



ACTUARIAL STANDARDS BOARD

• **SECOND EXPOSURE DRAFT** •

**Proposed Revision of
Actuarial Standard of
Practice No. 36**

**Statements of Actuarial Opinion Regarding
Property/Casualty Loss and Loss Adjustment Expense Reserves**

**Comment Deadline:
June 30, 2010**

**Developed by the
Subcommittee on Reserving of the
Casualty Committee of the
Actuarial Standards Board**

**Approved for Exposure by the
Actuarial Standards Board
March 2010**

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TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 36

This document is a second exposure draft of a proposed revision of ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*.

Please review this second exposure draft and give the ASB the benefit of your comments and suggestions related to the proposed changes. Each written response and each response sent by e-mail to the address below will be acknowledged, and all responses will receive appropriate consideration by the drafting committee in preparing the final document for approval by the ASB.

The ASB accepts comments by either electronic or conventional mail. The preferred form is e-mail, as it eases the task of grouping comments by section. However, please feel free to use either form. If you wish to use e-mail, please send a message to **comments@actuary.org**. You may include your comments either in the body of the message or as an attachment prepared in any commonly used word processing format. **Please do not password protect any attachments.** Include the phrase “ASB COMMENTS” in the subject line of your message. Please note: Any message not containing this exact phrase in the subject line will be deleted by our system’s spam filter.

If you wish to use conventional mail, please send comments to the following address:

ASOP No. 36 Revision
Actuarial Standards Board
1850 M Street, Suite 300
Washington, DC 20036

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Unsigned or anonymous comments will not be considered by the ASB nor posted to the website. The comments will not be edited, amended, or truncated in any way. Comments will be posted in the order that they are received. Comments will be removed when final action on a proposed standard is taken. The ASB website is a public website and all comments will be available to the general public. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

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This standard uses the deviation language adopted by the ASB in September 2008. However the deviation language makes reference to ASOP No. 41, *Actuarial Communications*, which is currently being revised. This language will be finalized when the revised ASOP No. 41 is adopted.

Deadline for receipt of responses in the ASB office: **June 30, 2010**

Background

In March 2000, the Actuarial Standards Board adopted ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*. This standard provides guidance to actuaries when issuing specific types of Statements of Actuarial Opinion.

ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*, was adopted by the Actuarial Standards Board in June 2007. This standard provides guidance to actuaries regarding the estimation of unpaid claims, both when such estimates are performed to support a Statement of Actuarial Opinion covered by ASOP No. 36 and in other circumstances.

Actuaries providing a Statement of Actuarial Opinion covered by the current version of ASOP No. 36 are guided by both ASOP Nos. 36 and 43. In some cases, the guidance is redundant. In other cases, the language in the two documents is unclear when viewed as a whole, as terms and concepts may not be covered in a consistent manner. In order to mitigate such redundant or unclear guidance, a subcommittee was formed to rewrite ASOP No. 36.

The primary goal of the subcommittee was to eliminate any redundant guidance and language that exists between ASOP Nos. 36 and 43. A further goal was to maintain consistency between ASOP Nos. 36 and 43 and, in order to maintain this consistency, to clarify and provide further guidance within ASOP No. 36, if necessary.

First Exposure Draft

The first exposure draft of this proposed ASOP was issued in March 2009 with a comment deadline of June 15, 2009. The Subcommittee on Reserving carefully considered the 11 comment letters received and made changes to the language in several sections in response. For a summary of the issues contained in these comment letters, please see appendix 2.

The most significant modifications from the first exposure draft are as follows:

1. The term “intended measure,” which appeared in section 3.4 of the first exposure draft, was removed, as this term was the source of significant confusion. This was replaced with multiple references in sections 3.3 and 3.4 to items such as accounting basis, discounting, and explicit risk margins, among others.

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2. The first exposure draft contained the section Reliance on Others (section 3.8 of the first exposure draft). The current ASOP No. 36 similarly allows actuaries to claim reliance on the work of others for supporting analysis as long as the actuary includes a disclosure in the opinion that describes the work of others and the extent to which such others' work was used in forming the opinion. Furthermore, the current ASOP No. 36 allows actuaries to rely on the opinions of other actuaries for some portion of the subject reserves, so long as the actuary (i) ascertains that reliance on the other actuary's opinion is consistent with the other actuary's intended use and (ii) discloses the reliance on the other actuary's opinion in the subject opinion along with (iii) a description of the relevant reserves or subject matter to which the reliance applies, and (iv) any limitation on the actuary's recognition of significant risks and uncertainties concerning material adverse deviation relating to the subject reserves to which reliance applies.

After further consideration, the Subcommittee on Reserving believes additional steps should be taken when using the work of others. This second exposure draft contains language stating an actuary can make use of the supporting analyses or opinions of other actuaries only after evaluating whether it is reasonable to do so, as described in the revised section 3.7.2.

3. Several of the disclosures in section 4 have been removed, as the Subcommittee on Reserving deemed them unnecessary.

The ASB thanks everyone who took the time to contribute comments and suggestions on the first exposure draft.

Request for Comments

The ASB encourages comments on all sections of this second exposure draft, and is particularly interested in receiving comments on the following areas:

1. In regards to the changes concerning reliance on another actuary's work (as described above), the new language states the opining actuary can make use of another's work under certain circumstances, as described in 3.7.2. Is this language clear and appropriate?
2. In addition, feedback is encouraged on section 3.3(c), which states the actuary should identify the accounting standards applicable for the reserve (for example, US SAP, US GAAP, IFRS, etc.). This (along with other items) was added to the draft when the term "intended measure" was removed. The subcommittee believes it is appropriate for the actuary to be aware of the applicable accounting standards when providing a reserve opinion. The subcommittee does not intend for the actuary to opine on the accounting standards themselves or on whether reserves are booked in accordance with the accounting standards. Is this language clear and appropriate?

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The ASB establishes and improves standards of actuarial practice. These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the U.S.

PROPOSED REVISION OF ACTUARIAL STANDARD OF PRACTICE NO. 36

**STATEMENTS OF ACTUARIAL OPINION
REGARDING PROPERTY/CASUALTY
LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES**

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

- 1.1 Purpose—The purpose of this actuarial standard of practice (ASOP) is to provide guidance to the actuary in issuing a written statement of actuarial opinion regarding property/casualty loss and loss adjustment expense reserves.
- 1.2 Scope—This standard applies to actuaries when providing written statements of actuarial opinion with respect to property/casualty loss and loss adjustment expense reserves of insurance or reinsurance companies and other property/casualty risk financing systems, such as self-insurance, that provide similar coverages, under one of the following circumstances:
- a. the statement of actuarial opinion is prepared to comply with NAIC Property and Casualty Annual Statement Instructions, or
 - b. the statement of actuarial opinion is otherwise prescribed by law or regulation, or
 - c. the statement of actuarial opinion is represented by the actuary as being in compliance with this standard.

