ACTUARIAL STANDARDS BOARD

● **EXPOSURE DRAFT** ●

Proposed
Actuarial Standard
of Practice

Statements of Actuarial Opinion Not Based on an Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Related Actuarial Items

Comment Deadline:
January 15, 2023

Developed by the
Actuarial Compliance Guideline No. 4 Task Force of the
Life Committee of the
Actuarial Standards Board

Approved for Exposure by the
Actuarial Standards Board
September 2022

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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 Not Based on an Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Related Actuarial Items

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Actuarial Standard of Practice, incorporating requirements of Actuarial Compliance Guideline (ACG) No. 4, *Statutory Statements of Opinion Not Including an Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers*

This document contains the exposure draft of a proposed actuarial standard of practice (ASOP), *Statements of Actuarial Opinion Not Based on an Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Related Actuarial Items*. Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each written comment letter or email received by the comment deadline will receive consideration by the drafting committee and the ASB.

The ASB appreciates comments and suggestions on all areas of this proposed standard. The ASB requests comments be provided using the Comments Template that can be found here and submitted electronically to comments@actuary.org. Include the phrase [“ASOP to Replace ACG No. 4 COMMENTS”] in the subject line of your message. Also, please indicate in the template whether your comments are being submitted on your own behalf or on behalf of a company or organization.

The ASB posts all signed comments received on 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 on 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.

For more information on the exposure process, please see the ASB Procedures Manual.

Deadline for receipt of comments in the ASB office: **January 15, 2023**

History of the Standard

The ASB voted in April 1992 to expose a proposed actuarial standard of practice titled *Statutory Statements of Opinion by Appointed Actuaries for Life or Health Insurers*. The exposure draft covered both types of actuarial opinions required by the *Standard Valuation Law* and the 1991 version of the Actuarial Opinion Memorandum Regulation (Model Regulation): (1) the opinion under section 8 of the Model Regulation, which required an analysis of and an opinion about the adequacy of those assets that support the reserves to meet the company's obligations; and (2) the opinion under section 7, which did not require an asset adequacy analysis.

Letters of comment received, and discussions at an ASB public hearing on the draft in June 1992, focused largely on the issue of whether the proposed standard appeared to impose an asset adequacy analysis or cash flow testing on the smaller companies exempted from such analysis under section 7. Some commentators expressed the view that such analyses could be imposed on the appointed actuaries for the exempted companies because of ASOP No. 14, *When to Do Cash Flow Testing for Life and Health Insurance Companies*.

In 1993, the ASB adopted ASOP No. 22, *Statutory Statements of Opinion Based on Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers*, which replaced Financial Reporting Recommendation No. 7, *Statement of Actuarial Opinion for Life Insurance Company Statutory Annual Statements,* and No. 11, *Statement of Actuarial Opinion for Interest-Indexed Universal Life Insurance Contracts*, as guidance for opinions under section 8 of the Model Regulation.

Prior to the adoption, there had been discussions about whether ASOP No. 22 should cover opinions under both section 7 and section 8 of the Model Regulation. The ASB decided to limit ASOP No. 22 to cover opinions required under only section 8 and adopted Actuarial Compliance Guideline (ACG) No. 4, *Statutory Statements of Opinion Not Including an Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers*, in October 1993 to provide guidance on opinions required under section 7.

In the late 1990s and early 2000s, the ASB reviewed all standards of practice related to cash flow testing. Portions of ASOP No. 14, *When to Do Cash Flow Testing for Life and Health Insurance Companies*, were incorporated into ASOP No. 7, *Analysis of Life, Health, or Property/Casualty Insurer Cash Flows*, and ASOP No. 22. In 2001, the ASB adopted the revised ASOP No. 7 and ASOP No. 22 and repealed ASOP No. 14.

In December 2012, the National Association of Insurance Commissioners (NAIC) initially adopted the *Valuation Manual*, which sets forth the minimum reserve and related requirements for jurisdictions where the *Standard Valuation Law*, as amended by the NAIC in 2009, has been enacted. The *Valuation Manual* took effect on January 1, 2017, pursuant to section 11 of the *Standard Valuation Law*. Requirements for the annual actuarial opinion and memorandum pursuant to section 3 of the *Standard Valuation Law* are provided in "VM-30, Actuarial Opinion and Memorandum Requirements."

In response to these and other NAIC activities, the ASB decided to revise ASOP No. 22 in 2021. As ACG No. 4, the last remaining Actuarial Compliance Guideline, remained relevant for actuaries working for companies that receive an exemption from asset adequacy analysis, the ASB decided to convert ACG No. 4 into the standard format of an ASOP.

