Actuarial Standards of Practice
Actuarial Standards Board Recent Activity

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About the Presenters

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• Indianapolis, IN
Agenda

• Actuarial Standards Board
• Actuarial Standards of Practice
• Revised ASOPs 21 and 23
• Property/Casualty ASOP Exposure Drafts
Actuarial Standards Setting Process*

Project proposals come from Board, committees, members, interested parties

Board approves and assigns to appropriate committee/task force

Committee discusses, prepares exposure draft and transmittal letter

Board review

Exposure draft issued

Significant comments, second exposure needed

Members and public review and provide comments

Committee discusses comments, revises, responds

Document issued as final

Returns for revision

Ready to finalize

Returns for revision

*In some cases, the process also involves a discussion draft or request for comments, which is not depicted here.
Actuarial Standards of Practice

1. Purpose & Scope
   - References
   - Effective Date

2. Definitions

3. Analysis of Issues and Recommended Practices

4. Communication and Disclosures
Which of the following is a change for ASOP 21 - Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations:

- **A** Scope includes both responding and reviewing actuary
- **B** Defines Financial Examination
- **C** Defines Prescribed Assumption
- **D** Should comply with ASOP 41

Polling Question #1
ASOP 21 – Responding to or Assisting Auditors ...

- Originally adopted in 1974
- Revised in 1993 and 2004
- Updated language in 2011
- Task Force created in 2014
- Exposure Draft September 2015
- Comments requested December 2015
- Adopted September 2016
- Effective for any actuarial work in connection with a financial audit, financial review, or financial examination for fiscal periods beginning on or after December 15, 2016
ASOP 21 – Sections 1 and 2 Changes

• Replaces professional services with actuarial services

• Purpose (Section 1.1)
  – Prior: audit or examination of a financial statement
  – Current: financial audit, financial review, or financial examination

• New Definitions (Section 2)
  – Contract performance
  – Entity
  – Financial Audit
  – Financial Examination
  – Financial Review
  – Generally Accepted Auditing Standards
## ASOP 21 – Section 3 Changes

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<tr>
<th>Section</th>
<th>Current</th>
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<td>Scope &amp; Planning</td>
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<tr>
<td>Discussion between Responding Actuary and Entity</td>
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<td>Information Request Communication</td>
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<td>Disagreement on Provision or Use of Information</td>
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<td>Data, Assumptions, Methods, Models and Controls</td>
<td>3.5.4</td>
<td>3.1.1</td>
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<td>Changing Conditions</td>
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<td>3.1.2</td>
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<tr>
<td>Documentation of Findings by Reviewing Actuary</td>
<td>3.6.1</td>
<td>3.2.2</td>
</tr>
<tr>
<td>Documentation of Findings by Responding Actuary</td>
<td>3.6.2</td>
<td></td>
</tr>
</tbody>
</table>
ASOP 21 – Section 4

• No changes to Communications and Disclosures
• Applies to both responding actuary and reviewing actuary
• Compliance with ASOP 41
  – 4.2: material assumption or method prescribed by applicable law
  – 4.3: disclaim responsibility for any material assumption or method
  – 4.4: material deviation from the guidance of this ASOP
Which of the following is changed for ASOP 23 – Data Quality:

A. Data includes information derived from numerical, census or classification information
B. Standard does not require the actuary to audit the data
C. Defines Comprehensive Data
D. Should consider desired and alternative data elements

Polling Question #2
ASOP 23 – Data Quality

- Originally adopted in 1993
- Revised in 2004
- Updated language in 2011
- Task Force created in 2014
- Exposure Draft November 2015
- Comments requested February 2016
- Adopted December 2016
- Effective for any actuarial work product for which data were provided to or developed by the actuary on or after April 30, 2017
ASOP 23 – Sections 1 and 2 Changes

• **Purpose (Section 1.1)**
  – Prior: Lists items
  – Current: provide guidance to the actuary when performing actuarial services involving data

• **Scope (Section 1.2) has been modified**
  – Includes actuary preparing data
  – Adds that it does not apply to a wholly hypothetical data set

• **Definitions (Section 2)**
  – The defined term “comprehensive” has been replaced with the defined term “sufficient”
  – The definition of “data” has been changed to clarify that it includes information derived mathematically from data
## ASOP 23 – Section 3 Changes

<table>
<thead>
<tr>
<th>Section</th>
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<th>Superseded</th>
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<tbody>
<tr>
<td>Overview</td>
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<td>3.1</td>
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<td>Selection of Data</td>
<td>3.2</td>
<td>3.2</td>
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<tr>
<td>Review of Data</td>
<td>3.3</td>
<td>3.5</td>
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<tr>
<td>Use of Data</td>
<td>3.4</td>
<td>3.7</td>
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<td>Reliance on Data Supplied by Others</td>
<td>3.5</td>
<td>3.3</td>
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<tr>
<td>Reliance on Other Information Relevant to the Use of Data</td>
<td>3.6</td>
<td>3.4</td>
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<tr>
<td>Confidentiality</td>
<td>3.7</td>
<td></td>
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<tr>
<td>Limitation of the Actuary’s Responsibility</td>
<td>3.8</td>
<td>3.6</td>
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<tr>
<td>Documentation</td>
<td></td>
<td>3.8</td>
</tr>
</tbody>
</table>
ASOP 23 – Section 4

