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Comment #8 – 9/10/10 – 8:35 a.m.

ASOP No. 10 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036

September 10, 2010

We are pleased to provide comments to the Exposure Draft ("ED") of Proposed Revisions to Actuarial Standards of Practice No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with US GAAP*. We would be happy to discuss our comments with the Task Force on Revision of ASOP No. 10.

The comments provided below are a collaboration of suggestions from the life insurance actuaries at PricewaterhouseCoopers ("PwC"). However none of the comments included here represent official positions of PwC.

Our overall response to the ED is that it is well written and accomplishes the goals and objectives set out by the Task Force. As you will see, the majority of our comments are intended to clarify language that may not be interpreted consistently by all readers.

1. There are a number of definitions in Section 2 of the ED and we agree that they are important. When used within the document, these terms are often not identified as having been previously defined and we think it would benefit the reader to identify them as such either by capitalizing the terms when used in the document or in some other manner. At least one of our actuaries was confused by what "net GAAP liability" meant in Paragraph 3.5.3. If the term were to read "Net GAAP Liability", we believe that it would be more obvious that this is a defined term and means reserves net of DPAC versus reserves net of reinsurance.

2. In the definition of Market-Estimate Assumption in Paragraph 2.8, we suggest deleting "obtained from market data" as it is not integral to the definition and there could be cases where Market-Estimate Assumptions are derived from other sources than the market.

3. In the 2nd sentence of Paragraph 3.2, we suggest changing "provisions are added to the assumption" to "provisions are made to the assumption" to account for situations where assumptions are reduced by such provisions.

4. In the first sentence of Paragraph 3.3 covering Best Estimate Assumptions, we believe that there should be some guidance to the actuary in situations where there is no emerging experience, such as a totally new insurance product with no company or industry data available. We suggest that the actuary should use any available and applicable data even if that data might not be considered to be emerging experience.

5. We are a bit confused about the differences between Paragraphs 3.4.1 (Reliability of Market-Estimate Assumptions) and 3.4.3 (Use of Relevant Information). The body of Paragraph 3.4.1 addresses the use of "relevant and reliable data" while Paragraph 3.4.3 only discusses "relevant" data. Should one conclude from this that Paragraph 3.4.3 applies to "unreliable and relevant" data? One suggestion is to combine these 2 paragraphs. Another is to clarify Paragraph 3.4.3, perhaps adding an example similar to the example included in Paragraph 3.4.2.

6. One of the goals of the Task Force was to eliminate GAAP interpretations from the ASOP. We feel that the last sentence of Paragraph 3.4.4 ("In such circumstances, the actuary should consider observable indications of what market participants believe is an appropriate margin to cover the risk of uncertainty and include it in the market-estimate assumption.") may be considered by some readers to be an interpretation of GAAP. We do not disagree with guidance contained in the sentence. Our inclusion here is to share our observation regarding GAAP interpretation.

7. Similar to our comment on Paragraph 3.4.4, we also think the last sentence of Paragraph 3.5.2 ("For example, in situations where a premium deficiency does not exist using best-estimate assumptions, the provision for risk of adverse deviation should not be so significant as to increase the resulting GAAP net premium above the gross premium.") could also be viewed as an interpretation of GAAP.

8. While we are in general agreement with Paragraph 3.5.3 Effect of Provision, we think it is unclear in a couple of areas related to the provision needing to increase the Net GAAP Liability. First, at what point in time is the actuary supposed to measure the effect of the provision on the Net GAAP Liability. We believe that guidance should state that the Net GAAP Liability needs to be projected over the lifetime of the product to demonstrate that the provision increases the Net GAAP Liability at all durations. Second, what is the responsibility of the actuary for determining the level of aggregation of such a test and how much is an "appropriate amount"?

9. We think Paragraph 3.6 Lock-in contains some unclear language. Some of our actuaries believe that the ASOP should address the scope of what is included in assumptions. For example, are premium rates for an indeterminate premium product considered to be an assumption? We also think the last sentence in this paragraph is confusing. We believe the Task Force's intention is to reference a dynamic adjustment based on current inforce, but the words in this paragraph could be interpreted by some to mean that it is acceptable to modify future persistency assumptions. We also think this sentence contains an interpretation of GAAP.

10. We believe that there are better examples than the ones included in Paragraph 3.7 (interest rates or equity returns), since those assumptions could appropriately vary between blocks of business because of fund distribution. A more specific assumption, such as volatility of S&P 500 would more clearly clarify the point being made.

11. Paragraph 3.6 references loss recognition while paragraph 3.9 discusses Premium Deficiency Testing. We believe that many actuaries are confused by these terms and we think it would be

helpful to state whether you are referring to the test done at issue on new business or the ongoing testing of inforce, or both. We suggest that paragraph 3.6 be changed to reference premium deficiency instead of loss recognition to be consistent with paragraph 35 of FAS 60 (ASC 944-60-25-8 & 9).

12. We believe that it would be helpful to readers if Paragraph 4.1 also referenced the communication requirements contained in the US Qualification Standards. In addition, we believe that actuaries should be reminded to follow the documentation requirements contained in ASOP No. 21 *Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas*.

If you have any questions or would like to discuss our comments, please contact John Morris at 610-269-3686 or via e-mail at john.w.morris@us.pwc.com.

Regards

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