

## CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

Casualty Actuarial and Statistical (C) Task Force Nov. 10, 2020, Minutes

Casualty Actuarial and Statistical (C) Task Force Oct. 26, 2020, Conference Call Minutes (Attachment One)

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## Draft Pending Adoption

Draft: 11/19/20

### Casualty Actuarial and Statistical (C) Task Force Virtual Meeting (*in lieu of meeting at the 2020 Fall National Meeting*) November 10, 2020

The Casualty Actuarial and Statistical (C) Task Force met Nov. 10, 2020. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo (MN); James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Tom Zuppan (AZ); Ricardo Lara represented by Lynne Wehmuller (CA); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Robert H. Muriel represented by Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann (MO); Mike Causey represented by Arthur Schwartz (NC); Marlene Caride represented by Mark McGill (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Glen Mulready represented by Landon Hubbart (OK); Jessica K. Altman represented by Kevin Clark and James DiSanto (PA); Texas represented by J'ne Byckovski (TX); Michael S. Picciak represented by Rosemary Raszka (VT); and James A. Dodrill represented by Joylynn Fix, Tonya Gillespie and Juanita Wimmer (WV). Also participating was: Gordon Hay (NE).

#### 1. Adopted its Oct. 26, Oct. 13, Sept. 16, and Summer National Meeting Minutes

Mr. Vigliaturo said the Task Force met Oct. 26, Oct. 13, and Sept. 15. During these meetings, the Task Force took the following action: 1) adopted the white paper, *Regulatory Review of Rate Models*; 2) adopted its 2021 proposed charges; and 3) adopted a comment letter on U.S. Qualifications Standards. The comment letter was sent to the American Academy of Actuaries' (Academy's) Committee on Qualifications prior to its Oct. 31 deadline.

The Task Force also met Oct. 20 and Sept. 22 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.

The Task Force held its Predictive Analytics Book Club conference calls Oct. 27, Sept. 29 and Aug. 25. During its Oct. 27 meeting, Greg Sollenberger (Horace Mann Insurance Companies) presented on building Gradient Boosting Machines and identified useful model support. During its Sept. 29 meeting, Geoff Werner (Werner Advisory) presented on telematics and future regulatory considerations. During its Aug. 25 meeting, Sam Kloese (NAIC) presented on generalized linear model (GLM) concepts implemented in the software EMBLEM.

Mr. Piazza made a motion, seconded by Mr. Stolyarov, to adopt the Task Force's Oct. 26 (Attachment One), Oct. 13 (Attachment Two), Sept. 15 (Attachment Three), and Aug. 5 (*see NAIC Proceedings – Summer 2020, Casualty Actuarial and Statistical (C) Task Force*) minutes. The motion passed unanimously.

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

Ms. Krylova said the Actuarial Opinion (C) Working Group conducted an e-vote ending Oct. 30 (Attachment Four) and met via conference call Oct. 22 (Attachment Five), Sept. 24 (Attachment Six), and Sept. 10 (Attachment Seven). During these meetings, the Working Group adopted *Financial Analysis Handbook* and *Financial Condition Examiners Handbook* proposed changes. These changes were referred to corresponding groups for consideration. The Working Group adopted the 2020 *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion* (Regulatory Guidance). Ms. Krylova said the Regulatory Guidance includes a reminder that the qualification documentation should be specific to the opinion being issued, an updated statement on continuing education (CE) logging requirements, and new guidance on expected COVID-19 disclosures in the Statements of Actuarial Opinion (SAOs).

The Working Group also met Aug. 20 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss SAO reviews in risk-focused surveillance. Ms. Krylova said the Working Group discussed the regulatory review of appointed actuaries' qualification documentation and did not find any significant issues.

Ms. Krylova made a motion, seconded by Mr. Piazza, to adopt the report of the Actuarial Opinion (C) Working Group, including the 2020 Regulatory Guidance. The motion passed unanimously.

## Draft Pending Adoption

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

Mr. McGill said the *Report on Profitability by Line by State* (Profitability Report) and the *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report) will be considered for adoption on the next Statistical Data (C) Working Group call. The *Auto Insurance Database Report* has been delayed, given NAIC staff focus on COVID-19 activities, but it should be provided for review on the next Working Group call. Mr. McGill said the call should be held before Nov. 26.

Mr. McGill made a motion, seconded by Mr. Grassel, to adopt the report of the Statistical Data (C) Working Group. The motion passed unanimously.

### 4. Heard an Update on Communication about the CAS/SOA Task Force's Appointed Actuary CE Log

Mr. Vigliaturo said the Task Force discussed the Casualty Actuarial Society (CAS)/Society of Actuaries (SOA) CE log for appointed actuaries and the related communication plan on its Sept. 15 and Oct. 12 calls. The CAS and SOA provided copies of their member communication about the project. Mr. Vigliaturo said he expects no further Task Force action until it receives a report from the CAS and SOA summarizing their CE study.

### 5. Heard an Update on Proposal 2019-49 (Retroactive Reinsurance Exception)

Mr. Vigliaturo said the Statutory Accounting Principles (E) Working Group referred Project #2019-49: Retroactive Reinsurance Exception to the Task Force in January. He said this is the project initialized from a letter presented by the Committee on Property and Liability Financial Reporting (COPLFR) of the Academy. Mr. Vigliaturo said the volunteer group has not met since the Task Force's Oct. 10 meeting.

Mr. Hay described the current findings and expectations. He said *Statement of Statutory Accounting Principles (SSAP) No. 62R—Property and Casualty Reinsurance* does not explain every possible reinsurance agreement, and it includes the following wording: “[t]his statement deals with the more commonly employed methods.” Paragraphs 36 and 39 describe prospective exceptions to prescribed retroactive accounting. Mr. Hay said historically, these exceptions emerged individually from circumstances at the time, so unanticipated future circumstances are possible. For the identified exceptions, the default assumption is that prescribed prospective accounting, including Schedule P Instructions, will apply with no modification. In a few circumstances, the SSAPs (including SSAP No. 62R) require restatement of historical calendar years' earned premium and/or losses on Schedule P. Mr. Hay said the volunteer group needs to reconcile the default assumption versus prescribed restatements using examples of insurers and reinsurers' actual Schedule P presentation, including the two examples in the COPLFR letter that gave rise to Project #2019-49. The volunteer group hopes to recommend appropriate Schedule P presentation guidance for each exception identified in SSAP No. 62R paragraphs 36 and 39. Work may further imply some change to prospective reinsurance accounting prescriptions in SSAP No. 62R paragraphs 30–32 and 49–54 (cedants' accounting and credit taken) and/or 42–48 (reinsurers' accounting).

### 6. Discussed the ASB's Exposure Drafts on Catastrophe Modeling and Setting Assumptions

The Task Force discussed the Actuarial Standards Board's (ASB's) exposure draft of *Actuarial Standard of Practice (ASOP) No. 38—Catastrophe Modeling (for All Practice Areas)* and the third exposure draft of a proposed ASOP, *Setting Assumptions*.

In the exposure letter, the ASB said the ASOP No. 38 proposal expands the scope to include actuarial services for catastrophe models to all lines of business, including natural and other catastrophes, such as terrorist acts and pandemics. ASOP No. 38 is expanded from applying to the use of catastrophe models to also the selection, review and evaluation of catastrophe models. ASOP No. 38 would now apply to regulatory review. Comments are due Jan. 15, 2021.

In the exposure letter, the ASB said the exposure draft ASOP, *Setting Assumptions*, is on its third exposure, and it was released for comment with a deadline of April 15, 2021. The ASOP includes setting assumptions but also review of other actuaries' assumptions.

The Task Force decided not to issue comment letters on these exposures.

