2024 Regulatory Guidance Document
Draft for discussion by Actuarial Opinion (C) Working Group on 9/24/2024

REGULATORY GUIDANCE on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year ~~2023~~2024

Prepared by the NAIC Actuarial Opinion (C) Working Group
of the Casualty Actuarial and Statistical (C) Task Force

The NAIC Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force believes that the Statement of Actuarial Opinion (SAO), Actuarial Opinion Summary (AOS), and Actuarial Report are valuable tools in serving the regulatory mission of protecting consumers. This regulatory guidance document supplements the NAIC *Annual Statement Instructions—Property/Casualty* (Instructions) to provide clarity and timely guidance to companies and Appointed Actuaries with regulatory expectations on the SAO, AOS, and Actuarial Report.

An Appointed Actuary has a responsibility to know and understand both the Instructions and the expectations of state insurance regulators. One expectation of regulators clearly presented in the Instructions is that the SAO, AOS, and supporting Actuarial Report and work papers be consistent with relevant Actuarial Standards of Practice (ASOPs). Although it is the responsibility of the Appointed Actuary to identify the applicable ASOPs, the Appointed Actuary may find it useful to review the Applicability Guidelines for Actuarial Standards of Practice published by the Actuarial Standards Board (ASB).

~~Changes to the 2021 and 2022 Instructions were minor. The Working Group did not propose any significant changes to the 2023 Instructions.~~The 2024 Instructions have been modified to require the Appointed Actuary to provide qualification documentation to the Board of Directors only at initial appointment and not annually thereafter.

Commented [MF1]: Previously discussed.

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I. General Comments

A. Reconciliation Between Documents

If there are any differences between the values reported in the Statement of Actuarial Opinion (SAO), Actuarial Opinion Summary (AOS), Actuarial Report, and annual statement, the Actuarial Opinion (C) Working Group expects Appointed Actuaries to include an explanation for these differences in the appropriate document; i.e., the SAO, AOS, or Actuarial Report. The use of a robust peer review process by the Appointed Actuary should reduce reporting errors and non-reconciling items.

One situation in which a legitimate difference might arise is in the case of non-tabular discounting; i.e., the direct and assumed loss reserves on line three of the SAO's Exhibit A come from Schedule P, Part 1, which is gross of non-tabular discounting, while the Actuarial Report and AOS might present the direct and assumed loss reserves on a net of discounting basis.

B. Role of Illustrative Language in the Instructions

While the *Annual Statement Instructions—Property/Casualty* (Instructions) provide some illustrative language, the Working Group encourages Appointed Actuaries to use whatever language they believe is appropriate to clearly convey their opinion and the basis for that opinion. In forming their opinion, Appointed Actuaries should consider company-specific characteristics (e.g., intercompany pooling arrangements; recent mergers or acquisitions; and significant changes in operations, product mix, or reinsurance arrangements).

C. Qualification Documentation

Starting with the 2019 Instructions, the Appointed Actuary ~~is~~ was required to provide qualification documentation to the Board of Directors upon initial appointment and annually thereafter. ~~The Working Group is considering an amendment to this requirement starting with year-end 2024 opinions, which would~~The 2024 Instructions have been amended to ~~only~~ require the Appointed Actuary to provide qualification documentation to the Board of Directors only upon initial appointment and to eliminate the requirement to provide the documentation annually thereafter.

Commented [MF2]: Previously discussed. Arthur Schwartz proposes removing this sentence.

The documentation provided to the Board of Directors must be available to the state insurance regulator upon request and during a financial examination. Guidance on qualification documentation is in Section IV of this document.

D. Replacement of an Appointed Actuary

The Instructions require two letters when the Board of Directors replaces an Appointed Actuary: 1) one addressed from the insurer to the domiciliary commissioner; and 2) one addressed from the former Appointed Actuary to the insurer. The insurer must provide both letters to the domiciliary commissioner.

The detailed steps are as follows:

1. Within five business days, the insurer shall notify its domiciliary commissioner that the former Appointed Actuary has been replaced.
2. Within 10 business days of the notification in step 1, the insurer shall provide the domiciliary commissioner with a letter stating whether there were disagreements with the former Appointed Actuary in the 24 months preceding the replacement. The Instructions describe the types of disagreements required to be reported in the letter.
3. Within the same 10 business days referred to in step 2, the insurer shall request in writing that the former Appointed Actuary provide a letter addressed to the insurer stating whether the former Appointed Actuary agrees with the statements contained in the insurer's letter referenced in step 2.
4. Within 10 business days of the request from the insurer described in step 3, the former Appointed Actuary shall provide a written response to the insurer.
5. The insurer shall provide the letter described in step 2 and the response from the former Appointed Actuary described in step 4 to the domiciliary commissioner.

