Casualty Actuarial and Statistical (C) Task Force Nov. 8, 2022, Minutes
  Casualty Actuarial and Statistical (C) Task Force Oct. 18, 2022, Minutes (Attachment One)
    2023 Charges (Attachment One-A)
  Actuarial Opinion (C) Working Group Sept. 26, 2022, Minutes (Attachment Two)
    2022 Regulatory Guidance (Attachment Two-A)
  Actuarial Opinion (C) Working Group Sept. 15 and Sept. 8, 2022, Minutes (Attachment Three)
    Comment Letter to the Actuarial Standards Board (ASB) (Attachment Three-A)
  Statistical Data (C) Working Group Oct. 26, 2022, Minutes (Attachment Four)
    Statistical Data (C) Working Group Sept. 28, 2022, Minutes (Attachment Four-A)
  Comment Letter on Loss Cost Multiplier (LCM) Form and Instructions (Attachment Five)
  LCM Form and Instructions (Attachment Six)
The Casualty Actuarial and Statistical (C) Task Force met Nov. 8, 2022. The following Task Force members participated: Mike Kreidler, Chair, represented by Eric Slavich (WA); Grace Arnold, Vice Chair, represented by Phil Vigliaturo (MN); Ricardo Lara represented by Mitra Sanandajifar and Lynne Wehmueller (CA); Michael Conway represented by Mitchell Bronson (CO); David Altmaier represented by Greg Jaynes (FL); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Amy L. Beard represented by Larry Steinert (IN); Vicki Schmidt represented by Nicole Boyd (KS); James J. Donelon represented by Nichole Torblaa (LA); Timothy N. Schott represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Julie Lederer (MO); Troy Downing represented by Mari Kindberg (MT); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Kate Yang (OK); Andrew R. Stolfi represented by David Dahl and Ying Liu (OR); Michael Humphreys represented by Michael McKenney (PA); Michael Wise represented by Karl Bitzky (SC); Cassie Brown represented by Miriam Fisk (TX); and Kevin Gaffney represented by Mary Richter (VT).

1. **Adopted its Oct. 18 and Summer National Meeting Minutes**

Slavich said the Task Force met Oct. 18 and Aug. 10. During its Oct. 18 e-vote, the Task Force adopted its 2023 proposed charges.

The Task Force also met Oct. 18 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss rate filing issues.


Vigliaturo made a motion, seconded by Botsko, to adopt the Task Force’s Oct. 18 (Attachment One) and Aug. 10 (see NAIC Proceedings – Summer 2022, Casualty Actuarial and Statistical (C) Task Force) minutes. The motion passed unanimously.

2. **Adopted the Report of the Actuarial Opinion (C) Working Group**


Krylova said changes to the Regulatory Guidance were relatively minor. She said they replaced specific ASOPs with a recommendation to use the ASB’s ASOP Applicability Guidelines; replaced the 2018 and 2019 description of changes to the instructions with a brief summary of the latest changes to the instructions; removed two sections that discussed the qualified actuary definition and the continuing education (CE) logging procedure that the Task Force eliminated; added some prospective information about plans to modify qualification documentation and deadlines; and streamlined the section on COVID-19.
Krylova said the Working Group will continue discussion on its referral from the Financial Analysis (E) Working Group regarding predictive analytics in a reserve setting.

Krylova made a motion, seconded by Vigliaturo, to adopt the report of the Actuarial Opinion (C) Working Group, including its Sept. 26 (Attachment Two), Sept. 15, and Sept. 8 minutes (Attachment Three). The motion passed unanimously.

3. **Adopted the Report of the Statistical Data (C) Working Group**

Darby said the Statistical Data (C) Working Group met Oct. 26 and Sept. 28. During these meetings, the Working Group discussed proposed changes to the *Report on Profitability by Line by State* (Profitability Report) and the *Competition Database Report* (Competition Report). She said the Working Group discussed which proposed changes would improve the usefulness of the reports. Discussion will continue regarding the proposed changes for these reports, as well as potential changes to the *Auto Insurance Database Report* (Auto Report) and the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner’s Insurance Report* (Homeowners Report). Darby said any adopted changes to the reports will not be implemented until 2023.

The Working Group will meet Nov. 17 in regulator-to-regulator session to review and consider adoption of the 2020 Homeowners Report and the 2021 Profitability Report. The 2019/2020 Auto Report and the 2021 Competition Report will be considered for adoption, likely with an e-vote, at the end of November. After adoption, these reports will be sent to the Task Force for review and adoption before being released publicly.

Darby said the Working Group adopted accelerated timelines for the submission of the Homeowners Report and Auto Report. Collection of 2021 premium and exposure data is underway, with a due date of Dec. 1 for both reports.

Darby made a motion, seconded by Botsko, to adopt the report of the Statistical Data (C) Working Group, including its Oct. 26 (Attachment Four) and Sept. 28 (Attachment Five) minutes. The motion passed unanimously.

4. **Adopted Updated LCM Form and Instructions**

Slavich said the idea to create an updated loss cost multiplier (LCM) form was brought forward at the Spring National Meeting, after which Steinert led a Subgroup to update and combine the NAIC’s numerous LCM forms. The initial proposal was exposed for a public comment period ending Feb. 7. The Subgroup produced a revised form and presented it July 12. Steinert noted there is also a memorandum that should accompany the form. The Task Force exposed the revised memorandum and the revised LCM form together for a 45-day public comment period. After that comment period, one comment letter was received (Attachment Six). The LCM form was updated in response to the comment.

Vigliaturo made a motion, seconded by McKenney, to adopt the updated LCM form and accompanying memorandum (Attachment Seven). The motion passed unanimously with two abstentions.

5. **Exposed the Potential Elimination of the Expense Constant Supplement**

The Task Force discussed the potential elimination of the NAIC Expense Constant Supplement for perceived lack of need. To investigate for any unknown need, the Task Force agreed to expose the proposal to eliminate the NAIC Expense Constant Supplement for a 45-day public comment period ending Dec. 22. Slavich said comments to keep the form or eliminate the form are welcome. Steinert said elimination of the NAIC form does not preclude a state from using a similar form on its own.

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6. **Heard Reports from Professional Actuarial Organizations**

The American Academy of Actuaries’ (Academy’s) Committee on Property and Liability Reporting (COPLFR) and Casualty Practice Council (CPC), the Actuarial Board for Counseling and Discipline (ABCD), and the Casualty Actuarial Society (CAS) provided reports on current activities. The Society of Actuaries (SOA) provided a written report.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

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Casualty Actuarial and Statistical (C) Task Force
E-Vote
October 18, 2022

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Oct. 18, 2022. The following Task Force members participated: Mike Kreidler, Chair, represented by Eric Slavich (WA); Grace Arnold, Vice Chair, represented by Phil Vigliaturo (MN); Ricardo Lara represented by Mitra Sanandajifar (CA); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhilf (DC); David Altmaier represented by Christina Huff (FL); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd (KS); Kathleen A. Brrane represented by Robert Baron (MD); Timothy N. Schott represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Julie Lederer (MO); Troy Downing represented by Mari Kindberg (MT); Mike Causey represented by Richard Kohan (NC); Russell Toal and Anna Krylova (NM); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Andrew R. Stolfi represented by David Dahl (OR); Michael Humphreys represented by Michael McKenney (PA); Michael Wise represented by Will Davis (SC); Cassie Brown represented by J’ne Byckovski (TX); Kevin Gaffney represented by Rosemary Raszka (VT); and Allan L. McVey and Juanita Wimmer (WV).

