

**NOTABLE CHANGES IN THE  
ASOP NO. 36 EXPOSURE  
DRAFT**

September 21, 2022 – CLRS Meeting

© 2022 American Academy of Actuaries. All rights reserved.  
This work is intended solely for informational purposes.

---

---

---

---

---

---

---

---

---

---

## Antitrust Notice

- The Casualty Actuarial Society is committed to adhering strictly to the letter and spirit of the antitrust laws. Seminars conducted under the auspices of the CAS are designed solely to provide a forum for the expression of various points of view on topics described in the programs or agendas for such meetings.
- Under no circumstances shall CAS seminars be used as a means for competing companies or firms to reach any understanding – expressed or implied – that restricts competition or in any way impairs the ability of members to exercise independent business judgment regarding matters affecting competition.
- It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.

2




---

---

---

---

---

---

---

---

---

---

## Disclaimer

**Please note:** The presenters' statements and opinions are their own and do not necessarily represent the official statements or opinions of the ABCD, ASB, any boards or committees of the American Academy of Actuaries, or any other actuarial organization, nor do they express the opinions of their employers.

3




---

---

---

---

---

---

---

---

---

---

## Presenters

- **Mary Frances Miller**, MAAA, FCAS, CPCU, ARM, ARe, HFIA  
Former Chairperson, Actuarial Standards Board (ASB) Casualty Committee  
Member, Task Force to Revise ASOP No. 36
- **Margaret Tiller Sherwood**, MAAA, FCAS, FSA, FCA, CERA, CPCU, ARM, ERMP  
Chairperson, Task Force to Revise ASOP No. 36  
Member, ASB Casualty Committee
- **Moderator: Michelle Iarkowski**, MAAA, FCAS  
Member, Task Force to Revise ASOP No. 36  
Member, ASB Casualty Committee  
Member, COPLFR

4




---

---

---

---

---

---

---

---

---

---

## Agenda

- Introduction to the Actuarial Standards Board
- Review of major changes to ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves*
- Q&A

5




---

---

---

---

---

---

---

---

---

---

## ASB in a Nutshell




---

---

---

---

---

---

---

---

---

---

## Professionalism: Basis of Self-Regulation



7

---

---

---

---

---

---

---

---

## ASB Rooted in Precept 3

- **PRECEPT 3.** An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy **applicable standards of practice.**
- **Purpose of the ASB**  
The Actuarial Standards Board (ASB) **sets standards for appropriate actuarial practice in the United States** through the development and promulgation of actuarial standards of practice (ASOPs).



8

---

---

---

---

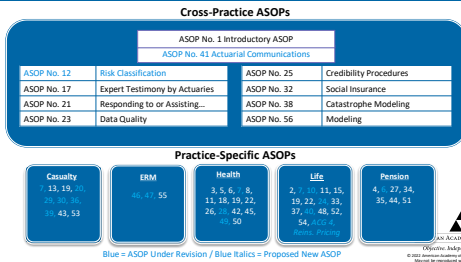
---

---

---

---

## ASOPs—Structure and Activity



9

---

---

---

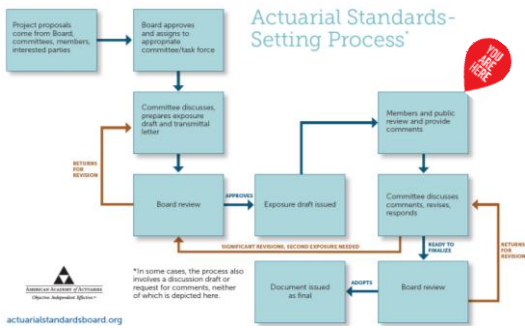
---

---

---

---

---




---

---

---

---

---

---


---

---

---

---

## ASOP No. 36 Notable Changes



AMERICAN ACADEMY OF ACTUARIES  
Objective. Independent. Efficient.  
© 2022 American Academy of Actuaries. All rights reserved.  
Material is reproduced without express permission.

---

---

---

---

---

---

---

---

---

---

## ASOP No. 36 Reasons for Revision

1. Current ASOP No. 36 and NAIC Annual Statement instructions differ regarding risk of material adverse deviation (RMAD).
  - ASOP requires disclosure only if the actuary thinks there is an RMAD.
  - NAIC requires an RMAD discussion in every SAO.
2. To add other reserves on which the actuary is opining.
3. Current ASOP No. 36 prescribes steps when deciding it is reasonable to make use of another's work but does not require documentation of those steps beyond the limited SAO requirements. Regulators should be able to obtain the Appointed Actuary's documentation of those steps on request.

