



AMERICAN ACADEMY *of* ACTUARIES

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***Title of Exposure Draft: Proposed Actuarial Standard of Practice (ASOP) on Setting Assumptions
Comment Deadline: April 15, 2021***

To Whom It May Concern:

On behalf of the American Academy of Actuaries¹ Casualty Practice Council (CPC), I offer the following comments on the proposed Actuarial Standard of Practice (ASOP) on Setting Assumptions.

The following are our specific comments on various sections of the proposed ASOP:

- Remove the following exclusion from the Scope section, “Judgmental adjustments or assumptions [that] can be applied to data,” as described in section 3.4(c) of ASOP No. 23, Data Quality, are not within the scope of this ASOP.”
 - Section 3.4(c) of ASOP No. 23 states: “Judgmental adjustments or assumptions can be applied to the data that allow the actuary to perform the analysis. Any judgmental adjustments to data or assumptions should be disclosed in accordance with section 4.1(f). If the actuary judges that the use of the data, even with adjustments and assumptions applied, may cause the results to be highly uncertain or contain a significant bias, the actuary may choose to complete the assignment but should disclose the potential existence of the uncertainty or bias, and, if reasonably determinable, the nature and potential magnitude of such uncertainty or bias, in accordance with section 4.1(g). Alternatively, the actuary may compensate for the data deficiencies by adjusting the results, such as by increasing the range of reasonable estimates, and disclose the adjustments, in accordance with section 4.1(f);”
 - Section 2.3 of ASOP No. 23 states: “Assumptions are not data, but data are commonly used in the development of actuarial assumptions.”
 - Section 3.4(c) of ASOP No. 23 thus creates a “gray area” by introducing a set of assumptions that might, in effect, be applied to data to create “modified” data that can be used in an actuarial analysis. It is unclear how such judgmental adjustments or assumptions applied to data would be distinguished from the “true” set of assumptions intended to be the subject of the new draft Setting Assumptions ASOP. In addition, any such judgmental adjustments or assumptions would also need to be reasonable. We

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.

thus believe the proposed Setting Assumptions ASOP should apply to any such assumptions as well.

- Further, section 2.1 of the proposed ASOP defines assumptions as including values that “represent possibilities based on professional judgment.” Thus the proposed ASOP appears to already define assumptions as inclusive of such judgmental adjustments or assumptions that can be applied to data.
- Recommend replacing the sentence: “If the actuary determines that the guidance in this ASOP conflicts with a cross-practice ASOP (i.e., an ASOP that applies to all practice areas), this ASOP governs.” With: “If the actuary determines that the guidance in this ASOP conflicts with a general ASOP (i.e., an ASOP that applies to all practice areas), this ASOP governs.”
 - None of the current ASOPs contain the words “cross-practice.” This term is not defined in ASOP No. 1 or in any other ASOP. The ASB website categorizes ASOPs as “General,” “Pension,” “Life,” “Health,” “ERM,” and “Casualty”; as well as “Soon-to-Be Effective” and “Repealed” ASOPs. The ASOPs categorized as General are Nos. 1, 12, 17, 21, 23, 25, 32, 41, and 56. The Scope sections of these ASOPs describe activities that an actuary in any practice area may encounter. None of them use the words “cross-practice.” None of the remaining ASOPs are categorized on the website as being applicable across all practice areas shown, so it appears that “general” is the appropriate term in use.
- Recommend deleting the last sentence of this section: “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.”
 - This sentence appears to place an unreasonable burden on actuaries to keep track of whether there are material changes in referenced documents, and whether such changes mean that the guidance in the proposed ASOP on Setting Assumptions is no longer applicable or appropriate. If there were to be such material changes with consequences to the guidance in other ASOPs, we recommend that the Actuarial Standards Board instead review and make corresponding revisions to those ASOPs.
- Recommend replacing the definition of “Assumption” from the draft ASOP: “Assumption—A value that represents expectations, represents possibilities based on professional judgment, or is prescribed by law or by others to represent expectations or possibilities.” With the following alternative: “Assumption—A type of explicit input to a model that is derived from data, represents possibilities based on professional judgment, or may be prescribed by law or by others. When derived from data, an assumption may be statistical, financial, economic, mathematical, or scientific in nature, and may be described as a parameter.”
 - The recommendation is for the definition of “Assumption” used in the proposed ASOP to be consistent with the definition in the recently effective ASOP No. 56.
- Recommend replacing the definition of “Data” from the draft ASOP: “Data—Numerical, census, or classification information, or information derived mathematically from such items, but not general or qualitative information. Assumptions are not data, but data are commonly used in

the development of assumptions.” With the following alternative: “Data—Facts or information that are either direct input to a model or inform the development of assumptions. Data may be collected from sources such as records, experience, experiments, surveys, observations, benefit plan or policy provisions, or output from other models. Assumptions are not data, but data are commonly used in the development of assumptions.”

