Comment #4 – 1-18-19- 4:47 p.m.

I have the following comments on this draft ASOP:

1. Overall, the document is unclear about the need to evaluate fungibility of assets when doing a group capital assessment. (I.e., the group may have sufficient assets if there were no restrictions or frictional costs affecting the access of capital from one part of the group by another part of the group, but such restrictions or frictional costs such as taxes may prevent such capital access.) This fungibility issue might be addressed by a careful reading of section 3.1.f, but this is not obvious. Recommend that this fungibility and frictional cost issue be addressed explicitly, perhaps by expanding the wording in section 3.1.f.

2. In the definition of Risk Capital Threshold (section 2.7) it says that “[a]ny risk capital threshold is a function of … the insurer’s risk tolerance”. I question whether that is correct with regard to regulatory minimums. While having an NAIC RBC ratio above 2.0 is “necessary for [an insurer] to operate effectively” that level is not a function of an insurer’s risk tolerance. I suggest modifying the definition to make an exception to the quoted statement for regulatory minimums.

3. In section 3.6.2.c it says that the actuary should consider scenario testing for “extremely unlikely catastrophe events”. This is far too open-ended for an ASOP and I see no benefit and possible harm to the actuarial community and its clients from such wording. It would justify work by an actuarial consultant that adds costs but no practical benefit for their principal, and if an extremely unlikely catastrophe event did occur (such as the World Trade Center events of 2001) it is highly likely that it would not have been anticipated by an actuary but very probably would lead to a lawsuit based on the wording in the ASOP). I strongly recommend that this wording in 3.6.2.c be changed, perhaps to “events in the tails of loss or catastrophe distributions”.

4. Section 3.8 deals with insurers operating in “Multiple Jurisdictions”. This should be expanded to “multiple regulatory regimes”, as there may be multiple regulatory regimes within the same jurisdiction. One example is groups subject to both banking and insurance regimes within the same jurisdiction.

5. The wording in section 4.1 is awkward with regard to subsections (d) and (e), as the wording requires the actuary to “disclose … a discussion”. Read literally, all that is required is for the actuary to disclose that a discussion took place. What is probably intended is for the actuary to include a discussion in their disclosure.

6. Section 4.2.a would require disclosure of information whenever available, whether relevant to the current capital assessment or not. Recommend adding “and relevant” to 4.2 so it says “as applicable and relevant”.

7. Section 4.2.c requires an actuary to disclose differences from a prior capital assessment “if the actuary had access” to that prior assessment, even though the requirement in Section 3.2.d was only to “consider” prior assessments. The wording in the root of 4.2 does say “as applicable”, but the wording in subsection (c) that says “if the actuary had access to such assessments or reports and analyses” would seem to counter the “as applicable” wording. Recommend deleting the “if the actuary had access to …” wording, as the “as applicable” phrase should suffice to cover situations where prior analyses aren’t available. (The drafters may want to address the “access” issue directly in section 3.2.)
8. I question whether the first part of 4.2.d is always relevant and is necessary for the scope of certain assignments. An actuary asked to evaluate the capital position of an entity should be ready to discuss how being a member of a group is addressed in that assessment, but a consideration of group capital assessments is not always relevant. Where not relevant to the assignment, an actuary should not have to raise a red flag unnecessarily by stating they did not consider or evaluate group capital assessments.

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