---

---

---

---

---

---

---

---

---

---

# ASOP No. 36 Structure

Section 1: Purpose & Scope	Section 2: Definitions	Section 3: Recommended Practices	Section 4: Disclosures
1. Purpose	1. Accounting Date	1. Purpose and Users	1. Required Disclosures
2. Scope	2. Counterparty	2. Reserves Being Opined Upon	2. Required Disclosures in an SAO
3. Cross References	3. Coverage	3. Stated Basis of the Reserves	3. Additional Disclosures in an SAO
4. Effective Date	4. Explicit Risk Margin	4. Reserve Evaluation	4. Additional Disclosures in an Actuarial Report
	5. Loss	5. Discounting	
	6. Loss Adjustment Expense	6. Uncollectible Recoverables	
	7. Materiality Standard	7. Work Underlying the Prior SAO	
	8. Recoverable	8. Type of SAO	
	9. Reserve	9. Determination of Materiality Standard	
	10. Reserve Evaluation	10. Material Adverse Deviation	
	11. Review Date	11. Adequacy of Assets Supporting Reserves	
	12. Valuation Date	12. Reliance on Data or Information Supplied by Others	
		13. Documentation	

13




---

---

---

---

---

---

---

---

---

---

## Section 1.2, Scope

- The scope was expanded to include
  - Other reserves of an insurance company or other property/casualty risk financing system on which the actuary is opining
  - Examples
    - Retrospective reinsurance premium reserves
    - Unearned premium reserves for property/casualty long duration contracts
    - Unearned premium reserves for extended reporting endorsements

14




---

---

---

---

---

---

---

---

---

---

## Section 1.2, Scope

- The scope was expanded to include reviewing actuaries.
  - "If the actuary is performing actuarial services that involve reviewing a statement of actuarial opinion, the actuary should use the guidance in section 3 to the extent practicable."

15




---

---

---

---

---

---

---

---

---

---

## Section 2, Definitions

- Definitions added
  - **Counterparty**—Another entity involved in a financial transaction including, but not limited to, a ceding entity, an assuming entity, an insured, or a service party.
  - **Materiality Standard**—The amount that the actuary judges to be material in determining if there is a significant risk of material adverse deviation with respect to the loss and loss adjustment expense reserves.
  - **Recoverable**—An amount (for example, deductibles, ceded reinsurance, salvage, or subrogation) that may be collected from a counterparty.
- Definitions deleted
  - Event, present value, unpaid claim estimate, unpaid claim estimate analysis

16




---

---

---

---

---

---

---

---

---

---

## Section 3.3, Stated Basis of the Reserves

- The stated basis of the reserve was revised to require “the actuary to ascertain...the characteristics of other reserves being opined upon, if any (for example, the nature of the contracts generating unearned premium reserves)”

17




---

---

---

---

---

---

---

---

---

---

## Section 3.4.1, Scope (of the Reserve Evaluation)

- Proposed language clarifies the requirement to determine that the scope of the reserve evaluation is appropriate for the scope of the statement of actuarial opinion, including the accounting date, valuation date, **and** the review date.
 

**Proposed:** “The actuary should ensure that that scope of the reserve evaluation is consistent with the scope of the statement of actuarial opinion, taking into account the following: a. accounting date, valuation date, and review date...”
- Current language only requires the actuary to “identify” the accounting date and review date

18




---

---

---

---

---

---

---

---

---

---

### Section 3.4.2, Evaluation Based on the Actuary's Estimates

- The text indicating the actuary should review work produced under the actuary's direction was deleted, as this is addressed in Precept 3 of the Code of Professional Conduct.

**Precept 3:** An Actuary shall ensure that Actuarial Services performed by or under the direction of the Actuary satisfy applicable standards of practice.

19




---

---

---

---

---

---

---

---

### Section 3.4.3, Using an Analysis or Opinion Not Produced Under the Actuary's Direction

- Guidance related to making use of another's work has been modified.

**Proposed:** "When using another actuary's analysis or opinion, the actuary should be reasonably satisfied that the other actuary is qualified to perform the actuarial services and that the actuarial services were performed in accordance with applicable ASOPs.