References in the standard to “insurance,” “reinsurance,” or “self-insurance” should be interpreted to include risk financing systems that provide for risk retention in lieu of risk transfer. This standard does not apply to statements of actuarial opinion subject to ASOP No. 22, *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers*; ASOP No. 28, *Compliance with Statutory Statement of Actuarial Opinion Requirements for Hospital, Medical, and Dental Service or Indemnity Corporations, and for Health Maintenance Organizations*; or Actuarial Compliance Guideline No. 4, *Statutory Statements of Opinion Not Including an Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers*.

If the actuary’s statement of actuarial opinion includes an opinion regarding amounts for items other than loss and loss adjustment expense reserves, this standard applies only to the portion of the statement of actuarial opinion that relates to loss and loss adjustment expense reserves.

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If the actuary is providing a statement of actuarial opinion for discounted loss and loss adjustment expense reserves, the actuary should be guided by both this standard and ASOP No. 20, *Discounting of Property and Casualty Loss and Loss Adjustment Expense Reserves*.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority) or for any other reason the actuary deems appropriate, the actuary should refer to section 4.3.

- 1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.
- 1.4 Effective Date—This standard is effective for all statements of actuarial opinion regarding loss and loss adjustment expense reserves rendered on or after four months after adoption by the Actuarial Standards Board.

Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice. Note that any reference to “loss” or “claim” in this standard includes losses, loss adjustment expenses, or both.

- 2.1 Accounting Date—The stated cutoff date for reflecting events and recording amounts as paid in a financial statement or accounting system. The accounting date is sometimes referred to as the “as of date.”
- 2.2 Coverage—The terms and conditions of a plan or contract, or the requirements of applicable law, that create an obligation for claim payment associated with contingent events.
- 2.3 Event—The incident or activity that triggers potential for claim or claim adjustment expense payment.
- 2.4 Explicit Risk Margin—An explicit provision for uncertainty in a reserve or unpaid claim estimate.
- 2.5 Loss—The cost that is associated with an event that has taken place and that is subject to coverage. It is also known as “claim amount.”
- 2.6 Loss Adjustment Expense—The costs of administering, determining coverage for, settling, or defending claims even if it is ultimately determined that the claim is invalid. It is also known as “claim adjustment expense.”

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- 2.7 Present Value—The value at a point in time of cash flows at other points in time, calculated at selected interest rates. It is also known as “discounted present value” or “discounted value.”
- 2.8 Reserve—An amount recorded in financial statements or accounting systems in order to reflect obligations.
- 2.9 Reserve Evaluation—The process of evaluating the reasonableness of a reserve.
- 2.10 Review Date—The cutoff date for including material information known to the actuary in the unpaid claim estimate analysis.
- 2.11 Unpaid Claim Estimate—The actuary’s estimate of the obligation for future payment resulting from claims due to past events.
- 2.12 Unpaid Claim Estimate Analysis—The process of developing an unpaid claim estimate.
- 2.13 Valuation Date—The date through which transactions are included in the data used in the unpaid claim estimate analysis.

Section 3. Analysis of Issues and Recommended Practices

- 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.
- 3.2 Purpose of the Statement of Actuarial Opinion—The actuary should identify the intended purpose of the statement of actuarial opinion. For example, the intended purpose may be to satisfy the requirements for such an opinion under the NAIC Annual Statement Instructions.
- 3.3 Reserves Being Opined Upon—The actuary should identify the following regarding the reserves being opined upon:
 - a. the reserve amount(s);
 - b. the accounting date; and
 - c. the accounting standards applicable for the reserves (for example, US SAP, US GAAP, IFRS, etc.).
- 3.4 Stated Basis of Reserve Presentation—The actuary should identify the stated basis of reserve presentation, which is a description of the nature of the reserves, usually found in

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the financial statement and the associated footnotes and disclosures. The stated basis often depends upon regulatory or accounting requirements. It includes, as appropriate, the following:

- a. whether reserves are stated as being nominal or discounted for the time value of money and, if discounted, the items discounted (for example, tabular reserves only) and the stated basis for the interest rate (for example, risk-free rate, portfolio rate, or fixed rate of x%);
- b. whether the reserves are stated to include an explicit risk margin, and if so, the stated basis for the explicit risk margin (for example, stated percentile of distribution, or stated percentage load above expected);
- c. whether the reserves are gross or net of specified recoverables (for example, deductibles, ceded reinsurance, and salvage and subrogation);
- d. whether the potential for uncollectable recoverables is considered in the reserves, when recoverables are involved and, if so, the categories of such uncollectable recoverable considered and whether those categories reflect currently known collectability concerns or potential ultimate collectability concerns. Possible categories of uncollectables include those related to disputes and those related to counterparties in financial difficulty (credit default);
- e. the types of unpaid loss adjustment expenses covered by the reserve (for example, coverage dispute costs, defense costs, and adjusting costs);
- f. when the opinion is only for a portion of a reserve, the claims exposure to be covered by the opinion (for example, type of loss, line of business, year, and state); and
- g. any other items that, in the actuary's professional judgment, are needed to describe the reserves sufficiently for the actuary's evaluation of the reserves.

To the extent the actuary does not know the above items, the actuary should request this information from the principal. If unable to obtain these items from the principal, the actuary should identify what the actuary assumed to be the intended basis of reserve presentation for purposes of the reserve evaluation.

3.5 Scope of the Analysis Underlying the Statement of Actuarial Opinion—The actuary should identify the scope of the analysis upon which the opinion is based. This includes the following:

- a. the valuation date of the data that underlies the actuary's analysis;
- b. the review date of the actuary's analysis, if it differs from the date the opinion is signed;

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- c. if separate reserve amounts for different reserve items, such as losses and loss adjustment expenses, are disclosed in the statement of actuarial opinion, whether the actuary's opinion applies to those items in the aggregate or individually; and
- d. any other items that, in the actuary's professional judgment, are needed to describe the scope of the actuary's analysis sufficiently.

- 3.6 **Materiality**—The actuary should evaluate materiality based on the actuary's professional judgment, any applicable materiality guidelines or standards, and the intended purpose for which the actuary is preparing the statement of actuarial opinion.

The actuary should understand which financial values are usually important to the intended users of the statement of actuarial opinion and how those financial values are likely to be affected by changes in the reserves and future payments for losses and loss adjustment expenses. For example, for a statement of actuarial opinion for an insurance company to be used for financial reporting to insurance regulators, materiality might be evaluated in terms of the company's reported reserves or statutory surplus.

- 3.7 **Reserve Evaluation**—The actuary should consider a reserve to be reasonable if it is within a range of estimates that could be produced by an unpaid claim estimate analysis that is, in the actuary's professional judgment, consistent with both ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*, and the identified stated basis of reserve presentation.

The actuary should consider the relevant characteristics of the entity's exposures to the extent that they are likely to have a material effect on the results of the actuary's reserve evaluation. These characteristics may be influenced by the methods used to sell or provide coverages, the distribution channels from which the entity's business is obtained, the general underwriting practices and pricing philosophy of the entity, and the marketing objectives and strategies of the entity.

