

June 15, 1998

Ms. Jane Kipper
NAIC
120 West 12th Street
Kansas City, Missouri 64105

Re: Statement of Statutory Accounting Principle #55 Unpaid Claims, Losses, and Loss Adjustment Expenses

Dear Ms. Kipper:

The American Academy of Actuaries has in the past been pleased to provide comment on SSAP #55. We note that several of our suggestions have been incorporated.

We are concerned, however, that new wording added to Paragraph 10 of this SSAP does not provide logical guidance to management in establishing loss and loss adjustment expense reserves. Specifically the relevant sections of Paragraphs 9 and 10 say:

Management shall record its best estimate of its liabilities If, for a particular line of business, management develops its estimate considering a range of loss or loss/claim adjustment expense reserve estimates bounded by a high and a low estimate, management's best estimate of the liability within that range shall be recorded

In the rare instances when, for a particular line of business, after considering the relative probability of the points within management's estimated range, it is determined that no point within management's estimate of the range is a better estimate than any other point, the midpoint within management's estimate of the range shall be accrued.

..... If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be accrued.

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The direction to management appears to be that it should record its best estimate of reserves. Only if it has no best estimate should it consult its reasonable range of estimates. If it finds a point within this range it regards as more likely than others, that number should be recorded. If none of the numbers appears more likely to management, then the midpoint of the range should be recorded. If management can establish no upper bound to the range and therefore no midpoint, it is directed to record its best estimate. If management is directed to consult a range of estimates if and only if it has been unable to establish a best estimate, and the existence of a range for which management perceives no upper bound comes in to play only if it has no best estimate, then directing management to record its best estimate in the case of such a boundryless range appears illogical.

We would suggest that the two sentences "For purposes of this statement, it is assumed that management can quantify the high end of the range. If management determines that the high end of the range cannot be quantified, then a range does not exist, and management's best estimate shall be accrued" be struck altogether or that these sentences be replaced with a statement such as "For purposes of this statement, it is assumed that management is sufficiently knowledgeable about its possible underlying exposure to estimate the upper and lower bounds of its reasonably possible reserve needs, even though this range may be relatively broad for some more difficult to estimate or emerging liabilities." If the range of reasonable reserves is truly inestimable, it may be necessary to provide additional guidance to companies as to how they should disclose such contingencies.

We note that the same logical difficulties exist with new wording added to SSAP #5.

Sincerely,

Jan Lommele, FCAS, MAAA, FCA
Chair Committee on Property and Liability Financing Reporting