1. Adopted its 2023 Proposed Charges

The Task Force conducted an e-vote to consider adoption of its 2023 proposed charges (Attachment One-A) and propose the charges to its parent committee. The motion passed unanimously.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/CMTE/2022_Fall/CASTF/101822 evote min.docx
2023 Proposed Charges

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

The mission of the Casualty Actuarial and Statistical (C) Task Force is to identify, investigate, and develop solutions to actuarial problems and statistical issues in the property/casualty (P/C) insurance industry. The Task Force’s goals are to assist state insurance regulators with: 1) maintaining the financial health of P/C insurers; 2) ensuring that P/C insurance rates are not excessive, inadequate, or unfairly discriminatory; and 3) ensuring that appropriate data regarding P/C insurance markets are available.

Ongoing Support of NAIC Programs, Products, or Services

1. The Casualty Actuarial and Statistical (C) Task Force will:
   A. Provide reserving, pricing, ratemaking, statistical, and other actuarial support to NAIC committees, task forces, and/or working groups. Propose changes to the appropriate work products, with the most common work products noted below, and present comments on proposals submitted by others relating to casualty actuarial and statistical matters. Monitor the activities regarding casualty actuarial issues, including the development of financial services regulations and statistical reporting, including disaster.
      i. Property and Casualty Insurance (C) Committee – Ratemaking, reserving, or data issues.
      ii. Blanks (E) Working Group – P/C annual financial statement, including Schedule P; P/C quarterly financial statement; P/C quarterly and annual financial statement instructions, including the Statement of Actuarial Opinion (SAO) and Actuarial Opinion Summary Supplement.
   B. Monitor national casualty actuarial developments and consider regulatory implications.
      i. Casualty Actuarial Society (CAS) – Statements of Principles and Syllabus of Basic Education.
      iii. Society of Actuaries (SOA) – General insurance track’s basic education.
   C. Facilitate discussion among state insurance regulators regarding rate filing issues of common interest across the states through the scheduling of regulator-only conference calls.
   D. Conduct the following predictive analytics work:
      i. Facilitate training and the sharing of expertise through predictive analytics webinars (Book Club).
      ii. Review the completed work on artificial intelligence (AI) from other Committee groups. Coordinate with the Innovation, Cybersecurity, and Technology (H) Committee on the tracking of new uses of AI, auditing algorithms, product development, and other emerging regulatory issues, in as far as these issues contain a Task Force component.
ii. With the NAIC Rate Model Team’s assistance, discuss guidance for the regulatory review of models used in rate filings.

2. The **Actuarial Opinion (C) Working Group** will:
   a. Propose revisions to the following, as needed, especially to improve actuarial opinions, actuarial opinion summaries, and actuarial reports, as well as the regulatory analysis of these actuarial documents and loss and premium reserves:
      ii. *Financial Condition Examiners Handbook*.
      iii. *Annual Statement Instructions—Property/Casualty*.
      iv. Regulatory guidance to appointed actuaries and companies.
      v. Other financial blanks and instructions, as needed.

3. The **Statistical Data (C) Working Group** will:
   a. Consider updates and changes to the *Statistical Handbook of Data Available to Insurance Regulators*.
   b. Consider updates and developments, provide technical assistance, and oversee the production of the following reports and databases. Periodically evaluate the demand and utility versus the costs of production of each product.
      i. *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner’s Insurance* (Homeowners Report).
   c. Enhance the expedited reporting and publication of average auto and average homeowners premium portions of the annual Auto Report and Homeowners Report.

**NAIC Support Staff:** Kris DeFrain/Libby Crews

NAIC Support Staff Hub\Member Meetings\2022 Fall\C CMTE\CASTF\2023 CASTF Charges.docx
The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Sept. 26, 2022. The following Working Group members participated: Anna Krylova, Chair (NM); Miriam Fisk, Vice Chair (TX); Qing He (CT); Judy Mottar (IL); Julie Lederer (MO); Gordon Hay (NE); and Tom Botsko (OH).

1. **Adopted the 2022 Regulatory Guidance**


Having no further business, the Actuarial Opinion (C) Working Group adjourned.
The NAIC Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force believes that the Statement of Actuarial Opinion (Actuarial Opinion), 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) in an effort to provide clarity and timely guidance to companies and Appointed Actuaries regarding regulatory expectations on the Actuarial Opinion, 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 Actuarial Opinion, AOS, and supporting Actuarial Report and workpapers 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.

As a result of the Casualty Actuarial Society’s rescinding of the Statement of Reserving Principles in 2020, editorial changes were made to the Instructions in 2021 to remove the reference to “principles.” The Appointed Actuary should be aware of this as it would impact the wording in item b. in the Opinion paragraph.

2022 changes to the Instructions were minor and included:

- In paragraph 1, the guidance on continuing education logs was removed because CASTF’s continuing education log project will not be reoccurring.
- In paragraph 1, additional guidance was added for situations in which the parent board reviews qualification documentation on behalf of all subsidiaries.
- Per paragraph 3, Appointed Actuaries are now asked to confirm in the IDENTIFICATION paragraph that qualification documentation was provided to the Board of Directors.
- In paragraph 8, modified language notes that the signature block requirements apply to the Actuarial Opinion only. The Actuarial Report should reproduce the same information, though not necessarily in the exact same format.
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I. General comments

A. Reconciliation between documents

If there are any differences between the values reported in the Actuarial Opinion, AOS, Actuarial Report, and Annual Statement, the Working Group expects Appointed Actuaries to include an explanation for these differences in the appropriate document (Actuarial Opinion, 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: The direct and assumed loss reserves on line 3 of the Actuarial Opinion’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 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 such as intercompany pooling arrangements; recent mergers or acquisitions; and significant changes in operations, product mix, or reinsurance arrangements.

C. Qualification documentation

The 2019 Instructions required the Appointed Actuary to provide “qualification documentation” to the Board of Directors upon initial appointment and annually thereafter. Upon further discussion, the AOWG is considering amending this requirement starting with Year End 2023 Opinions, to only require the Appointed Actuary to provide “qualification documentation” to the Board of Directors upon initial appointment and once every five years thereafter, unless there are material changes in the company’s operations or exposure.

The documentation provided to the Board must be available to the 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 replaces an Appointed Actuary: one addressed from the insurer to the domiciliary commissioner, and one addressed from the former Appointed Actuary to the insurer. The insurer must provide both of these letters to the domiciliary commissioner.