## **Draft Pending Adoption**

### **7. Heard a Presentation from the Academy**

Lisa Slotznick (Academy) and Kathleen C. Odomirok (Academy) gave a presentation on activities of the Academy's Casualty Practice Council and the COPLFR, respectively (Attachment Eight).

### **8. Heard Research Reports from Professional Actuarial Organizations**

Ann Weber (SOA) reported on the SOA's general insurance actuarial research (Attachment Nine). Ralph Blanchard (Travelers) provided a report on the CAS' property/casualty (P/C) actuarial research (Attachment Ten).

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

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Draft: 11/4/20

Casualty Actuarial and Statistical (C) Task Force  
E-Vote  
October 26, 2020

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Oct. 26, 2020. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo (MN); James J. Donelon represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Vanessa Darrah (AZ); Ricardo Lara represented by Lynne Wehmuehler (CA); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); David Altmaier represented by Robert X. Lee (FL); Doug Ommen represented by Travis Grassel (IA); Vicki Schmidt represented by Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers (MO); Chris Nicolopoulos represented by Christian Citarella (NH); Marlene Caride represented by Mark McGill (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Tynesia Dorsey represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Jessica K. Altman represented by Michael McKenney (PA); Raymond G. Farmer represented by Will Davis (SC); Kent Sullivan represented by Miriam Fisk (TX); Michael S. Pieciak represented by Rosemary Raszka (VT); and Mike Kreidler represented by Eric Slavich (WA).

1. Adopted a Comment Letter on the Academy's Exposure Draft Qualification Standards

The Task Force conducted an e-vote to consider adoption of a comment letter on the American Academy of Actuaries' (Academy's) exposure draft of the Qualification Standards. A majority of the members voted in favor of adopting the comment letter (Attachment One-A). The motion passed.

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

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**Comments on the American Academy of Actuaries Exposure Draft of Revisions for the  
*Qualification Standards (Including Continuing Education Requirements for Actuaries Issuing  
Statements of Actuarial Opinion in the United States***

The NAIC Casualty Actuarial and Statistical Task Force (“CASTF”) provides the comments below in response to the Exposure Draft of Revisions for the *Qualification Standards (Including Continuing Education Requirements for Actuaries Issuing Statements of Actuarial Opinion in the United States* (“Qualification Standards”), issued by the American Academy of Actuaries (“Academy”) on September 2, 2020.

These comments are limited in scope to those proposed revisions which would affect, or could potentially affect, any actuaries practicing in the area of property and casualty insurance. These comments do not take a position on any proposed revisions which would solely affect practice areas other than property and casualty insurance. These comments also do not take a position on any language that remains unchanged from the January 1, 2008, version of the Qualification Standards.

This letter begins by outlining several areas of agreement where the CASTF concurs with the revisions being proposed by the Academy. In a subsequent section, the CASTF outlines some of its concerns with other proposed revisions and suggests alternative wording that would resolve those concerns.

**I. Areas of Agreement**

(i) **Section 2. General Qualification Standard, 2.1.** In Subsection 2.1, it was reasonable and appropriate for the Academy to have removed the specific listing of current SOA specialty tracks (or the lack of specialty tracks in the CAS or ASPPA), since the absence of such references would be compatible with potential future additions or revisions to specialty tracks by the relevant actuarial societies without necessitating a revision to the Qualification Standards at each future time that such changes occur.

(ii) **Section 3. Specific Qualification Standard, 3.1.1.2.** The addition of “the Society of Actuaries” as one of the providers for relevant examinations for the Statement of Actuarial Opinion with regard to the NAIC Property and Casualty Annual Statement is important to achieve consistency with the recent revisions to the NAIC Statement of Actuarial Opinion Instructions. The revision proposed here by the Academy is therefore necessary and appropriate.

**II. Areas of Suggested Revision**

(i) **Section 2. General Qualification Standard, 2.1a)** A new requirement was added for Fellows or Associates of the SOA or the CAS to have “received either SOA or CAS designations by taking their relevant exams with U.S.-specific content”. While the intent to have the actuary pass relevant exams with U.S.-specific content in order to satisfy the General Qualification Standard is understandable, the proposed wording does not take into account situations where an already-credentialed Fellow or Associate of the SOA or the CAS received his or her credential in another country but then takes a U.S.-specific exam in order to attain the relevant U.S.-specific knowledge. Thus, this requirement should be revised to one in which the actuary has *passed* a U.S.-specific

exam, but this should not necessarily have to be in the process of *receiving* the designation. For instance, an actuary who passed a Canada-specific exam and then received a Fellowship should be able to meet the basic education requirement of the U.S. General Qualification Standard by subsequently also passing a U.S.-specific exam. Having once passed a Canada-specific exam should not forever preclude that actuary from qualifying to issue Statements of Actuarial Opinion in the United States, if that actuary ultimately does pass the U.S.-specific exam.

The following revised wording would satisfy this concern:

*“a) Be a Member of the Academy, or a Fellow or Associate of the SOA or the CAS who has passed the relevant exams of either the SOA or the CAS with U.S.-specific content, or an Enrolled Actuary (as defined in section 2.1.1); and”*

**(ii) Section 2. General Qualification Standard, 2.1d)** In the preface, the prior reference to “an area covered by a specialty track offered by the Society of Actuaries, or in an area of practice covered by the exams of the Casualty Actuarial Society or the American Society of Pension Professionals and Actuaries” was revised to a more generic and potentially broader “any particular area of practice”. This leaves open the possibility that there might be other “areas of practice” which are not covered by the aforementioned exams or specialty tracks, and yet for which the Qualification Standards would impose a requirement to complete “a specialized course of examination, such as a specialty track” which does not (or does not yet) exist. In such circumstances, a “Catch-22” scenario might arise in which to qualify in a particular emerging area of practice, one needs to pass as-of-yet non-existent exams, but such exams do not get developed because no one has yet qualified to practice in that area and so there may be an erroneous perception that development of such new exams would not be necessary. The uncertainty surrounding such a situation could deter many actuaries from even attempting to enter the emerging area of practice altogether.

It would be possible to resolve this concern by revising “any particular area of practice” to “any particular area of practice for which the CAS or the SOA has developed a specialized course of examination, such as a specialty track”.

**(iii) Section 2. General Qualification Standard, 2.1.2.** It is not clear why the Academy removed the sentence, “Accordingly, an actuary who has satisfied the basic education and experience requirement in an area of practice prior to the effective date of the Qualification Standards is deemed to satisfy the basic education and experience requirement in that area of practice of the Qualification Standards.” This sentence is present in the January 1, 2008, version of the Qualification Standards and should remain in order to clarify that anyone who satisfied the basic education and experience requirement in an area of practice prior to the effective date of the Qualification Standards should still be deemed to have satisfied that requirement. It is important to continue to “grandfather” any actuary who achieved qualifications in a practice area prior to the implementation of the Qualification Standards.

**(iv) Section 2. General Qualification Standard, 2.2.2.** The example provided includes a typographical error in the last sentence: “The actuary must then earn an additional 30 hours of continuing education in 2022 to issue SAOs in 2033.” It is recommended that “2033” be revised to “2023”.

