

Title of Exposure Draft: Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Other Liabilities

Comment Deadline: November 30, 2020

Instructions: Please review the exposure draft, and give the ASB the benefit of your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase 'ASB COMMENTS' in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system's spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

I. Identification:

Name of Commentator / Company
Risk & Regulatory Consulting

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

Question No.	Commentator Response
	N/A

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)
3.1	Recommend adding to the end of the section (just before 3.1.1) "Asset risks to be considered should include, but are not limited to, credit risk, timing risk, and liquidity risk."	These specific asset risks can be material to the analysis and results, so we believe it is important to specify that all of these should be considered.
3.1.1	Recommend adding a sentence "The actuary should consider using cash flow testing when the liability cash flows have a material dependency on the asset cash flows. If such dependency exists and cash flow testing is not used, the actuary should document how the dependency was captured in the asset adequacy test."	As currently written, there is no distinction between when cash flow testing should be used and when a gross premium reserve test (GPRT) should be used. The GPRT example helps to some degree, but of course an example is not guidance. Both say they are appropriate where cash flows may vary. It would help users of the ASOP to have additional clarity.
3.1.1c	Recommend adding "backed by a cash flow matched asset portfolio" to the end of the example	Risk is eliminated from fixed liability cash flows only if the asset-liability matching is good, so to leave that part out may be misleading.
3.1.2.2	Recommend adding a sentence "If margins for adverse deviation are not included in the assumptions, the actuary should document the rationale for excluding them, and how the asset adequacy analysis covered moderately adverse conditions for each material risk."	This documentation may help users in understanding how the actuary covered moderately adverse conditions, in particular in the event they are not covered through the use of assumption margins.

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3.1.2.3	Suggest revising the end of the sentence to “with the starting and reinvestment assets used in the analysis.”	This will help clarify that the actuary should consider both the starting assets and reinvestment risk (versus just the starting assets).
3.1.3	Suggest adding a sentence “In performing asset adequacy analysis for direct written business, the actuary should evaluate gross reserve adequacy and reinsurer default risk implications.”	Without this sentence, the language “The actuary’s consideration of reinsurance ceded does not imply an opinion on the financial condition of any reinsurer” could lead actuaries or users to believe that considering the potential for reinsurer default is not necessary. However, in the event of a reinsurer insolvency, the direct writer retains the obligation to the policyholders so this risk should be considered. It is also more consistent with ASOP 7, which requires consideration of collectability of reinsurance.
3.1.7	This section is excellent, thank you for the additional guidance here!	
3.1.13	Suggest adding a sentence “The actuary should disclose known subsequent events in the actuarial report and how they were taken into account (including that they were not taken into account if that is the case).”	In light of the recent COVID-19 pandemic, which was a significant subsequent event, we believe more guidance would be helpful. In addition, this is consistent with section 4 requirements and ASOP No. 41.

IV. General Recommendations (If Any):

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

V. Signature:

Commentator Signature	Date
 Patricia Matson, Partner, Risk & Regulatory Consulting	October 7, 2020