27 February 2018

To: Actuarial Standards Board

From: Christopher J. Monsour, FCAS, CSPA, MAAA

Re: Second Exposure Draft of Proposed Standard “Capital Adequacy Assessment for Insurers”

In reviewing some changes made (and not made) from the first draft, I have two concerns.

(1) While “capital” and “equity” may be used interchangeably for insurance companies, they cannot be used interchangeably even for closely related entities, such as holding companies that own insurance companies. (Even if the holding company owns no other type of company, the holding company will often have a substantial amount of debt capital.) As some of the other revisions help clarify that this standard is intended to apply only to capital adequacy assessments of insurers and NOT of any other type of entity (such as their holding companies), I think the definition of “capital” in subsection 2.2 is adequate, but I would recommend rephrasing the term defined to be either “Insurance company capital” or “Capital of an insurance company”. Simply defining “capital” in a way that any MBA would know is wrong, without explicitly restricting the defined term to the special case in which the definition is essentially correct, is not a good advertisement for the broad-mindedness of our profession.

(2) In subsection 3.2(c), I would suggest omitting “rate filings” from the list of examples. While the actuary may consider rate filings to be relevant, he may also well not consider them to be relevant. One insurance company can easily have hundreds of rate filings active at any one time (50 states times a handful of products). I don’t think we want to suggest that an actuary doing a capital adequacy assessment needs to review all of them, nor necessarily even any of them; moreover, the terminology is confusing, since “rate filing” is given as an example of a report, which it is not in any ordinary sense of the word. A rate filing is a notice or a request, which may or may not be supported by a report depending on the rules for the given product in the given state. Also, in the case of both rate filings and reserve analyses, they would often not be publicly released. (In the case of rate filings, they may also in some cases be public in the *de minimis* sense that one can photocopy them at one particular government office location or submit a FOIA request and potentially wait several months for a response, which may be in the negative.) Perhaps 3.2(c) could be rephrased as:

> Inconsistencies between the **capital adequacy assessment** and information in relevant publicly released reports such as financial statements, and the rationale for such inconsistencies.

The views herein expressed are mine and do not necessarily reflect those of my employer.

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