

Comment #3 – 10/9/17 1:56 p.m.

The following are comments on the 2nd DRAFT of the proposed ASOP: Pricing of Life Insurance and Annuity Products.

Specific Questions:

1. Is it clear what actuarial services are covered in section 1.2, Scope? If not, please give an example of an actuarial service or a product whose exclusion is unclear and how to clarify.

Yes, but, while it is stated that this proposed ASOP does not apply to ASOP #24 professional services it, perhaps, should be mentioned somewhere (e.g., in ASOP #24) that ASOP #24 is not a standard addressing **pricing** and should not be used to justify **pricing** decisions. ASOP #24 addresses a required actuarial function. I have seen actuarial services done per ASOP #24 used to justify some pricing process not specifically undertaken. That is, for example, if a product cannot support a dividend scale, per ASOP #24, then that might be used as justification to not provide a dividend.

2. Throughout the ASOP, there are references to “the criteria of the actuary’s principal.” Are the examples in section 3.1.1, Criteria of the Actuary’s Principal, adequate to apply the guidance included in the draft ASOP?

I think that “Criteria of the Actuary’s Principle” may include more than **profit metrics** – which are the only thing specified in the section 3.1.1. Maybe this section should have added: “... with respect to profitability.”

3. Is the guidance in section 3.6, Governance and Controls, clear?

Yes, but since there is recognition that the pricing actuary might rely on others to provide these actuarial services this is more of a **management** process than governance and control. Governance and control seem to imply no direct participation in the process.

Other comments:

2.1: Modeling Cell is defined in terms of “policies or contracts”. This seems to be a poor definition – it is, at least, confusing. A “Modeling Cell” is a “cell” not a “policy or contract”. It is one element of a set of cells used to model the financial operation of the entire policy or contract.

2.5 Risk Capital: I question the reference to “severe risk”. Isn’t “risk capital” designed to address events significant enough to adversely affect the expected profitability of a product. Such events may be not as great as “severe” based on the definition of “severe” used by some.

3.5.2: Sensitivity Analysis had been an approach that an actuary “should be consider” in version 1. Now it is “should use”. “Should use” is wrong, I think. Sensitivity Analysis should be allowed – not required.

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