The detailed steps are as follows:

1. Within 5 business days, the insurer shall notify its domiciliary insurance department 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 in the 24 months preceding the replacement, there were disagreements with the former Appointed Actuary. 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, in writing, request that its 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 above, 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 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 every year, and the Instructions were amended in 2016 to require the Board’s minutes to specify the manner in which the Appointed Actuary presented 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 that 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 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 Actuarial Opinion 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 should reconcile to the financial statement for that company

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

- Text of the Actuarial Opinion should be similar to that of the lead company
- Exhibits A and B should reflect the 0% company’s values
  - 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 Actuarial Opinion
- Information 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 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, 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 (IRIS) ratios in the Actuarial Opinion

The Appointed Actuary is required to provide comments in the Actuarial Opinion on factors that led to unusual values for IRIS ratios 11, 12, or 13. The Working Group considers it insufficient to attribute unusual reserve development to “reserve strengthening” or “adverse development” and expects the Appointed Actuary to provide insight into the company-specific factors which caused the unusual value. Detailed documentation should be included in the Actuarial Report to support statements provided in the Actuarial Opinion.
2. Comments on persistent adverse development in the AOS

The Appointed Actuary is required to comment on persistent adverse development in the AOS. Comments can reflect common questions that 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

When a material error in the Actuarial Opinion or AOS is discovered by the Appointed Actuary, the company, the regulator, or any other party, regulators expect to receive a revised Actuarial Opinion or AOS.

Regardless of the reason for the change or resubmission, the company should submit the revised Actuarial Opinion in hard copy to its domiciliary state and electronically to the NAIC. The company should submit the revised AOS in hard copy to the domiciliary state but should not submit the document to the NAIC.

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

II. Comments on 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 ASOP No. 36 requirement to disclose the date through which material information known to the Appointed Actuary is included in forming the reserve opinion (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 Actuarial Opinion 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 Actuarial Opinion is signed, regulators suggest the Appointed Actuary clarify this in the Actuarial Opinion by including a phrase such as “… and reviewed information provided to me through the date of this opinion.”

B. 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 Instructions say that the Appointed Actuary must provide the following information in the Actuarial Opinion:

- The person’s name;
- The person’s affiliation;
- The person’s credential(s), if the person is an actuary; and
- 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 that the actuary should disclose whether he or she reviewed the other’s underlying analysis and, if so, the extent of the review. 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 of ASOP No. 36 describes items the actuary should consider when determining whether it is reasonable to make use of the work of another. One of these items is the amount of the reserves covered by the other’s analyses or opinions 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 Actuarial Opinion by providing the dollar amount of the reserves covered by the other’s analyses or opinions and the percentage of the total reserves subject to the Appointed Actuary’s opinion that these other reserves represent.
C. Points A and B of the Opinion paragraph when opinion type is other than reasonable

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 Actuarial Opinion of a type other than “Reasonable.”

D. Conclusions on a net versus a direct and assumed basis

Unless the Appointed Actuary states otherwise, 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 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. Regulators understand that a net versus a direct and assumed RMAD will have different meanings and, potentially, different materiality standards.

E. Unearned premium for P&C Long Duration Contracts

Exhibit A, Items 7 and 8 require disclosure of the unearned premium reserve for 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 Actuarial Opinion. This documentation may include the three tests of SSAP No. 65 or other methods deemed appropriate by the Appointed Actuary to support his or her conclusion.

Regulators see many opinions where dollar amounts are included in Exhibit A, Items 7 and 8; some opinions include a Relevant Comments paragraph discussing these amounts and some do not. Regulators would prefer at 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.

F. Other premium reserve items

With regard to “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 the amounts are reasonable in an Opinion paragraph, regulators would expect the actuarial documentation to support this conclusion in the Actuarial Report.

Typical items regulators see listed as “Other Premium Reserve Items” are Medical Professional Liability Death, Disability & Retirement (DD&R) unearned premium reserves (UPR) and Other Liability Claims DD&R UPR. Depending on the nature of these exposures, these items may be also listed on Exhibit B, Line 12.2 as claims made extended UPR.

G. The importance of Relevant Comments paragraphs

The Working Group considers the Relevant Comments paragraphs to be the most valuable information in the Actuarial Opinion. Relevant Comments help the regulator interpret the Actuarial Opinion 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. Risk of Material Adverse Deviation

The Relevant Comments paragraphs on the Risk of Material Adverse Deviation (RMAD) are particularly useful to regulators. The first two RMAD comments below respond to questions that Appointed Actuaries have posed to regulators. The second two stem from regulators’ reviews of Actuarial Opinions.
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 that there are any company-specific risk factors, the Appointed Actuary should state that.

2. Mitigating factors – 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 RMAD 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 Actuarial Opinion 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. Regulators’ use of the Actuarial Report

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 can provide a foundation for efficient reserve evaluation during a statutory financial examination. This expedites the examination process and may provide cost savings to the company.

1. 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. 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 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. 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 & 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 & Cost Containment and
Adopted by the Actuarial Opinion (C) Working Group: Sept. 26, 2022

Adjusting & Other expenses, is generally expected to be on the same level as used in the analysis underlying the Actuarial Opinion, 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 regulators that the Appointed Actuary is aware of the differences and has considered the potential impact of the differences on the analysis underlying the Actuarial Opinion.

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.

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 the majority of the analysis supporting an Actuarial Opinion may be done with data received prior to year-end and “rolled forward” to year-end. By reviewing the Actuarial Report, the 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. 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 the 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 property/casualty 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 death, disability, or retirement 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 “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 regulators to gain a greater understanding of property and casualty 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, 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 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 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 August 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. The effective date of AG 51 was December 31, 2017, and it applies to companies with over 10,000 inforce lives covered by LTC insurance contracts as of the valuation date. The Instructions state that the Actuarial Report and workpapers summarizing the asset adequacy testing of LTC business must be in compliance with AG 51 requirements.

- Recent adverse reserve development in LTC business. Regulators expect Appointed Actuaries to disclose company-specific risk factors in the Actuarial Opinion. 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 Actuarial Opinion. 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 Actuarial Opinion 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 Actuarial Opinion and Actuarial Report.

III. Comments on AOS

A. Confidentiality

The AOS is a confidential document and 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 to avoid attaching the related Actuarial Opinion 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 that 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 of 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’ Committee on Property and Liability Financial Reporting provides illustrative examples in its annual practice note “Statements of Actuarial Opinion on Property and Casualty Loss Reserves” 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.” The qualification documentation needs to be provided to the Board of Directors at initial appointment and annually thereafter. The AOWG is considering amending this requirement, starting with YE 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.

The following provides guidance Appointed Actuaries may find useful in drafting qualification documentation. Appointed Actuaries should use professional judgment when preparing the documentation and 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 to 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, 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) for that year. The Appointed Actuary should provide information similar to the following. Items (i) through (iii) below correspond with items (i) through (iii) in the Qualified Actuary definition.

(i) “I meet the basic education, experience and continuing education 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;” or

[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 Actuarial Opinion, information may include specific actuarial experiences relevant to the company’s structure (e.g., insurer, reinsurer, 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. “Continuing education: 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 continuing education 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.

(ii) “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 (United States)”
Adopted by the Actuarial Opinion (C) Working Group: Sept. 26, 2022

- “I am an Associate of the CAS (ACAS) and my basic education includes credit for Exam 6 – Regulation and Financial Reporting United States) 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 United States’ 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.

(iii) “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 when its members are practicing in the U.S.”

