

Title of Exposure Draft: Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves (ASOP 36)

Comment Deadline: September 30, 2022

Instructions: Please review the exposure draft, and give the ASB the benefit of your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase 'ASB COMMENTS' in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system's spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

I. Identification:

Name of Commentator / Company
Daniel Lyons, FCAS / Retired

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
1.2	If the actuary is performing actuarial services that involve reviewing a statement of actuarial opinion <u>prepared as complying with this standard</u> , the actuary should use the guidance in section 3 to the extent practicable.	I assume you want this ASOP to apply to loss reserves opinions and there could be SAOs not dealing with loss reserves. In addition, I suppose there could be loss reserve SAOs not prepared under this ASOP (i.e., not legally required and the actuary does not state it was prepared under this ASOP (see section 1.2 c.) in which case you might have the reviewing actuary be subject to this ASOP while the preparing actuary is not.
3.3 b.	b. whether the reserves include an explicit risk margin and, if so, the stated basis for the explicit risk margin (for example, stated percentile of distribution or stated percentage load above <u>expected</u> the unloaded reserve ;	The use of "expected" suggests that some sort of mean or average was used to determine the reserve but under ASOP 43 there are many types of intended measures of the unpaid claim estimate. (ASOP 43, section 3.3 a. 1.)

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Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
3.4.3	<p><u>e. the standards, including but not limited to applicable ASOPs and audit and financial accounting standards, under which the other analysis was prepared.</u></p> <p>When using another actuary’s analysis or opinion, the actuary should be reasonably satisfied that the other actuary is qualified to perform the actuarial services and that the actuarial services were performed in accordance with applicable ASOPs.</p>	<p>The text in this section immediately preceding suggested deletion only mentions the work of “another” and this “another” may not be a credentialed actuary. And the suggested deletion only refers to “another actuary”. I suggest adding point e. to the list to include the important points of the deletion and make them applicable to each “another”, whether an actuary or not.</p>
3.9	<p><u>When a materiality standard is required by applicable law or is needed in the actuary’s professional judgment</u> the actuary should determine a materiality standard that is appropriate for the intended purpose of the statement of actuarial opinion</p>	<p>I suggest considering making the materiality standard and RMAD disclosure optional for loss reserve SAOs not prepared under a legal requirement. This might induce actuaries to adopt this ASOP for such work product.</p>
3.9	<p>When determining the materiality standard, the actuary should take into account the financial metrics that <u>the actuary reasonably believes are relevant to the intended users of the statement of actuarial opinion...</u></p>	<p>The current ASOP 36 requires actuaries to “understand which financial values are usually important to the intended users”. (section 3.6) The draft as written requires the actuary to “take into account the financial metrics that are relevant to the intended users”. In the former the burden is on the actuary to understand the importance of various financial values, in the later the actuary is required to be a mind reader and know what each intended user thinks is important whether reasonable or not. And the set of relevant financial metrics over all intended users may be inconsistent and it may be highly impractical for the actuary to poll each intended user. My suggested addition is intended to put the burden on the actuary and not allow the intended users to set the important financial metrics after the fact.</p>

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Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
3.10	<p><u>When a risk of material adverse deviation statement is required by applicable law or is needed in the actuary’s professional judgment</u> ¶the actuary should determine whether there are significant risks and uncertainties that could result in material adverse deviation. When making this determination, the actuary should take into account both quantitative and qualitative factors to assess whether the loss and loss adjustment expense reserves <u>and other reserves</u> could be understated by more than the materiality standard. <u>If there are such significant risks and uncertainties the actuary should find that a risk of material adverse deviation exists.</u></p> <p><u>If the actuary provides a range of reasonable estimates, given the nature of such a range, even if such significant risks and uncertainties do not exist,</u> ¶the actuary should find that a risk of material adverse deviation exists when the sum of the materiality standard and the loss and loss adjustment expense reserves <u>and other reserves</u> is within the actuary’s range of reasonable estimates. However, the actuary may find that a risk of material adverse deviation exists even when the sum of the materiality standard and the loss and loss adjustment expense reserves <u>and other reserves</u> exceeds the actuary’s range of reasonable estimates <u>(in cases where the overage is relatively small).</u></p> <p>When the reserve evaluation is based on separate estimates for different components of the loss and loss adjustment expense reserves <u>and other reserves</u>, the actuary should take into account the combined risks and uncertainties associated with the loss and loss adjustment expense reserves <u>and other reserves</u> to determine whether a risk of material adverse deviation could exist.</p>	<p>As stated in section 3.9 comments above, I suggest considering making the materiality standard and RMAD disclosure optional for loss reserve SAOs not prepared under a legal requirement. This might induce actuaries to adopt this ASOP for such work product</p> <p>I’ve also added “other reserves” to the text when loss reserves are mentioned. I don’t know the intent of the drafting committee on this point but to me it seems that other reserves should be included at least when they are loss sensitive (i.e., sliding scale premium or commission).</p> <p>The suggested addition at the end of the first paragraph is intended just to drive home the point of the importance of finding such significant risks and uncertainties exist the material adverse deviation level.</p> <p>The recommended additions at start and end of the second paragraph are intended to explain why such paragraph 2 instructions/recommendations are necessary. If the suggested language is not appropriate please change as necessary.</p>


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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
This is more of a question on expanding the scope of ASOP 36 to cover other reserves – it is too early?	For loss reserves we have ASOP 43 covering Unpaid Claim Estimates. What ASOPs exist for “other reserves”? Should the expansion to other reserves just be limited to loss sensitive reserves? If ASOP 36 is changed to include “other reserves” I assume it would then apply to statutory premium deficiency reserves which may be more involved.

V. Signature:

Commentator Signature	Date
	9-18-2022