Regarding the disagreements referenced in step 2, state insurance regulators understand that there may be disagreements between the Appointed Actuary and the insurer during the course of the Appointed Actuary's analysis that are resolved by

the time the Appointed Actuary concludes the analysis. For instance, the Appointed Actuary's analysis may go through several iterations, and an insurer's comments on the Appointed Actuary's draft Actuarial Report may prompt the Appointed Actuary to make changes to the report. While state insurance regulators are interested in material disagreements regarding differences between the former Appointed Actuary's final estimates and the insurer's carried reserves, they do not expect notification on routine discussions that occur during the course of the Appointed Actuary's work.

E. Reporting to the Board of Directors

The Appointed Actuary is required to report to the insurer's Board of Directors every year, and the Instructions were amended in 2016 to require that the ~~Board's~~ minutes of the Board of Directors specify the manner in which the Appointed Actuary presents the required information. This may be done in a form of the Appointed Actuary's choosing, including, but not limited to, an executive summary or PowerPoint presentation. The Working Group strongly encourages the Appointed Actuary to present his or her analysis in person so the risks and uncertainties that underlie the exposures and the significance of the Appointed Actuary's findings can be adequately conveyed and discussed. Regardless of how the Appointed Actuary presents his or her conclusions, the Actuarial Report must be made available to the Board.

Management is limited to reporting single values on lines 1 and 3 of the Liabilities, Surplus, and Other Funds page of the balance sheet. However, actuarial estimates are uncertain by nature, and point estimates do not convey the variability in the projections. Therefore, the Board of Directors should be made aware of the Appointed Actuary's opinion regarding the risk of material adverse deviation, the sources of risk, and what amount of adverse deviation the Appointed Actuary judges to be material.

F. Requirements for Pooled Companies

Effective with the 2014 Instructions, requirements for companies that participate in intercompany pools are as follows:

For all intercompany pooling members:

- Text of the SAO should include the following:
  - Description of the pool.
  - Identification of the lead company.
  - A listing of all companies in the pool, their state of domicile, and their respective pooling percentages.
- Exhibits A and B should represent the company's share of the pool and reconcile to the financial statement for that company.

For intercompany pooling members with a 0% share of the pooled reserves:

- Text of the SAO should be similar to that of the lead company.
- Exhibits A and B should reflect the 0% company's value.
  - Response to Exhibit B, Item 5 (materiality standard) should be $0.
  - Response to Exhibit B, Item 6 (risk of material adverse deviation) should be "not applicable."
- Exhibits A and B of the lead company should be filed with the 0% company's SAO.
- Information presented in the AOS should be that of the lead company.

Note the distinction between pooling with a 100% lead company with no retrocession and ceding 100% via a quota share reinsurance agreement. The state insurance regulator must approve these affiliate agreements as either an intercompany pooling arrangement or a quota share reinsurance agreement. The proper financial reporting is dependent on the approved filings, regardless of how company management regards its operating platform.

For intercompany pooling members with a greater than 0% share of the pooled reserves, state insurance regulators encourage the Appointed Actuary to display values in the AOS on a pooled (or consolidated) basis in addition to the statutory entity basis. This can be accomplished by displaying two tables of information.

G. Explanation of Adverse Development

1. Comments on Unusual Insurance Regulatory Information System Ratios in the Statement of Actuarial Opinion

The Appointed Actuary is required to provide comments in the SAO on factors that led to unusual values for Insurance Regulatory Information System (IRIS) ratios 11, 12, or 13. The Working Group considers it insufficient to attribute unusual reserve development to "reserve strengthening" or "adverse development," and it expects the Appointed Actuary to provide insight into the company-specific factors that caused the unusual value. Detailed documentation should be included in the Actuarial Report to support statements provided in the SAO.