When using a model developed by another, the actuary should refer to ASOP No. 56, *Modeling*, and ASOP No. 38, *Catastrophe Modeling (for All Practice Areas)*."

- The current ASOP does not require the actuary to take these steps.

20




---

---

---

---

---

---

---

---

### Section 3.6, Uncollectable Recoverables

- Guidance on uncollectable recoverables was expanded to include other recoverables in addition to reinsurance.

**Proposed:** "If the statement of actuarial opinion includes reserves net of recoverables and the amount of recoverables is material, the actuary should take into account the collectability of those recoverables in evaluating net reserves."

- Note the new defined term "recoverable"
  - An amount (for example, deductibles, ceded reinsurance, salvage, or subrogation) that may be collected from a counterparty.
- Previous language included only "ceded reinsurance"

21




---

---

---

---

---

---

---

---

## Section 3.6, Uncollectable Recoverables

- Guidance on uncollectable recoverables was expanded to include other parties in addition to reinsurers.
  - Proposed:** "The actuary should solicit information from management regarding collectability problems, significant disputes with counterparties, and practices regarding provisions for uncollectable recoverables.  
The actuary is not required to express an opinion on the financial condition of any counterparty."
- Note new definition of "counterparty"
  - Another entity involved in a financial transaction including, but not limited to, a ceding entity, an assuming entity, an insured, or a service party

22




---

---

---

---

---

---

---

---

---

---

## Section 3.8, Type of SAO

- Types did not change, but language changed quite a bit

23




---

---

---

---

---

---

---

---

---

---

## Section 3.8.1, Determination of Reasonable Provision

- Current section 3.11(a)—The actuary should opine that the reserve amount makes a reasonable provision for the liabilities associated with the specified reserve when the reserve is found to be reasonable.
- Current section 3.7—The actuary should consider a reserve to be reasonable if it is within a range of estimates that could be produced by an unpaid claim estimate analysis that is consistent with both ASOP No. 43 and the identified stated basis of reserve presentation.

24




---

---

---

---

---

---

---

---

---

---



### Section 3.8.1, Determination of Reasonable Provision

**Proposed:** "The actuary should issue a statement of actuarial opinion that is one of the following types:

- 3.8.1 Determination of Reasonable Provision—The reserves make a reasonable provision for the liabilities associated with the specified reserves when the reserves are within a range of estimates that could be produced and that the actuary considers reasonable, consistent with the applicable ASOPs, and consistent with the identified stated basis of the reserves."

25




---

---

---

---

---

---

---

---

---

---

### Materiality

- Note that the previous section 3.6, Materiality, has been removed.
- Materiality is covered in ASOP No. 1.
  - Terms discussed/defined in ASOP No. 1 apply across all ASOPs.

26




---

---

---

---

---

---

---

---

---

---

### Section 3.9, Determination of Materiality Standard

- Guidance on determining a materiality standard was added.
 

**Proposed:** "The actuary should determine a materiality standard that is appropriate for the intended purpose of the statement of actuarial opinion."
- Note new definition of materiality standard
  - The amount that the actuary judges to be material in determining if there is a significant risk of material adverse deviation with respect to the loss and loss adjustment expense reserves.

27




---

---

---

---

---

---

---

---

---

---

### Section 3.9, Determination of Materiality Standard

- The proposed standard discusses “metrics” instead of “financial values”
  - Proposed:** “When determining the materiality standard, the actuary should take into account the financial metrics that are relevant to the intended users of the statement of actuarial opinion and how those financial metrics are likely to be affected by changes in reserves.”

28




---

---

---

---

---

---

---

---

### Section 3.9, Determination of Materiality Standard

- The proposed standard provides examples of what a materiality standard might be based on.
  - An amount that would trigger a regulatory action for the company (for a statutory statement of actuarial opinion for an insurance company to be used for financial reporting to insurance regulators)
  - Percentage of surplus
  - Percentage of reserves
  - The amount of adverse deviation that would cause surplus to fall below minimum capital requirements

29




---

---

---

---

---

---

---

---

### Section 3.10, Material Adverse Deviation

- Guidance on material adverse deviation was strengthened.
  - “should consider” → “should determine”
  - “future paid amounts being materially greater than those provided for in the reserves” → “material adverse deviation”
- Proposed:** “The actuary should determine whether there are significant risks and uncertainties that could result in material adverse deviation.”