If the actuary makes use of other personnel within the actuary's control to carry out assignments relative to analyses supporting the opinion, the actuary should review their contributions and be satisfied that those contributions are reasonable.

The actuary may develop estimates of the unpaid claims for all or a portion of the reserve or make use of another's unpaid claims estimate analysis or opinion for all or a portion of the reserve.

- 3.7.1 **Evaluation Based on Actuary's Unpaid Claim Estimates**—When developing unpaid claim estimates to evaluate the reasonableness of a reserve, the actuary may develop a point estimate, a range of estimates, or both. The actuary should be guided by ASOP No. 43 for the development of these unpaid claim estimates.

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3.7.2 Evaluation Based on Actuary's Use of Another's Unpaid Claims Estimate Analysis or Opinion—In the course of conducting a reserve evaluation, the actuary may make use of another's supporting analyses or opinions. The actuary should understand the intended purpose of the analyses or opinions, and assess whether the analyses or opinions are consistent with the stated basis of presentation of the reserves. The actuary should only make use of another's analyses or opinions when, in the actuary's professional judgment, it is reasonable to do so. In making this determination, the actuary should consider the amount of the reserves covered by the others' analyses or opinions in comparison to the total reserves subject to the actuary's opinion, the nature of the business, how reasonably likely deviations may affect the actuary's opinion on the total reserves subject to the actuary's opinion and the credentials of the other individuals that prepared the analyses or opinions. Where, in the opinion of the actuary, the others' analyses or opinions need to be modified or expanded, the actuary should perform such analyses as necessary to render an opinion.

If in using the analyses performed by others the actuary reaches conclusions materially different from those in the others' work, the actuary should, when practical, contact the producers of those analyses to discuss the differences. Where material differences exist, the issues underlying the differences should be understood by the actuary. (Note that materiality is measured relative to the actuary's opinion, not relative to the others' analyses.)

3.8 Prior Opinion—If the actuary prepared the most recent prior opinion, or if the actuary is able to review the prior opining actuary's work, then the actuary should determine whether the current assumptions, procedures, or methods differ from those employed in providing the most recent prior opinion prepared in accordance with this standard. If the current assumptions, procedures or methods differ from those employed in the prior opinion, the actuary should consider whether the changes are likely to have had a material effect on the actuary's unpaid claim estimate.

The use of assumptions, procedures, or methods for new reserve segments (for example, line of business or accident year) that differ from those used previously is not a change in assumptions, procedures, or methods within the meaning of this section. Similarly, when the determination of the reasonableness of reserves is based on the periodic updating of experience data, factors, or weights, such periodic updating is not a change in assumptions, procedures, or methods within the meaning of this section.

3.9 Adverse Deviation—The actuary should consider whether there are significant risks and uncertainties that could result in future paid amounts being materially greater than those provided for in the reserves. When the actuary's analysis derives separate reserve estimates for various segments or claim groupings, the actuary should consider the combined risks and uncertainties associated with the reserves that are the subject of the opinion. (See section 4.1(h) and 4.2(e) for related disclosure requirements.)

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- 3.10 Collectability of Ceded Reinsurance—If the scope of the statement of actuarial opinion includes reserves net of ceded reinsurance and the amount of ceded reinsurance is material, the actuary should consider the collectability of ceded reinsurance in evaluating net reserves. The actuary should solicit information from management regarding collectability problems, significant disputes with reinsurers, and practices regarding provisions for uncollectable reinsurance. The actuary’s consideration of collectability does not imply an opinion on the financial condition of any reinsurer.
- 3.11 Statements of Actuarial Opinion—An actuary who is issuing a statement of actuarial opinion cannot claim reliance on another’s work or opinion except as described in section 3.7.2. The statement of actuarial opinion should be one of the following types:
- a. Determination of Reasonable Provision—The actuary should opine that the reserve amount makes a reasonable provision for the liabilities associated with the specified reserve when the reserve is found to be reasonable. (See section 3.7).
 - b. Determination of Deficient or Inadequate Provision—The actuary should opine that the reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves when the reserve amount is less than the minimum amount that the actuary believes is reasonable. Furthermore, the actuary should determine the minimum amount that the actuary believes is reasonable. (See section 4.2(b) for related disclosure requirements.)
 - c. Determination of Redundant or Excessive Provision—The actuary should opine that the reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves when the reserve amount is greater than the maximum amount that the actuary believes is reasonable. Furthermore, the actuary should determine the maximum amount that the actuary believes is reasonable. (See section 4.2(c) for related disclosure requirements.)
 - d. Qualified Opinion—The actuary should issue a qualified statement of actuarial opinion when, in the actuary’s opinion, the reserves for a certain item or items within the scope of the opinion are in question because they cannot be reasonably estimated or the actuary is unable to render an opinion on the reserves for those items. The actuary should determine whether the reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, except for the item or items to which the qualification relates. The actuary is not required to issue a qualified opinion if the actuary reasonably believes that the item or items in question are not likely to be material. (See section 4.2(d) for related disclosure requirements.)

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- e. No Opinion—The actuary’s ability to give an opinion is dependent upon data, analyses, assumptions, and related information that are sufficient to support a conclusion. If the actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information, then the actuary should either issue a statement of no opinion or choose not to render any opinion at all. A statement of no opinion should include a description of the reasons no opinion could be given.
- 3.12 Adequacy of Assets Supporting Reserves—This standard does not obligate the actuary to undertake an evaluation of the adequacy of the assets supporting the stated reserve amount except as may be needed to comply with any applicable law, regulatory requirement, or other ASOP.
- 3.13 Documentation—The actuary should consider the intended purpose of the statement of actuarial opinion when documenting work, and should refer to ASOP No. 41, *Actuarial Communications*. When the statement is provided to meet regulatory requirements, the actuary should follow the detailed requirements specified by regulators as to the form and content of supporting reports and other documentation.

Section 4. Communications and Disclosures

- 4.1 Actuarial Communication—When issuing a statement of actuarial opinion subject to this standard, the actuary should consider the intended purpose of the statement of actuarial opinion and be guided by ASOP No. 41.