2. Comments on Persistent Adverse Development in the Actuarial Opinion Summary

   The Appointed Actuary is required to comment on persistent adverse development in the AOS. Comments can reflect common questions state insurance regulators have, such as:

   - Is development concentrated in one or two exposure segments, or is it broad across all segments?
   - How does development in the carried reserve compare to the change in the Appointed Actuary's estimate?
   - Is development related to specific and identifiable situations that are unique to the company?
   - Does the development or the reasons for development differ depending on the individual calendar or accident years?

H. Revisions

The Instructions contain a detailed definition of what it means for the SAO or AOS to be "in error," along with a description of steps the company and Appointed Actuary should take in that situation.

Even if the SAO or AOS does not meet the Instructions' specific definition of "in error," submitting a revised SAO or AOS might be appropriate or recommended in other situations. It would be prudent for the company to contact the state insurance regulator if mistakes or problems are discovered but do not meet the specific definition of "in error."

A revised SAO or AOS should clearly state that it is an amended document, and it should contain or accompany an explanation for the revision and include the date of revision.

II. Comments on the Statement of Actuarial Opinion and Actuarial Report

A. Review Date

The illustrative language for the Scope paragraph includes "… and reviewed information provided to me through XXX date." This is intended to capture the Actuarial Standard of Practice (ASOP) No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss, ~~and~~ Loss Adjustment Expense ~~Reserves~~, or Other Reserves*, requirement to disclose the date through which material information known to the Appointed Actuary is included in forming the reserve opinion—i.e., the review date~~—if it differs from the date the Actuarial Opinion is signed~~. ~~When the Appointed Actuary is silent regarding the review date, this can indicate either that the review date is the same as the date the SAO is signed or that the Appointed Actuary overlooked this disclosure requirement. When the Appointed Actuary's review date is the same as the date the SAO is signed, state insurance regulators suggest that the Appointed Actuary clarify this in the SAO by including a phrase such as "… and reviewed information provided to me through the date of this opinion."~~

B. Reconciliation

The Instructions state that the Scope paragraph of the SAO should include statements regarding the data used by the Appointed Actuary in forming the opinion. The illustrative language includes "I also reconciled that data to Schedule P, Part 1 of the Company's current Annual Statement."

Regulators understand that others may perform the reconciliation of data to Schedule P. In these cases, the Working Group encourages the Appointed Actuary to identify who performed the reconciliation and confirm that the Appointed Actuary reviewed the reconciliation for reasonableness.

Guidance on the substance of the Schedule P reconciliation is included in Section II.J.1 of this document.

Commented [MF3]: Previously discussed. Portions removed because not disclosing the review date would not comply with the revised ASOP 36.

Commented [MF4]: Discussed at 8/29/2024 AOWG meeting.
New section based on suggestion from Chantel Long and modified by Miriam Fisk.

Commented [MF5]: Discussed at 8/29/2024 AOWG meeting.
Comment from Chantel Long:
Besides the standard language, "I also reconciled that data to Schedule P," we have also seen "I reviewed the reconciliation of the data to Schedule P" and "the data was reconciled to Schedule P." It is in these latter instances when it is someone other than the Appointed Actuary that we believe it would be beneficial if the Appointed Actuary expanded upon this statement to include who performed the reconciliation and confirm that it was done on a post analysis basis.

~~B.~~C. Making Use of Another's Work

If the Appointed Actuary makes use of the work of another not within the Appointed Actuary's control for a material portion of the reserves, the *Annual Statement Instructions—Property/Casualty* (Instructions) note that the Appointed Actuary must provide the following information in the SAO:

- The person's name.
- The person's affiliation.
- The person's credential(s) if the person is an actuary.
- A description of the type of analysis performed if the person is not an actuary.

~~Furthermore, Section 4.2.f of ASOP No. 36 says the actuary should~~ The Working Group encourage the Appointed Actuary to disclose whether he or she reviewed the other's underlying analysis and, if so, the extent of the review (i.e., the methods and assumptions used and the underlying arithmetic calculations) and~~. Though this is not mentioned in the ASOP, the Working Group encourages the Appointed Actuary to consider discussing~~ his or her conclusions from the review.

Section ~~3.7.2~~3.4.4 of ASOP No. 36 describes items the actuary should consider when determining whether it is reasonable to ~~make~~ use ~~of the work of~~ another party's analysis or opinion. One of these items is the amount of the reserves covered by the other's ~~analyses~~ analysis or opinion~~s~~ in comparison to the total reserves subject to the actuary's opinion. The Working Group encourages the Appointed Actuary to disclose these items in the SAO by providing the dollar amount of the reserves covered by the other's ~~analyses~~ analysis or opinion~~s~~ and the percentage of the total reserves subject to the Appointed Actuary's opinion that these other reserves represent.

