

## Comments in Response to the Third Exposure Draft of the Actuarial Standard of Practice on Setting Assumptions

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To the Actuarial Standards Board:

I offer the following comments in regard to the Third Exposure Draft of the ASB's proposed Actuarial Standard of Practice on Setting Assumptions. I note that I consider the *substantive* provisions of Subsections 3.1 through 3.9 to be reasonable in the context of an actuarial work product and considerations that would pertain to the setting of assumptions involved therein. My concerns stem from the significant *process* burdens that might arise from some of the wording regarding the scope and documentation pertaining to the setting of assumptions. Others among my concerns pertain to vulnerabilities stemming from some of the ambiguities in the current language of the draft ASOP, which could potentially be directed by certain entities against non-actuarial or regulatory functions, unless such possibilities are preempted by revisions. Furthermore, I question the need for a general ASOP on setting assumptions, considering that assumption-setting is addressed in numerous subject-specific ASOPs.

**1. Excessively Sweeping Scope:** I have significant concerns about the proposed ASOP being applied to “giving advice on setting assumptions” or “assessing the reasonableness of assumptions set by others”. This could potentially encompass any actuarial activity or any assessment made of another person's work by someone who is a credentialed actuary. The definition of “Assumption” in Subsection 2.1 is given as “A value that represents expectations, represents possibilities based on professional judgment, or is prescribed by law or by others to represent expectations or possibilities.” I note that this definition does not even appear to be limited to an actuarial context. The first paragraph in Subsection 1.2, “Scope”, states that “This standard applies to actuaries in any practice area when performing actuarial services that require the setting of assumptions for which the actuary is taking responsibility, giving advice on setting assumptions, or assessing the reasonableness of assumptions set by others.” This can be read somewhat ambiguously in that the phrase “performing actuarial services that require” might be interpreted by some only to apply to the phrase “the setting of assumptions for which the actuary is taking responsibility” – and not to the subsequent listed items, “giving advice on setting assumptions, or assessing the reasonableness of assumptions set by others.” To clearly limit this applicability to actuarial services only, a different structure of the text would be needed. I note that I am opposed to the inclusion of “giving advice on setting assumptions” or “assessing the reasonableness of assumptions set by others” altogether, but I provide the following hypothetical illustration of how the scope might be limited to actuarial services only:

**Possible Improvement to Subsection 1.2 to Limit the Scope to Actuarial Services Only:**

This standard applies to actuaries in any practice area when performing actuarial services that require:

- (a) The setting of assumptions for which the actuary is taking responsibility;
- (b) Giving advice on setting assumptions; or
- (c) Assessing the reasonableness of assumptions set by others.

It is vital in my view for revisions to be made to this draft ASOP to alleviate concerns about whether assumptions in an outside realm – assumptions about matters in other disciplines or about current and future events – might be encompassed by this standard (or at least interpreted by some in the future to be so encompassed). Could an actuary who expresses commentary, in a non-actuarial capacity, about somebody else’s assumptions about a matter of general scientific, cultural, philosophical, or even political relevance be bound by this standard? I expect that most actuaries, and most reasonable people, would agree with me that a professional organization should not venture into such territory, but ambiguous text might empower some individuals to do so in the future, even though this may not be the present drafters’ intention. Without revisions to prevent this possibility, the scope of this proposed ASOP might have a chilling effect on speech by credentialed actuaries in matters altogether unrelated to their actuarial work, for fear of being considered to be “assessing the reasonableness of assumptions set by others.”