In addition, consistent with the intended purpose, the actuary should disclose the following in the statement of actuarial opinion:

- a. the words “statement of actuarial opinion,” or alternative words with similar meaning if required by law or regulation governing the opinion, in the title of the written opinion;
- b. the intended user(s) of the statement of actuarial opinion;
- c. the intended purpose of the statement of actuarial opinion, as described in section 3.2;
- d. the reserves being opined upon, as described in section 3.3;
- e. the stated basis of reserve presentation, as described in section 3.4. In certain circumstances, referring to specific financial statement reserve figures and their specific source (for example, Statutory Annual Statement of Company ABC as filed with the Company’s state of domicile) would satisfy disclosures related to section 3.4;

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- f. the scope of the analysis underlying the statement of actuarial opinion, as described in sections 3.5(c) and 3.5(d), and the review date (see section 3.5(b)) if different from the date the opinion is signed;
 - g. the type of opinion, as described in section 3.11; and
 - h. whether or not the actuary reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation, as described in section 3.9, and the amount of adverse deviation that the actuary judges to be material with respect to the statement of actuarial opinion.
- 4.2 **Additional Disclosures**—In certain cases, consistent with the intended purpose, the actuary may need to make the following disclosures in addition to those in section 4.1:
- a. The actuary should disclose the nature of changes in assumptions, procedures or methods from those employed in the most recent prior opinion prepared in accordance with this standard, unless the actuary concludes the changes are not likely to have a material effect on the actuary's unpaid claim estimate. This standard does not require the actuary to quantify the impact of such changes. If the actuary cannot review the prior opinion actuary's work, then the actuary should disclose that the prior assumptions, procedures and methods are unknown. (See section 3.8.)
 - b. If the actuary determines that the reserve amount is deficient or inadequate, the actuary should disclose the minimum amount that the actuary believes is reasonable.
 - c. If the actuary determines that the reserve amount is redundant or excessive, the actuary should disclose the maximum amount that the actuary believes is reasonable.
 - d. If the actuary issues a qualified opinion, the actuary should disclose in the opinion the item or items to which the qualification relates, the reasons for the qualification, and the amounts for such items, if disclosed by the entity, that are included in the reserve. If the amounts for such items are not disclosed by the entity, the actuary should disclose that the reserve includes unknown amounts for such items. The actuary should also disclose whether the reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, except for the item or items to which the qualification relates.
 - e. If the actuary reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation, an explanatory paragraph should be included in the statement of actuarial opinion. (See sections 3.6 and 3.9 for guidance on evaluating materiality and adverse deviation.) The explanatory paragraph should contain a description of the major factors or particular

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conditions underlying risks and uncertainties that the actuary believes could result in material adverse deviation.

The actuary is not required to include in the explanatory paragraph general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc., nor is the actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

- f. If the statement of actuarial opinion relies on present 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, the actuary should disclose that present values were used in forming the opinion, the interest rate(s) used by the actuary, and the monetary amount of discount that was reflected in the reserve amount.
- g. If the reserves being opined upon are net of ceded reinsurance and the amount of ceded reinsurance is material, the actuary should comment on the collectability of that reinsurance. This standard does not require the actuary to quantify the collectability. (See section 3.10.)
- h. When the statement is provided to meet regulatory requirements, the actuary should follow the detailed requirements specified by regulators as to the form and content of the required disclosures, to the extent not addressed above.

4.3 Deviation from Standard—If the actuary departs from the guidance set forth in this standard, the actuary should include the following where applicable:

- 4.3.1 the disclosure in ASOP No. 41, section 4.2, if any material assumption or method was prescribed by applicable law (statutes, regulations, and other legally binding authority);
- 4.3.2 the disclosure in ASOP No. 41, section 4.3, if the actuary disclaims responsibility for any material assumption or method in any situation not covered under section 4.3.1 above; and
- 4.3.3 the disclosure in ASOP No. 41, section 4.4, if the actuary otherwise deviated from the guidance of this ASOP.

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Appendix 1 Background and Current Practices

Note: This appendix is provided for informational purposes, but is not part of the standard of practice.

Background

In 2000, the ASB issued ASOP No. 36, *Statements of Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*. At that time, there was no standard of practice concerning the underlying actuarial analyses. Guidance was provided in the *Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves* adopted by the Board of Directors of the Casualty Actuarial Society in May 1988.

Since the issuance of ASOP No. 36, the ASB has issued ASOP No. 43, *Property/Casualty Unpaid Claim Estimates* in 2007. ASOP No. 43 provides guidance to actuaries concerning the actuarial analyses typically underlying the opinions subject to ASOP No. 36. Certain material is duplicated in these two ASOPs. This revision eliminates the duplications and brings consistency in language with ASOP No. 43.

Current Practices

Actuaries are guided by ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*. Other ASOPs issued by the Actuarial Standards Board pertaining to unpaid loss and loss adjustment expense estimates include ASOP No. 20, *Discounting of Property and Casualty Loss and Loss Adjustment Expense Reserves*; ASOP No. 23, *Data Quality*; and ASOP No. 41, *Actuarial Communications*. Guidance is also provided by the *Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves* of the Casualty Actuarial Society, which is currently under review.

In addition, since 1993, the Casualty Practice Council of the American Academy of Actuaries has published practice notes addressing current National Association of Insurance Commissioners' requirements for the statement of actuarial opinion required for the Statutory Annual Statement. The practice notes describe some current practices and show illustrative wording for handling issues and problems. While these practice notes (and future practice notes issued after the effective date of this standard) can be updated to react in a timely manner to new concerns or requirements, they are not binding, and they have not gone through the exposure and adoption process of the standards of practice promulgated by the Actuarial Standards Board.

Numerous educational papers are in the public domain that are relevant to the topic of reserves and reserve evaluations, including those published by the Casualty Actuarial Society. While these may provide useful educational guidance to practicing actuaries, these are not actuarial standards and are not binding.

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Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of this ASOP, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*, was issued in March 2009 with a comment deadline of June 15, 2009. Eleven comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The Subcommittee on Reserving carefully considered all comments received, and the Casualty Committee and ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses.

The term “reviewers” in appendix 2 includes the subcommittee, the Casualty Committee, and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in this exposure draft.

GENERAL COMMENTS	
Comment	ASOP No. 43, section 1.2, contains the following statement: “The terms “reserves” and “reserving” are sometimes used to refer to “unpaid claim estimates” and “unpaid claim estimate analysis.” In this standard, the term “reserve” is limited to its strict definition as an amount booked in a financial statement.” The proposed revision to ASOP No. 36 contains definitions for reserve, reserve analysis, unpaid claims and unpaid claims analysis, which clarifies that there is a distinction. One commentator suggested that it would be clearer to add a similar statement to ASOP No. 36.
Response	The reviewers decided against adding this statement, as the definitions sufficiently describe the usage of the terms in this ASOP.
Comment	One commentator requested a comparative chart that breaks down the components of the current and proposed revised versions of ASOP No. 36 by their paragraph numbers in both, and that outlines the nature of their revised treatment (moved, deleted, expanded, reduced, new section added), along with the reasons for that treatment (redundant to ASOP No. 43, considerations not appropriate to an ASOP, etc.).
Response	Such a chart has not been created. The reviewers encourage commentators to take a fresh look at the stand-alone document as drafted rather than by comparison to a prior version.
Comment	Multiple commentators noted that the ASOP No. 36 currently in effect had references to “appointed actuary” and thought these references should be retained.
Response	The reviewers note the only guidance related to “appointed actuary” in the current ASOP is to follow applicable laws and regulations. The reviewers decided such guidance was not necessary.
Comment	One commentator suggested changing the term “reserve analysis” to “reserve evaluation” to reduce confusion that might arise between “reserve analysis” and “unpaid claim estimate analysis.”
Response	The reviewers agreed and made the change.

