

Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 36 - Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves

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
Julie Lederer, FCAS, MAAA / Submitting comments on my own behalf

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)
2.7, 3.10	<p>These sections discuss material adverse deviation in the context of loss and loss adjustment expense reserves. Consider changing the highlighted references in the following passages from "loss and loss adjustment expense reserves" to "loss, loss adjustment expense, and other reserves":</p> <ul style="list-style-type: none"> Section 2.7: "...material adverse deviation with respect to the loss and loss adjustment expense reserves." 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." 	<p>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 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</p>

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	<ul style="list-style-type: none"> 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>material adverse deviation.” This approach has advantages because it is less restrictive.</p> <p>In the second paragraph of 3.10, I 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	I recommend that the second paragraph in section 3.10 be deleted.	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.
3.8.4	“The actuary should determine whether the reserves make a reasonable provision for the liabilities associated with the specified reserves, except for exclusive of the item or items to which the qualification relates.”	I believe removing the comma after “reserves” and using the phrase “exclusive of” instead of “except for” would make this phrase clearer and grammatically correct. The phrase “exclusive of” (or “except for”) modifies the word “reserves,” so it should not be separated from “reserves” by a comma.
4.3.i.III	“whether the reserves make a reasonable provision for the liabilities associated with the specified reserves, except for exclusive of the item or items to which the qualification relates (see section 3.8.4); or”	I believe removing the comma after “reserves” and using the phrase “exclusive of” instead of “except for” would make this phrase clearer and grammatically correct. The phrase “exclusive of” (or “except for”) modifies the word “reserves,” so it should not be separated from “reserves” by a comma.
4.3.a	“the discounted values used in forming the opinion, the items discounted, the discount rate(s) and the stated basis for the discount rate(s), if the statement of actuarial opinion relies on discounted values and if the actuary believes that such reliance is likely to have a material effect on the results of the actuary’s reserve evaluation (see section 3.3[a]);”	I recommend that the actual discount rates be disclosed because these are helpful to analyze when reviewing the opinion. Section 4.2.g of the current ASOP requires disclosure of the “interest rate(s) used by the actuary,” and it’s unclear why this disclosure requirement was removed in the exposure draft.

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Section 1.2 expands the scope of the ASOP to include “performing actuarial services that involve reviewing a statement of actuarial opinion.” I recommend that the drafters consider clarifying the intention and that clearer guidance be added.	<p>With the addition of a few sentences, the ASOP now applies to those who review opinions, but the language in sections 3 and 4 is still directed toward those who prepare opinions. It’s not clear how those who review opinions, such as regulators, should comply with the ASOP.</p> <p>Does compliance with the ASOP for a reviewer mean that the reviewer checks that the preparer followed sections 3 and 4? Regulators regulate companies, not their appointed actuaries,</p>

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	<p>so it's not clear that regulators should be responsible for policing appointed actuaries' compliance with the ASOP.</p> <p>The ASOPs do, and should, apply to regulatory actuaries just as they apply to non-regulators, but it's not clear how regulators should comply with this ASOP.</p>
<p>Section 4.2.f of the current ASOP No. 36 says, "If the actuary makes use of an analysis or opinion of another not within the actuary's control for a material portion of the reserves, the actuary should disclose whether the actuary reviewed the others' underlying analysis." The exposure draft does not include this requirement. I recommend adding it, maybe after section 4.3.c.</p>	<p>As a regulator, I find it helpful to know if the appointed actuary reviewed the analysis of the other person and, if so, the extent of the review. It's relatively common for appointed actuaries to make use of the analysis of another for significant portions of the reserve balance (e.g., for catastrophe-related reserves, reserves for mass torts, or reserves for unusual situations like the COVID-19 pandemic). Reviewing such opinions requires understanding how the appointed actuary got comfortable with the analysis performed by the other person.</p>

V. Signature:

Commentator Signature	Date
Julie Lederer	9/29/22