Draft: 11/3/20

Casualty Actuarial and Statistical (C) Task Force  
Virtual Meeting  
October 13, 2020

The Casualty Actuarial and Statistical (C) Task Force met Oct. 13, 2020. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo and Connor Meyer (MN); James J. Donelon, Vice Chair, represented by Larry Steinert (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Vanessa Darrah and Tom Zuppan (AZ); Ricardo Lara represented by Mitra Sanandajifar and Lynne Wehmueller (CA); Michael Conway represented by Mitchell Bronson, Rolf Kaumann, Eric Unger and Sydney Sloan (CO); Andrew N. Mais represented by Susan Andrews, Wanchin Chou and Qing He (CT); David Altmaier represented by Howard Eagelfeld and Robert X. Lee (FL); Doug Ommen and Travis Grassel (IA); Robert H. Muriel represented by Reid McClintock and Judy Mottar (IL); Vicki Schmidt represented by Emily Beets and Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann and LeAnn Cox (MO); Chris Nicolopoulos represented by Christian Citarella (NH); Marlene Caride represented by Mark McGill (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Glen Mulready represented by Cuc Nguyen, Andrew Schallhorn, Shelly Scott and Katie Yang (OK); Andrew R. Stolfi represented by David Dahl and Ying Liu (OR); Jessica K. Altman represented by Michael McKenney and Bojan Zorkic (PA); Raymond G. Farmer represented by Michael Wise (SC); Kent Sullivan represented by J'ne Byckovski, Brock Childs, Miriam Fisk, Melissa Heggen, Eric Hintikka, Brian Ryder and Bethany Sims (TX); Michael S. Pieciak represented by Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); and James A. Dodrill represented by Juanita Wimmer (WV). Also participating was: Gordon Hay (NE).

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

Ms. Krylova said the Actuarial Opinion (C) Working Group adopted proposed changes to the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook* and referred them to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group, respectively.

Ms. Krylova also said the Working Group continues to discuss its 2020 *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion* (Regulatory Guidance) document.

Ms. Krylova made a motion, seconded by Mr. Schallhorn, to adopt the report of the Actuarial Opinion (C) Working Group. The motion passed unanimously.

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

Mr. McGill said the Statistical Data (C) Working Group is reviewing a draft *Report on Profitability by Line by State* (Profitability Report) released Oct. 8. The Working Group is in the final stages of reviewing individual states' data and resolving issues for the *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report). The Working Group is compiling data for the *Auto Insurance Database Report*.

Mr. McGill made a motion, seconded by Ms. Mottar, to adopt the report of the Statistical Data (C) Working Group. The motion passed unanimously.

3. Adopted a Portion of a Comment Letter on the Academy's Exposure Draft Qualification Standards

Largely due to the 2019 revisions made to instructions for the Statement of Actuarial Opinion, the American Academy of Actuaries' (Academy) Committee on Qualification has produced an exposure draft of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States. On Sept. 2, the Academy's Board of Directors approved the release of the exposure draft. The comment deadline is Oct. 30. Mr. Stolyarov presented a draft comment letter for the Task Force's consideration of adoption.

Ralph Blanchard (Travelers) said the proposed changes to Section 2.1.a. are repetitive with Section 2.1.c. Mr. Stolyarov agreed to redraft Section 2.1.a. to remove the overlap.



Mr. Stolyarov made a motion, seconded by Mr. Lee, to adopt the proposed comment letter pending redraft of Section 2.1.a. The motion passed unanimously. Section 2.1.a. will be redrafted and the comment letter considered for adoption on an e-vote.

4. Discussed the Continued Competence Charge and the CAS/SOA Task Force's Appointed Actuary CE Log

Mr. Vigliaturo said the Task Force discussed the Casualty Actuarial Society (CAS)/Society of Actuaries (SOA) continuing education (CE) log for appointed actuaries and related communication plans during its July 14 meeting. The expectation was communication would be sent to appointed actuaries the week of July 20.

Ken Williams (CAS) said the CAS communication has not been sent. The logging was introduced at the CAS' Casualty Loss Reserve seminar. He said a communication will be sent to all members this week. Along with that communication, a sample Excel CE log will be distributed so actuaries can choose whether to use it; it will not be required for 2020 CE logs. Ann Weber (SOA) said the SOA circulated a communication advising of the new requirements. The SOA will circulate the Excel CE log when it is finalized.

5. Discussed Project #2019-49: Retroactive Reinsurance Exception

Mr. Vigliaturo said the Statutory Accounting Principles (E) Working Group referred Project #2019-49: Retroactive Reinsurance Exception to the Task Force in January. The project was initialized after receipt of a letter from the Academy's Committee on Property and Liability Financial Reporting (COPLFR).

Mr. Hay said he, Ms. Fisk and Mr. Botsko are reviewing *Statement of Statutory Accounting Principles (SSAP) No. 62R—Property and Casualty Reinsurance* holistically, with emphasis on retroactive agreements that receive prospective accounting treatment. Since Sept. 15, Robin Marcotte (NAIC) shared some historical insights and accounting advice. Expectations are that SSAP No. 62R will need to be expanded to clarify Schedule P expectations when retroactive agreements receive prospective accounting treatment. The work may imply some change to prospective reinsurance accounting prescriptions in SSAP No. 62R paragraphs 30–32 and 49–54 (cedants' accounting and credit taken) and/or 42–48 (reinsurers' accounting).

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

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Draft: 10/22/20

Casualty Actuarial and Statistical (C) Task Force  
Conference Call  
September 15, 2020

The Casualty Actuarial and Statistical (C) Task Force met Sept. 15, 2020. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo and Connor Meyer (MN); James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Vanessa Darrah (AZ); Ricardo Lara represented by Mitra Sanandajifar and Lynne Wehmuller (CA); Michael Conway represented by Mitchell Bronson, Eric Unger and Sydney Sloan (CO); Andrew N. Mais represented by Susan Andrews, Wanchin Chou and Qing He (CT); Karima M. Woods represented by Monica Dyson (DC); David Altmaier represented by Howard Eagelfeld and Robert X. Lee (FL); Doug Ommen represented by Travis Grassel (IA); Robert H. Muriel represented by Judy Mottar (IL); Vicki Schmidt represented by Emily Beets and Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann, Kendra Fox and Julie Lederer (MO); Chris Nicolopoulos represented by Christian Citarella (NH); Marlene Caride represented by Mark McGill (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Tynesia Dorsey represented by Tom Botsko (OH); Glen Mulready represented by Nicolas Lopez and Katie Yang (OK); Andrew R. Stolfi represented by David Dahl and Ying Liu (OR); Jessica K. Altman represented by Kevin Clark, Shannen Logue, Michael McKenney, Xiaofeng Lu and Bojan Zorkic (PA); Raymond G. Farmer represented by Will Davis and Michael Wise (SC); Kent Sullivan represented by J'ne Byckovski, Brock Childs, Nicole Elliott, Miriam Fisk, Eric Hintikka and Brian Ryder (TX); Michael S. Pieciak represented by Kevin Gaffney and Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); and James A. Dodrill represented by Juanita Wimmer (WV).

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

Ms. Krylova said the Actuarial Opinion (C) Working Group met Sept. 10 to discuss the draft proposal for the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*. The Working Group expects to consider adoption of its referral to change language in the handbooks on its Sept. 24 call.

The Working Group discussed the 2020 Regulatory Guidance document. Ms. Krylova said states' reviews of the qualification documentation have been positive so far, so comment on qualification documentation in the 2020 Regulatory Guidance document will be limited to saying documentation should be specific to the opinion being issued. The boilerplate document might not always be appropriate.

Ms. Krylova made a motion, seconded by Ms. Darby, to adopt the report of the Actuarial Opinion (C) Working Group. The motion passed unanimously.

2. Adopted the *Regulatory Review of Predictive Models* White Paper

Mr. Vigliaturo said the drafting group reached a consensus to recommend the white paper for adoption by the Task Force.

Mr. Piazza said the white paper was created because of charges originating at the Big Data (EX) Working Group and presented to the Task Force. He said 10 comment letters submitted in response to the white paper exposure ending July 27 were presented on the Task Force's Aug. 10 call. The drafting group reviewed the comments and made some changes to the white paper, mostly to add clarity to some of the appendices' items.