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Comment	One commentator recommended combining ASOP Nos. 36 and 43 into a single document, with specific subsections within ASOP No. 43 addressing the opinion-related issues covered in ASOP No. 36.
Response	The reviewers believe it is clearer to retain two separate documents, as estimating unpaid claims and opining on existing reserves are two separate steps that will not always be combined in a single actuarial work product.
Comment	Multiple commentators suggested there be additional discussion on risk margins and conservatism such that conservatism is expressly or at least tacitly permitted in keeping with the Concept of Conservatism that still underlies Statutory Accounting.
Response	The reviewers note this ASOP covers more than just Statutory Accounting. The reviewers further note a specific reference to risk margins has been included in section 3.4. In addition, whether or not to include a risk margin is a decision made by the entity that reports the reserve (where allowed by the reserving context) and which then must be followed by the evaluator of the reserve, and cannot be made independently by the reviewing actuary.
Comment	One commentator states that an actuary may opine that a reserve is within a reasonable range, but could have questions about whether the carried reserve is correct. While it's not the actuary's job to balance the books, they should discuss with the finance department to at least understand the carried reserves. This could be as important as discussing the type of claims or lines of business with the claim & underwriting departments. If there are unresolved issues, the actuary should disclose this.
Response	The reviewers note that sections 3.3 and 3.4 address the actuary's responsibilities in describing the reserves being opined upon. In addition, this standard addresses opining on reserves, not the process to create those reserves. Actuarial opinions on the latter may be required in some contexts, but they are outside the scope of ASOP No. 36.
Comment	Multiple commentators noted the current ASOP No. 36 contained the sentence, "When the statement is provided to meet regulatory requirements, the actuary should consider the detailed requirements specified by regulators as to the form and content of the statement and supporting reports" and suggested it be included.
Response	The reviewers considered this and added the documentation components to section 3.12 and the disclosure components to section 4, with some modification.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.1, Purpose	
Comment	One commentator noted that the purpose paragraph (section 1.1) is broader than the scope paragraph (section 1.2).
Response	The reviewers are comfortable that the combination of sections 1.1 and 1.2 sufficiently clarify the scope.
Section 1.2, Scope	
Comment	The paragraph states the ASOP applies in circumstances where the actuary represents that the written statement of actuarial opinion is in compliance with the ASOP but does not provide guidance on when the actuary should represent an opinion as being in compliance with the standard. One commentator suggested there should be some circumstances where this should be mandatory, such as an opinion on GAAP reserves provided to the Board of Directors of an insurance company. The commentator suggested language where the ASOP applies when "the statement of actuarial opinion is intended to be a stand-alone document without inclusion of supporting material other than by reference."
Response	The reviewers decided against the suggested change. Extensive further review and exposure would be needed before expanding the standard's scope and revising its requirements, where appropriate, to cover additional situations such as that suggested

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	by the commentator. The reviewers note the decision to represent that a statement of actuarial opinion is in compliance with the ASOP may be made by the principal and the actuary if both believe it appropriate.
Comment	One commentator suggested spelling out “NAIC.”
Response	The reviewers believe the acronym is commonly used and does not need to be spelled out.
Comment	One commentator suggested modifying “loss and loss adjustment expense reserves” in section 1.2 to “property/casualty loss and loss adjustment expense reserves” to clearly remove health and life insurance reserve opinions from the scope. The commentator also suggested adding ASOP No. 28 to the exclusions in the second paragraph in order to exclude orange blank filers that may be legally licensed as property/casualty insurers.
Response	The reviewers made the changes.
Comment	Multiple commentators pointed out section 1.2(a) is a subset of section 1.2(b) and can therefore be deleted.
Response	While the reviewers agree the language is redundant, they decided to nevertheless retain it. While redundant, section 1.2(a) is the most common application of the standard and thus it seems appropriate to the reviewers to highlight it separately from section 1.2(b).
Comment	Multiple commentators suggested removing the references to discounted reserves and ASOP No. 20 from section 1.2, stating there are other ASOPs that also affect reserves that are not mentioned and rather than have a partial list of potentially relevant topics and ASOPs, no specific references to other ASOPs should be made unless absolutely necessary to provide the proper guidance within this ASOP.
Response	The reviewers understand the comments but have decided discounted reserves and ASOP No. 20 are important enough to highlight in this ASOP.
Comment	Multiple commentators suggested including a sentence similar to that in the current ASOP No. 36, stating “This standard does not apply in instances where an actuary is providing analyses, estimates, information, data compilations, or other actuarial work products unless the actuarial work product meets one of the conditions (a)–(c) stated above.” One commentator suggested the sentence be inserted with the words “actuarial work product” replaced with “actuarial opinion.”
Response	The reviewers considered this and decided this language was unnecessary.
Comment	One commentator suggested deleting section 1.2(c).
Response	The reviewers concluded section 1.2(c) is helpful guidance although it does not, on its own, mandate application of this standard to additional statements of actuarial opinion.
Comment	One commentator suggested adding a definition of “statement of actuarial opinion” would help to define the scope.
Response	The reviewers believe section 1 sufficiently defines the scope.

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1.3, Cross References	
Comment	One commentator suggested the wording “as they may be amended or restated in the future” can be read to imply that the actuary should also reference exposure drafts of the other ASOPs, and suggested instead “...includes the referenced documents if they are amended or restated in the future...”
Response	The language is standard for all ASOPs and the reviewers believe it is sufficiently clear that exposure drafts represent proposed changes and are not in effect until adopted.
1.4, Effective Date	
Comment	To give practitioners time to review and consider the standard, one commentator recommended that it be effective no sooner than for 2010 year-end reporting.
Response	The timing of this second exposure draft and subsequent reviews is such that the revised standard is unlikely to be finalized before late 2010.
SECTION 2. DEFINITIONS	
Section 2.1, Accounting Date	
Comment	Multiple commentators indicated the definition of accounting date was unclear.
Response	Additional language was added to section 2.1 for clarity.
Section 2.2, Coverage	
Comment	One commentator noted the reference to “claim payment” should include claim adjustment expense payment.
Response	The reviewers added a sentence before section 2.1 for clarity.
Section 2.4, Explicit Risk Margin	
Comment	One commentator suggested the definition for “risk margin be changed to match the definition in ASOP No. 20.
Response	The reviewers modified the language to use the definition from ASOP No. 20 with the addition of the word “explicit.”
Section 2.5, Loss and 2.6, Loss Adjustment Expense	
Comment	One commentator stated that when the opinion is on a balance sheet item, both “Loss” and “Loss Adjustment Expense” are defined by accounting standards, and suggested the definitions be adjusted by adding “...or as defined by the relevant accounting standard” to the end of each.
Response	The definitions are intended only to define the terms as used in the standard and not the reserves being opined on. The reserves being opined on would be defined by the actuary per sections 3.3 and 3.4., and could include references to accounting standards.
Section 2.8, Reserve	
Comment	One commentator suggested changing the definition from “A provision to satisfy obligations as of a specified date” to “A provision as of a specified date to satisfy obligations related to covered events.”
Response	The reviewers deleted the phrase “as of a specified date” but did not add “related to covered events” as there may be reserves that are not, such as expense reserves for investigating the merits of a claim. Additional changes were made to this sentence.
Section 2.10, Review Date	
Comment	One commentator indicated the definition of “review date” was unclear.
Response	The reviewers believe the language is clear and is consistent with the language in ASOP No. 43.

