ASOP NO. 55: CAPITAL ADEQUACY ASSESSMENT

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Disclaimer

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Web of Professionalism: Basis of Self-Regulation

☐ The Code of Professional Conduct
☐ U.S. Qualification Standards (USQS)
☐ Actuarial Standards of Practice (ASOPs)
☐ Counseling and discipline
Actuarial Standards of Practice (ASOPs)

- ASOPs should apply as broadly as possible.
- ASOPs provide:
  - Principles to guide actuaries when they perform work, but do not replace professional judgment; and
  - Expectations regarding documentation and communication.
- ASOPs give the intended users of the actuarial work product assurance about its quality and suitability.
- ASOPs are not simply a codification of common practice but rather document “appropriate” practice.
ASOP No. 1: Introductory Standard

- Defines common terms that appear in ASOPs
  - **Must** – The actuary is unlikely to have any reasonable alternative action.
  - **Should** – Indicates what is normally the appropriate practice.
  - **Should (Consider/Take Into Account)** – Suggests potential courses of action. If, after consideration, in the actuary’s professional judgment, action is not appropriate, then it is not required.
  - **May** – The course of action is one that would be considered reasonable and appropriate in many circumstances.
ASOP No. 55: Capital Adequacy Assessment

- Background
  - Historically, insurers didn’t perform formal assessments of capital adequacy and instead relied on rules of thumb or rating agency/regulatory capital benchmarks.
  - 2012: ORSA requires a formal assessment of capital as part of ERM.
- Overview of ASOP
  - Effective Nov. 1, 2019.
  - Applies to actuaries involved in capital adequacy assessment work whether for a specific regulatory requirement or for general management purposes.
ASOP No. 55: Scope

- Applies to actuaries when:
  - Designing, performing, or reviewing a capital adequacy assessment; and
  - Work is performed for insurance companies, risk retention groups, public entity pools, captive insurers.
ASOP No. 55: Definitions

- Selected definitions
  
  - **Capital Adequacy Assessment**: The assessment of capital relative to risk capital target(s) or risk capital threshold(s).
  
  - **Risk Capital Target**: The preferred level of capital based on specified criteria, which is expressed as a function of a measure of risk. A risk capital target can be a single value or a range.
  
  - **Risk Capital Threshold**: The minimum level of capital necessary for an entity to operate effectively based on specified criteria and expressed as a function of a measure of risk.
ASOP No. 55: Recommended Practices

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| General Considerations         | Should take into account… | - Risk profile and capital  
- Business environment, risk drivers, plans & strategies  
- Existing or accessible resources  
- Methodology used to assess capital adequacy |
| Additional Considerations      | Should consider… | - Definition of risk, risk appetite, and risk tolerance                                |
| Risk Capital Target or Risk Capital Threshold | Should take into account… | - Valuation bases  
- Principal’s objectives for capital  
- Time horizons  
- Methods used to aggregate results  
- Alignment with risk appetite and tolerance |
| Incorporating Management Actions | Should consider… | - Effectiveness of prior actions  
- Feedback from board/management  
- Timing requirements |
ASOP No. 55: Disclosures in Report

**Required**

When issuing a report, the actuary should disclose, if applicable:

- Business included in CAA, business environment, risk drivers
- Key elements of business/risk management plans and strategies
- Future calls on capital and insurer’s ability to replenish
- Selected valuation bases, and the timing and variability of projected asset and liability related cash flows
- How correlation, exposure concentration, diversification benefits, and uncertainty of interdependencies were taken into account

**Additional**

The actuary should include, when applicable:

- How risk management practices/process or the risk profile, risk appetite, and risk tolerance were reflected in the CAA, if material to the CAA
- Any material differences between prior and current CAA, if the actuary had access
QUESTIONS?

THANK YOU.