

Title of Exposure Draft: ASOP 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
Laura Maxwell on behalf of Pinnacle Actuarial Resources, Inc.

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

Question No.	Commentator Response
None	

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	Remove item c.	The US Qualifications Standards define an actuarial statement of opinion very broadly. The requirements specified seem to imply that the ASOP is intended for a focused type of actuarial statement of opinion and could be restricted only to SAOs that are required by a regulatory authority.
1.2	We suggest including premium deficiency reserves in the list of other reserves that may be included in the paragraph after the list of circumstances. "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, <u>premium deficiency reserves</u> or other reserve items for which the actuary is providing a statement of actuarial opinion.	Adding this would clarify that any opinion on premium deficiency reserves would be covered by this ASOP.
3.1	Add auditors to the list of intended users.	Auditors rely on the report.

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3.1	<p>Section 3.1 (shown below) was removed from the ASOP with no discussion. We recommend that it not be deleted.</p> <p>3.1 LEGAL AND REGULATORY REQUIREMENTS When an actuary prepares a statement of actuarial opinion to satisfy the requirements of law or regulation, the actuary should have the necessary knowledge to comply with the specific requirements of that law or regulation. The actuary should be satisfied that the statement of actuarial opinion is consistent with relevant requirements of applicable laws and regulations.</p>	<p>We have concern with removing the requirement for an actuary to understand the legal requirements when issuing an actuarial opinion. This does not appear to be covered in any other relevant ASOP for an actuarial opinion</p>
3.3(c)	Add “implicit or explicit” to specified recoverables.	Recoverables are not always explicit.
3.8	Add “Adequate” as an opinion type.	<p>The types of opinion listed are applicable for NAIC SAOs but do not include Adequate which is applicable for other types of SAOs.</p> <p>Examples where the standard required by law, regulation or accounting principles is “Adequacy” include:</p> <ul style="list-style-type: none"> • Special SAO for California Workers Compensation Schedule P • SAOs for Illinois Intergovernmental Risk Pools • DD&R component of UPR (per SSAP 65, section 8) • Policy reserves for LTC exposure or A&H exposure written on P/C platform • Bermuda captives and reinsurers – we understand ASOP 36 will not – technically – apply to SAOs submitted outside the United States, however, BMA regulators may require actuaries from the U.S. opining on Bermuda exposure to follow professional guidance per U.S. standards
3.8	Add guidance on how to address situations that commonly arise when there are differing conclusions as to reasonableness for individual reserve segments being opined upon.	<p>There is no guidance provided to practitioners in Section 3.8 on how to address situations that commonly arise when there are differing conclusions as to reasonableness for individual reserve segments being opined upon. That is, the actuary may conclude that held loss and loss adjustment expense reserves are reasonable on a net basis but may have different conclusions as to held reserves on a direct and assumed basis. Furthermore, conclusions regarding the adequacy for the UPR for long duration contracts, held accruals for extended reporting reserves of the UPR for death, disability and retirement (DD&R) exposure for free tail coverage provided under certain claims-made contracts may be different from the conclusions for other segments being opined upon. We submit there should be</p>

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		<p>guidance provided in ASOP 36 on how the actuary should document the findings if/when there are conflicting conclusions regarding the type of opinion being rendered on specific items within the scope of the SAO.</p> <p>Each year, the NAIC issues a Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports, as prepared by the NAIC’s Actuarial Opinion (C) Working Group (AOWG) of the Casualty Actuarial and Statistical (C) Task Force (CASTF). The so-called “Regulatory Guidance Memo” to practitioners that is commonly made a part of the Practice Note issued by the Committee on Property/Liability Financial Reporting (COPLFR) to accompany the Annual Statement Instructions.</p> <p>In that communication, regulators have indicated the Type of Opinion they expect should be the Opinion as regards held net loss and loss adjustment expenses. In particular, Section II of that Memo is titled “Comments on Actuarial Opinion and Actuarial Report” and subsection D of that document reads:</p> <p><i>D. Conclusions on a net versus a direct and assumed basis</i></p> <p><i>Unless the Appointed Actuary states otherwise, regulators will assume that the Appointed Actuary’s conclusion on the type of opinion rendered, provided in points C and D of the Opinion paragraph, applies to both the net and the direct and assumed reserves. If the Appointed Actuary reaches different conclusions on the net versus the direct and assumed reserves, the Appointed Actuary should include narrative comments to describe the differences and clearly convey a complete opinion.</i></p> <p>To the extent other items within the Scope of the SAO do not align with that Opinion type, the actuary should make all necessary disclosures. We suggest ASOP 36 provide more guidance in this regard not unlike what the Regulatory Guidance Memo provides.</p>
<p>3.10</p>	<p>“... to assess whether there are significant risks that could result in actual loss and loss adjustment expense amounts being materially greater than those provided for in the reserves.”</p> <p>The revision is “...to assess whether the loss and loss adjustment expense reserves could be understated by more than the materiality standard.”</p>	<p>The prior version emphasized that losses might emerge adversely compared to the booked number. Using “understated” almost implies they are incorrect based on the information known at the time of the opinion.</p>

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4.2	The new guidance in subparagraphs (h) through (j) provided for disclosing materiality standard and risk factors underlying RMAD disclosures is too broad.	<p>These are broader disclosures than in the current ASOP 36 and mimic guidance in the Annual Statement Instructions effectively requiring disclosures even if actuary determines no RMAD exists.</p> <p>Similar to our concerns with Section 3.8, guidance could be needed if an actuary decides that significant risk and uncertainties could result in material adverse deviation on a net basis and not on a direct and assumed basis. (Example could be questionable collectible recoveries.) Some jurisdictions require the actuary to opine on reserves both net and gross of recoverables within the same opinion. If the RMAD language is only to apply to net language, then it should say so.</p>
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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
We recognize the appendix is provided for informational purposes only, but there is a significant omission in the third paragraph as regards actuarial opinions required for other types of entities. In particular, we submit that captive insurance companies should be added to the list as the proliferation of such alternative market entities has been substantial in recent years.	
Replace loss reserves with unpaid claim estimates.	This would be consistent with ASOP 43.

V. Signature:

Commentator Signature	Date
<p>The comments above are the collected comments of the consultants employed by Pinnacle. If you have any questions regarding our comments, please contact Laura Maxwell, Pinnacle’s Professional Standards Officer, at lmaxwell@pinnacleactuaries.com. Laura A. Maxwell, FCAS, MAAA, CSPA</p>	9/30/2022