

ASOP No. 36 Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves Exposure Draft

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
NAIC Actuarial Opinion Working Group

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

Question No.	Commentator Response

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 Scope	"Other reserves" include such items as retrospective reinsurance premium reserves, unearned premium reserves for property/casualty long duration contracts, unearned premium reserves for extended reporting endorsements, premium deficiency reserves or other reserve items for which the actuary is providing a statement of actuarial opinion.	We recommend adding premium deficiency reserves as an example of "other reserves" because opining actuaries sometimes include these reserves in the scope of the opinion (i.e., on Exhibit A, line 9 of the NAIC P/C statement of actuarial opinion). For some insurers, premium deficiency reserves can be material.
2.7, 3.10	These sections discuss material adverse deviation in the context of loss and loss adjustment expense reserves. Consider changing the references in the following passages from "loss and loss adjustment expense reserves" to "loss, loss adjustment expense, and other reserves ": <ul style="list-style-type: none"> Section 2.7: "...material adverse deviation with respect to the loss and loss adjustment expense reserves." 	Per section 1.2, the scope of the ASOP encompasses loss, loss adjustment expense, and other reserves. There are situations in which the other reserves could be significant. For example, a small medical professional liability carrier may have unearned premium for death, disability, and retirement coverage that is significant relative to the loss and loss adjustment expense reserves. In these situations, the actuary's contemplation of risk factors and opinion on the risk of material adverse deviation

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	<ul style="list-style-type: none"> Section 3.10: “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 could be understated by more than the materiality standard.” Section 3.10: “When the reserve evaluation is based on separate estimates for different components of the loss and loss adjustment expense reserves, the actuary should take into account the combined risks and uncertainties associated with the loss and loss adjustment expense reserves to determine whether a risk of material adverse deviation could exist.” 	<p>likely does (and should) contemplate the other reserves.</p> <p>Further, note that the NAIC’s P/C instructions do not specify the subject of the adverse deviation; in other words, they don’t specify <i>what</i> is deviating. The instructions simply say in paragraph 6.B, “The Appointed Actuary should explicitly state whether or not he or she reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation.” This approach has advantages because it is less restrictive.</p> <p>In the second paragraph of 3.10, we recommend that you keep the “loss and loss adjustment expense reserves” language and NOT add “other reserves” because the actuary may not provide a range of reasonable estimates for the other components of the reserve.</p>
3.10	<p>We recommend that the second paragraph in section 3.10 be deleted: “The actuary should find that a risk of material adverse deviations exists when the sum of the materiality standard ... exceeds the actuary’s range of reasonable estimates.”</p>	<p>This does not seem like authoritative guidance that should be in the ASOP. There is a similar passage in the NAIC AOWG’s regulatory guidance document, and this consideration seems more appropriate in that type of communication.</p>

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
<p>We recommend additional guidance and clarification of the standards of practice for actuaries reviewing statements of actuarial opinion.</p> <p>Relevant Sections: 1.2 Scope, Paragraph 5 Section 3. Analysis of Issues and Recommended Practices, in particular: 3.7 Work Underlying the Prior Statement of Actuarial Opinion 3.13 Documentation</p>	<p>The expansion of the purpose and scope beyond “issuing” and “providing” to “performing actuarial services with respect to a written statement of actuarial opinion” means that the ASOP now applies to actuaries, such as regulatory actuaries, who review statements of actuarial opinion. While the Scope paragraph says that reviewing actuaries should use the guidance in section 3 “to the extent practicable,” it is unclear what that means in practice and what standard of practice is being imposed on reviewer actuaries. I.e., should the reviewer actuary merely use the ASOP to assist in the review to ensure that the opining actuary addressed or satisfied the items in section 3, or does the ASOP imply that the reviewer actuary is obligated to produce a report documenting their review of the opinion (per section 3.13)?</p> <p>Similarly, section 3.7 states “...if the actuary is able to review the prior opining actuary’s work, then the actuary should determine whether the current assumptions, procedures, methods, or models differ from those used in the most recent prior statement of actuarial opinion.” Did the Task Force intend</p>

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	<p>for this standard to apply to regulatory actuaries reviewing actuarial opinions?</p> <p>While we do not disagree that some of the standards in ASOP No. 36 should apply to regulatory actuaries, other provisions are not (or not always) feasible. It seems that the ASOP No. 36 Task Force agrees, as evidenced by the “to the extent practicable” caveat. However, it is generally unclear what standard of practice is being imposed on regulatory actuaries.</p>
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V. Signature:

Commentator Signature	Date
<i>Anna Krylova</i> On behalf of the NAIC Actuarial Opinion Working Group	9/20/2022