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Section 2.11, Unpaid Claim Estimate	
Comment	One commentator suggested changing the reference to “unpaid claims” to “estimated unpaid claims.”
Response	The reviewers do not think the change is necessary. (Note: The reference to “unpaid claims” has been moved to the beginning of section 2 and changed to refer to simply “claims.”)
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Comment	<p>One commentator observed that ASOP No. 36 currently in effect has a discussion of exposure, including the following language:</p> <p>The actuary should consider whether there have been significant changes in conditions particularly with regard to claims, losses, or exposures that are new or unusual and that are likely to be insufficiently reflected in the experience data or in the assumptions used to estimate loss and loss adjustment expense reserves....The actuary should also consider the relevant characteristics of the entity’s exposures to the extent that they are likely to have a material effect on the results of the actuary’s reserve analysis. These characteristics may be influenced by the methods used to sell or provide coverages, the distribution channels from which the entity’s business is obtained, the general underwriting practices and pricing philosophy of the entity, and the marketing objectives and strategies of the entity.</p> <p>This language no longer appears in the ASOP, and the commentator expressed a desire for this material to be included in the ASOP.</p>
Response	To address this concern, the reviewers have added language to sections 3.4(f) and 3.7.
Comment	Multiple commentators noted the current ASOP No. 36 has a large section on “uncertainty” and suggested some or all of the material be included.
Response	The reviewers note a significant portion of this language was educational in nature and therefore not needed in an ASOP. The portion of the language that provides appropriate guidance was retained in ASOP No. 43, and is not necessary in ASOP No. 36.
Comment	Multiple commentators suggested section 3.10 of the current ASOP, which states “This standard does not obligate the actuary to undertake an evaluation of the adequacy of the assets supporting the stated reserve,” should be included.
Response	The reviewers have added this section back in as 3.12.
Comment	Multiple commentators noted the current ASOP No. 36 has a section on “Qualification Standards” and recommended including that material in the revised standard.
Response	The reviewers disagree. While actuaries should note whether they are qualified, this applies to all assignments and not solely those in the scope of ASOP No. 36. Further, this requirement to meet the Qualification Standards is covered by the Code of Professional Conduct.

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Section 3.1, Legal and Regulatory Requirements	
Comment	One commentator stated the requirement to “make a reasonable effort to consider the relevant generally distributed interpretations of governing regulatory authorities” to be vague and impractical, as there are interpretations other than those distributed by regulatory bodies (such as the Academy Practice Note) and it would be inappropriate to single out one source of guidance and exclude others. The requirement may place a heavy burden on the actuary to document the level of consideration given to all current and future such non-binding interpretations. Furthermore, this should already be covered by the Code of Professional Conduct’s “skill and care” requirement. The commentator suggested the sentence be deleted or the word “binding” should be added.
Response	The reviewers agree and deleted the sentence.
Comment	There is a sentence in the ASOP No. 36 currently in effect, which states “the actuary should be satisfied that the relevant requirements of duly adopted laws and regulations have been met.” Multiple commentators suggested this be added back to the standard.
Response	The reviewers agree and have added language to clarify the intent.
Section 3.4, Stated Basis of Reserve Presentation	
Comment	Several commentators stated the guidance concerning “intended measure” was unclear, and some stated such identification was unnecessary.
Response	<p>The reviewers believe that the actuary cannot opine as to whether a reserve is reasonable unless they know what it is a reasonable estimate of. For example, if the reserve is meant to be a discounted estimate with no risk margin, then they cannot evaluate its reasonableness by comparing it to a range of undiscounted estimates. If the reserve is meant to include a risk margin, then a range of estimates without a risk margin would be an invalid comparison, and inappropriate for determining the reasonableness of the reserve.</p> <p>With regard to the ability or inability to evaluate the intended measure, most financial reports (including those required by the NAIC and the SEC) require disclosure of significant accounting policies. In most instances, this would include the accounting policy regarding the intended measure of the reserve. If this information is not available, then it would need to be researched before the analysis could be fully performed.</p> <p>The language in sections 3.3 and 3.4 was modified to clarify, with references to the term “intended measure” replaced with more specific references such as discount and risk margin.</p>
Comment	Some commentators requested that examples of “recoverable” for section 3.4(c) be added.
Response	The reviewers agree and included examples.
Comment	One commentator stated the words “the reserves reflect collectability risk” in section 3.4(d) are unclear and would be better reworded as “the potential for uncollectable recoverable is reflected in the reserves.”
Response	The reviewers agree and made the change.

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Comment	One commentator stated the requirement in section 3.4(g) to identify other items needed to sufficiently describe the reserves appears to provide insufficient guidance, as the level of detail would vary depending on the intended user.
Response	The reviewers note that this section is meant to identify the items needed for the actuary’s reserve evaluation. It is not intended to address the disclosures desirable for the intended user (which are addressed in section 4). Additional language was added to clarify the intent of section 3.4(g).
Section 3.5, Scope of the Analysis Underlying the Statement of Actuarial Opinion	
Comment	Regarding review date in section 3.5(b), one commentator suggested that if the opinion is dated, that date will be deemed the review date unless otherwise indicated.
Response	The reviewers agree and made this change.
Section 3.6, Materiality	
Comment	Multiple commentators suggested changing “any applicable materiality guidelines or standards” to “materiality guidelines or standards applicable to the statement of actuarial opinion.”
Response	The reviewers did not believe such a change was necessary.
Comment	One commentator requested additional language be included requiring the actuary to state how materiality was determined.
Response	Disclosure is required concerning materiality as it pertains to adverse deviation, per section 4.1(h). As for other uses of the term “materiality” the reviewers have not made any changes. This does not preclude specific assignments to which ASOP No. 36 applies from including additional disclosures concerning materiality (such as those required by NAIC annual statement instructions for statutory loss reserve opinions).
Section 3.7, Reserve Evaluation	
Comment	One commentator stated the use of the word “opinion” in this section is ambiguous, as it is uncertain whether the term refers to a written statement such as is described in the scope section of the ASOP or whether it is meant in a broader (qualification standards) sense.
Response	The language in section 3.7 was modified to clarify this where needed. In other cases, such clarification is not necessary, such as when the actuary chooses to make use of another’s opinion. Section 3.7 has been modified to state the actuary should use professional judgment when deciding whether to make use of the opinions of others. Whether or not the opinion considered falls within the scope of this ASOP may be one item considered by the actuary in making this determination.
Comment	One commentator stated the use of the word “conclusions” is ambiguous. Is it meant to be interpreted as the type of opinion (for example, redundant or reasonable), as to the existence or not of risk of material adverse deviation; or more broadly on any item of required disclosure under the ASOP; or material differences in conclusions for the segments of the analysis, which may not be material to the overall opinion on the reserves?
Response	“Conclusions” in this paragraph refers to anything material to the actuary’s opinion. This section has been rewritten to refer to another’s analyses or opinions rather than reviewed opinions.