V. COVID-19

COVID-19 and related economic events have had a significant impact on insurance liabilities for some lines of business and its effects could extend to other aspects of the company’s operations and the claims process. The Appointed Actuary should consider the direct and indirect impacts and understand the impact on the company’s financial statements. The effects on assumptions and methods used in the actuarial analysis should be discussed within the Actuarial Report.

If the impact on reserves is significant, the actuary should make relevant comments in the Statement of Actuarial Opinion.

The COVID-19 FAQ document, published by COPLFR and available on the American Academy of Actuaries website, can serve as an additional resource for practical consideration.
The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met Sept. 8 and Sept. 15, 2022. The following Working Group members participated: Anna Krylova, Chair (NM); Miriam Fisk, Vice Chair, and Rebecca Armon (TX); Susan Andrews and Amy Waldhauer (CT); Chantel Long and Judy Mottar (IL); Sandra Darby (ME); Cynthia Amann and Julie Lederer (MO); Gordon Hay (NE); Tom Botsko (OH); Andrew Schallhorn (OK); and Kevin Clark and James DiSanto (PA). Also participating were: Arthur Schwartz (LA); and Kevin Dyke (MI).

1. **Adopted a Comment Letter Regarding ASOP No. 36**

Ms. Krylova said the most impactful change in the exposure of the revised *Actuarial Standard of Practice (ASOP) No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves Exposure Draft* is to expand the scope of the ASOP to include actuaries performing actuarial services with respect to written statements of actuarial opinion regarding property/casualty (P/C) loss, loss adjustment expenses (LAEs), or other reserves. She said this likely means ASOP No. 36 would apply to regulatory actuaries; although, the guidance says Section 3 should be used “to the extent practicable.” She said it is unclear whether state insurance regulators are now required to prepare a document in support of all the regulatory reviews. Ms. Lederer said it is unclear what it means to comply with the ASOP as a reviewer because Sections 3 and 4 are geared toward preparers of the opinion. Ms. Armon said the definition of reviewer is unclear, and she noted that premium deficiency reserves should probably be included in the list of reserves. Ms. Lederer said the risk of material adverse deviation section should also be expanded to include other types of reserves.

On the Sept. 15 call, a proposed response using the comment template was presented. The Working Group agreed to make an editorial change.

Ms. Darby made a motion, seconded by Ms. Lederer, to adopt the comment letter to the Actuarial Standards Board (ASB) (Attachment Three-A). The motion passed unanimously.

2. **Discussed Proposed Changes to Regulatory Guidance and Annual Statement Instructions**

The Working Group continued to discuss potential changes to the frequency of qualification documentation requirements and disclosures for the 2023 *Annual Statement Instructions*. Michelle L. Iarkowski (Deloitte Consulting LLP) asked whether the prior message to appointed actuaries saying state insurance regulators want more information in the qualification documentation should be modified. She said that message seems to contrast with current discussions about potentially changing the frequency requirement of submission of the qualification documentation to the ASB from annually to once every five years.

The Working Group agreed to modify the *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion* (Regulatory Guidance) to: 1) include a list of the changes to 2022 instructions and eliminate mention of prior changes; 2) replace a specific list of ASOPs in the Regulatory Guidance with reference to the ASB’s applicability guidelines; 3) remove the description of 2018–2019 annual statement changes, including the Qualified Actuary definition; 4) add the example of “acquiring a book of business with significantly different loss exposure” to describe a “material change” in qualification; 5) remove the request for “expanded detail” in reference to the continuing education (CE) part of qualification documentation; 6) remove the categorization of
CE, given the elimination of that requirement in 2022 instructions; 7) modify the discussion about a potentially proposed deadline for the qualification documentation and replace it with the potential to change the frequency of the submission of qualification documentation from annually to once every five years; and 8) shorten reference to COVID-19.

The Working Group will conduct an e-vote once the document is revised.

3. Discussed a Financial Analysis € Working Group Referral on Predictive Analytics in Reserve Setting

The Working Group discussed a referral from the Financial Analysis (E) Working Group asking for discussion of the use of predictive analytics in reserve setting and consideration of drafting guidance. Ms. Lederer drafted some potential questions to ask about any type of model, which could be modified by the Actuarial Opinion (C) Working Group to add specific questions about reserving models. Ms. Krylova said the next step is to contact other regulatory actuaries and companies that have reviewed or created reserving models to search for help to develop the reserving questions.

The Working Group discussed the scope of which kind of reserves are being developed (e.g., case reserves). Mr. Hay said his typical financial examination investigates how a company tests and validates case reserves. He said the same types of questions could be used for predictive analytics that produce case estimates. Ralph Blanchard (Travelers) said so long as the case estimates are consistent, they do not have to be right. The actuarial methods will account for under-reserving. Ms. Long said there are not necessarily issues with the model; it is how managements uses that information when determining reserves. Mr. Dyke said state insurance regulators should be careful not to blame the wrong reason. He said one must understand the inputs and the algorithm, no matter how simple or sophisticated the reserving method is. The actuary must understand the model and data issues to evaluate reserves. Ms. Krylova said financial analysts might not need to get into the technical details and specifics of the model; but they should concentrate on how the company understands the model, how they are using it, and whether there is a change to the previous methodology.

The Working Group decided to provide a general response and mention the issues discussed.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.
ASOP No. 36 Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves Exposure Draft

Comment Deadline: September 30, 2022

Instructions: Please review the exposure draft and give the ASB the benefit or your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase ‘ASB COMMENTS’ in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system’s spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

I. Identification:

<table>
<thead>
<tr>
<th>Name of Commentator / Company</th>
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<td>NAIC Actuarial Opinion Working Group</td>
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II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

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<thead>
<tr>
<th>Question No.</th>
<th>Commentator Response</th>
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III. Specific Recommendations:

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<tr>
<th>Section # (e.g. 3.2.a)</th>
<th>Commentator Recommendation (Please provide recommended wording for any suggested changes)</th>
<th>Commentator Rationale (Support for the recommendation)</th>
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<tr>
<td>1.2 Scope</td>
<td>“Other reserves” include such items as retrospective reinsurance premium reserves, unearned premium reserves for property/casualty long duration contracts, unearned premium reserves for extended reporting endorsements, premium deficiency reserves or other reserve items for which the actuary is providing a statement of actuarial opinion.</td>
<td>We recommend adding premium deficiency reserves as an example of “other reserves” because opining actuaries sometimes include these reserves in the scope of the opinion (i.e., on Exhibit A, line 9 of the NAIC P/C statement of actuarial opinion). For some insurers, premium deficiency reserves can be material.</td>
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<td>2.7, 3.10</td>
<td>These sections discuss material adverse deviation in the context of loss and loss adjustment expense reserves. Consider changing the references in the following passages from “loss and loss adjustment expense reserves” to “loss, loss adjustment expense, and other reserves”::</td>
<td>Per section 1.2, the scope of the ASOP encompasses loss, loss adjustment expense, and other reserves. There are situations in which the other reserves could be significant. For example, a small medical professional liability carrier may have unearned premium for death, disability, and retirement coverage that is significant relative to the loss and loss adjustment expense reserves. In these situations, the actuary’s contemplation of risk factors and opinion on the risk of material adverse deviation</td>
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  • Section 2.7: “...material adverse deviation with respect to the loss and loss adjustment expense reserves.” |
ASOP No. 36 Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves Exposure Draft

Comment Deadline: September 30, 2022

- Section 3.10: "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."

