

July 31, 2019

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

Sent via email: comments@actuary.org

Re: ASB COMMENTS – *Setting Assumptions*

Pinnacle Actuarial Resources, Inc. (Pinnacle) is pleased to have the opportunity to provide the following comments in regards to the second exposure draft of the proposed *Setting Assumptions* actuarial standard of practice (ASOP).

Setting Assumptions is a very generic ASOP as many assumptions are addressed in the specific practice area ASOPs. The explanations of which ASOP takes precedence are helpful. Below are our recommendations by section:

- Section 3.1 - General Considerations: This section specifically mentions ASOP numbers 23 and 25 but not all ASOPs with assumptions. Either all should be cited or none should be cited.
- Section 3.2 - Information Used When Setting Assumptions: “Experience” should be defined as it is not clear what experience is being referenced.
- Section 3.3 - Assumption Margins: Setting margins for assumptions is not common practice. Is this the same as selecting low and high assumptions?
- Section 3.3 - Assumption Margins/Section 3.4d - Reasonableness of Assumptions: These could be in conflict with one another to the extent that an implicit margin is included in the assumption, rather than an explicit one. There are many circumstances when pricing new coverages or reserving difficult lines where an assumption with an implicit risk margin to increase the conservatism of the analysis may well be reasonable and appropriate.
- Section 3.4d - Reasonableness of Assumptions: “Significant bias” should be replaced with “material bias.” ASOP number 1, Section 2.12 (Significance/Significant) gives three examples of “significant” events and results (none related directly to assumptions), but does not define it. The ASOP notes that actuaries should use care in interpreting the word.

- Section 3.9 - Reliance on Assumptions Set by Another Actuary: To the extent that the information being relied upon is related to ERM or is from a model outside of the actuary's expertise, this needs to be consistent with the requirements of ASOP numbers 38, 46 and 47.
- Section 3.11 - Documentation: Another actuary should be able to assess the reasonableness of the original actuary's work product, but may not be able or willing to "assume the assignment." The phrase "or could assume the assignment if necessary" should be removed.
- Section 4.1 - Required Disclosures in an Actuarial Report: "Significant assumption" should be replaced by "material assumption." If "significant" is not replaced with "material," this ASOP is expanding what is required in an actuarial report. Without the change, it may be in conflict with ASOP number 1, Section 2.6 (Materiality), which states "The guidance in ASOPs need not be applied to immaterial items". Based on ASOP number 1 and the proposed ASOP, an assumption is significant only if it has a material impact on the analysis.

The comments above are the collected comments of the consultants employed or affiliated with Pinnacle. If you have any questions regarding our comments, please contact Laura Maxwell, Pinnacle's Professional Standards Officer, at lmaxwell@pinnacleactuaries.com.

Sincerely,



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