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Comment	One commentator stated section 3.7.2 is written broadly enough to include situations where the actuary relies on opinions prepared for some segments of his/her own opinion (for example, workers compensation pools), and suggested changing the first sentence to “When an actuary’s work involves opining on the opinion...rather than reviewing the opinion (which might be done as part of relying on the work for one’s own opinion.)”
Response	The language in section 3.7 was modified for clarity.
Comment	One commentator suggested changing the words “could be” to “is.”
Response	The reviewers disagreed, as there would be some cases where an actuary could conclude a reserve is reasonable without determining a range encompassing the reserve in an ASOP No. 43 consistent analysis.
Comment	One commentator suggested the actuary should disclose the selected measure (range or point).
Response	The reviewers disagree, noting this is appropriate for the report supporting the opinion rather than the opinion.
Comment	One commentator suggested changing “need not perform” to “may choose not to perform” in section 3.7.2.
Response	The reviewers modified this section such that this phrase no longer appears.
Reliance on Others (Section 3.8 from initial exposure draft. This section was removed from the revised exposure draft, with some language incorporated into section 3.7)	
Comment	One commentator suggested changing, “If the actuary makes use of other personnel to carry out assignments relative to analyses supporting the opinion, the actuary should review and comprehend such contributions and be satisfied that the analyses are reasonable” to “If the actuary who issues the statement of actuarial opinion makes use of other personnel to carry out assignments related to analyses supporting the opinion, the actuary should review such contributions and be satisfied that the analyses are reasonable. In this case, the actuary is responsible for such contributions.”
Response	The reviewers adopted some but not all of this suggestion. The reviewers do not believe the last sentence suggested is appropriate.
Comment	One commentator indicated the “disclaiming responsibility” language seems to require a qualified opinion and asked whether that was the intention.
Response	The “disclaiming responsibility” language has been removed in the current draft.
Comment	One commentator questioned whether it was the intention that the actuary signing an opinion for a company participating in a widely held pool (for example, residual market pools) to specifically mention reliance on the pool actuary’s opinion.
Response	The revised draft does not mention “reliance,” except in section 3.11 which says the actuary “cannot claim reliance on another’s work or opinion except as described in section 3.7.2.”
Comment	Multiple commentators suggested replacing section 3.8.2 with, “In preparing a statement of actuarial opinion, an actuary may rely on and disclaim responsibility for the opinion of another actuary for a portion of the reserve. The actuary should claim reliance on the opinion of another actuary only if the actuary ascertains that reliance on the other actuary’s opinion is consistent with the other actuary’s intended use.”
Response	This language was removed entirely. Section 3.7.2 outlines the manner in which an actuary may make use of another’s work.

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Comment	There is a section in the ASOP No. 36 currently in effect that describes the responsibilities of the reviewed actuary. Multiple commentators suggested including this language.
Response	The reviewers note this language was excluded because 1) the ASOP is intended to guide the actuary performing the analysis, not the one being reviewed, and 2) such conduct should be covered by the Code of Professional Conduct.
Section 3.9, Adverse Deviation	
Comment	Multiple commentators suggested the language be changed to be consistent with section 4.1(h) and the current version of ASOP No. 36.
Response	The reviewers adjusted the language in section 3.9.
Comment	One commentator suggested this language is more appropriate as a definition in section 2.
Response	The reviewers considered this but decided it was more appropriate in section 3, as it is recommending practice.
Comment	One commentator stated that while section 3.9 indicates that the actuary should consider whether there is a significant risk that future paid amounts would be materially greater than those provided for, there is no guidance regarding what to do with that consideration. Should the actuary disclose, increase reserve estimate, or take some other action?
Response	The reviewers note the disclosures in sections 4.1(h) and 4.2(e) address this.
Section 3.10, Collectability of Ceded Reinsurance	
Comment	One commentator indicated the language could be read to require the actuary to quantify the uncollectable reinsurance on unpaid claims, and increase his or her net estimates by those amounts, even for reinsurance protection that has not been recognized by management as uncollectable.
Response	Section 4.2(g) was added for clarity.
Comment	Multiple commentators suggested including more of the language in section 3.7 and its subsections of the current ASOP No. 36 regarding reinsurance.
Response	The reviewers disagree, as material from section 3.7 and its subsections from the current ASOP No. 36 are retained in ASOP No. 43, to the extent appropriate.
Comment	One commentator indicated it is not clear how to implement the requirement under Risk Transfer Requirements (section 3.11.2 of the first exposure draft). The second sentence implies that if the actuary does address risk transfer, and if the financial statement is incorrect in this regard, the actuary should ascertain if the correction is material to the actuary's reserve analysis. The section is silent on the effect on the opinion. Is it the intent that if the actuary views the incorrect balance sheet item as not materially different from the actuary's estimated result on a correct basis then a reasonable opinion can be rendered? There is a more general question of what the actuary should do if errors are discovered in the balance sheet. Should the actuary disclose any error, only material errors or only those situations where the incorrect stated reserve is not within a reasonable range of the actuary's estimate on a correct basis?
Response	The reviewers have decided this is an accounting issue outside the scope of this ASOP and have deleted this paragraph. Note the deletion of the paragraph does not in any way imply the actuary is obligated to opine that the reserves are established in accordance with regulatory or accounting requirements regarding risk transfer in reinsurance contracts.

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Comment	One commentator stated the ASOP should include mention of liquidated estates, insolvencies, and schemes of arrangement (solvent or insolvent) in here. These reinsurers may be paying dividends, interest on dividends, and their payout percentages should be part of the analysis (or more appropriately, the percentage they are not paying).
Response	While this ASOP states the actuary should consider collectability of reinsurance, the reviewers do not believe this ASOP should provide specific considerations as to how the actuary should address this.
Comment	One commentator noted that while the opinion does not opine on the financial condition of specific reinsurers, a collectability analysis needs to consider the financial strength of reinsurers when considering the reasonableness of the provision for uncollectable reinsurance, if the ceded balances contain more than the paid loss recoverable (i.e., ceded case or ceded IBNR).
Response	The reviewers do not believe any wording change is needed.
Section 3.11, Statements of Actuarial Opinion	
Comment	Multiple commentators noted the definition of reasonable reserves as reserves within a range that can be produced by alternative methods and assumptions that the actuary considers reasonable found in the current ASOP was deleted and recommended it be retained. One commentator further noted that ASOP No. 43’s requirement to assess the reasonableness of the unpaid claim estimate, using appropriate indicators or tests that, in the actuary’s professional judgment, provide a validation that the unpaid claim estimate is reasonable” is a material “raising of the bar” over the traditional test surrounding “alternative sets of assumptions that the actuary judges to be reasonable” and that it will be much more difficult for the actuary to assess reasonableness under this proposed revision because of the ASOP No. 43 requirements for “indicators or tests” that provide a “validation” of reasonableness.
Response	The reviewers note the determination of reasonableness is found in the current exposure draft in section 3.7: “The actuary should consider a reserve to be reasonable if it is within a range of estimates that could be produced by an unpaid claim estimate analysis that is, in the actuary’s professional judgment, consistent with both ASOP No. 43, Property/Casualty Unpaid Claim Estimates, and the identified stated basis of reserve presentation.” The reviewers disagree with the comment that this is a material “raising of the bar” over the current standard.
Comment	One commentator disagreed with having a reference to section 3.7 in section 3.11(a).
Response	Reviewers believe the reference is helpful and have retained it.
Comment	One commentator suggested changing language in section 3.11(e) to “... then the actuary <i>should</i> issue a statement of no opinion.”
Response	The reviewers have modified the language to explicitly allow the option of not issuing any opinion at all.
Comment	One commentator suggested adding a category for “adequate” to cover Bermuda opinions where this is required. The commentator suggested defining “adequate” to encompass both Reasonable and Excessive/Redundant.
Response	The scope of ASOPs is U.S. practice, not practice outside the U.S (for example, Bermuda). As such, the reviewers did not make a change to address this comment.
Comment	One commentator considered the last two sentences of sections 3.11(b) and 3.11(c) to be redundant.
Response	The reviewers note determination and disclosure are two separate activities and have treated them as such in the ASOP.

