

**From:** [Iarkowski, Michelle](#)  
**To:** [Krylova, Anna, OSI](#)  
**Subject:** RE: Regulatory Guidance and Instructions Drafts for AOWG  
**Date:** Tuesday, August 17, 2021 3:48:50 PM

---

Okay, one more idea... 😊

I know the Instructions can't be changed until 2022 to remove the reference to "principles" in this language:

The OPINION paragraph should include a sentence that at least covers the points listed in the following illustration:  
"In my opinion, the amounts carried in Exhibit A on account of the items identified:

- A. Meet the requirements of the insurance laws of (state of domicile).
- B. Are computed in accordance with accepted actuarial standards and principles.
- C. Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements."

So that means the 2021 Instructions are going to ask for the "and principles" language in item B – even though we know that the reserving principles were repealed and that they therefore won't be in effect when actuaries sign their 2021 opinions. So the 2021 Instructions are asking the AA to make a statement that isn't really true (which is why it would be changed in 2022...).

I know the Instructions can't be changed for 2021, but maybe 2021 regulatory guidance can provide some guidance on this point? I think the easiest thing to do is to actually let the 2021 opinions read either way – if you opt to include the "and principles" language, you're following the Instructions; if you opt to remove it, you're staying up-to-date with active/applicable guidance. It feels like either of those situations should be acceptable – but there's currently nothing out there from the NAIC that actually says that. I could see this conflict presenting a question for AA's, and regulatory guidance seems like the place to try to get out in front of it.

Perhaps it could then even be highlighted in the practice note with reference to regulatory guidance.

I saw you're out of office this week, I hope you're having a lovely, relaxing time away!

**Michelle L. Iarkowski, FCAS, MAAA**  
Consulting Actuary

**Risk & Regulatory Consulting, LLC**

20 Batterson Park Road  
Suite 380  
Farmington, CT 06032  
P: 215.203.4132  
[michelle.iarkowski@riskreg.com](mailto:michelle.iarkowski@riskreg.com)



**Results...Relationships...Commitment<sup>SM</sup>**

---

**From:** Iarkowski, Michelle

**Sent:** Tuesday, August 17, 2021 12:32 PM  
**To:** Krylova, Anna, OSI <Anna.Krylova@state.nm.us>  
**Subject:** RE: Regulatory Guidance and Instructions Drafts for AOWG

One more...

Was just emailing with Stephen Koca and he said he was surprised to see the “option” for the Schedule P rec to be net, gross, or both. When I asked for this, I was trying to get at Appointed Actuaries who only reconcile net and just ignore gross, because I saw a few of those this year.

I do think there could be valid reasons to only do one – for example, a company with no reinsurance has net=gross so only one reconciliation, or a 100% quota share company has no net data, so there’s nothing to reconcile for net. But outside of situations like those, I do think the expectation should be that the starting point is both.

So maybe this should read more like saying that the Appointed Actuary is expected to reconcile both direct and assumed and net of reinsurance data, unless circumstances specific to the company lead to a situation where the AA feels only one reconciliation is necessary, in which case that reasoning should be explained in the Actuarial Report.

**Michelle L. Iarkowski, FCAS, MAAA**  
Consulting Actuary

**Risk & Regulatory Consulting, LLC**  
20 Batterson Park Road  
Suite 380  
Farmington, CT 06032  
P: 215.203.4132  
[michelle.iarkowski@riskreg.com](mailto:michelle.iarkowski@riskreg.com)



**Results...Relationships...Commitment<sup>SM</sup>**

---

**From:** Iarkowski, Michelle  
**Sent:** Tuesday, August 17, 2021 9:16 AM  
**To:** Krylova, Anna, OSI <[Anna.Krylova@state.nm.us](mailto:Anna.Krylova@state.nm.us)>  
**Cc:** Thomas, Lia C <[LCThomas@naic.org](mailto:LCThomas@naic.org)>  
**Subject:** RE: Regulatory Guidance and Instructions Drafts for AOWG

Hi Anna,

Attached are some questions/suggestions on the proposed edits. I’d be happy to clarify any of my comments for you as needed and look forward to the discussion on the 9/2 call.