Request for Comments

The ASB appreciates comments and suggestions on all areas of this proposed standard submitted through the Comments Template. Rationale and recommended wording for any suggested changes would be helpful.

In addition, the ASB would like to draw the readers' attention to the following questions:

1. This conversion of ACG No. 4 to an ASOP format is not intended to raise or lower the requirements for actuaries who would otherwise have been subject to ACG No. 4. Has the conversion achieved this goal? If not, please identify specific language from the exposure draft and propose new language.

2. Is the guidance in this ASOP clear and consistent with current practice? If not, please explain or provide examples.

The ASB voted in September 2022 to expose this draft for comment.

The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

EXPOSURE DRAFT—September 2022

PROPOSED ACTUARIAL STANDARD OF PRACTICE

STATEMENTS OF ACTUARIAL OPINION NOT BASED ON AN ASSET ADEQUACY ANALYSIS FOR LIFE INSURANCE, ANNUITY, OR HEALTH INSURANCE RESERVES AND RELATED ACTUARIAL ITEMS

STANDARD OF PRACTICE

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

1.1 Purpose—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to providing a statement of actuarial opinion not based on an asset adequacy analysis for life insurance, annuity, or health insurance reserves and related actuarial items, pursuant to applicable law (statutes, regulations, and other legally binding authority).

1.2 Scope—This standard applies to actuaries when performing actuarial services with respect to providing a statement of actuarial opinion for life insurance, annuity, or health insurance reserves and related actuarial items that are within the scope of the Statement of Actuarial Opinion, NAIC Life and Accident & Health/Fraternal Annual Statement (Blue Book), when the statement is prepared to comply with applicable law and is not based on an asset adequacy analysis because of an exemption.

If the statement of actuarial opinion encompasses health insurance liabilities, ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Assets and Liabilities*, may also apply. If the statement of actuarial opinion includes reinsurance, ASOP No. 11, *Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports*, may also apply.

This standard does not apply to actuaries when performing services with respect to providing statements of actuarial opinion based on asset adequacy analysis that are subject to ASOP No. 22, *Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Other Liabilities*.

If a conflict exists between this standard and applicable law, the actuary should comply with applicable law. If the actuary departs from the guidance set forth in this standard in order to comply with applicable law, or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

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 covered by the scope of this ASOP issued on or after four months after adoption by the Actuarial Standards Board.

Section 2. Definitions

The definition below is defined for use in this actuarial standard of practice and appears in bold throughout the ASOP.

2.1 Subsequent Events—Material events that occur after the valuation date and before the date the statement of actuarial opinion is signed.

Section 3. Analysis of Issues and Recommended Practices

3.1 Intended Purpose and Intended Users of the Statement of Actuarial Opinion—The actuary should identify the intended purpose and intended users of the statement of actuarial opinion. For example, the intended purpose may be to satisfy the requirements for such an opinion under the NAIC Life and Accident & Health/Fraternal Annual Statement (Blue Book), and the intended users may be the company and its regulators.

3.2 Exemption from Asset Adequacy Analysis—Eligibility for an exemption from submitting a statement of actuarial opinion based on an asset adequacy analysis is determined using criteria specified in applicable law. The actuary should confirm that the eligibility criteria have been met. Such confirmation may include a dialogue with the state regulator. The actuary should maintain appropriate documentation indicating eligibility for the exemption. In addition, the actuary should make reasonable efforts to determine that no requirement for an asset adequacy analysis has been triggered by a specific request from the domiciliary insurance department. A written statement from a responsible officer of the company confirming that no specific request has been received will be deemed to satisfy this requirement.

3.3 Statement of Opinion—The actuary should include in the opinion a statement that the reserves and related actuarial items meet the minimum standards of the state in which the opinion is filed. The actuary should include in the opinion whether the opinion is qualified, adverse, or inconclusive and provide the underlying reasons.

The actuary should list in the statement of actuarial opinion the reserves and related actuarial items on which the actuary expresses an opinion. The form, content, and recommended language of the statement of actuarial opinion may be specified by applicable law.

The actuary should be familiar and comply with the requirements for reserves and related actuarial items of the insurance laws of each state in which the opinion is filed. The actuary should maintain documentation concerning compliance with the requirements.

3.4 Policy and Contract Provisions Affecting Reserves and Related Actuarial Items—The actuary should confirm that the policy and contract provisions affecting the reserves and related actuarial items have been taken into account. For example, these policy and contract provisions may include any guarantees, conversion and other rights, and nonforfeiture and other benefits.