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SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Comment	Multiple commentators suggested the old section 4.6(j) be retained, which stated “If, in complying with the requirements of law or regulation, the actuary believes that the reserve provisions are other than reasonable, he or she should so state.”
Response	The reviewers believe the actuary should opine on the reasonableness of reserves within the context of the requirements of law and regulation and should not be required to question the appropriateness of those laws and regulations.
Section 4.1, Actuarial Communication	
Comment	One commentator suggested the phrase “ASOP Nos. 23, <i>Data Quality</i> , and 41” should be changed to, “ASOP No.23, <i>Data Quality</i> ; ASOP No. 41, <i>Actuarial Communications</i> ; and ASOP No. 43, <i>Property/Casualty Unpaid Claim Estimates</i> .”
Response	The reviewers disagree. The name for ASOP No. 41 is included the first time the ASOP is referenced but not subsequent times. As for ASOP No. 43, while appropriate to refer to in other places of the ASOP, the reference in this section does not seem appropriate.
Comment	One commentator questioned the reason for the reference to ASOP No. 23.
Response	The reviewers modified the language to refer to ASOP No. 41 and the disclosure requirements of other applicable standards.
Comment	Section 4.1(a) requires the words “statement of actuarial opinion” to be used in the title of the written opinion. One commentator suggested that, because different laws and regulations may require different titles or labels, exception language be added to this item that would clarify that where required by law or regulation, different wording with similar meaning (for example “Loss reserve certification” or “Loss reserve opinion” may be used).
Response	The reviewers agree and made the change.
Comment	Multiple commentators suggested the items described in sections 3.4(e) and 3.4(f) would be more appropriately disclosed in the report than in the opinion, and that disclosure in the opinion would be burdensome.
Response	The intention was not to expand the scope compared to the information generally included in statutory opinions regarding sections 3.4(e) and 3.4(f), and language was added to clarify.
Comment	Section 4.1(f), requires disclosure of the valuation date (section 3.5(a)) and review date (section 3.5(b)). Multiple commentators suggested such disclosure is not necessary in the opinion, solely in the report.
Response	The reviewers agree with regard to the valuation date and removed the corresponding language, but believe that the review date requires disclosure to the extent it is different from the date that the opinion is signed.
Comment	One commentator questioned whether all possible user(s) of the SAO be disclosed per 4.1(b) or just the “primary” intended user.
Response	The reviewers believe the use of the word “intended” limits the disclosure such that not all possible user(s) need be identified.
Comment	One commentator suggested combining 4.1(c), 4.1(d), and 4.1(e) into a single statement.
Response	The reviewers believe separate statements are appropriate given there are separate references in section 3, and combining may make it more confusing.

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Section 4.2, Additional Disclosures	
Comment	One commentator suggested section 4.2(a) refer to section 3.8.
Response	The reviewers agree and made the change.
Comment	One commentator suggested the actuary should disclose reliance on others.
Response	References to “reliance” have been removed in the revised exposure draft.
Comment	One commentator noted the sentence in section 4.2(a), “The actuary should also provide a description of the extent to which the actuary reviewed the other actuary’s opinion and underlying analysis for reasonableness” may be understood to imply that the standard requires some level of review, even though the actuary is clearly disclaiming responsibility for the opinion on that part of the reserves, and suggested the addition of the phrase “if any” to the end of the sentence, to allow for the reliance (and disclaimer) without review.
Response	This section has been removed from the revised exposure draft.
Comment	One commentator suggested the language in section 4.2(a) be changed to require disclosure and quantification of the impact of all changes in methods and assumptions.
Response	While the reviewers agree in some cases such disclosure is appropriate, it would be inappropriate to require such disclosure in every opinion subject to this ASOP, and thus have not made the change.
Comment	One commentator notes section 4.2(a) requires extensive disclosures (“actuary should disclose the nature of changes in assumptions, procedures or methods from those employed in the most recent prior opinion prepared...”) under certain circumstances. The disclosures required by this item may be lengthy and involve issues and detail that of a proprietary nature and therefore not appropriate for a public document. Such disclosure may violate confidentiality obligations. While the issues underlying differences should be available to the actuary’s principal, they should not be in a document that can be more broadly distributed. The commentator suggests that the item be rewritten to require disclosure that such changes exist, and permit that the extended disclosure be made in a supporting actuarial report (in accordance with ASOP No. 43).
Response	The reviewers believe a short disclosure describing the nature of such changes can be made, referencing further disclosure in the supporting actuarial report to the extent there is additional detail or material of a proprietary nature, and that such short disclosure would satisfy the requirements as written.
Comment	One commentator stated the term “processing procedures” in section 4.2(c) is unclear, and that, depending on that definition, the same concern about length and appropriateness of extended disclosures in the opinion document itself that is described for section 4.2(b) applies to this item. Furthermore, the phrase “...have significantly affected the consistency of the data used in the reserve analysis...” can be deleted. It is the effect on the results of the analysis, not the data that matter.
Response	This section has been removed from the revised exposure draft.
Comment	One commentator stated section 4.2(f) on discounting is not clear, as an opinion is expressed on the reserves as represented. The commentator believes that the opinion should disclose the basis of the reserves if not implicit in the accounting (and perhaps this should be stated explicitly in the standard). On a more general point, the standard should provide guidance on the level of consideration that should be given and the disclosures that should be made around the amount of discount. For example, if an actuary issues a “reasonable” opinion on a reserve stated on a discounted basis but does not believe that the amount of carried discount is reasonable, what level of disclosure is appropriate, given that both the

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Response	discounted reserve and amount of discount (not being opined on) are shown on the opinion? The reviewers note the language in section 3.4 was modified to explicitly address the issue of discount.
Appendix	
Appendix 1—Background	
Comment	One commentator noted the references to “unpaid claims” in the last paragraph should be “reserves.”
Response	The reviewers agree and made the change.