- Section 3.10: "When the reserve evaluation is based on separate estimates for different components of the loss and loss adjustment expense reserves, the actuary should take into account the combined risks and uncertainties associated with the loss and loss adjustment expense reserves to determine whether a risk of material adverse deviation could exist."

We also recommend that the second paragraph in section 3.10 be deleted. This does not seem like authoritative guidance that should be in an ASOP. There is a similar passage in the NAIC AOWG’s regulatory guidance document, and this consideration seems more appropriate in that type of communication. If you do retain that paragraph, we recommend that you keep the “loss and loss adjustment expense reserves” language and NOT add “other reserves” because the actuary may not estimate a range of reasonable estimates for the other components of the reserve.

likely does (and should) contemplate the other reserves.

Further, note that the NAIC’s P/C instructions do not specify the subject of the adverse deviation; in other words, they don’t specify what is deviating. The instructions simply say in paragraph 6.8, “The Appointed Actuary should explicitly state whether or not he or she reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation.” This approach has advantages because it is less restrictive.

IV. General Recommendations (If Any):

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<th>Commentator Recommendation (Identify relevant sections when possible)</th>
<th>Commentator Rationale (Support for the recommendation)</th>
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<td>We recommend additional guidance and clarification of the standards of practice for actuaries reviewing statements of actuarial opinion. Relevant Sections: 1.2 Scope, Paragraph 5 Section 3. Analysis of Issues and Recommended Practices, in particular: 3.7 Work Underlying the Prior Statement of Actuarial Opinion 3.13 Documentation</td>
<td>The expansion of the purpose and scope beyond “issuing” and “providing” to “performing actuarial services with respect to a written statement of actuarial opinion” means that the ASOP now applies to actuaries, such as regulatory actuaries, who review statements of actuarial opinion. While the Scope paragraph says that reviewing actuaries should use the guidance in section 3 “to the extent practicable,” it is unclear what that means in practice and what standard of practice is being imposed on reviewer actuaries. I.e., should the reviewer actuary merely use the ASOP to assist in the review to ensure that the opining actuary addressed or satisfied the items in section 3, or does the ASOP imply that the reviewer actuary is obligated to produce a report documenting their review of the opinion (per section 3.13)?</td>
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**ASOP No. 36** Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves Exposure Draft

**Comment Deadline: September 30, 2022**

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<th>Similarly, section 3.7 states “...if the actuary is able to review the prior opining actuary's work, then the actuary should determine whether the current assumptions, procedures, methods, or models differ from those used in the most recent prior statement of actuarial opinion.” Did the Task Force intend for this standard to apply to regulatory actuaries reviewing actuarial opinions?</th>
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<td>While we do not disagree that some of the standards in ASOP No. 36 should apply to regulatory actuaries, other provisions are not (or not always) feasible. It seems that the ASOP No. 36 Task Force agrees, as evidenced by the “to the extent practicable” caveat. However, it is generally unclear what standard of practice is being imposed on regulatory actuaries.</td>
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V. **Signature:**

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<th>Commentator Signature</th>
<th>Date</th>
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Statistical Data (C) Working Group
Virtual Meeting
October 26, 2022

The Statistical Data (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met Oct. 26, 2022. The following Working Group members participated: Sandra Darby, Chair (ME); Wanchin Chou, Vice Chair, George Bradner, and Qing He (CT); Arthur Schwartz and John Sobhanian (LA); Jo LeDuc (MO); Christian Citarella (NH); Alexander Vajda (NY); Landon Hubbart (OK); David Dahl (OR); and Brian Ryder (TX). Also participating were: Luciano Gobbo (CA); Anthony Bredel (IL); Mari Kindberg (MT) and Shannen Logue (PA).

1. **Adopted its September 28 Minutes**

The Working Group met September 28 to: 1) discuss proposed changes to the Report on Profitability by Line by State (Profitability Report), and 2) discuss the current process of receiving statistical data to gain understanding of how regulators could modernize and improve the process.

Mr. Citarella made a motion, seconded by Ms. Vajda, to adopt the Working Group’s September 28 minutes (Attachment Four-A). The motion passed unanimously.

2. **Discussed Proposed Changes to NAIC Statistical Reports**

Ms. Darby said the Working Group would continue the discussion of proposed changes to the Profitability Report and move on to discussing proposed changes for the Competition Database Report (Competition Report).

Ms. Darby said during the last meeting, the Working Group adopted the proposal to show a profitability metric for mutual and reciprocal insurers separately from stock insurers. She said the Working Group did not adopt the proposal to change the name of the report. She said the Working Group discussed the proposal to provide the report data in a comma-separated values (CSV) format and NAIC staff is currently looking into the best solution to provide that data to regulators.

Ms. Darby asked Mr. Schwartz to give clarifying information on his proposal to add a return on premium metric to the Profitability Report. Mr. Schwartz said he would like to hear from interested parties on their thoughts on the usefulness of the metric. Birny Birnbaum (Center for Economic Justice—CEJ) said he has not heard of return on premium as a metric for measuring profitability. He said there would be no basis for comparing it to any other industry and it would not make sense to compare across lines of business because each line of business has different amounts of investment income. Mr. Schwartz said when regulators review rate filings, a key component in those filings is a profit provision expressed as a percent of premium. He said short-tail lines of business such as homeowners may have less investment income than longer-tail lines of business, like workers compensation and title insurance. He said having this metric in the report would allow regulators to look at industry historical return on premium for a particular line of business and compare to neighboring states. Mr. Birnbaum said insurers do not earn a return on premium but they do earn a return on investments. He said he believes this proposal is combining two different concepts. He said the first concept is the combined ratio which is the margin left after expenses, which is essentially the profitability measured as a percentage of premium. He said the second concept is the profit provision. Mr. Schwartz said he would like to research the topic further and he agreed that the phrase “return on premium” may not be appropriate for what he is trying to show in the report. Mr. Birnbaum said the report already contains the elements needed to calculate the metric Mr. Schwartz is trying to show.
Ms. Darby said the final proposed change for the Profitability Report is to clearly state throughout the report whether a return metric is presented before or after federal taxes. Mr. Schwartz said making this clear throughout the report can avoid misunderstandings of the data. Mr. Schwartz said his preference would be to clarify in the column headings, but he would also be okay with adding a footnote to each page. Mr. Birnbaum said this information is already clearly stated in the report. Ms. Darby asked Mr. Schwartz to review the wording the is currently in the Profitability Report and to make a specific suggestion of where he would want that wording to be moved.

Ms. Darby said the first proposed changed to the Competition Report is to change the name to the NAIC Competition Database. She said this report is already labeled as the Competition Database Report so no change would be necessary.

Ms. Darby said the second proposed change to the Competition Report is to delete the two columns that show market growth. Mr. Schwartz said market growth, if based on premium, is not a useful element when looking at competition. He said looking at the number of new entrants in a market is more important than the growth based on premium. Mr. Birnbaum said adding an explanation of each column would be useful. Aaron Brandenburg (NAIC) said this information is available and will be added to the report and sent out to the group for review.