- Data source
- Limitations
- Review of data
- Unresolved concerns
- Steps to improve data
- Significant judgmental adjustments or assumptions
- Bias due to quality of the data
- Extent of actuary’s reliance on data
- ASOP 41 disclosures
ASOP 17 – Expert Testimony by Actuaries

- Originally adopted in 1991
- Revised in 2002
- Updated language in 2011
- Task Force created in 2015
- Exposure Draft March 2017
- Comments requested June 30, 2017

http://www.actuarialstandardsboard.org/asops/revision-actuarial-standard-practice-no-17-exposure-draft/
When did you last read the Ratemaking SoP?

A. When studying for exams
B. When preparing a rate filing
C. When the 1st discussion draft was released
D. When the 2nd discussion draft was released
E. Never

Polling Question #3
New ASOP – Estimating Future Costs...

- Third Exposure Draft December 2016
- Comment Deadline April 30, 2017
- Previously released as Ratemaking
- CAS revising Statement of Principals

## CAS Statement of Principles - Considerations

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<th>SoP</th>
<th>ASOP</th>
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<td>Exposure Base</td>
<td>New ASOP, Section 3.6</td>
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<tr>
<td>Data</td>
<td>New ASOP, Section 3.8.1</td>
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<tr>
<td>Organization of Data</td>
<td>New ASOP, Section 3.3</td>
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<td>Homogeneity</td>
<td>New ASOP, Section 3.3</td>
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<td>Credibility</td>
<td>ASOP 25, Section 3.11</td>
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<td>Loss Development</td>
<td>New ASOP, Section 3.8.2</td>
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<td>Trends</td>
<td>New ASOP, Section 3.8.4 and ASOP 13</td>
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<td>Catastrophes</td>
<td>ASOP 38 and ASOP 39</td>
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<td>Policy Provisions</td>
<td>Proposed ASOP, Section 3.8.3</td>
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<tr>
<td>Mix of Business</td>
<td>Proposed ASOP, Section 3.8.3</td>
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</table>
## CAS Statement of Principles – More Considerations

<table>
<thead>
<tr>
<th>SoP</th>
<th>ASOP</th>
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<tbody>
<tr>
<td>Reinsurance</td>
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<td>Operational Changes</td>
<td>Proposed ASOP, Section 3.8.3d and Proposed ASOP, Section 3.8.3e</td>
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<tr>
<td>Other Influences</td>
<td>Proposed ASOP, Section 3.8.3a</td>
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<td>Classification Plans</td>
<td>ASOP 12, Section 3.6</td>
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<tr>
<td>Individual Risk Rating</td>
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<td>Risk</td>
<td>ASOP 30, Section 3.15</td>
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<tr>
<td>Investment and Other Income</td>
<td>ASOP 30, Section 3.5</td>
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<tr>
<td>Actuarial Judgment</td>
<td>Proposed ASOP, Section 3.4, Proposed ASOP, Section 3.5 and Proposed ASOP, Section 3.8.2</td>
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</tbody>
</table>
Do you respond to ASB Requests for Comments?

A. Never
B. Only the Proposed Ratemaking ASOP
C. Rarely
D. Occasionally
E. Always

Polling Question #4
New ASOP – Setting Assumptions

- Exposure Draft December 2016
- Comment Deadline April 30, 2017

http://www.actuarialstandardsboard.org/asops/setting-assumptions-exposure-draft/
New ASOP – Capital Adequacy ...

- Exposure Draft September 2016
- Comment Deadline January 31, 2017
- Second Exposure Draft September 2017
- Comment Deadline March 1, 2018

New ASOP – Modeling

- Third Exposure Draft June 2016
- Comment Deadline October 31, 2016

http://www.actuarialstandardsboard.org/asops/modeling-2/
Questions
Join Us for the Next APEX Webinar

Pinnacle APEX Webinar

Statements of Actuarial Opinion at Year-End 2017

Thursday, January 18
2:00 p.m. ET
Registration is Open

Join Managing Principal Joe Herbers and Consulting Actuary Aaron Hillebrandt as they discuss new SAO requirements and issues that companies struggle with every year.
Final notes

• We’d like your feedback and suggestions  
  • Please complete our survey

• For copies of this APEX presentation  
  • Visit the Resource Knowledge Center at Pinnacleactuaries.com
Thank You for Your Time and Attention

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