Mr. Piazza highlighted some key issues identified during the white paper's development.

Mr. Piazza said some comments were submitted by interested parties about disparate impact and proxies for protected classes. The issue posed was that the white paper did not address these topics thoroughly. Mr. Piazza said the subject of disparate impact is beyond the scope of the white paper, given that it is not current law. Proxies for protected classes is mentioned but also identified as an "other consideration" in the white paper. With the new NAIC Special (EX) Committee on Race and Insurance, Mr. Piazza said he expects these subjects to be further discussed. He said should the commissioners seek actuarial assistance with the issue, the Task Force will be ready to assist.

Another item in the list of “other considerations” is the issue of causality versus correlation when evaluating a rating variable’s relationship to risk. The white paper does not recommend a requirement to prove causality; however, some state insurance regulators already expect justification beyond strict correlation. Many variables might be correlated, but Mr. Piazza said that does not necessarily mean the particular variable should be used in rating property/casualty (P/C) insurance. Therefore, the white paper suggests that companies should be prepared to provide a rational explanation for why a variable should be used in rating. If such an explanation cannot be provided, greater regulatory scrutiny of the variable may be appropriate. Further guidance on this subject is left as an “other consideration” of the white paper.

Confidentiality continues to be an issue, but the drafting group believes it is addressed sufficiently. Mr. Piazza said nothing in this white paper changes the requirement for state insurance regulators to abide by state confidentiality laws and/or regulations. Anyone, including consultants, involved in the regulatory review of rates are held to contract provisions that require abidance with state laws.

Mr. Piazza said a fourth item is the potential for the white paper to result in overly prescriptive, burdensome and costly rate regulation. He said at the advice of the NAIC Legal Division, a paragraph was added to the introduction that summarily says this white paper is for guidance only and has no direct impact on any state unless the state chooses to use the guidance.

The last item Mr. Piazza addressed is the request for the inclusion of Actuarial Standards of Practice (ASOPs) in this white paper. He said the white paper applies to any filing, whether from an actuary or not. Of course, actuaries should be aware that they have to abide by their own professional standards. The white paper deals with the filing itself and whoever is trying to support the filing.

Mr. Stolyarov said the white paper describes current state regulatory activity and does not create new standards. As technology changes and new techniques evolve, individual states will need to determine how to review the new approaches.

Angela Gleason (American Property Casualty Insurance Association—APCIA) said the APCIA believes there is too much information in the white paper, resulting in redundancy and subjectivity. She encouraged not adopting the white paper at this time. She said the white paper would create a long review process and distract from product development and innovation.

Andrew R. Pauley (National Association of Mutual Insurance Companies—NAMIC) said the process was diligent, thorough and transparent. NAMIC does not agree with all aspects of the white paper and it would be supportive of a delay. However, Mr. Pauley said in understanding the desire of the Task Force, he appreciates that certain items are included for future discussion. He said the Task Force was responsive to several concerns throughout the process.

Mr. Stolyarov made a motion, seconded by Mr. Eagelfeld, to adopt the *Regulatory Review of Predictive Models* white paper. The motion passed unanimously. The white paper will next be considered for adoption by its parent committee.

### 3. Adopted its 2021 Proposed Charges

Mr. Vigliaturo drafted the Task Force’s 2021 Proposed Charges. He said there are no new charges, but there is elimination of completed charges.

Ms. Gleason said the charge to provide technical assistance to the Big Data (EX) Working Group seems to be a new charge. Mr. Vigliaturo said the Task Force always stands ready to provide technical assistance, so he agreed to delete that specific charge to avoid confusion.

Mr. Piazza made a motion, seconded by Mr. Davis (SC), to adopt the Task Force’s 2021 Proposed Charges as amended. The motion passed unanimously. The charges will next be considered for adoption by its parent committee.

### 4. Introduced the Academy’s Exposure Draft Qualification Standards

Largely due to the 2019 revisions made to instructions for the Statement of Actuarial Opinion (SAO), the American Academy of Actuaries’ (Academy’s) Committee on Qualification has produced an exposure draft of the Qualification Standards for Actuaries Issuing Statement of Actuarial Opinion in the United States. On Sept. 2, the Academy’s Board of Directors approved the release of the exposure draft. The comment deadline is Oct. 30. Mr. Stolyarov volunteered to draft a comment letter for consideration of adoption by the Task Force.

5. Discussed Project #2019-49: Retroactive Reinsurance Exception

Mr. Vigliaturo said the Statutory Accounting Principles (E) Working Group referred Project #2019-49: Retroactive Reinsurance Exception to the Task Force in January. The project was initialized after receipt of a letter from the Academy's Committee on Property and Liability Financial Reporting (COPLFR). On the Task Force's July 14 call, Mr. Piazza asked three regulatory volunteers—Gordon Hay (NE), Mr. Botsko and Ms. Fisk—to propose a way forward.

Mr. Hay said the *Statement of Statutory Accounting Principles (SSAP) No. 62R—Property and Casualty Reinsurance* exceptions have different historical context and constituencies. The accounting guidance differs. Mr. Hay said the volunteers are evaluating adding language to address the exceptions' Schedule P treatment to improve consistency. Also, paragraphs 30–32 only address ceded insurance and not assumed reinsurance. Mr. Hay said the group is discussing whether the scope of those paragraphs should expand.

6. Discussed the Continued Competence Charge and the CAS/SOA Task Force's Appointed Actuary CE Log

Mr. Vigliaturo said the Task Force discussed the Casualty Actuarial Society (CAS)/Society of Actuaries (SOA) continuing education (CE) log for appointed actuaries on its July 14 call. The Task Force adopted a recommendation to the CAS/SOA CE Task Force to defer the implementation of the CAS/SOA CE log for 2020 and allow appointed actuaries to add a column to their existing CE log indicating the categorization approved by the Task Force (on the adopted document titled "Appointed Actuary CE Log Categories"). On its Aug. 10 call, the Task Force sought the status of this work. Mr. Vigliaturo said he believes the CAS/SOA CE Task Force has now met and can provide an update on the CE log development and any related communication plan.

Ann Weber (SOA) said the CAS and SOA are ensuring that message points for separate CAS and SOA communication are in sync. The plan is to have the first communication soon. Ms. Weber said directions for Appointed Actuaries will include being able to add a column to their current CE logs or use the newly developed log. Ken Williams (CAS) said the log sheet is optional. Those actuaries who choose to use the log will be asked to provide advice on how to improve the tool.

Ralph Blanchard (Travelers) asked whether the comments received resulted in changes to the template. Ms. Weber said there have been different exposures, and she incorporated a vast majority of the technical comments into the logging sheet. Mr. Blanchard asked whether there should be just one category logged or how to log the CE if the presentation covered multiple categories. Mr. Williams said the actuary can just use multiple rows of the CE log to list all of the categories if they choose.

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

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Draft: 11/5/20

Actuarial Opinion (C) Working Group  
E-Vote  
October 30, 2020

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Oct. 30, 2020. The following Task Force members participated: Anna Krylova, Chair (NM); Miriam Fisk, Vice Chair (TX); Qing He (CT); David Christhlf (DC); Judy Mottar (IL); Sandra Darby (ME); and Tom Botsko (OH).

1. Adopted the 2020 Regulatory Guidance

The Working Group conducted an e-vote to consider adoption of the 2020 *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion* (Regulatory Guidance). A majority of the members voted in favor of adopting the Regulatory Guidance (Attachment Four-A). The motion passed.

The Regulatory Guidance will be sent to the American Academy of Actuaries (Academy) Committee on Property and Liability Financial Reporting (COPLFR) for inclusion in its annual practice note.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.

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## **REGULATORY GUIDANCE on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year 2020**

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

The NAIC Actuarial Opinion (C) Working Group (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).

