

**Title of Exposure Draft: Proposed Revision of Actuarial Standard of Practice No. 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](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.

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
Stephen Koca, FCAS, MAAA / Milliman, Inc.

**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	<p>The scope states:</p> <p>“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, or other reserve items for which the actuary is providing a statement of actuarial opinion.</p> <p>As these other types of reserves are not defined in Section 2, suggest adding either a definition of “Other reserves” (similar to what is above) to Section 2 or adding definitions for the underlying terms “retrospective reinsurance premium reserves”, “unearned premium reserves”, and “other reserves”.</p>	<p>Defining these terms would provide clarity to the user, and “other reserves” and the description of “other reserves” in Section 1.2 seems similar to a definition.</p>

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1.2	Suggest using the term “Premium Reserves” rather than “Other Reserves”.	This would be more clear, and along with the above recommendation could then just have definition of the term “Premium” in section 2. All of the specific examples are types of UEPR. Alternatively, if reserves outside of premium reserves are intended to be included within “other reserves” then include an example of a non premium reserve.
1.2	Please provide further clarity on what “...involve reviewing a statement of actuarial opinion...” means.	Absent a more strict definition, this will be widely interpreted. The terms “Review” (ASOP 8) and “Reviewing Actuary” (ASOP 8, 21) are defined in other ASOPs but do not appear to be consistent with the use here in ASOP 36.
2.7	<p>The draft ASOP defines “materiality standard” as:</p> <p>“The amount that the actuary judges to be material in determining if there is a significant risk of material adverse deviation with respect to the loss and loss adjustment expense reserves.”</p> <p>Suggest rewording as follows:</p> <p>The amount that the actuary judges to be material in determining if there is a significant risk of material adverse deviation with respect to the reserves being opined on.</p>	Since “other reserves” are included within the scope of the ASOP (if within the scope of a statement of actuarial opinion), the materiality standard should apply to those reserves in addition to any loss and loss adjustment expense reserves.
2.11	<p>The “review date” is defined as:</p> <p>“The date (after the valuation date) through which material information known to the actuary is included in forming the statement of actuarial opinion.”</p> <p>Suggest expanding as follows:</p> <p>“The date (on or after the valuation date) through which material information known to the actuary is included in forming the statement of actuarial opinion.”</p>	The review date could be the same date as the valuation date
3.6	<p>The draft ASOP provides the following recommendation with respect to “uncollectable recoverables”:</p> <p>“If the statement of actuarial opinion includes reserves net of recoverables and the amount of recoverables is material, the actuary should take into account the collectability of those recoverables in evaluating net reserves. The actuary should solicit information from</p>	There may be recoverables outstanding on amounts that have already been paid (e.g., a loss has been paid by primary carrier but not yet reimbursed by reinsurer). As the loss reserves are for unpaid amounts, the suggested changes are intended to make it clear that such recoverables (on paid losses) are not within the scope of this recommended practice.

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	<p>management regarding collectability problems, significant disputes with counterparties, and practices regarding provisions for uncollectable recoverables. The actuary is not required to express an opinion on the financial condition of any counterparty.”</p> <p>Suggest altering the wording as follows:</p> <p>“If reserves being opined on reflect a material amount of anticipated recoverables on the unpaid reserves, the actuary should take into account the collectability of those recoverables in evaluating net reserves. The actuary should solicit information from management regarding collectability problems, significant disputes with counterparties, and practices regarding provisions for uncollectable recoverables. The actuary is not required to express an opinion on the financial condition of any counterparty.”</p>	<p>If recoverables on paid losses are intended to be within the scope of the opinion and therefore this intended practice, I recommend the proposed language be modified to provide more clarity.</p> <p>I note that recoveries ultimately being uncollectable that were previously assumed collectable would flow through a future Schedule P as adverse development regardless if the underlying loss had been paid or not at the time of the Opinion.</p>
3.10	<p>The draft ASOP recommends the following with respect to material adverse deviation:</p> <p>“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 could be understated by more than the materiality standard. 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 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 exceeds the actuary’s range of reasonable estimates. 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</p>	

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	<p>reserves to determine whether a risk of material adverse deviation could exist.”</p> <p>This language uses the terms “loss” and “loss adjustment expense” reserves exclusively, which raises the question of whether this practice should apply to “other reserves” which may be the subject of the opinion. Recommendation is to reword to make it clear that the recommended practice does apply to other reserves, by simply using the term “reserves” in place of “loss and loss adjustment expense reserves”:</p> <p>“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 reserves could be understated by more than the materiality standard. The actuary should find that a risk of material adverse deviation exists when the sum of the materiality standard and the reserves 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 reserves exceeds the actuary’s range of reasonable estimates. When the reserve evaluation is based on separate estimates for different components of the reserves (such as loss reserves, loss adjustment expense reserves, and other reserves), the actuary should take into account the combined risks and uncertainties associated with the reserves to determine whether a risk of material adverse deviation could exist.</p>	
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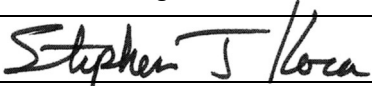
**IV. General Recommendations (If Any):**

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)

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V. Signature:

Commentator Signature	Date
	9/30/2022