

Comment #4 – 7/12/19 – 7:52 a.m.

To ASB ASOP 2 Revision Committee

On first read, I am pleased with the expanded nature of the guidance. I still have concerns about the definition of policy class. My view is class is determined when the policy(ies) are priced initially. The class can't be divided/subdivided but can be grouped/combined with other similar policy classes. The grouping and combining are specifically identified here but there is still an implication about dividing.

- 3.1.a The NGE Framework includes the methodology for grouping policies when evaluating experience. If policy class is defined at issue can it later be redefined by how policies are grouped in the NGE Framework? For example, say you analyze mortality by face amount bands. You discover the experience for large face amounts is worse than smaller face amounts. Does this allow you to divide the policy class by face amount bands and adjust NGEs according to mortality analysis?
- 3.1.1 Establishment of or Changes to Policy Classes. This includes the previous language in ASOP 2 about the actuary being able to recommend the establishment of or changes to policy classes if in the actuary's professional judgement the NGE Framework is incomplete or inconsistent. If NGE Framework doesn't define policy class, does 3.3.1 allow actuary to define it?
 - 3.3.1.e "do not anticipate that further modifications would be made after issue." This seems to indicate policy class is defined at issue (when policies are priced) but this statement is the last in the list under 3.3.1 after providing the impression policy class can be changed.
- Can the actuary redefine policy class according to time period when policies were issued? (3.3.1) I can see policies priced with common pricing factors and issued over a period of years being one policy class, but the company wants to adjust NGEs on policies issued after a certain date (say because of life settlement activity) where no factors have changed. I can see combining similar policy classes issued over a period of time when the pricing factors are similar (but not the same). But can the policy class be divided?
 - If the policy form lists "mortality" as a factor to be considered for adjusting NGEs and experience varies from pricing depending on groupings by issue ages, durations, face amounts, or risk classes – does this allow the actuary to divide the policy class?
- 3.4.2.1 Reviewing Prior Determinations. "If the information related to prior determination is not available or incomplete, the actuary should reconstruct prior determinations to the extent necessary and practicable." We are aware of situations where original pricing assumptions are not available (they don't exist or the company can't find them). We don't know if the assumptions were reasonable or not. The actuaries reconstruct profit tests using a set of assumptions (which are reasonable) in order to justify later adjusting NGEs. This would seem inappropriate.
- 3.4.2.3 Considering Whether to Recommend a Revision to NGE Scale. "c. whether any additional assumptions beyond the anticipated experience factors need to be updated to be consistent with emerging experience" and "f. prospective profitability using update anticipated experience factors and any other updated assumptions relative to that which would be expected based on

the original anticipated experience factors" - this implies factors not listed in the policy can be considered when adjusting NGEs because they were anticipated experience factors when the policies were priced. If the policy limits the factors for consideration, then other non-enumerated factors can not be the basis for adjusting NGEs. This seems in conflict with 3.4.2.4.a which says the actuary should "identify under the terms of the policy and applicable law, the anticipated experience factors that may be used when revising NGE scales."

- I was pleased to see in 3.4.2.c "prospective profitability from the time of revision, including the prospective pattern of profits by duration, is not greater than that using the original NGE scales and original anticipated experience factors." Often times the NGE adjustment is prospective but the pattern of profits is different especially in later durations of policies priced using reverse select and ultimate COIs (early profits, later losses).

I look forward to seeing the final version of this important ASOP. I am available to discuss my comments if convenient for the committee.

Best Regards,
Larry Stern