~~C.~~D. Points A and B of the Opinion Paragraph When Opinion Type is Other Than "Reasonable"

State insurance regulators encourage Appointed Actuaries to think about their responses to point A—meet the requirements of the insurance laws of the state—and point B—computed in accordance with accepted actuarial standards—of the Opinion paragraph when they issue an SAO of a type other than "Reasonable."

~~D.~~E. Conclusions on a Net Versus a Direct and Assumed Basis

Unless the Appointed Actuary states otherwise, state insurance regulators will assume that the Appointed Actuary's conclusion on the type of opinion rendered, provided in points C and D of the Opinion paragraph, applies to both the net and the direct and assumed reserves. If the Appointed Actuary reaches different conclusions on the net versus the direct and assumed reserves, the Appointed Actuary should include narrative comments to describe the differences and clearly convey a complete opinion. The response to Exhibit B, Item 4 should reflect the Appointed Actuary's opinion on the net reserves.

Similarly, the materiality standard in Exhibit B, Item 5 and the Risk of Material Adverse Deviation (RMAD) conclusion in Exhibit B, Item 6 should pertain to the net reserves. If the Appointed Actuary reaches a different conclusion on the risk of material adverse deviation in the net versus the direct and assumed reserves, the Appointed Actuary should include a Relevant Comments paragraph to address the differences. State insurance regulators understand that a net versus a direct and assumed RMAD will have different meanings and, potentially, different materiality standards.

~~E.~~F. Unearned Premium for Property/Casualty Long-Duration Contracts

Exhibit A, Items 7 and 8 require disclosure of the unearned premium reserve for property/casualty (P/C) long-duration contracts. The Instructions require the Appointed Actuary to include a point D in the Opinion paragraph regarding the reasonableness of the unearned premium reserve when these reserves are material.

The Working Group expects that the Appointed Actuary will include documentation in the Actuarial Report to support a conclusion on reasonableness whenever point D is included in the SAO. This documentation may include the three tests of *Statement of Statutory Accounting Principles (SSAP) No. 65—Property and Casualty Contracts* or other methods deemed appropriate by the Appointed Actuary to support his or her conclusion.

~~State insurance regulators see many SAOs where dollar amounts are included in Exhibit A, Items 7 and 8; some SAOs include a Relevant Comments paragraph discussing these amounts, and some do not. State insurance regulators prefer at~~

Commented [MF6]: Previously discussed. New ASOP 36 says "uses ... not under the actuary's direction" instead of "makes use of … not within the actuary's control." The phrase "makes use of" is still used in the SAO Instructions, so I've left it here as well.

Commented [MF7]: Previously discussed. These items are not required to be disclosed by the new ASOP 36, so it's modified here to be *encouraged* although not required.

Commented [MF8]: Previously discussed. Modified to match new ASOP 36 language.

~~a minimum that Appointed Actuaries include some discussion in Relevant Comments on these amounts, including an explicit statement as to whether these amounts are material or immaterial.~~

If the P&C Long Duration Unearned Premium Reserves on lines 7 or 8 of Exhibit A are non-zero but the Appointed Actuary deems the amounts immaterial and is not issuing an opinion on these amounts, the Appointed Actuary should consider making this clear by including comments in the SCOPE, OPINION, and/or RELEVANT COMMENTS sections of the opinion. For example, if the Appointed Actuary is only opining on loss and loss adjustment expense reserves, the Appointed Actuary might use the following language in the SCOPE paragraph: "I have examined the actuarial assumptions and methods used in determining loss and loss adjustment expense reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 20 , and reviewed information provided to me through XXX date." The Appointed Actuary might also use the following language in the OPINION paragraph: "In my opinion, the loss and loss adjustment expense reserves carried in Exhibit A: […]" In a RELEVANT COMMENT paragraph, the Appointed Actuary might say something like the following: "The P&C Long Duration Unearned Premium Reserves are not material. I therefore relied on the Company for its representation of the reasonableness of the P&C Long Duration Unearned Premium Reserves."

Commented [MF9]: Discussed at 8/29/2024 AOWG meeting.
In a letter to the AOWG, dated July 26, COPLFR has requested guidance on whether the Appointed Actuary is expected to opine on the long-duration UEPR when it is not material.

