



AMERICAN ACADEMY *of* ACTUARIES

Comment #22 - March 26, 2010 - 3:39 p.m.

ASB Comments
American Academy of Actuaries
1850 M Street, NW, Suite 300
Washington, DC 20036

Via email: comments@actuary.org

Re: Casualty Practice Council's Comments on the Second Exposure Draft of Actuarial Standard of Practice No. 41

Dear Actuarial Standards Board Members:

The Casualty Practice Council (CPC) of the American Academy of Actuaries¹ has reviewed and discussed the second exposure draft of the revised Actuarial Standard of Practice (ASOP) No. 41, "Actuarial Communications," and has several major concerns that it believes should be addressed.

The CPC believes that, in an attempt to write a single standard that would cover the communication, disclosure, and documentation issues for all actuarial work, the ASOP No. 41 exposure draft falls significantly short of what is needed for some actuarial services and sets the bar far too high for what is needed for some other actuarial services.

To be more specific:

1. The CPC understands that this revision of ASOP No. 41 is intended to eliminate the need for ASOP 9, "[Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations](#)." In light of that, the CPC feels strongly that the current exposure draft of ASOP No. 41 is inadequate as the sole standard for actuarial disclosures and documentation for some actuarial services, especially statutorily-required statements of actuarial opinion. To resolve this issue, ASOP No. 41 would need to incorporate much of the language currently in ASOP No. 9 (or similar language). An example from ASOP No. 9 would be:

"5.2 Extent of Documentation—This standard requires documentation of an actuarial work product whether or not there is a legal or regulatory requirement for the documentation. Appropriate records, worksheets, and other documentation

¹ The American Academy of Actuaries ("Academy") is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists 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.

of the actuary's work should be maintained by the actuary and retained for a reasonable period of time. Documentation should be sufficient for another actuary practicing in the same field to evaluate the work. The documentation should describe clearly the sources of data, material assumptions, and methods. Any material changes in sources of data, assumptions, or methods from the last analysis should be documented. The actuary should explain the reason(s) for and describe the impact of the changes."

This section from ASOP No. 9 is of critical importance for the ratemaking, loss reserving, and valuation actuarial work products covered by ASOP No. 9, but it may not be appropriate for other actuarial work products. This or similar language should be included in an ASOP covering the actuarial work products currently covered by ASOP No. 9. However, the CPC does not believe that this language should be in ASOP No. 41, which applies to all practice areas and all actuarial work.

The CPC's recommendation would be to retain (and perhaps improve) ASOP No. 9, and consider whether other practice areas also have specific disclosure and documentation needs for which specific ASOPs should be written.

2. The CPC agrees with the concerns expressed in the December 28, 2009 comment letter from Ken Quintilian that this exposure draft of ASOP No. 41 seems to go well beyond "standard practice" with regard to the requirement of a defined "actuarial report" for much of the day-to-day work of actuaries. The CPC does not believe this requirement captures today's reality, and we do not believe it is needed. In fact, the CPC does not think that actuaries can justify the time and effort that this required report would add to their daily work as a good value to the companies who use their actuarial services either as employees or as consultants.

Numerous requests are made in the day-to-day work of many actuaries for short and/or informal actuarial input on which the requester relies, but the nature of the reliance and the established relationship between the actuary and the requester negates any practical need for an actuarial report. For example, a product manager in a P&C company may send a note to an actuary at the company with whom he has worked for years and with whose expertise and experience he is familiar, asking for the actuary's quick opinion on whether a proposed coverage addition to a product would be likely to require any significant increase in the rate. The actuary may well immediately reply to the request based on prior experience and in-depth knowledge of the product without performing any specific analysis. This exposure draft of ASOP No. 41 would require an actuarial report to support this communication. We believe this is an excessive reporting requirement and would be an added unjustified expense. While there may be isolated situations of this nature, in which an actuarial report would be of value, to impose this requirement on all actuarial communications would be prohibitively expensive.

In addition to these major concerns with this draft of ASOP No. 41, the CPC also offers the following other comments on specific sections:

3.3.3. It is not clear whether this section requires the actuary to state the source of the information relied upon.

3.5. It is not clear whether the intent of this section is for the actuary to state that there were restrictions and identify those restrictions. The wording describing “transactions under time pressure” seems overly vague and permissive.

The CPC appreciates the opportunity to review the second exposure draft of ASOP No. 41. We emphasize the importance of these issues to many Academy members and thank the Board for its careful consideration of our comments. Please do not hesitate to contact us through Lauren Pachman, the Academy’s casualty policy analyst, at pachman@actuary.org, should you have any questions concerning our response.

Sincerely,

Gary Josephson
Vice-President, Casualty Practice Council
American Academy of Actuaries