3.5 Determination of Reserves and Related Actuarial Items—When the determination of reserves and related actuarial items is prescribed by law, the actuary should confirm that the prescribed methods and assumptions are taken into account.

When the determination of reserves and related actuarial items is not prescribed by law (such as the estimation of life and health unpaid claim liabilities), the actuary should confirm that appropriate methods and assumptions were used to establish reserves and related actuarial items. For example, such assumptions may include mortality or morbidity improvement, the level of any margins needed to reflect provision for uncertainty in an estimate, and appropriate discount rates.

3.6 Reinsurance—When taking into account the effect of reinsurance on the statement of actuarial opinion, the actuary should refer to ASOP No. 11. In the case where a company has ceded all of a particular block of business, the actuary should determine whether provisions for any residual or contingent obligations of the ceding company should be established.

3.7 Use of Data Predating the Valuation Date—When reserves and other actuarial items are based on data predating the valuation date, the actuary should take into account the reasonableness of the use of such prior period data and whether any material events have occurred prior to the valuation date that would invalidate that use.

3.8 Subsequent Events—The actuary should make a reasonable effort to be informed about **subsequent events**.

3.9 Changes in Methods, Models, or Assumptions—If the methods, models, or assumptions supporting the reserves and related actuarial items differ from those in the prior statement of actuarial opinion, the actuary should consider quantifying the impacts of these changes. The actuary should determine whether regulatory approval is required prior to changing methods or assumptions for any reserves and related actuarial items.

The use of new methods, models, or assumptions for new segments of reserves and related actuarial items (for example, a new line of business or product) is not a change within the meaning of this section.

310 Reliance on Data or Other Information Supplied by Others—When relying on data or other information supplied by others, the actuary should refer to ASOP No. 23, *Data Quality*, and ASOP No. 41, *Actuarial Communications*, for guidance.

3.11 Opinions of Other Actuaries— The opining actuary should form an overall opinion without claiming reliance on the opinions of other actuaries.

3.12 Documentation—In addition to the documentation requirements in section 3, the actuary should prepare and retain documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. The actuary should prepare such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work. The amount, form, and detail of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

Section 4. Communications and Disclosures

4.1 Required Disclosures in an Actuarial Report—When issuing any actuarial report within the scope of this standard, including statements of actuarial opinion, the actuary should refer to ASOP Nos. 11, 23, 28, and 41, as applicable. In particular, consistent with the intended purpose and intended users of the actuarial report, the actuary should disclose the following, as applicable:

a. the intended purpose and intended users (see section 3.1);

b. the basis for determining eligibility for an exemption from submitting a statement of actuarial opinion based on an asset adequacy analysis (see section 3.2);

c. a statement that the reserves and related actuarial items meet the minimum standards of the state in which the opinion is filed, or whether the opinion is qualified, adverse, or inconclusive (see section 3.3);

d. the methods and assumptions for determining reserves and related actuarial items (see section 3.5);

e. the impact of reinsurance on the statement of actuarial opinion (see section 3.6);

f. the use of any prior period data underlying the reserves and related actuarial items and whether any material events have occurred prior to the valuation date that would invalidate the use of that data (see section 3.7);

g. any **subsequent events** of which the actuary is aware (see section 3.8).

h. any material changes in the methods, models, or assumptions from those used in the prior statement of actuarial opinion or if the methods, models, or assumptions used in the prior statement of actuarial opinion are unknown (see section 3.9);

i. the extent of reliance on data or other information supplied by others (see section 3.10); and

4.2 Additional Disclosures in an Actuarial Report—The actuary should also include disclosures in accordance with ASOP No. 41 in an actuarial report for the following circumstances:

a. if any material assumption or method was prescribed by applicable law;

b. if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and

c. if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this standard.

Appendix 1
Background and Current Practices

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

Background

In 1975, the National Association of Insurance Commissioners (NAIC) began requiring that a statement of actuarial opinion on reserves and related actuarial items be included in the annual statement filed by life and health insurance companies. In response to this requirement, the American Academy of Actuaries promulgated Financial Reporting Recommendation No. 7, *Statement of Actuarial Opinion for Life Insurance Company Statutory Annual Statements*, setting forth the actuary's professional responsibilities in providing such an opinion.