Commented [MF10]: Suggested by Julie Lederer to address concern raised by COPLFR, following discussion at 8/29/2024 AOWG meeting.

~~F.~~G. Other Premium Reserve Items

Regarding "Other Premium Reserve Items" in Exhibit A, Item 9, the Appointed Actuary should include an explanatory paragraph about these premium reserves in Relevant Comments and state whether the amounts are material or immaterial. If the amounts are material and the Appointed Actuary states that the amounts are reasonable in an Opinion paragraph, state insurance regulators would expect the actuarial documentation to support this conclusion in the Actuarial Report.

Typical items state insurance regulators see listed as other premium reserve items are medical professional liability death, disability, and retirement (DD&R) unearned premium reserves (UPRs) and other liability claims DD&R UPRs. Depending on the nature of these exposures, these items may be also listed on Exhibit B, Line 12.2 as claims made extended UPRs.

~~G.~~H. The Importance of Relevant Comments Paragraphs

The Working Group considers the Relevant Comments paragraphs to be the most valuable information in the SAO. Relevant Comments help the state insurance regulator interpret the SAO and understand the Appointed Actuary's reasoning and judgment. In addition to the required Relevant Comments, the Appointed Actuary should consider providing information on other material items, such as reinsurance with affiliates, mergers or acquisitions, other premium reserves, and catastrophe risk.

~~H.~~I. Risk of Material Adverse Deviation

The Relevant Comments paragraphs on the RMAD are particularly useful to state insurance regulators. The first two RMAD comments below respond to questions that Appointed Actuaries have posed to state insurance regulators. The second two stem from state insurance regulators' reviews of SAOs.

1. No Company-Specific Risk Factors—The Appointed Actuary is asked to discuss company-specific risk factors regardless of the RMAD conclusion. If the Appointed Actuary does not believe there are any company-specific risk factors, the Appointed Actuary should state that.

2. Mitigating Factors—State insurance regulators generally expect Appointed Actuaries to comment on significant company-specific risk factors that exist prior to the company's application of controls or use of mitigation techniques. The company's risk management behaviors may, however, affect the Appointed Actuary's RMAD conclusion.

3. Consideration of Carried Reserves, Materiality Standard, and Reserve Range When Making Risk of Material Adverse Deviation Conclusion—When deciding whether RMAD exists, the Appointed Actuary should consider the materiality standard in relation to the range of reasonable estimates and the carried reserves. For example, RMAD should likely exist when the sum of the materiality standard plus the carried reserves is within the range of reasonable estimates. Regardless, the Appointed Actuary should support the conclusion of whether RMAD exists.

4. Materiality Standards for Intercompany Pool Members—With the exception of intercompany pooling members

that retain a 0% share, each statutory entity is required to have a separate SAO with its own materiality standard. Where there are no unusual circumstances to consider, it may be acceptable to determine a standard for the entire pool and assign each member its proportionate share of the total. It is not appropriate to use the entire amount of the materiality threshold for the pool as the standard for each individual pool member.

~~I.~~J. State Insurance Regulators' Use of the Actuarial Report

State insurance regulators should be able to rely on the Actuarial Report as an alternative to developing their own independent estimates. A well-prepared and well-documented Actuarial Report that complies with ASOP No. 41, *Actuarial Communications*, can provide a foundation for efficient reserve evaluation during a statutory financial examination. This expedites the examination process and may provide cost savings for the company.

1. Schedule P Reconciliation

The Working Group acknowledges that myriad circumstances (e.g., 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:

- 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. 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 map the data groupings used in the analysis to Schedule P lines of business and 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 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. If the Appointed Actuary chooses not to reconcile certain data elements used in the analysis, such as claim counts, a brief explanation should be included in the Actuarial Report to make it clear that these elements were not inadvertently overlooked.
- Schedule P reconciliations are expected to be performed on both a direct and assumed basis and a net of reinsurance basis. If circumstances specific to the company lead the Appointed Actuary to perform the reconciliation on only one basis, the rationale for this decision should be explained in the Actuarial Report. Similarly, while the reconciliation of the loss-related elements, such as defense and cost containment and adjusting and other expenses, is generally expected to be on the same level as used in the analysis underlying the SAO, the Appointed Actuary has the discretion to deviate as long as the rationale is explained in the Actuarial Report.
- The Instructions require that the Appointed Actuary include an explanation for any material differences in the Schedule P Reconciliation. When differences appear in the reconciliation but are viewed as immaterial by the Appointed Actuary, the Appointed Actuary should acknowledge the immateriality of the differences in the Actuarial Report in order to assure state insurance regulators that the Appointed Actuary is aware of the differences and has considered the potential impact of the differences on the analysis underlying the SAO.

