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TO: Actuarial Standards Board (ASB)

FROM: Insurance Services Office

SUBJECT: Comments on the ASB's Third Exposure Draft of ASOP *Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Funding*

I am responding on behalf of Insurance Services Office, Inc., a company which employs 66 members of the American Academy of Actuaries.

In general, we offer that this exposure draft is clear and well written. Regarding questions 1 through 5 in the "Request for Comments" section, we offer affirmative responses. In response to question 6, we believe that, as currently worded, the disclosure requirements presented in sections 4.1.d and 4.2.c may be too burdensome for the actuary.

Section 4.1.d requires disclosure of "*the assumptions used in developing or reviewing the future cost estimates.*" The current language is too strict and seems to require the disclosure of any and all assumptions used, potentially including the set of assumptions that are inherited with the choice of methodology. We propose the following language: "*any material assumptions explicitly selected by the actuary, such as the values of parameters in a methodology, but not necessarily those implicit mathematical assumptions that accompany the choice of a methodology itself.*"

Section 4.2.c requires that "*the actuary should disclose any adjustments made to the historical data.*" Again, the statement here is too strict in that it appears to encompass any and all adjustments made to the historical data. For example, the language here implies that adjustments made to the historical data to address issues of data quality would also require disclosure. Our position is that adjustments made to address issues of data quality should be governed by ASOP No. 23 *Data Quality* and that clarifying language be added to section 4.2.c of this exposure draft to exclude such adjustments. We propose the following underlined modification to 4.2.c: "*the actuary should disclose any adjustments made to the historical data in order to account for expected differences between historical data and future experience. For adjustments made to the historical data to address issues of data quality, refer to ASOP No. 23 *Data Quality*.*"

Additionally, section 3.5 makes reference to ASOP No. 38 *Using Models Outside the Actuary's Area of Expertise*. We offer that, upon formal adoption, the proposed ASOP *Setting Assumptions* should also be referenced here.

Sincerely,

A. David Cummings
Senior Vice President