There have been changes to the *Instructions* for 2018 and 2019. As a result of these changes, the *Instructions* now:

- Include a new definition for “Accident & Health (A&H) Long Duration Contracts” in order to draw a distinction between these contracts and the Property and Casualty (P&C) Long Duration Contracts whose unearned premium reserves are reported on Exhibit A, Items 7 and 8,
- Add a reference to SSAP No. 65 in the definition of P&C Long Duration Contracts,
- Include a new disclosure item on Exhibit B for net reserves associated with A&H Long Duration Contracts,
- State that the Actuarial Report should disclose all reserve amounts associated with A&H Long Duration Contracts, and
- State that the Actuarial Report and workpapers summarizing the asset adequacy testing of long-term care contracts must be in compliance with *Actuarial Guideline LI – The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) of the *Accounting Practices and Procedures Manual*.
- Pursuant to efforts undertaken by the Task Force and the Executive (EX) Committee, the definition of “Qualified Actuary” is significantly revised and a new requirement called “qualification documentation” was added. These changes are described in this Regulatory Guidance document and additional guidance is offered to assist an Appointed Actuary in creating qualification documentation.



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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. Qualified Actuary definition

With the introduction of an additional educational track for property and casualty (P/C) actuaries, the NAIC needed to consider revisions to the definition of "Qualified Actuary." Upon receiving advice from a consultant on the NAIC's definition of a "Qualified Actuary," the NAIC began a project to re-define a Qualified Actuary using objective criteria. Upon nomination by the Casualty Actuarial Society (CAS), Society of Actuaries (SOA), and the American Academy of Actuaries (Academy), many Appointed Actuaries and other subject matter experts volunteered to assist the NAIC. The NAIC's P/C Appointed Actuary Job Analysis Project resulted in documentation of knowledge statements, or what an Appointed Actuary may need to know and do. The NAIC's P/C Educational Standards and Assessment Project resulted in documentation of which elements in each knowledge statement should be included in basic education as a minimum standard, with the remaining elements achievable through experience or continuing education. Using the minimum educational standards, the NAIC and subject matter experts assessed the CAS and SOA syllabi and reading materials. The CAS and SOA have made or agreed to make specific changes to their syllabi and/or reading materials to meet the standards. The revised syllabi and reference materials are required to be in place by Jan. 1, 2021.

As a result of these NAIC projects, the definition of "Qualified Actuary" was crafted to include basic education requirements and professionalism requirements (e.g. application of U.S. Qualification Standards, Code of Conduct, and ABCD). The definition of Qualified Actuary replaces the requirement to be "a member in good standing of the Casualty Actuarial Society" with a requirement to obtain and maintain an "Accepted Actuarial Designation." An Accepted Actuarial Designation is one that was considered by the NAIC to meet the NAIC's minimum educational standards for an Appointed Actuary. See the *Instructions* for the list of Accepted Actuarial Designations. It is important to note that some designations are accepted as meeting the basic education standards only if certain specific exams and/or tracks are successfully completed (with exceptions noted in the exam substitutions table of the *Instructions*). The NAIC process requires a recurring assessment of the "Qualified Actuary" definition every 5-10 years.

The NAIC does not intend to retroactively change requirements for Appointed Actuaries. If an actuary previously met the 2018 qualified actuary definition but lacks the specific exams and/or tracks under the new definition, the *Instructions* provide a list of acceptable substitutions.

### D. Qualification documentation

The 2019 *Instructions* require the Appointed Actuary to provide "qualification documentation" to the Board of Directors upon initial appointment and annually thereafter. 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.

#### E. 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.

#### F. 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.

#### G. 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.

#### H. 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?

#### I. 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 refiling, 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 and principles) 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.
- The Appointed Actuary should map the data groupings used in the analysis to Schedule P lines of business and should provide detailed reconciliations of the data at the finest level of segmentation that is possible and practical. The Working Group recognizes that the Appointed Actuary chooses the data segmentation for the analysis and that there is often not a direct correspondence between analysis segments and Schedule P lines of business.
- The Appointed Actuary should reconcile all data material to the analysis, including claim counts and earned premium if appropriate.

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

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

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

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

##### 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 have been 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 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. The Appointed Actuary should consider providing expanded detail on the completion (or planned completion) of these hours in the CE documentation.

- (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).”
- “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.”



### C. CE logging procedure

The Casualty Actuarial and Statistical (C) Task Force continues to work with the CAS and SOA to identify types of learning that P/C Appointed Actuaries are using to meet continuing education (CE) requirements for 'Specific Qualification Standards' today and whether more specificity should be added to the P/C Appointed Actuaries' CE requirements to ensure CE is aligned with the educational needs for a P/C Appointed Actuary.

The Task Force has adopted a project plan that includes requirements for 1) categorization of CE in the Appointed Actuaries' CE log and 2) CE log audits by the CAS/SOA of a percentage of Appointed Actuaries. For year-end 2020, Appointed Actuaries selected for review by the CAS or SOA must either use a specific logging format for their CE logs or add a column to one's current log. Appointed actuaries are encouraged to categorize their CE throughout the year, since waiting until the audit (if selected) may compromise the accuracy of categorization. While audited Appointed Actuaries will submit their individual logs, the CAS and SOA will only share aggregated information with the NAIC. The CAS and SOA will distribute information on 2020 CE logging and submission instructions, CE categories, and categorization rules.

### D. COVID-19

COVID-19 and subsequent economic events have had a significant impact on 2020 accident year insurance liabilities for some lines of business. Furthermore, the effects of COVID-19 could extend to other aspects of the company's operations and the claims process. The Appointed Actuary should consider the direct impacts to loss and unearned premium reserves, claims patterns and loss trends, collectability of reinsurance and/or premiums, exposure, etc., as well as indirect impacts such as claims handling delays and procedural changes resulting from public health orders. It is important for the Appointed Actuary to understand the company's treatment of any changes stemming from COVID-19, for example premium refunds or rate reductions, in the annual financial statement. The impact of such financial reporting 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 on COVID-19 impacts and discuss the corresponding actuarial assumptions in the Statement of Actuarial Opinion. Otherwise, Appointed Actuaries are still strongly encouraged to mention their review of COVID-19 effects on the company in the Statement of Actuarial Opinion, to demonstrate that it has not been overlooked or disregarded.

Actuaries may refer to the Statement of Actuarial Opinion Instructions, ASOPs, and Statutory Accounting Principles Working Group documents (particularly INT 20-08) for further instruction. 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.

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Draft: 11/2/20

Actuarial Opinion (C) Working Group  
Virtual Meeting  
October 22, 2020

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met Oct. 22, 2020. The following Working Group members participated: Anna Krylova, Chair (NM); Miriam Fisk, Vice Chair (TX); Susan Andrews and Qing He (CT); Chantel Long and Judy Mottar (IL); Sandra Darby (ME); Tom Botsko (OH); and Kevin Clark and James DiSanto (PA).

1. Discussed 2020 Regulatory Guidance

For the 2020 *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion* (Regulatory Guidance), Ms. Krylova suggested some COVID-19 guidance to insert as paragraph D at the end of the document. She said there is concern that giving examples may give the impression the list is exhaustive. She said there are references to some documents, but there are probably other sources to cite.

Ms. Long said she looked for past examples of such type of guidance. She said there is nothing in the actuarial opinion instructions on COVID-19, but the guidance could be used. She said she does not want to opine on whether the examples given should be eliminated. Mr. Botsko suggested states might want to notify their appointed actuaries to ask them to include the subject in opinions. Ms. Mottar said the group might consider using the company bulletin (CB) mechanism given that regulators regulate companies and not actuaries. Mr. Andrews said she does not believe a bulletin is needed and that the drafted guidance should be sufficient. Ms. Darby agreed.