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

- The Schedule P reconciliation performed by the Appointed Actuary 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.

Commented [MF11]: Discussed at 8/29/2024 AOWG meeting.
This portion of existing wording relates a bit to the comment/suggestion from IL and potential new section II.B. on pg 6.

- Annual testing performed by independent certified public accountants (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 (e.g., 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, state insurance 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.

2. Change in Estimates

The Working Group expects the Appointed Actuary to discuss any significant change in the Appointed Actuary's total estimates from the prior Actuarial Report. However, an explanation should also be included for any significant fluctuations within accident years or segments. When preparing the change-in-estimates exhibits, the Appointed Actuary should choose a level of granularity that provides meaningful comparisons between the prior and current year's results.

3. Narrative

The narrative section of the Actuarial Report should clearly convey the significance of the Appointed Actuary's findings and conclusions, the uncertainty in the estimates, and any differences between the Appointed Actuary's estimates and the carried reserves.

4. Support for Assumptions

Appointed Actuaries should support their assumptions. The use of phrases like "actuarial judgment," either in the narrative comments or in exhibit footnotes, is not sufficient. A descriptive rationale is needed.

The selection of expected loss ratios could often benefit from expanded documentation. When making their selection, Appointed Actuaries should consider incorporating rate changes, frequency and severity trends, and other adjustments needed to on-level the historical information. Historical loss ratio indications have little value if items, such as rate actions, tort reform, schedule rating adjustments, or program revisions, have materially affected premium adequacy.

5. Support for Roll-Forward Analyses

The Working Group recognizes that most of the analysis supporting an SAO may be done with data received prior to year-end and "rolled forward" to year-end. By reviewing the Actuarial Report, the state insurance regulator should be able to clearly identify why the Appointed Actuary made changes in the ultimate loss selections and how those changes were incorporated into the final estimates. A summary of final selections without supporting documentation is not sufficient.

~~J.~~K. Exhibits A and B

1. Data Capture Format

The term "data capture format" in Exhibits A and B of the Instructions refers to an electronic submission of data in a format usable for computer queries. This process allows for the population of an NAIC database that contains qualitative information, and financial data Appointed Actuaries should assist the company in accurately completing the electronic submission.

2. Scope of Exhibit B, Item 12

Exhibit B, Item 12 requests information on extended loss and unearned premium reserves for all P/C lines of business, not just medical professional liability. The Schedule P Interrogatories referenced in the parenthetical only address reserves associated with yet-to-be-issued extended reporting endorsements offered in the case of DD&R of an individual insured under a medical professional liability claims-made policy.

3. Exhibit B, Item 13

The Working Group added disclosure item Exhibit B, Item 13 in 2018. This item requests information on reserves associated with accident and health (A&H) long-duration contracts, defined in the Instructions as "A&H contracts in which the contract term is greater than or equal to 13 months, and contract reserves are required."

This disclosure item was added for several reasons:

- **A desire by state insurance regulators to gain a greater understanding of P/C insurers' exposure to A&H long-duration contracts.**
  - This guidance does not specify how P/C insurers should report the liabilities associated with A&H long-duration contracts on the annual statement. Through work performed on financial examinations, state insurance regulators have found that P/C insurers may include the liabilities in various line items of the Liabilities, Surplus and Other Funds page. *SSAP No. 54R—Individual and Group Accident and Health Contracts* provides accounting guidance for insurers.
  - Regardless of where the amounts are reported on the annual statement, the materiality of the amounts, and whether the insurer is subject to *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51), the Appointed Actuary should disclose the amounts associated with A&H long-duration contracts on Exhibit B, Item 13. The Appointed Actuary should provide commentary in a relevant comments paragraph in accordance with paragraph 6.C of the Instructions. The Appointed Actuary should also disclose all reserve amounts associated with A&H long-duration contracts in the Actuarial Report.

