**7/22/21 AOWG Call Agenda and Materials**

1. Continue discussion from the last call on the following topics:
   1. 2021 SAO Review Issues
   2. Issues with Schedule P reconciliation
   3. CAS Statements of Principles rescission
   4. Documentation of Board’s review of QD
2. Any other changes to Regulatory Guidance
   1. Replace “audit” with “review” where it pertains to the CAS review of selected CE logs
   2. Changes to the COVID paragraph – at minimum change “2020 accident year” to “subsequent” or something similar
   3. Changes to the CE Logging Procedures?
3. Any other matters
4. Adjournment

**Supplemental Materials**

* **SAO review issues:**
  + Incorrect attestation on CAS website
  + Consider setting a deadline for providing QDs to the Board
  + Additional guidance on providing QD to the Board
    - Consider amending AS instructions next year to require additional language in the SAO that asserts the actuary’s compliance with respect to the qualification documentation being provided to the Board.
* **Issues with Schedule P Reconciliation**
* Consider additional guidance in the RG and/or AS Instructions
  + Current AS Instructions wrt Actuarial Report: “Must include… An exhibit that reconciles and maps the data used by the Appointed Actuary, consistent with the segmentation of exposure or liability groupings used in the Appointed Actuary’s analysis, to the Annual Statement Schedule P line of business reporting. An explanation should be provided for any material differences.”
  + RG – current language:

### Schedule P reconciliation

The Working Group acknowledges that myriad circumstances (such as mergers, acquisitions, changes in claim systems, and the use of underwriting year data in the analysis) may make it difficult for the Appointed Actuary to reconcile the analysis data to Schedule P. The Working Group encourages Appointed Actuaries to disclose reconciliation issues in the Actuarial Report. If the data cannot be reconciled, the Appointed Actuary should document the reasons.

The Working Group believes that:

* A summary reconciliation that combines all years and all lines is an insufficient demonstration of data integrity. A reconciliation should include enough detail to reflect the segmentation of exposures used in the reserve analysis, the accident years of loss activity and the methods used by the Appointed Actuary.
* The Appointed Actuary should map the data groupings used in the analysis to Schedule P lines of business and should provide detailed reconciliations of the data at the finest level of segmentation that is possible and practical. The Working Group recognizes that the Appointed Actuary chooses the data segmentation for the analysis and that there is often not a direct correspondence between analysis segments and Schedule P lines of business.
* The Appointed Actuary should reconcile all data material to the analysis, including claim counts and earned premium if appropriate.

The Working Group draws a distinction between two types of data checks:

* The Schedule P reconciliation performed by the Appointed Actuary. The purpose of this exercise is to show the user of the Actuarial Report that the data significant to the Appointed Actuary’s analysis ties to the data in Schedule P.
* Annual testing performed by independent CPAs to verify the completeness and accuracy of the data in Schedule P or the analysis data provided by the company to the Appointed Actuary.

One key difference is that independent CPAs generally apply auditing procedures to loss and loss adjustment expense activity that occurred in the current calendar year (for example, tests of payments on claims for all accident years that were paid during the current calendar year). Projection methodologies used by Appointed Actuaries, on the other hand, often use cumulative loss and loss adjustment expense data, which may render insufficient a testing of activity during the current calendar year alone.

Along similar lines, regulators encourage Appointed Actuaries to consider whether a reconciliation of incremental payments during the most recent calendar year for all accident/report years combined provides sufficient assurance of the integrity of the data used in the analysis, given that development factors are generally applied to cumulative paid losses by accident/report year.

* Proposed addition from Michelle I: *While it is important that the Appointed Actuary is provided with complete and accurate data, reconciling the data provided to the Appointed Actuary to Schedule P is not sufficient to demonstrate that the data used by the Appointed Actuary reconciles to Schedule P. It is important for the Appointed Actuary to demonstrate that in the process of performing the actuarial analysis, data was neither created nor destroyed. This is commonly accomplished by showing a clear mapping from the Appointed Actuary’s analysis exhibits to the actuarial data shown in the Schedule P reconciliation. The Appointed Actuary should clearly demonstrate to a regulator or other user of the Actuarial Report how the actuarial data shown in the Schedule P reconciliation is aggregated from the liability groupings in the supporting actuarial analysis prior to reconciliation of that data to Schedule P.*
* Michelle I: Neither the Instructions nor RG indicate if the reconciliation should be performed on a direct and assumed basis, net of reinsurance basis, or both. Understanding that performing the reconciliation on both bases may not be appropriate for all companies, perhaps RG could provide some guidance on where both reconciliations are expected.
* Michelle I: Regulatory guidance does not provide any specification around how the different loss-related elements (loss, DCC, A&O) should be reconciled. It might be helpful to specify that elements that are analyzed separately may need to be reconciled separately. For example, if loss and DCC are analyzed on a combined basis, it may be appropriate to reconcile them on a combined basis; however, if loss and DCC are analyzed separately, they may need to be reconciled separately. Similarly, I have seen reconciliations that reconcile loss, DCC, and A&O all on a combined basis, even though A&O is analyzed using different approaches/methods. Such a reconciliation does not provide comfort that the appropriate data is used in the loss+DCC methods vs. the A&O methods
* Michelle I: In my experience, seeing a reconciliation of claim counts is rare. This may be because the definition of claim counts used by the Appointed Actuary differs from that used in Schedule P; alternatively, it may be because the Appointed Actuary is not using methods that rely on claim counts. Similarly, not every Appointed Actuary uses earned premium as the exposure base in the analysis, such that earned premium may not be a material data element. I think it would be helpful to encourage Appointed Actuaries to include a brief explanation in the actuarial report of why these elements were not reconciled to make it clear to readers of the report that they were not inadvertently overlooked.
* Michelle I: The Instructions require the Appointed Actuary to explain any material differences in the reconciliation. I have seen reconciliations that show differences that are clearly greater than a rounding error, but do not include commentary from the actuary on whether or not these differences are viewed as material. It might be helpful to encourage the actuary to include a statement affirming the differences are viewed as immaterial if that is the case, again to affirm for readers of the report that this requirement was not overlooked.
* **CAS Statements of Principles**
  + Remove the reference in the AS Instructions in paragraph 1 of the Actuarial Opinion Section
  + Consider removing or keeping the reference to “principles” in the following paragraph:

The OPINION paragraph should include a sentence that at least covers the points listed in the following illustration:

“In my opinion, the amounts carried in Exhibit A on account of the items identified:

A. Meet the requirements of the insurance laws of (state of domicile).

B. Are computed in accordance with accepted actuarial standards and principles.

C. Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.”

* **Documentation of Board review of QD**
  + On a company basis or group basis? (unfinished discussion)
  + Proposed language from CT: “If the Board of the Holding Company reviews the qualification documents of the Appointed Actuary that signs the opinion of all the companies in a specific pool, the Board minutes of the Statutory entity have to state that they reviewed that Holding Company’s assessment regarding the qualification documents and find it appropriate for their Statutory entity.”