Mr. Schwartz said the Competition Report is not a well known source, but it contains a lot of useful information for regulators, industry and interested parties. He said his overall goal with the proposed changes is to modernize the report. He said he wanted to remove elements that are not relevant in the insurance market, such as the market share of the 4 largest sellers. He said he would also like to remove the term sellers and instead just refer to insurance companies or insurance groups. Mr. Birnbaum said most anti-trust and competition materials refer to the market share of the top 4 participants and the Herfindahl-Hirschman Index (HHI). He said the reason that the top 4 participants metric is used instead of top 10 or top 20 is that the market share percentage of the top 4 companies will tell you more about their ability to manipulate prices and whether there is a lack of competition. Mr. Brandenburg said the reason the term sellers is used is because the report shows both insurer groups and individual companies that are not a part of a group.

Mr. Birnbaum suggested adding title insurance and private flood insurance into the Competition Report.

Mr. Schwartz asked if the Competition Report includes residual market data. He said the Louisiana Citizens Property Insurance Corporation writes a significant amount of homeowners insurance in Louisiana and he would want to know if that data is included in this report. He said personal auto and commercial auto residual markets may need to be included in the report as well. Mr. Birnbaum said he agrees that the residual market data should be added, but that it should be contained in a separate section since not all of the lines of business presented in the report have residual market business. He said he would also like to see the inclusion of lender-placed business. Mr. Birnbaum said PIPSO and AIPSO would be good resources for the residual market data related to homeowners and auto insurance. He said the lender-placed insurance data can be pulled from the Credit Insurance Experience Exhibit in the NAIC Annual Statement.

Ms. Darby said the Working Group will continue to discuss changes to these reports in future meetings.

Having no further business, the Statistical Data (C) Working Group adjourned.
The Statistical Data (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met Sept. 28, 2022. The following Working Group members participated: Sandra Darby, Chair (ME); Wanchin Chou, Vice Chair, and Qing He (CT); Arthur Schwartz, John Sobhanian, and Nichole Torblaa (LA); Cynthia Amann and Jo LeDuc (MO); Christian Citarella (NH); Alexander Vajda (NY); Landon Hubbart (OK); David Dahl (OR); and Brian Ryder (TX). Also participating were: Anthony Bredel (IL); Brenda Johnson (KS); David Dombrowski and Mari Kindberg (MT); Mike Andring and Chris Aufenthie (ND); Eric Lowe (VA); and Mary Block and Nick Marineau (VT).

1. Discussed Proposed Changes to NAIC Statistical Reports

Ms. Darby said Mr. Schwartz summarized his previously proposed changes to the NAIC statistical reports, and today’s meeting would go over the summarized bullet points of the Report on Profitability By Line By State (Profitability Report).

Mr. Schwartz said his first proposed change is to rename the Profitability Report the Profitability Database Report. He said he sees the statistical reports as a database in which the user is encouraged to dig into the underlying data and use it for various types of analysis. Mr. Dahl said he understands a database to be something to run a report off of to summarize and manipulate the data. Ms. Darby said a database is what is used to produce the report, but the report itself is not a database in its current form. Mr. Vajda said there are calculations underlying certain fields within the Profitability Report that the user would not be able to derive without access to the entire database. Libby Crews (NAIC) clarified that the data contained in the Profitability Report is pulled from NAIC Financial Annual Statement filings and is then used to derive many of the data elements in the report. Mr. Lowe said whether the name of the report is changed, the ability to download the data provided in the report in a comma-separated values (CSV) format would be very useful for state insurance regulators. Mr. Schwartz said he would like to see all the statistical reports overseen by the Working Group to be available as a CSV download. Ms. Darby said even if the data is available to download, there would still need to be a portable document format (PDF) form report, and the name Profitability Database Report would not be in line with a PDF download. Mr. Schwartz said other databases, such as those provided by the federal government, have an option for a PDF report and an option to download the data into Microsoft Excel. Mr. Citarella said he thinks of a database as a living thing that can be changed and updated, and a report is a snapshot of a static moment in time. He said calling the report a database may give the wrong impression.

Ms. Crews said the data in the reports and the Financial Annual Statement data can currently be provided to state insurance regulators in the CSV format, but that data has a fee when it is requested by non-state insurance regulators. Mr. Lowe said a good option would be to provide the CSV files to state insurance regulators via StateNet or another regulator-only access point. Ms. Darby asked NAIC staff to investigate how to provide the data in a downloadable form to state insurance regulators.

Ms. Darby said the next proposed change to the Profitability Report is to show profitability metrics for mutual and reciprocal insurers separately from stock insurers. Mr. Schwartz said there is a clear difference in the profitability metrics of stock insurers because they are more focused on profits per share and the growth of profits over time. He said many mutual and reciprocal insurance companies will sacrifice short-term profits in favor of making longer term investments that may ultimately benefit the policyholders. He said if a state insurance regulator was using the profitability metrics in the context of a rate filing, they would want to have a distinction between the type of
companies. Ms. Darby asked if the data was available broken out by the type of company. Mr. Lowe said the NAIC has the company type within its database, so the data should be able to be pulled and displayed in the Profitability Report by each company type.

Mr. Schwartz made a motion, seconded by Mr. Dahl, to break out the profitability metrics by stock insurer, mutual insurer, and reciprocal insurer. The motion passed unanimously.

Ms. Darby said the next proposed change to the Profitability Report is to add a new return on premium metric. Mr. Schwartz said the return on premium metric is directly applicable to rate filings. Mr. Lowe clarified that this metric would not replace the return on net worth metric, but it would be a separate metric and an additional column. Ms. Darby asked if the data used to calculate return on premium are already available in the report. Mr. Lowe said all the data needed to calculate return on premium is already available. Rich Gibson (American Academy of Actuaries—Academy) said the return on premium calculation would be 1 minus the combined ratio or 1 minus the operating ratio. Mr. Schwartz said he would like to see the calculation with both the combined ratio and the operating ratio. Mr. Bredel said the profit on insurance transactions metric is available in the report, and it would not include the investment gain that is attributed to net worth. Mr. Schwartz said it may need to just be a change to the column name, as return on insurance transactions is not as clear as return on premium. Ms. Darby suggested that the Working Group look at this issue further to see if the requested metric is already accounted for in the report. She said the discussion on these changes will be continued during the next meeting.

2. Discussed Current Statistical Data and the Need for the Modernization of Statistical Reporting

Ms. Darby said she compiled reports from three different statistical agents to showcase the type of data state insurance regulators are currently receiving. She said the reports come to her in a PDF format, and she must spend time converting it into Microsoft Excel to do useful analysis with the data. She said each statistical agent files their statistical plan with the insurance department, and those plans are approved individually by the commissioner or another state insurance regulator. She said this creates issues when trying to aggregate data between statistical agents because the data is not presented in the same way and may not include the same data elements. She said some statistical agents use codes that would have to be mapped to corresponding data elements from other statistical agents.