- **The adoption of AG 51 in 2017.** On Aug. 9, 2017, the NAIC's Executive (EX) Committee and Plenary adopted AG 51 requiring stand-alone asset adequacy analysis of long-term care (LTC) business. The text of AG 51 is included in the March 2019 edition of the NAIC's *Accounting Practices and Procedures Manual* (AP&P Manual). The effective date of AG 51 was Dec. 31, 2017, and it applies to companies with over 10,000 in-force lives covered by long-term care insurance (LTCI) contracts as of the valuation date. The Instructions state that the Actuarial Report and workpapers summarizing the asset adequacy testing (AAT) of LTC business must comply with AG 51 requirements.

- **Recent adverse reserve development in LTC business.** State insurance regulators expect Appointed Actuaries to disclose company-specific risk factors in the SAO. Given the recent adverse experience for LTC business, Appointed Actuaries should consider whether exposure to A&H long-duration contracts poses a risk factor for the company.

The Appointed Actuary is not asked to opine on the reasonableness of the reserves associated with A&H long-duration contracts except to the extent that the reserves are included within the amounts reported on Exhibit A of the SAO. For this reason, the Working Group intentionally excluded Items 13.3 and 13.4 from this sentence in paragraph 4 of the Instructions: "The Appointed Actuary should state that the items in the SCOPE, on which he or she is expressing an opinion, reflect Disclosure items 8 through 13.2 in Exhibit B." Exhibit B, Item 13.1 asks the Appointed Actuary to disclose the reserves for A&H long-duration contracts that the company carries on the Losses line of the Liabilities, Surplus and Other Funds page. The Appointed Actuary is not asked to opine on the reasonableness of the reserves disclosed on Exhibit B, Item 13.1 in isolation, but these reserves are a subset of the amount included on Exhibit A, Item 1, and Exhibit A lists amounts with respect to which the Appointed Actuary is expressing an opinion. The same is true for Exhibit B, Item 13.2, whose reserves are a subset of the amount included on Exhibit A, Item 2.

A&H long-duration contracts are distinct from P/C long-duration contracts. There were no changes to the opinion requirements in 2018 regarding P/C long-duration contracts, but the Working Group added a reference to SSAP No. 65 in the definition of P/C long-duration contracts to clarify the difference between A&H long-duration contracts and P/C long-duration contracts. The newly-added mention of SSAP No. 65 in the Instructions is not intended to change the Appointed Actuary's treatment of P/C long-duration contracts in the SAO or the underlying analysis, but insurers and Appointed Actuaries may refer to SSAP No. 65, paragraphs 21 through 33 for a description of the three tests, a

description of the types of P/C contracts to which the tests apply, guidance on the minimum required reserves, and instructions on the SAO and Actuarial Report.

III. Comments on the Actuarial Opinion Summary

A. Confidentiality

The AOS is a confidential document, and it should be clearly labeled and identified prominently as such. The AOS is not submitted to the NAIC. The Working Group advises the Appointed Actuary to provide the AOS to company personnel separately from the Actuarial Opinion and avoid attaching the related SAO to the AOS.

B. Different Requirements by State

Not all states have enacted the NAIC *Property and Casualty Actuarial Opinion Model Law* (#745), which requires the AOS to be filed. Nevertheless, the Working Group recommends that the Appointed Actuary prepare the AOS regardless of the domiciliary state's requirements, so the AOS will be ready for submission should a foreign state, having the appropriate confidentiality safeguards, request it.

Most states provide the annual statement contact person with a checklist that addresses filing requirements. The Working Group advises the Appointed Actuary to work with the company to determine the requirements for its domiciliary state.

C. Format

The purpose of the AOS is to show a comparison between the company's carried reserves and the Appointed Actuary's estimates. Because the AOS is a synopsis of the conclusions drawn in the Actuarial Report, the content of the AOS should reflect the analysis performed by the Appointed Actuary. Therefore, all the Appointed Actuary's calculated estimates, including actuarial central estimates and ranges, are to be presented in the AOS consistent with estimates presented in the Actuarial Report.

The American Academy of Actuaries' (Academy's) Committee on Property and Liability Financial Reporting (COPFLR) annual practice note, "Statements of Actuarial Opinion on Property and Casualty Loss Reserves," provides illustrative examples that show how the Appointed Actuary might choose to display the required information. These examples present the numerical data in an easy-to-read table format.

