ROSS HEALTH ACTUARIAL

MANAGED CARE • RISK MODELING • DECISION SUPPORT

March 1, 2018

Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-4601

Re: Proposed ASOP – Capital Adequacy Assessment for Insurers

Dear Board Members:

Definition Clarity – Risk Capital Threshold; Related Disclosure

I find the definition somewhat troubling. The plain meaning of a risk capital threshold is that level of capital, below which, serious concerns would arise about the future of the insurer; this is point where the "alarms" start to go off. While I appreciate the fuzzy logic nature of this, the reference in the proposed ASOP to ranges, different metrics, and multiple thresholds creates and allows a professional standard of practice that is less than forceful and clear.

In short, the definition and related disclosures do not seem to require the actuary to sound the alarm when it may be necessary. This would seem to undermine one of the key purposes of the capital adequacy assessment, which is to have the actuary determine if a problem exists.

The notion of ranges is consistent with the question of selection of assumptions, and the concept noted in various places in the ASOP's and the Code: that different actuaries can reach somewhat different results or conclusions based on the specific assumptions or methods used. However, the capital adequacy assessment in the proposed ASOP is being performed by an individual actuary. Does that actuary believe, based on their own professional judgement, the insurer is at or below the risk capital threshold?

The duty of the profession to the public trust is to sound the alarm when necessary, and the proposed ASOP does not make this clear.

I would recommend the disclosures include a binary assessment of whether the risk capital threshold is met. Yes or no. Further discussion in the disclosures might soften this assessment, and how it is received or perceived by the principals or the public, but would not replace the fundamental assessment of capital adequacy.

(715) 381-1345 • 719 Crosby Drive, Hudson, WI 54016
www.rosshealthactuarial.com • timross@rosshealthactuarial.com

<u>Scenario and Stress Testing</u>

Section 3.6, and specifically section 3.6.2 “Level of Adversity,” should also consider variations in potential market reactions to perceived insurer financial strength.

The observation that the previous comment might contribute adversity to the scenarios is not lost on me.

If you have any questions, please contact me at (715) 381-1345.

Respectfully submitted,

Timothy M. Ross, FSA, MAAA

(715) 381-1345 • 719 Crosby Drive, Hudson, WI 54016
www.rosshealthactuarial.com • timross@rosshealthactuarial.com