Kathy Odomirok (American Academy of Actuaries—Academy) found a regulation with mention that the Casualty Actuarial (C) Task Force adopted a letter regarding 9/11 in 2001. Mr. He said the actuaries might wish to issue a letter.

Ms. Odomirok said a member of the Academy asked whether the COVID-19 wording should be broadened to refer to business shutdowns. She said the Academy would prefer to refer to the practice note as practical considerations and not guidance. Ms. Krylova said she prefers for COVID-19 to be considered in the broad sense and does not want to list everything. She said the Academy is also updating the frequently asked questions (FAQ) for the Practice Note, so there may be additional discussion of COVID-19.

Ms. Andrews said it might be helpful to evaluate any COVID-19 actions taken by the life and health actuaries.

Ms. Krylova suggested a sentence in the continuing education (CE) log section: “Appointed actuaries are encouraged to categorize their CE throughout the year since waiting until the audit, if selected, may compromise the accuracy of categorization.” There were no objections.

Ms. Krylova said she will redraft the document based on discussion and will gather input via email. If possible, the Working Group will conduct an e-vote to consider adoption of the Regulatory Guidance document towards the end of October.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.

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Draft: 11/10/20

Actuarial Opinion (C) Working Group  
Virtual Meeting  
September 24, 2020

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met Sept. 24, 2020. The following Working Group members participated: Anna Krylova, Chair (NM); Miriam Fisk, Vice Chair (TX); Qing He and Susan Andrews (CT); Chantel Long and Judy Mottar (IL); Sandra Darby (ME); Gordon Hay (NE); Tom Botsko (OH); Andrew Schallhorn (OK); and Kevin Clark (PA).

1. Adopted a Referral on the *Financial Analysis Handbook*

The Working Group received no comments on its exposure of the proposed changes to the *Financial Analysis Handbook*. The changes were proposed to align with the 2019 implemented changes to the definition of “qualified actuary” in the Property/Casualty (P/C) Statement of Actuarial Opinion (SAO) instructions.

Mr. Botsko made a motion, seconded by Mr. Schallhorn, to consider adoption of the referral (Attachment Six-A). The motion passed unanimously. NAIC staff will forward the referral to the Financial Analysis Solvency Tools (E) Working Group.

2. Adopted a Referral on the *Financial Examiners Handbook*

The Working Group discussed revisions to the proposed changes to the *Financial Examiners Handbook*. Most of the proposed changes were made to align with changes to the definition of “qualified actuary” in the 2019 P/C SAO instructions. There were some additional wording changes suggested to add clarity.

Mr. Botsko made a motion, seconded by Mr. Schallhorn, to consider adoption of the referral (Attachment Six-B). The motion passed unanimously. NAIC staff will forward the referral to the Financial Examiners Handbook (E) Technical Group.

3. Discussed the 2020 Regulatory Guidance

The Working Group discussed the 2020 *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion* (Regulatory Guidance) and decided to include a section on COVID-19.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.

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### Financial Analysis Handbook Excerpts Relating to Appointed Actuary Qualifications

#### III.B.8.a.i. Statement of Actuarial Opinion Worksheet – P/C Annual

##### Actuarial Opinion - Identification

2. Determine whether the Actuarial Opinion was prepared by a qualified actuary who was appointed by the insurer's board of directors prior to Dec. 31 of the calendar year for which the opinion was rendered.

	<i>Comments</i>
a. Appointed Actuary:	
i. Name	
ii. Relationship to insurer: <ul style="list-style-type: none"> <li>Office/employee of insurer or group (E)</li> <li>Consultant (C)</li> </ul>	
iii. Qualification (List the same qualification as listed in the Actuarial Opinion): <ul style="list-style-type: none"> <li>Fellow of the Casualty Actuarial Society (F)</li> <li>Associate of the Casualty Actuarial Society (A)</li> <li>Fellow of the Society of Actuaries through the General Insurance track (S)</li> <li>Member of the American Academy of Actuaries approved by the Casualty Practice Council (M)</li> <li>Other (O)</li> </ul>	
iv. Appointed by the board of directors by Dec. 31 of the calendar year for which the opinion was rendered	
v. Same actuary who was appointed for the previous Actuarial Opinion ("yes" or "no")	
If "no": <ul style="list-style-type: none"> <li>The insurer notified the domiciliary state insurance regulator within five days of the replacement.</li> <li>Within 10 days of above notification, the insurer provided an additional letter stating whether there were any disagreements with the former appointed actuary and also in writing requested the former appointed actuary provide a letter of agreement.</li> <li>The insurer furnished the former appointed actuary's letter of agreement.</li> </ul>	

#### III.B.8.a.ii. Reserving Risk Repository – P/C Analyst Reference Guide

##### Overview of Actuarial Opinion & Actuarial Opinion Summary

##### A. Actuarial Opinion

##### Annual Statement Instructions – Actuarial Opinion

Section 1 of the *Annual Statement Instructions* (Instructions) identifies the insurer's responsibilities regarding appointment of a qualified actuary, notification to regulators, regulatory requirements for a change in actuary, requesting an exemption from filing the Actuarial Opinion, and reporting requirements for insurers that participate in an intercompany pooling arrangement. Most of this is straightforward; therefore, the following is a summary of what is included within each section.

## Financial Analysis Handbook Excerpts Relating to Appointed Actuary Qualifications

To be considered a “Qualified Actuary” ~~as defined in the NAIC Statement of Actuarial Opinion Instructions as defined by the Casualty Actuarial and Statistical (C) Task Force~~, an actuary must satisfy specified qualification standards, ~~retain an Accepted Actuarial Designation~~, and maintain membership in ~~an identified a~~ professional ~~actuarial association organization that requires adherence to the same Code of Professional Conduct promulgated by the American Academy of Actuaries and participation in the Actuarial Board for Counseling and Discipline~~. With respect to filing exemptions, it should be noted that a commissioner is not obligated to grant an exemption merely due to the presence of one or more conditions. Consideration of an exemption request should include the size and uncertainty in the reserves, both the direct and assumed as well as the net.

### Actuarial Opinion – General and Identification

**PROCEDURES #1, #2 AND #3** assist analysts in determining whether: 1) the insurer is exempt from filing the Actuarial Opinion; 2) if not, whether the Actuarial Opinion was prepared by a ~~q~~Qualified ~~a~~Actuary who was appointed by the insurer’s board of directors prior to Dec. 31 of the calendar year for which the opinion was rendered; and 3) the Appointed Actuary made the required disclosures if the insurer is a member of an intercompany pooling arrangement. Pool members’ financial results may need to be evaluated differently than those of insurers that operate independently.

