

Thank you for your work on this ASOP which I believe will be of value to the actuarial community and thank you for the opportunity to comment on the exposure draft.

Sincerely,

*Kelvin*

Kelvin. B. Sederburg