Moreover, as a regulator, I am concerned that this ASOP may have the (likely inadvertent) effect of imposing constraints on regulators’ ability to critically examine and evaluate the assumptions set by others. The extent and manner of regulatory scrutiny of actuarial assumptions in rate filings, in predictive models, in actuarial opinions and reports on loss and LAE reserves, in actuarial analyses of the impacts of reinsurance treaties, should be bound and guided by applicable statutes, regulations, regulatory precedents, as well as applied reason and common sense. Such scrutiny should not be constrained or limited by the standards of a private organization; any such standards should only ever be applied to aid the regulator, if the regulator, per that regulator’s judgment, considers those standards to inform the situation and to be able to constructively contribute to a resolution. In particular, it is important to avoid scenarios where an ASOP might be turned by an industry practitioner against a regulatory reviewer and lead to the assertion that the regulatory reviewer needs to follow some specific process outlined in the ASOP in order to legitimately challenge the industry practitioner’s assumptions or work product – or that the regulatory reviewer is somehow obligated to accept the industry practitioner’s work product if the requirements of the ASOP have been satisfied by the industry practitioner. While regulators have legitimate counterarguments to provide in such a situation, the time occupied by the back-and-forth exchanges (industry arguments and regulator counterarguments) can be saved if industry representatives are unable to use the ASOP to pressure a regulator to accept an industry work product or to refrain from challenging it.

I again emphasize that I do *not* find any unreasonable aspects among the *substantive* considerations described in Section 3 of the draft ASOP. My concern stems from a *process* burden that might be imposed if each assumption, or each piece of advice or assessment of the reasonableness of an assumption set by others, is construed to require the documentation described in Section 4 of the draft ASOP. If this standard applied to review of assumptions by regulatory actuaries, then a regulatory actuary who is *always* required to follow applicable law could be vulnerable to the interpretation of always needing to include the additional disclosures described in Section 4.2 for every review of someone else’s assumption. This would appear to result in a needless proliferation of “boilerplate” disclosures that are time-consuming for the regulator and could slow down the pace of regulatory reviews – an outcome that would satisfy no one. Everyone is aware that regulators will apply the

criteria of applicable law where the provisions thereof prescribe certain assumptions, methods, or approaches. It is understandable for a private-sector industry actuary to be expected to disclose a difference between that actuary's professional judgment and the applicable law, but this will not occur for a regulatory actuary conducting a review, since the applicable law is what establishes the default criteria for that review.

There are several options to remedy the above concerns, which could be applied separately or in combination:

**Option 1:** Remove the reference to “giving advice on setting assumptions, or assessing the reasonableness of assumptions set by others”.

**Option 2:** Clarify non-applicability of this ASOP to regulatory reviews involving evaluation of assumptions.

**Option 3:** Add to Section 4 – Communication and Disclosures – a statement that the actuary is not required to issue an actuarial report for the sole purpose of addressing every assumption which the actuary has developed or on which the actuary is giving advice or providing an assessment, if that actuarial report would not have been required or expected in the absence of this ASOP. The wording of Subsection 4.1 currently begins with “When issuing an actuarial report to which this standard applies”, but it is not clear from this whether this standard will be construed to require the issuance of actuarial reports which might not have been produced at all otherwise. One possibility would be to add the words “that is already required, expected, or regularly produced for other purposes, and” (or similar wording) subsequent to “actuarial report”, such that the phrase in question would read: “When issuing an actuarial report that is already required, expected, or regularly produced for other purposes, and to which this standard applies”.

**2. Potential for Duplication and Lack of Clear Rationale for General ASOP on Setting Assumptions:** Given the large number of existing ASOPs which address assumptions pertaining to specific actuarial tasks or roles, it is not clear to me why a general ASOP on setting assumptions is necessary and what specific perceived gaps that ASOP is intended to fill. If the ASB believes that there are specific types of actuarial services or work products for which a more systematic approach to setting assumptions and to their disclosure is appropriate, it would appear that specific ASOPs pertaining to those types of actuarial services and work products would be a more tailored way of addressing any perceived needs. The approach to setting assumptions for one type of assignment or role may legitimately differ from the approach used in another context, as even acknowledged in Subsection 3.1. General Considerations.

I would suggest that a potential way of resolving this concern would be to repurpose the wording in Section 3 of this ASOP to instead be a Statement of Principles on Setting Assumptions in an Actuarial Context. Such a Statement of Principles would provide valuable information and guidance to practicing actuaries, without having the aforementioned vulnerabilities that an ASOP on this subject would entail.

Sincerely,



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