June 30, 2020

ASOP No. 11 Revision
Actuarial Standards Board
1850 M Street NW
Suite 300
Washington, DC 20036
Via email: comments@actuary.org

To Whom It May Concern:

The Health Practice Council of the American Academy of Actuaries\(^1\) has formed a Task Force to Review Actuarial Standard of Practice (ASOP) 11, *Reinsurance Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports*. The task force is pleased to provide the following comments.

We applaud the Actuarial Standards Board (ASB) for its recognition of the expanding nature of reinsurance and its impact in financial reports. The Health Practice Council, however, has three main general concerns, as follows:

1. We believe that the definition of “Financial Reports” is too broad, and it is unclear what typical health actuarial work products would be subject to the exposed revised ASOP No. 11, as drafted. We suggest limiting the actuary’s responsibility to actuarial opinions supporting specific types of financial statements that are named in the ASOP. We believe overall responsibility for financial reports are generally within the domain of accountants.
2. Additionally, with regard to the definition of “Financial Reports” being too broad, we are concerned that typical work products completed frequently by health actuaries would unintentionally fall under this ASOP. Some examples of the types of analyses and reports that we are concerned about are:
   a. Types of additional reports that may fall under the ASOP due to “but not limited to” language in section 2.4
   b. “Experience study reports” per section 2.4
   c. Periodic ongoing analyses like estimates of unpaid claims liabilities, provider risk-sharing liabilities, risk adjustment amounts, and other financial estimates, especially those that are routine and for internal management reporting, rather than financial statements for external parties.
3. We are concerned that if a great deal of what health actuaries do on a routine basis, especially work products for internal use, falls under the ASOP and requires disclosures per Section 4, then an onerous burden may be placed on health actuaries, whether intentionally or unintentionally,

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\(^1\) The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
with little resulting value. We do not believe this is, or should be, the intent of the ASOP, as drafted. An example of this is monthly or quarterly routine incurred but not paid (IBNP) reserve estimates for internal reporting.

We would like to point out that other ASOPs currently cover enterprise risk management (ERM) and Asset Adequacy Analysis, so we do not believe that ASOP No. 11 needs to address these. Also, we believe that some components of the exposed ASOP No. 11 may be redundant with the Modeling ASOP (No. 56)—for example sections 3.2.1.k and 3.12. Additionally, we believe that section 3.11 will need revision because of or reference to the future Assumptions ASOP.

What follows are comments on specific sections.

We question whether the adjective “material” is being used consistently. It is used in sections 3.1, 3.3 and 3.4.c. We suggest it should also be included in section 3.2. We also suggest that “material” should be defined.

Section 3.2 generally is confusing. It appears to address the impact of reinsurance on reinsured and retained risks, but the construct is to show Impact of Risks Reinsured and Impact of Risks Reinsured in a Financial Reports section when the whole ASOP would fall under a Financial Reports umbrella. Perhaps consider making 3.2.1 and 3.2.2 sections 3.2 and 3.3 and not have a section Financial Reports section in 3.

In section 3.2.1.j, we suggest adding the words “entries in” after the word “prepare.”

In section 3.2.1.k, we suggest using “models” rather than “model” for consistency. In 3.1.k.2, we suggest the word “inconsistent” rather than “different.” Also, 3.2.1.k.3 is not clear regarding “company experience.” Does it refer to the ceding company’s experience or that of the reinsurer or the principal? We also suggest a definition or explanation of “market estimates.”

In section 3.3, is there a timeframe for the counterparty risk? A counterparty’s rating may change over time. We wonder whether adherence to this provision may prompt more cedants to require collateral on long-duration contracts, which would be expensive.

Section 3.4 up to the ERM paragraph seems much too extreme for each and every financial report. Perhaps it could be limited to when the actuary is asked to opine on whether the reinsurance is fulfilling the objectives of the program.

Section 3.5.2.a contains a very broad statement: “or other information exchanged between the counterparties”. Questions regarding reliance on others (3.10) become an issue. The concern is that a reinsurer may be responsible for a cedant’s comments in a conversation that does not provide sufficient explanation or support. Perhaps the information can be treated as lacking credibility because of the manner in which the information is provided, yet must the actuary be required to consider it, and document it? The reverse may also be true, where the cedant may not hear enough of a comment from a reinsurer.

In section 3.8, the third and fourth sentences are redundant with 3.14.

In section 3.12, we suggest changing “make a reasonable attempt to have a basic” to “have an.”
In section 4.1, we suggest only bringing in disclosures in limited instances, and adding “, as applicable” after “such actuarial report” or include disclosures that are practice area or report-type specific.

We hope these comments are helpful. Please contact Craig Hanna (hanna@actuary.org), the Academy’s director of public policy, if you have any questions.

Sincerely,

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