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Excerpt from Exhibit M: Understanding the Corporate Governance Structure

Management should provide effective oversight of the insurer's actuarial function in evaluating and providing advice to the insurer in respect to technical provisions, premium, pricing, and reserving activities, and compliance with related statutory and regulatory requirements. While various components of an actuarial function can be provided internally or outsourced to an external third party, the following elements should be considered in understanding and assessing the insurer's governance practices in this area:

1. Are individuals within the insurer's actuarial function suitable for their respective roles? Do they possess the necessary competence and integrity for their positions?
  - a. Does the insurer's appointed actuary maintain an Accepted Actuarial Designation and current actuarial credentials with an appropriate professional organization (e.g., FCAS, MAAA, etc.) otherwise meet the definition of a Qualified Actuary, as stated in the NAIC Statement of Actuarial Opinion Instructions?
  - ~~b. Does the appointed actuary have experience in the lines of business written by the company?~~
  - ~~c. Do others within the company's actuarial function have the appropriate knowledge, experience and background to function in the roles assigned to them?~~
  - b. If the company has an internal actuarial function, is it appropriate for the company's size, complexity, and lines of business written?
    - i. Do those within the company's actuarial function have the appropriate knowledge, experience and background to function in the roles assigned to them?
    - ii. Does the organizational chart indicate appropriate lines of reporting for the actuarial function?
  - c. If the company outsources any part of its actuarial function, is it appropriate for the company's size, complexity, and lines of business written?
    - i. Has management determined that the actuary has the appropriate knowledge, experience and background to function in the assigned role?
    - ii. What oversight is the company performing, and who at the company is responsible for this task?
2. Does the insurer's actuarial function provide advice on actuarial matters to management as appropriate based on the size and complexity of the entity? Key components include:
  - a. The insurer's actuarial and financial risks.
  - b. The insurer's current and prospective solvency position.
  - c. Risk-assessment and risk-management policies and controls relevant to actuarial matters or the financial condition of the insurer.
  - d. Distribution of policy dividend or other benefits.
  - e. Underwriting policies.
  - f. Reinsurance arrangements.
  - g. Product development and design, including the terms and conditions of insurance contracts.
  - h. The sufficiency and quality of data used in the calculation of technical provisions.
  - i. Risk modeling and use of internal models in risk management.
3. Does the insurer have appropriate segregation of duties between its actuarial function and executive management to ensure that:



- a. ~~Recorded reserves reflect an appropriate actuarial estimate (P&C and Health). Actuarial analysis is considered by management in determining carried reserves.~~  
~~b. The company books the actuary's best estimate each year (P&C).~~
- ~~e.b.~~ If the company's recorded reserves differ significantly from the actuary's best point estimate, the rationale for such deviation is appropriately documented and presented to the board of directors (P&C).
- ~~d.c.~~ The company's appointed actuary has submitted a report to the Board of Directors on reserve adequacy (All Lines)?

Excerpt from Current Reserves/Claims Handling (P&C) Examination Repository

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<p><del>The assumptions and methodologies used by the insurer are not accurate and appropriate.</del></p> <p><u>Actuarial analyses relied upon by the insurer's management in determining carried reserves are not based on appropriate methods and/or reasonable assumptions.</u></p>	RV	VA AC PD	RA	<p>The insurer uses consistent assumptions and methodologies that have been based on historical results (to the extent appropriate), adequately documented, approved by senior management and in accordance with statutory accounting principles and applicable state statutes and/or regulations.</p> <p>Senior management uses internal or independent actuaries to conduct reserve analyses of all major lines of business on an annual basis.</p> <p>Actuarial analysis is subject to a peer review process.</p>	<p>Gain an understanding of the insurer's assumptions and methodologies and compare with prior periods.</p> <p>Verify that senior management signs off on assumptions and methodologies used by the insurer, including any changes.</p> <p>Verify senior management review of reports from actuaries and that reports include reserve analyses of all major lines of business.</p>	<p>Review assumptions and methodologies for reasonableness, appropriateness and accuracy with assistance from the insurance department actuary or an independent actuary.</p> <p>Verify that reserving assumptions are in accordance with the relevant SSAPs related to P&amp;C reserving, as well as applicable statutes, regulations, pronouncements and/or bulletins.</p> <p>Review prior history of loss development, as well as subsequent loss</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>Management receives regular reports on loss ratios (including incurred but not reported (IBNR)) by line or class of business grouped by accident year and calendar year, as well as other key ratios, and reviews unusual fluctuations on a timely basis to review reserves for adequacy.</p> <p>The insurer utilizes a fully staffed, well-qualified actuarial function that is under the direction of an <u>actuary that has an Accepted Actuarial Designation, as defined in</u></p>	<p>If performed in-house, review and test the actuarial peer review process and related sign-offs.</p> <p>Verify management review of loss reserve reporting and test the operating effectiveness of procedures in place.</p> <p>Review the credentials, background and responsibilities of the insurer's actuarial function (internal or external) for appropriateness.</p>	<p>development data to analyze the reasonableness of assumptions and methodologies.</p> <p>Determine whether the appropriate disclosures have been made in the Notes to the Financial Statements for the changes in reserve methodologies.</p> <p>Review actuarial reports and compare reports to prior periods. Investigate significant variations.</p> <p>Utilize the insurance department actuary or an independent actuary to perform an independent calculation/estimate of the loss reserves.</p>

11/10/20

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p><u>the NAIC Statement of Actuarial Opinion Instructions, fellow (or associate) of the Casualty Actuary Society (FCAS)</u> and is experienced in the lines of business written by the insurer.</p> <p>The reserving actuarial unit's responsibilities are segregated from the pricing actuarial unit, but there is regular communication between the two units.</p> <p>The insurer's organizational structure limits the influence that management can have on the appointed actuary.</p>	<p>Request and review the insurer's organizational chart and job descriptions to determine whether the functions are separate and distinct.</p> <p>Interview the appointed actuary during the planning phase of the examination to determine whether the insurer's organizational structure is appropriate in this area.</p>	<p>Review correspondence related to peer review for appropriate depth of review.</p> <p>Compare the opinioning actuary's assumptions and estimates with those in other available actuarial analyses.</p> <p>Determine whether the Actuarial Opinion was changed by the appointed actuary after meeting with insurer management.</p>

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Draft: 9/10/20

Actuarial Opinion (C) Working Group  
Conference Call  
September 10, 2020

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met via conference call Sept. 10, 2020. The following Working Group members participated: Anna Krylova, Chair (NM); Miriam Fisk, Vice Chair (TX); Susan Andrews and Qing He (CT); David Christhlf (DC); Chantel Long and Judy Mottar (IL); Sandra Darby (ME); and Kevin Clark and James DiSanto (PA). Also participating were: Kevin Dyke (MI); and Julie Lederer (MO).

1. Discussed *Financial Analysis Handbook* and *Financial Condition Examiners Handbook* Changes

Ms. Krylova said the proposed changes to the *Financial Analysis Handbook* and *Financial Condition Examiners Handbook* were exposed for written comment on July 13 for a 45-day public comment period ending Aug. 27. The Working Group received one comment letter on the *Financial Condition Examiners Handbook* proposal from the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries (Academy) (Attachment Seven-A). The Working Group discussed the comments received and a revised draft of the handbook section that Ms. Fisk proposed. If no significant changes are proposed, the Working Group will conduct an e-vote to consider adoption.

2. Discussed 2020 *Regulatory Guidance*

For the 2020 *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion* (Regulatory Guidance), Ms. Krylova suggested changes to the 2019 Regulatory Guidance.

Mr. Dyke said the Casualty Actuarial Society (CAS)/Society of Actuaries (SOA) Task Force on Continuing Education (CE) agreed to defer the full implementation for a specific log format until 2021. He said an alternative method will be used for 2020 (see *NAIC Proceedings – Summer 2020*, Casualty Actuarial and Statistical (C) Task Force minutes). He said he drafted some suggested wording for the Regulatory Guidance. The Working Group will continue to discuss the Regulatory Guidance during its next conference call.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.

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**From:** Stephen Koca <stephen.koca@milliman.com>  
**Sent:** Tuesday, September 15, 2020 10:58 AM  
**To:** Krylova, Anna <anna.krylova@state.nm.us>  
**Cc:** DeFrain, Kris <kdefrain@naic.org>  
**Subject:** FW: Actuarial Opinion (C) Working Group Conference Call - Sept. 24

Hi Anna –

I am hoping you are accepting interested party comment on the Regulatory Guidance document. I believe the language for the CE logging section in Regulatory Guidance implies a more broad requirement for logging procedures and categorization than the Instructions state. My reading of the Instructions and the identification of items to change in associated Blanks agenda (2020-12BWG) is that the additional categorization is only required if an individual appointed actuary's CE log is selected for review by the CAS or SOA. The language in the Regulatory Guidance seems to imply that the additional categorization is required for all Appointed Actuary, whether their log is submitted or not.