IV. Guidance on Qualification Documentation

The Instructions were modified for 2019 to require the Appointed Actuary to document qualifications in what is called "qualification documentation." Beginning with year-end 2024 Opinions, ~~The~~the Appointed Actuary's qualification documentation ~~needs~~ is required to be provided to the Board of Directors at initial appointment, whereas in previous years it was also required to be provided ~~and~~ annually thereafter. ~~The Working Group is considering amending this requirement, starting with year-end 2023 Opinions, to provide the qualification documentation to the Board of Directors at initial appointment and only once every five years thereafter, unless there are material changes in the company's operations or exposure. An example of such material changes could include the company acquiring a book of business with a significantly different loss exposure.~~

Commented [MF12]: Previously discussed.

The following provides guidance Appointed Actuaries may find useful in drafting qualification documentation. Appointed Actuaries should use professional judgment when preparing the documentation, and they need not use the sample wording or format provided below. As a general principle, Appointed Actuaries should provide enough detail within the documentation to demonstrate that they satisfy each component of the Qualified Actuary definition. In crafting the qualification documentation, it may be helpful to think about what is important for the Board of Directors to know about their Appointed Actuary's qualifications and remember that documentation should be relevant to the subject of the Actuarial Opinion being issued.

A. Brief Biographical Information

- The Appointed Actuary may provide resume-type information.

- Information may include the following:
  - Professional actuarial designation(s) and year(s) first attained.
  - Insurance or actuarial coursework or degrees.
  - Actuarial employment history: company names, position title, years of employment, and relevant information regarding the type of work (e.g., reserving, ratemaking, enterprise risk management [ERM]).

B. "Qualified Actuary" Definition

The Appointed Actuary should provide a description of how the definition of Qualified Actuary in the Instructions is met or expected to be met—in the case of continuing education (CE)—for that year. The Appointed Actuary should provide information similar to the following. Items 1 through 3 below correspond with items (i) through (iii) in the Qualified Actuary definition.

1. I meet the basic education, experience, and CE requirements of the Specific Qualification Standards for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statement, as set forth in the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (U.S. Qualification Standards), promulgated by the American Academy of Actuaries (Academy). The following describes how I meet these requirements:

   a. Basic education:

      - [Option 1] met through relevant examinations administered by the Casualty Actuarial Society (CAS).
      - [Option 2] met through alternative basic education. The Appointed Actuary should further review documentation necessary per Section 3.1.2 of the U.S. Qualification Standards.

   b. Experience requirements: met through relevant experience as described below.

      - To describe the Appointed Actuary's responsible experience relevant to the subject of the SAO, information may include specific actuarial experiences relevant to the company's structure (e.g., insurer, reinsurer, risk retention group [RRG]), lines of business, or special circumstances.
      - Experiences may include education (through organized activities or readings) about specific types of company structures, lines of business, or special circumstances.

   c. CE: met (or expected to be met) through a combination of industry conferences, seminars (both in-person and webinar), online courses, committee work, self-study, etc., on topics including _____ (provide a brief overview of the CE topics. For example, "trends in workers' compensation" or "standards of actuarial practice on reserving"). A detailed log of my CE credit hours is available upon request.

      - Section 3.3 of the Specific Qualification Standards for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statement requires the Appointed Actuary to earn 15 hours of CE on topics mentioned in Section 3.1.1.2.

2. I have obtained and maintain an Accepted Actuarial Designation. One of the following statements may be made, depending on the Appointed Actuary's exam track:

   - I am a Fellow of the CAS (FCAS), and my basic education includes credit for Exam 6—Regulation and Financial Reporting (U.S.).
   - I am an Associate of the CAS (ACAS), and my basic education includes credit for Exam 6—Regulation and Financial Reporting (U.S.) and Exam 7—Estimation of Policy Liabilities, Insurance Company Valuation, and Enterprise Risk Management.

- I am a Fellow of the SOA (FSA), and my basic education includes completion of the general insurance track, including the following optional exams: the U.S. version of the Financial and Regulatory Environment Exam and the Advanced Topics in General Insurance Exam.

Alternatively, if the actuary was evaluated by the Academy's Casualty Practice Council and determined to be a Qualified Actuary, the Appointed Actuary may note such and identify any restrictions or limitations, including those for lines of business and business activities.

3. I am a member of [professional actuarial association] that requires adherence to the same Code of Professional Conduct promulgated by the Academy, requires adherence to the U.S. Qualification Standards, and participates in the Actuarial Board for Counseling and Discipline (ABCD) when its members are practicing in the U.S.