- The recommendation is for the definition of “Data” used in the proposed ASOP to be more consistent with the definition in the recently effective ASOP No. 56: “Data—Facts or information that are either direct input to a model or inform the selection of input. Data may be collected from sources such as records, experience, experiments, surveys, observations, benefit plan or policy provisions, or output from other models.”
- Recommend replacing the wording below for 3.2.a: “actual experience adjusted to current conditions where applicable, to the extent it is available, relevant, and sufficiently reliable;” with the following: “actual experience adjusted to the conditions applicable to the actuarial services, as appropriate, to the extent it is available, relevant, and sufficiently reliable;”
 - Actuaries may prepare estimates at a historical cost level, a current cost level, or a future cost level. Thus using the term “current” seems too restrictive.
- Recommend replacing the wording below for 3.3.c: “it is expected to have no material bias (i.e., it is not materially optimistic or pessimistic) relative to the purpose of the assignment, excluding the effect of a margin (as discussed in section 3.6).” with the following (or adding a new item 3.3.d to address the reasonability of the assumptions in aggregate): “it, in combination with the other assumptions, is expected to have no material bias (i.e., it is not materially optimistic or pessimistic) relative to the purpose of the assignment, excluding the effect of a margin (as discussed in section 3.6).”
 - The draft ASOP states that the actuary should select each individual assumption such that it is expected to have no material bias (i.e., it is not materially optimistic or pessimistic). ASOP No. 56 adds an additional check on the reasonability of results in the aggregate: “The actuary should assess the reasonability of the model output when determining whether the assumptions are reasonable in the aggregate. While assumptions might appear to be reasonable individually, conservatism or optimism in multiple assumptions may result in unreasonable output.”
- Recommend changing the guidance on Subsequent Events from the draft ASOP: “Subsequent Events—There may be circumstances where the actuary becomes aware of an event that occurs subsequent to the date(s) through which data or other information have been considered in developing the findings included in the actuarial report and before the date of the actuarial report that could result in a material change in assumptions. In this instance, the actuary may, but need not, reflect this event in setting assumptions, unless required by the purpose of the assignment.” Similar to the proposed revision below: “Subsequent Events—There may be circumstances where the actuary becomes aware of an event that occurs subsequent to the date(s) through which data or other information have been considered in developing the findings included in the actuarial report and before the date of the actuarial report that could result in a material change in assumptions. If practical to do so, or if explicitly required by the purpose of the assignment, the actuary should reflect this event in setting assumptions.”

- Section 3.4.6 of ASOP No. 41 states: “Subsequent Events—The actuary should disclose any relevant event that meets the following conditions:
 - a. it becomes known to the actuary after the latest information date described in section 3.4.5;
 - b. it becomes known to the actuary before the report is issued;
 - c. it may have a material effect on the actuarial findings if it were reflected in the actuarial findings; and
 - d. it is impractical to revise the report before it is issued.
- If the actuary learns of changes to data or other information (on or before the information date) after some findings have been communicated, but before the report is completed, the actuary should communicate those changes, and their implications, to any intended user to whom the actuary has communicated findings.”
- Thus ASOP No. 41 implies that an actuary would not revise the report only if it is impractical to do so, whilst the draft Setting Assumptions ASOP suggests that the decision of whether to reflect the subsequent event in setting assumptions is at the discretion of the actuary (i.e., that the actuary could choose not to, even if it were practical to do so). The recommended changes are to make the proposed ASOP consistent with ASOP No. 41.
- Recommend adding a disclosure requirement in section 4 if an assumption prescribed by law is inconsistent with an assumption set by the actuary.
 - Section 3.5 of the draft ASOP states: “Consistency of Assumptions—If the assignment requires the actuary to set multiple assumptions, the actuary should set assumptions for which the actuary is taking responsibility that, in the actuary’s professional judgment, are reasonably consistent with one another to the extent the assumptions are related.”
- The draft ASOP requires the actuary to disclose the following in actuarial reports: “The information and analysis used for setting each material assumption in sufficient detail to permit another qualified actuary to assess the reasonableness of the assumption.” Recommend softening this language to recognize that there may be situations where it is not feasible or necessary to provide the information.
 - There may be situations where the information used to set a material assumption is proprietary or confidential, or where the information is otherwise readily available to other actuaries. For example:
 - If the assumption is selected based on publicly available information, can the source be provided, without re-summarizing?
 - If the assumption is selected based on a compilation of proprietary information, the underlying information could not be disclosed.

The following are our general recommendations on the proposed ASOP:

- Recommend clarifying the hierarchy of ASOPs. The language referenced in section 1.2 implies that any practice-area-specific ASOPs would govern above the proposed ASOP on Setting

Assumptions, and that the proposed ASOP on Setting Assumptions would then govern above any other general ASOPs. What do the other general ASOPs say? Do other general ASOPs all defer to the remaining ASOPs?

- Section 1.2 of the draft ASOP states: “Other ASOPs may provide guidance on setting assumptions. If the actuary determines that the guidance in this standard conflicts with a practice-area ASOP, the practice-area ASOP governs. If the actuary determines that the guidance in this ASOP conflicts with a cross-practice ASOP (i.e., an ASOP that applies to all practice areas), this ASOP governs.”
- Recommend clarifying what additional documentation is intended to be prepared and retained by the actuary by section 3.9 and recommend stating that it is only necessary to the extent not already disclosed in the actuarial report.
 - Section 3.9 of the draft ASOP states: “Documentation—The actuary should consider preparing and retaining documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4, as is appropriate for the purpose of the assignment. The degree 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.”
 - And Item 4.1.b of the draft ASOP requires the actuary to disclose the following in actuarial reports: “The information and analysis used for setting each material assumption in sufficient detail to permit another qualified actuary to assess the reasonableness of the assumption.”
 - If each assumption is already clearly supported in the actuarial report, it is unclear what additional documentation the actuary should or would consider preparing and retaining.

We have provided full comments using the requested template below. If you have any questions or would like to discuss further, please contact Rob Fischer, the Academy’s casualty policy analyst, at fischer@actuary.org.

Sincerely,

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Chairperson, Casualty Practice Council
American Academy of Actuaries