30




---

---

---

---

---

---

---

---

### Section 3.10, Material Adverse Deviation

- Guidance on material adverse deviation was added.
  - Proposed:** “When making this determination the actuary should take into account both quantitative and qualitative factors to assess whether the loss and loss adjustment expense reserves could be understated by more than the materiality standard.”

31




---

---

---

---

---

---

---

---

### Section 3.10, Material Adverse Deviation

- Guidance on material adverse deviation was added.
  - Proposed:** “The actuary should find that a risk of material adverse deviation exists when the sum of the materiality standard and the loss and loss adjustment expense reserves is within the actuary’s range of reasonable estimates. However, the actuary may find that a risk of material adverse deviation exists even when the sum of the materiality standard and the loss and loss adjustment expense reserves exceeds the actuary’s range of reasonable estimates.”

32




---

---

---

---

---

---

---

---

### Section 3.12, Reliance on Data or Other Information Supplied by Others

- Guidance on reliance on data or other information supplied by others was added.
  - Proposed:** “When relying on data or other information supplied by others, the actuary should refer to ASOP No. 23, *Data Quality*, and ASOP No. 41, *Actuarial Communications*, for guidance.”

33




---

---

---

---

---

---

---

---

### Section 3.13, Documentation

- The documentation section was strengthened.
- The actuary should
  - ▣ prepare and retain documentation to support compliance with the requirements of sections 3 and 4
  - ▣ prepare documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work
- The degree of such documentation
  - ▣ should be based on the actuary's professional judgment
  - ▣ may vary with the complexity and intended purpose of the SAO

34




---

---

---

---

---

---

---

---

### Section 4, Communications and Disclosures

- Section 4 was restructured and revised to align with the changes in section 3 and current ASOP format.
  - ▣ 4.1 Required Disclosures – Refers to ASOP Nos. 23, 41, 43, and 46
  - ▣ 4.2 Required Disclosures in a Statement of Actuarial Opinion
  - ▣ 4.3 Additional Disclosures in the Statement of Actuarial Opinion
  - ▣ 4.4 Additional Disclosures in an Actuarial Report

35




---

---

---

---

---

---

---

---

### Section 4.2, Required Disclosures in a Statement of Actuarial Opinion

- The disclosure requirements were expanded to require discussion of the risk of material adverse deviation in **all** opinions.
 

**Current:** Disclosure is required only "if the actuary believes there are significant risks and uncertainties that could result in material adverse deviation..."

**Proposed:** "The actuary should disclose... whether there are significant risks and uncertainties that could result in material adverse deviation"

36




---

---

---

---

---

---

---

---

### Section 4.2, Required Disclosures in a Statement of Actuarial Opinion

- Proposed language
  - Requires disclosure of the “materiality standard” rather than “the amount of adverse deviation that the actuary judges to be material”
  - Adds a required disclosure of the basis for the materiality standard

**Proposed:** “the materiality standard and the basis for establishing it”

---

---

---

---

---

---

---

---

37



### Section 4.2, Required Disclosures in a Statement of Actuarial Opinion

- Proposed language requires and expands the disclosure related to the underlying risks and uncertainties that could lead to material adverse deviation.

**Proposed:** “...the quantitative and qualitative factors underlying risks and uncertainties that the actuary considered in assessing whether there are significant risks and uncertainties that could result in material adverse deviation...”

---

---

---

---

---

---

---

---

38



### Please Submit Your Comments!

- ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/ Casualty Loss, Loss Adjustment Expense, or Other Reserves*
  - **Comment deadline: September 30**
- Directions for submitting comments in the transmittal memo
- All comments are posted on the ASB website
- All comments are read and addressed

---

---

---

---

---

---

---

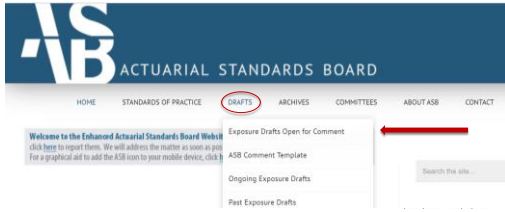
---

39



# Please Submit Your Comments!

- Where can I find the exposure drafts?
  - [actuarialstandardsboard.org/exposure-drafts-open-for-comment/](https://actuarialstandardsboard.org/exposure-drafts-open-for-comment/)



40

---

---

---

---

---

---

---

---

# Questions?

41




---

---

---

---

---

---

---

---