Ms. Darby said there are many different ideas of how technology could change the future of statistical reporting. She said she would like the Working Group to look at making small changes to how the data is reported that would make it easier to aggregate data and see a larger picture of the market. She said the Working Group should look at what data elements state insurance regulators need, review the minimum standards that are set out, and revise those as needed.

Ms. Darby said the Statistical Handbook of Data Available to Insurance Regulators currently states, “Regulators may modify or enlarge their requirements for information to accommodate changing needs and environments.” Mr. Schwartz said the data being provided today is the type of data that was required 20 years ago, but it is not the data of the future. He said state insurance regulators now, and in the future, need more data and data that is more refined. Ms. Darby agreed, and she said she would like to continue the discussion on making changes to the minimum standard of reported data for all the different lines of insurance.

Having no further business, the Statistical Data (C) Working Group adjourned.
September 16, 2022

Kris Defrain
Director, Research and Actuarial
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: NAIC Casualty Actuarial and Statistical (C) Task Force Proposed Loss Cost Multiplier Form and Instructions

Dear Ms. Defrain:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the loss cost multiplier form and instructions for all Property/Casualty lines.¹

General and Other Acquisition Expenses
In section 4 of the form (Expense Provisions), General and Other Acquisition expenses are explicitly split apart in two components. Not all companies break down General and Other Acquisition expenses into the two components. A clarification that it would be acceptable to combine the two categories (with a note from the company indicating this approach) when a company’s system and accounting does not have the two individual components available separately would be helpful for to such companies.

Thank you again for the opportunity to comment, and please contact me if you have any questions.

Sincerely,

Norman Niami, FCAS, MAAA, Affiliate IFoA
Vice President, Actuary

¹ APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.
Company Name: XYZ Insurance Co.
NAIC Company Code: 00000

Line, subline, coverage, territory, etc. combination to which this form applies: Workers' Compensation (All classes)

Does this form apply to all class codes? (Yes/No): Yes

Loss Cost Reference Filing (Advisory Org. and Reference Filing #): NCCI Filing number 0000000000

Expense constant(s) (0 if no expense constant is used) (Justify any expense constant(s) in a specifically identified attachment): 0

Note: For new programs, "Current" and "% Change" values should appear as #N/A.

1. Declaration

The above insurer hereby declares that it is a member, subscriber, or service purchaser of the named advisory organization for this line of insurance and is filing the prospective loss costs shown in the captioned Loss Cost Reference Filing. The insurer's rates will be the combination of the prospective loss costs and the loss cost multipliers and, if utilized, the expense constants.

2. Rule of Application

Check one of the two options below with an "X"

- X Current and future loss cost reference filings:
  The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable to future revisions of the advisory organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the advisory organization's prospective loss costs and the insurer's loss cost multipliers and if utilized, expense constants. The rates will apply to policies written on or after the effective date of the advisory organization's prospective loss costs. This authorization is effective until disapproved by the Commissioner, or until amended or withdrawn by the insurer. (Some states prohibit this option.)

- Current loss cost reference filing only:
  The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable only to the above Loss Cost Reference Filing. (Some states prohibit this option.)

3. Loss Cost Modification/Deviation

See examples below. Provide supporting data and/or rationale for the modification(s) in a specifically identified attachment.

Loss Cost Modification Factor examples:

- If your loss cost modification is 0%, the Loss Cost Modification Factor is 1.00.
- If your loss cost modification is -10%, the Loss Cost Modification Factor is 0.900. The calculation is (1.000 - 0.100).
- If your loss cost modification is +15%, the Loss Cost Modification Factor is 1.150. The calculation is (1.000 + 0.150).

<table>
<thead>
<tr>
<th>A.</th>
<th>Loss Cost Modification Factor</th>
<th>Current</th>
<th>Proposed</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1.050</td>
<td>1.100</td>
<td>4.8%</td>
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Projected expenses should be relative to charged premium (for non-workers’ compensation lines) and standard premium (for workers’ compensation) using the company’s rates in effect. (Provide an exhibit detailing insurer expense and profit data, investment income, impact of premium discount plans, and/or other supporting information in a specifically identified attachment.) (If necessary, combine two line item values into one and explain in Section 9.)

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Proposed</th>
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<tbody>
<tr>
<td>A. Commission and Brokerage</td>
<td>15.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>B. Other Acquisition</td>
<td>5.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>C. General Expenses</td>
<td>8.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>D. Taxes, Licenses &amp; Fees</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>E. Underwriting Profit &amp; Contingencies</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>F. Average Premium Discount (i.e., for workers’ compensation)</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>G. Other 1 (If used, explain in Section 9.)</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>H. Other 2 (If used, explain in Section 9.)</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>I. Total (sum A through H)</td>
<td>40.0%</td>
<td>43.0%</td>
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5. Calculation of Permissible Loss (and Loss Adjustment Expense) Ratio

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<thead>
<tr>
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<th>Current</th>
<th>Proposed</th>
<th>% Change</th>
</tr>
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<tbody>
<tr>
<td>A. Permissible Loss Ratio (PLR) (100.0% - 4I)</td>
<td>60.0%</td>
<td>57.0%</td>
<td>-5.0%</td>
</tr>
<tr>
<td>B. Expense Multiplier (1.000 / 5A)</td>
<td>1.667</td>
<td>1.754</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

6. Additional Adjustments

(Use 1.000 where not applicable.)

<table>
<thead>
<tr>
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<th>Current</th>
<th>Proposed</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Loading Factor Relative to Loss (when LAE and/or loss-based assessments are not included in loss costs)</td>
<td>1.000</td>
<td>1.000</td>
<td>0.0%</td>
</tr>
<tr>
<td>B. Overall Impact of Expense Constant and Minimum Premiums (e.g., a 2.3% impact would be expressed as 1.023)</td>
<td>1.023</td>
<td>1.024</td>
<td>0.1%</td>
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7. Calculation and Selection of Loss Cost Multiplier

(Explain any differences, other than rounding, between 7A and 7B in Section 9.)

<table>
<thead>
<tr>
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<th>Current</th>
<th>Proposed</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Company Formula Loss Cost Multiplier [(3A x 5B) x (6A / 6B)]</td>
<td>1.711</td>
<td>1.885</td>
<td>10.2%</td>
</tr>
<tr>
<td>B. Company Selected Loss Cost Multiplier</td>
<td>1.700</td>
<td>1.820</td>
<td>7.1%</td>
</tr>
</tbody>
</table>
8. Percent Change (from Current to Proposed)

<table>
<thead>
<tr>
<th>A. Percent Change in Loss Cost Multiplier [(7B Proposed / 7B Current) - 1.000]\</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>B. Percent Change in Loss Costs (Weighted on company's own book and not the advisory organization unless company has zero premium volume)</td>
<td>-3.0%</td>
</tr>
<tr>
<td>C. Percent Change in Other Rating Items (As identified in Section 9)</td>
<td>0.0%</td>
</tr>
<tr>
<td>D. Total Percent Change [(1.000 + 8A) x (1.000 + 8B) x (1.000 + 8C) - 1.000]\</td>
<td>3.8%</td>
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9. Additional Comments

(If needed, provide a specifically identified attachment.)