From Instructions: "...an Appointed Actuary who is subject to the U.S. Qualification Standards *and selected for review* [emphasis added] shall submit a log of their continuing education in a form determined by the CAS and SOA. The log shall include categorization of continuing education approved for use by the Casualty Actuarial and Statistical Task Force..."

From 2020-12BWG: "The proposal will require appointed actuaries to attest to meeting Continuing Education (CE) requirements and participate in the CAS/SOA CE review procedures, *if requested* [emphasis added]."

I recommend an edit to the following sentence in the last paragraph of Regulatory Guidance to be consistent with the above (my suggested edit in red) "For year-end 2020, an Appointed Actuary must either use a specific logging format for their CE logs or add a column to one's current log, *if selected for review by the CAS or SOA.*"

Regards,  
Stephen

**Stephen J Koca, FCAS, MAAA**  
Principal and Consulting Actuary

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W:\National Meetings\2020\Fall\TF\CasAct\AOWG\0910 Koca comment FEH.docx

Lisa Slotznick, Vice President  
Casualty Practice Council

Kathy Odomirok, Chair  
Committee on Property and Liability  
Financial Reporting


  
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Casualty Actuarial and Statistical Task Force – Nov. 10, 2020

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### Casualty Practice Council (CPC) Update


- Pandemic Risk Insurance Act (PRIA)
  - Comments to Congress June 2020 and May 2020
- Workers' Compensation
  - Presumptive Benefits Issues Brief
  - COVID-19-Related Webinar
  - Opioids Paper to be published in Q4
- Automobile Papers on COVID and Other Topics to be published in Q4
- Medical Professional Liability on COVID to be published in Q4
- Cyber Breach Research Report on variations in state reporting requirements presented at Academy Annual Meeting
- Extreme Events updates
  - Flood Monograph Update and Wildfire Essential Elements
  - Climate and Actuaries Climate Risk Index and Actuaries Climate Risk Index
- Welcome Lauren Cavanaugh as new VP Casualty

  
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### Committee on Property and Liability Financial Reporting (COPLFR) Update


- Recent releases/activities
  - Overview for P/C Insurers' Audit Committees (September)  
[https://www.actuary.org/sites/default/files/2020-09/Audit\\_Comm\\_Overview\\_2020.pdf](https://www.actuary.org/sites/default/files/2020-09/Audit_Comm_Overview_2020.pdf)
    - Also presented at CLRS roundtable
  - Comment letter on Exposure of Financial Examiners Handbook (August)
  - Feedback on AOWG Regulatory Guidance and draft CAS CE tracker (September/October)
- Upcoming events
  - 2020 Seminar on Effective P/C Loss Reserve Opinions (December 9, 10, 14 & 15 starting at 1 PM EST)  
<https://www.actuary.org/node/13876>
  - Release of 2020 Practice Note on SAOs on P/C Loss Reserves (December)
  - P/C Loss Reserve Law Manual (early January) – thank you for your help!
  - Release of COVID-19 FAQs 2.0 (early January)
- Welcome to Derek Freihaut as Chair of COPLFR

  
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### Questions?

- Contact: Marc Rosenberg, senior policy analyst,  
casualty (rosenberg@actuary.org)

  
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W:\National Meetings\2020\Fall\TF\CasAct\11-10 CASTF - Academy CPC (and COPLFR) presentation - Nov 10 2020 (reduced).pdf



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CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE  
November 2020  
Society of Actuaries (SOA) Actuarial Research and Education Update

- Highlights of Recent Research Reports
- *Auto Loss Costs* published in November 2020
  - <https://www.soa.org/resources/research-reports/2020/auto-loss-costs-dynamic-linear/>
  - <https://www.soa.org/globalassets/assets/files/resources/research-report/2020/auto-loss-costs-dynamic-linear.pdf>
  - Review of Auto Policy claim frequency, claim severity and total loss cost trends through late 2019 across all key coverages
  - Joint project of Casualty Actuarial Society, American Property Casualty Insurance Association and Society of Actuaries
- *The Task Force on Climate-related Financial Disclosures (TCFD): What Actuaries Need to Know*
  - <https://www.soa.org/resources/research-reports/2020/task-force-climate-financial/>
  - <https://www.soa.org/globalassets/assets/files/resources/research-report/2020/task-force-climate-financial.pdf>
  - Highlights key components and broader recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and its ramifications on actuarial work.
  - Strong use of TCFD in Europe and Asian markets, and growing interest in North American markets.
- *Actuarial Weather Extremes*
  - Monthly reports that identifies and examines unusual or extreme single-day or multi-day weather events across North America
  - <https://www.soa.org/resources/research-reports/2019/weather-extremes/>
  - <https://www.soa.org/globalassets/assets/files/resources/research-report/2020/weather-extremes-sep-2020.pdf>
  - Recent September report includes Western U.S. Wildfires, Hurricane Sally
  - October 2020: Additional hurricane and wildfire reports



## Current Research

Project	Status	Expected publication
Users guide to ESGs for P&C companies	Published	August 2020
Individual reserving techniques	Publication imminent	Q4 2020
Uninsurable risk with a focus on BI	First draft under review	Q4 2020
Demand for Microinsurance	First draft under review	Q4 2020
The peer-to-peer insurance market	First draft imminent	Q4 2020
Credibility for excess insurance layers	Work underway	Q2 2021
Flood models using public data	Work underway	August 2021



## Future Research

The following projects are open calls which have been announced and for which we are accepting proposals, or reviewing those we have received.

Project	Announced
Wildfire	Q4 2020
Cannabis legislation and auto loss frequency (joint project with CIA)	To be announced Nov. 2020
Call for reinsurance papers	Q4 2020
<a href="#">Individual grant research program</a> (joint project with SOA)	Q3 2020



## Recent CE

Item	Type	When
<a href="#">CAS and IIHS/HLDI Webinar Series: The Drive to Automation</a>	Webinar	August 6
<a href="#">CAS Webinar: Reserving with Machine Learning</a>	Webinar	August 13
<a href="#">CAS and IIHS/HLDI Webinar Series: COVID-19 and Traffic Safety Puzzle of 2020</a>	Webinar	August 28
<a href="#">Virtual Casualty Loss Reserve Seminar (CLRS) &amp; Workshops</a>	Seminar	Sep 15-17
<a href="#">CAS R for the P&amp;C Practitioner Bootcamp</a>	Short course	Sep 21-30
<a href="#">2020 In Focus Virtual Seminar</a>	Seminar	Oct. 20-22



## Upcoming CE

Item	Type	When
CAS Annual Meeting	Seminar	Nov. 10-11
GIRO Session: Effective actuarial communication through storytelling	Webinar	Nov. 12
CIA Session: Regularization techniques for actuaries	Webinar	Nov. 13
Underwriting Collaboration Seminar	Seminar	Nov. 18
<a href="#">CAS Webinar: Disparate Impact and Rate Differentiation: A New Paradigm</a>	Webinar	Nov. 19
Revisiting the Methodology of Actuarial Science	Webinar	Dec. 1
Casualty Actuaries of Greater New York (CAGNY) 2020 Virtual Fall Meeting Webinar	Seminar	Dec. 9
Casualty Actuaries of the Bay Area (CABA) 2020 Virtual Fall Meeting	Seminar	Dec. 10
Southern California Casualty Actuarial Club (SCCAC) 2020 Virtual Fall Meeting	Seminar	Dec. 10
<a href="#">Autonomous Trucking</a>	Webinar	Dec. 17