The form and content of this actuarial opinion, as specified in the instructions to the annual statement, dealt specifically with reserves and did not explicitly address the adequacy of the assets supporting these reserves and other liabilities to meet the obligations of the company. Although not explicitly required to do so by the opinion or by existing professional standards, some actuaries began to analyze the adequacy of assets in forming their opinions. In addition, when the state of New York adopted the 1980 amendments to the *Standard Valuation Law*, it established an optional valuation basis for annuities, permitting lower reserves provided that an asset adequacy analysis supported the actuarial opinion with respect to such reserves.

The type of asset adequacy analysis most widely used by actuaries is multi-scenario cash flow testing. To guide actuaries choosing to use this technique, the Actuarial Standards Board (ASB) adopted ASOP No. 7, then titled *Performing Cash Flow Testing for Insurers*, in October 1988. In addition, in July 1990, the ASB adopted ASOP No. 14, *When to Do Cash Flow Testing for Life and Health Insurance Companies*, to provide guidance in determining whether to do cash flow testing in forming a professional opinion or recommendation.

In December 1990, the NAIC amended the *Standard Valuation Law*, and, in June 1991, the NAIC adopted the *Actuarial Opinion and Memorandum Regulation (AOMR)*. These actions had the effect of moving the requirement for the statement of actuarial opinion from the annual statement instructions into the model law itself and provided detailed instructions for the form and content of the opinion and the newly required supporting memorandum. The most significant changes made by the NAIC in the 1991 *AOMR* were that companies were required to name an appointed actuary, and, for companies subject to section 8 of the *AOMR*, statements of actuarial opinion on reserve and other liability adequacy were required to be based on an asset adequacy analysis described in the supporting memorandum. The asset adequacy analysis required by the regulation had to conform to the standards of practice promulgated by the ASB.

For companies subject to section 7, an actuarial opinion stating that the reserves and related actuarial items had been calculated in accordance with the *Standard Valuation Law* and supporting regulations was required by the 1991 AOMR. Section 7 of the 1991 AOMR did not require an opinion on reserve adequacy.

In 1993, the ASB adopted ASOP No. 22, *Statutory Statements of Opinion Based on Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers*, which replaced Financial Reporting Recommendation No. 7 and No. 11, *Statement of Actuarial Opinion for Interest-Indexed Universal Life Insurance Contracts*, as guidance for section 8 opinions.

The ASB also adopted Actuarial Compliance Guideline (ACG) No. 4, *Statutory Statements of Opinion Not Including an Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers*, in late 1993 to provide guidance for section 7 opinions.

In the late 1990s and early 2000s, the ASB reviewed all standards of practice related to cash flow testing. Portions of ASOP No. 14 were incorporated into ASOP Nos. 7 and 22. In 2001, the ASB adopted the revised ASOP Nos. 7 and 22 and repealed ASOP No. 14.

Starting in 2001, the model *AOMR* adopted by the NAIC required all actuarial opinions to be based on asset adequacy analysis. Several states allowed for single-state exemptions in their adoption of the *AOMR*. As a result, ACG No. 4 remains relevant.

In December 2012, the NAIC initially adopted the *Valuation Manual*, which sets forth the minimum reserve and related requirements for jurisdictions where the *Standard Valuation Law*, as amended by the NAIC in 2009, has been enacted. The *Valuation Manual* took effect on January 1, 2017, pursuant to section 11 of the *Standard Valuation Law*. Requirements for the annual actuarial opinion and memorandum pursuant to section 3 of the *Standard Valuation Law* are provided in "VM-30: Actuarial Opinion and Memorandum Requirements." VM-30 also recognizes the existence of single-state exemptions from asset adequacy analysis.

In response to these and other NAIC activities, the ASB decided to revise ASOP No. 22 in 2021. As ACG No. 4, the last remaining Actuarial Compliance Guideline, remained relevant for actuaries working for companies that receive an exemption from asset adequacy analysis, the ASB decided to convert ACG No. 4 into the standard format of an ASOP.

Current Practices

Statements of actuarial opinion on reserves and related items have been provided since 1975, and practice regarding the basic elements of the opinion is well established. However, exemptions from asset adequacy analysis are no longer the norm in issuing actuarial opinions. Most exemptions from asset adequacy analysis are for companies licensed in a single state.

Eligibility for an exemption from submitting a statement of actuarial opinion based on an asset adequacy analysis is determined using criteria specified in applicable state law or stipulated by the state regulator. Typically, the actuary ensures that the eligibility criteria have been met by having a dialogue with the state regulator. In addition, the actuary typically makes reasonable efforts to determine that no requirement for an asset adequacy analysis has been triggered by a specific request from the domiciliary insurance department.