Comments can be placed here
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NAIC LOSS COST MEMORANDUM
ALL LINES OF PROPERTY & CASUALTY INSURANCE

Loss Cost Filing Procedures

This memorandum specifies the framework under which advisory organizations and insurers participating in advisory organizations operate in a loss cost system.

Loss Cost Environment

In general, a rating system for property & casualty insurance includes the rates to be charged along with rating relativities, rules, and supplementary rating information. Such supplementary rating information may include any manual or plan of rates, classification, rating schedule, minimum premium, policy fee, rating rule, rate-related underwriting rule, experience rating plan, statistical plan, and any other similar information needed to determine the applicable rate to be charged.

For many states and lines of business, insurers elect to be a participating insurer of an advisory organization, whether it be as a member, subscriber, or service purchaser. (Such advisory organizations can also serve as the insurer’s statistical reporting agent.)

Starting in the early 1990’s, most advisory organizations ceased promulgating advisory final rates and moved to a loss cost environment. Under this system, advisory organizations do not develop or file advisory final rates, but instead develop advisory prospective loss costs (hereinafter “loss costs”). The advisory organization files these loss costs and supporting data with the department of insurance (hereinafter “DOI”) for the state or jurisdiction in which the loss costs will be used. Advisory organizations also develop and file rating relativities, rules, and most supplementary rating information on behalf of its participating insurers. Based on these loss costs, each participating insurer must use its own decision-making processes to determine and file with the DOI the final rates that it will charge.

Loss Cost Components

The rating organization’s loss costs represent the expected claims costs per exposure unit, exclusive of expenses and profit. Here, “expenses” generally include:

- Commission and brokerage
- Other acquisition, field supervision, and collection expenses
- General expenses
- A provision for taxes, licenses, and fees (TL&F)

“Profit” here is more specifically underwriting profit. It generally includes a provision for contingencies and considers expected investment income.
For most states and lines of business, the advisory organization’s loss costs include loss adjustment expenses (LAE), so that LAE is excluded from the above list of expenses. When LAE is not included in the advisory organization’s loss costs, it must be loaded in by the insurer along with the other expenses and profit. In addition, for workers’ compensation, some states have loss-based assessments (LBA’s) and these may or may not be included in the loss costs. As with all portions of the rate, the provisions that are not included in the loss costs must be loaded in by the insurer, and the provisions that are included in the loss costs should not be considered by the insurer, or a double-count will result.

**Advisory Organization’s Reference Filing**

Using standard actuarial techniques, the advisory organization uses past loss experience to develop its loss costs to an ultimate value over time, considering changes to known claim values or incurred but not reported claim values. The advisory organization also uses trend adjustments to project the developed ultimate losses to the average date of loss for the period during which the policies are to be effective.

Advisory organizations develop and file for approval (or acknowledgement) with the DOI, a loss cost reference filing (hereinafter “reference filing”). The reference filing contains the advisory organization’s proposed loss costs along with supporting actuarial and statistical data.

After the advisory organization has filed its reference filing with the DOI and received approval, the advisory organization provides its participating insurers with notice of such approval. The advisory organization normally prints and distributes a manual of loss costs as well as rules and other supplementary rating information. However, such supplementary rating information provided by the advisory organization normally does not include expense constants or minimum premiums. (In workers’ compensation, the advisory organization often promulgates premium discount table alternatives from which the insurer can select to reflect differing expense levels by size of risk.)

**Loss Cost Multiplier**

Based on the advisory organization’s loss costs, the insurer needs to develop final rates, and does so using multiplicative factors. The overall multiplicative factor to get from a loss cost to a rate is the “loss cost multiplier” or LCM. (In many states, such LCM’s can vary by subline, coverage, class, territory, tier, etc.) The LCM is generally the product of two factors which are themselves multipliers with distinct purposes. These two multipliers are the “loss cost modification factor” and the “expense multiplier.”

The loss cost modification factor represents any needed adjustment to the advisory organization’s loss cost to reflect the quality of business and past experience which the insurer finds necessary to reflect. For example, if no adjustment is needed, this factor is 1.000; if the insurer anticipates better-than-average experience by 10%, the factor is 0.900 (= 1.000 – 0.100).
The expense multiplier provides for the expenses enumerated above (commission, other acquisition, field supervision, collection expenses, general expenses, TL&F) as well as the needed profit provision. For example, if these expenses and profit total 33.3% relative to premium, the expense multiplier is 1.500 (= 1.000 / (1.000 – 0.333)).

If the loss cost modification factor were 0.900 and the expense multiplier were 1.500, the LCM would be 1.350 (= 0.900 x 1.500). This is the multiplier relative to loss costs that would result in the needed rate. When 33.3% of that rate is taken for expense and profit, 90% of the advisory organization’s promulgated loss cost is left to pay claims.

As stated above, if LAE or LBA’s are not already in the advisory organization’s loss costs, the insurer must factor them into the LCM calculation as well. In addition, if an expense constant and/or minimum premium provisions are to be used, the insurer will probably want to adjust the final LCM accordingly for off-balance, so that the proper amount of revenue is collected.

**Automatic Adoption**

In many states, the insurer may request to have its LCM remain on file and to automatically adopt all subsequent reference filings made by the advisory organization. As a new reference filing is approved by the DOI, the insurer will do one of the following:

*No action.* If the insurer wishes to use the advisory organization’s effective date and does not wish to change its LCM, it does not need to make a filing with the DOI. (In addition, in most states, the insurer need not develop or file its final rate pages with the DOI.) The insurer’s rates will be the combination of the new loss costs and the insurer’s LCM already on file with the DOI.

*File with the DOI.* If the insurer wishes to delay or non-adopt the reference filing, or modify its LCM on file, it must make a filing with the DOI. This should generally be before the effective date of the advisory organization’s reference filing.

**Insurer Filing**

As discussed above, the advisory organization is responsible for filing the following with the DOI:

- Loss costs
- Rating relativities
- Rules
- Supplementary rating information, except for:
  - Expense constant
  - Minimum premium
  - Premium discount table (for workers’ compensation)
  (The advisory organization often promulgates multiple premium discount table alternatives)
As such, the insurer is responsible for filing the following with the DOI:

- Effective date (if different from the advisory organization’s)
- LCM
- Expense constant
- Minimum premium
- Premium discount table selection (for workers’ compensation)
- Automatic adoption (intent to use or not use)
- Any other exceptions or deviations it wishes to use

**Loss Cost Filing Document**

The NAIC’s “Loss Cost Filing Document” is a form in Excel and PDF which performs the LCM calculations described above. This multistate form, or a similar state-specific form, should be included in the insurer’s own filing which it submits to the DOI. Many states will also require support in the form of data, actuarial analysis, and an explanatory memorandum.

The “Loss Cost Filing Document” form can be used for workers’ compensation as well as most other property & casualty lines. For workers’ compensation, where an expense constant and premium discount table are normally used, the form accommodates these. For other lines, where these values are often not applicable, the expense constant and average premium discount values can simply be zero so as to have no effect on the calculations.

**Further Information**

All inquiries concerning this memorandum should be directed to the property and casualty division of the particular DOI in which the insurer intends to file.