

**Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice 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](mailto: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.

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**I. Identification:**

Name of Commentator / Company
John Pierce, John Pierce Consulting Actuary Gordon Thompson, AmeRisk Consulting James Rech, AmeRisk Consulting

**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)

**IV. General Recommendations (If Any):**

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
<p><b>May 2022 Proposed Change to ASOP 36</b></p> <p><u>Applicability of the ASOP</u> The second paragraph on page IX of this exposure draft states “Because ASOP 36 applies to all statements of actuarial opinion regarding property/casualty reserves, the additional disclosure items also apply to non-NAIC property/casualty statements of actuarial opinion”.</p> <p>We believe this statement is misleading and that ASOP 36 should not apply to all statements of actuarial opinion</p>	

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regarding property/casualty statements of actuarial opinion. In fact, Item 1.2 “Scope” even states -- in item (c) – that ASOP 36 applies to non-NAIC opinions only if the opinion “is represented by the actuary as complying with this standard”.

The Perfect and The Good We believe that some portions of Section 4.2 Required Disclosures are not appropriate for all statements of actuarial opinion. For example, Section 4.2 (h), (i), and (j) deal with materiality standards and RMAD’s. These items clearly should be included in an NAIC opinion for a property/casualty annual statement. However, there may be a number of other actuarial reserve reviews for which the additional steps of determining a materiality standard and opining on an RMAD do not make sense – given the intended purpose of those other actuarial projects. For example, consider an informal quarterly reserve review which will not be used in any financial statements. Does it make sense to add the machinery of RMAD’s to this project?

We believe that some of the Section 4.2 Required Disclosures are probably appropriate for all statements of actuarial opinion (NAIC and non-NAIC) but others are not. Requiring a long list of items for each and every opinion will most likely cause actuaries to say “I am not representing that this opinion conforms to ASOP 36”. In other words, a long list of requirements (some of which are not appropriate) will likely lead to avoidance of the entire ASOP 36, while a more flexible listing would cause more actuaries to conform to parts of the ASOP. The long list may be “the perfect” but it will prevent “the good” – “the good” being where actuaries would adopt the parts of the list which make sense.

(A provision in the ASOP 36 allowing for an actuary to document – in the workpapers for the project -- why all the Required Disclosures are not made would seem to provide reasonable controls for this flexibility, and still encourage more widespread adherence to this ASOP.)

The Various Dates We note that ASOP 36 requires an explicit mention of Accounting Date (also known as “As of Date”), the Valuation Date (the date through which transactions are included in the data), and the Review Date (also known as “Information Date”) in the statement of opinion. ASOP 41 requires a disclosure of the Information Date, but only in “the actuarial report”. The NAIC instructions also require a disclosure of the Valuation Date. However, we believe most actuaries will

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mention the Accounting Date in their opinions, but will not mention the Valuation Date unless it is different than the Accounting Date. For example, if the Accounting Date and the Valuation Date were both 12/31/2022, most actuaries would not mention the Valuation Date. Of course, if the data is cut off at 12/15/2022, for example, we believe most actuaries would mention the Valuation Date of 12/15/2022 as well as the Accounting Date of 12/31/2022 in their opinion. Do the writers of this revised ASOP 36 believe this approach is incorrect?

Self-Insurance Reserve Reviews Section 3.6 Uncollectible Recoverables states that the actuary “should take into account the collectability of these recoverables”. The NAIC instructions are broader, in that they require the actuary to comment on collectability of reinsurance in the statement of opinion.

From our experience, in reserve reviews of self-insurers, it is not uncommon for actuaries to ignore the issue of solvency of the self-insurance program’s excess insurers. We feel that the question “Are all your excess insurers still solvent and able to pay claims?” should be a question posed to management in many (but not all) reserve reviews for self-insurers.

The draft of ASOP 36 does not impose any such requirement. Even if ASOP 36 is not applicable to non-NAIC statements of opinion, some stronger wording about recoverables from excess insurers might be a worthwhile addition to this ASOP.

Wording Clarity We believe Sections 4.3 (g) and 4.3 (h) are not clear. For NAIC opinions, if the actuary issues a “Deficient” opinion, the actuary must also provide the minimum reserve amount which would have been reasonable (and which would have been acceptable to the actuary). Similarly, for NAIC opinions, if the actuary issues a “Redundant” opinion, the actuary must also provide the maximum reserve amount which would have been reasonable (and which would have been acceptable to the actuary). These instructions are well known to most actuaries.

In fact, we note that “Deficient” and “Redundant” opinions are discussed in Section 3.8.2 and Section 3.8.3 of the draft ASOP 36.

Is there a reason why the proposed wording in 4.3 (g) and 4.3 (h) say “if the actuary determines ...” instead of the more clear “if the actuary’s opinion is ...”? Are the writers of this draft ASOP 36 offering different instructions on

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<p>“Deficient” and “Redundant” opinions than the NAIC for some reason? Why not simply repeat the original wording?</p> <p><u>More on Wording Clarity</u> The third paragraph of Section 3.10 Material Adverse Deviation states that when there are separate components of loss and LAE reserves, “the actuary should take into account the combined risks and uncertainties” in determining whether an RMAD exists. Our impression is that the writers of this draft ASOP are indicating that the materiality standard applies to the sum of all the reserve components. However, this overview is not clear from the proposed wording.</p> <p><u>Conclusion</u> The information in the draft ASOP is valuable for actuaries issuing statements of opinion. However, we suggest that the profession would benefit if more actuaries would apply this ASOP in their non-NAIC reserve reviews. Greater flexibility in the requirements of the ASOP might lead to a broader adoption of this valuable information. In addition, some enhanced guidance in the ASOP – perhaps using examples of less formal SAO’s and more formal SAO’s – on when various sections are applicable and when they are not would be helpful.</p>	

**V. Signature:**

Commentator Signature	Date
<p><i>John P. ...</i></p> <p><i>Andrew ... James E. ...</i></p>	<p>9/30/2022</p>