I also wanted to let you know that I recently resigned from RRC and will be headed back to Deloitte next month. I plan to maintain my role on COPLFR and the Opinion Seminar faculty, and am happy to

**From:** [Stephen Koca](#)  
**To:** [Krylova, Anna, OSI](#); [DeFrain, Kris](#)  
**Subject:** RE: Regulatory Guidance and Instructions Drafts for AOWG  
**Date:** Wednesday, August 25, 2021 12:12:56 PM

---

Hi Anna and Kris –

Please see my comments below on the proposed 2022 SAO Instructions and 2021 Regulatory Guidance. These comments are my own and do not necessarily reflect the views of my employer, COPLFR, or the Academy. I appreciate the opportunity to provide comments. I plan to attend the AOWG call scheduled for September 2<sup>nd</sup> if there are any questions.

#### 2022 SAO Instructions

- ASOP No. 56 was added as a specific reference. Note that in addition to those that are listed in the Instructions, COPLFR also cites or references ASOPs 1, 20, and 21 in the Practice Note.
- In section 1 when discussing the qualification documentation, the Appointed Actuary is directed to provide qualification to the Board of Directors “directly or through Company management”. I suggest adding similar language to the new sentence in the IDENTIFICATION paragraph about the attestation of Appointed Actuary complying with the requirement.

#### 2021 Regulatory Guidance

- “The Appointed Actuary should clearly demonstrate to a regulator or other user of the Actuarial Report how the actuarial data shown in the Schedule P reconciliation is aggregated from the liability groupings in the supporting actuarial analysis prior to reconciliation of that data to Schedule P.”
  - This sentence is applicable in the situation where the actuarial analysis groupings are more granular than Schedule P line of business groupings. The opposite situation is also possible where the actuarial analysis groupings are more broad. In the latter situation, is the expectation that the Appointed Actuary would a) disaggregate the data used in their analysis to match the individual Schedule P lines of business; b) aggregate the Schedule P data to match the groupings used in their analysis.
- “If the Appointed Actuary chooses not to reconcile certain data elements used in their analysis, such as claim counts or other commonly used data that regulators may expect to see, a brief explanation should be included in the Actuarial Report to make it clear that these elements were not inadvertently overlooked.”
  - Suggested addition to the above sentence (underlined).
  - In addition, clarification of what is meant by “other commonly used data” would be helpful
- “Schedule P reconciliations may be performed on a Direct and Assumed basis, Net of Reinsurance basis, or both. Selecting the basis is left to the Appointed Actuary’s discretion, but the rationale for choosing one way over the other should be explained in the Actuarial Report.”
  - My interpretation of the Instructions is that both Direct and Assumed basis and Net basis data are to be reconciled to Schedule P. This sentence implies there is an option and regulators do not expect to see both as long as the rationale is disclosed. Is it possible to provide examples of rationale that may be acceptable for doing the reconciliation only on a net basis, or only on a direct and assumed basis?
- “...the Appointed Actuary has the discretion to deviate as long as the rationale is explained in the Actuarial Opinion Report.”
  - Suggested edit (strikethrough and underline).
- “Schedule P reconciliations resulting in differences that are not minimal should be addressed in the Actuarial Report discussion, even if they are immaterial to the analysis, in order to assure regulators that the Appointed Actuary is aware of the differences and has sought an explanation for them.”

- I believe this sentence places more requirements on the Appointed Actuary than the Instructions state: “An explanation should be provided for any material differences.”
- Can further clarification be provided for what “not minimal” means? Perhaps an example of a situation that would qualify?

Best Regards,  
Stephen

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

**Milliman**  
251 South Lake Avenue, Suite 910  
Pasadena, CA 91101 USA

626 585 8947 Office  
707 225 4737 Mobile  
626 773 5099 Assistant

---

**From:** Thomas, Lia C <LCThomas@naic.org>  
**Sent:** Tuesday, August 17, 2021 5:28 AM  
**Cc:** DeFrain, Kris <kdefrain@naic.org>  
**Subject:** Regulatory Guidance and Instructions Drafts for AOWG

**SENT ON BEHALF OF ANNA KRYLOVA, CHAIR**

To Actuarial Opinion Working Group, Interested Regulators, and Interested Parties:

The attached draft 2021 Regulatory Guidance and proposed 2022 SAO Instructions are attached. [Note: the changes to the Instructions are for next year—2022—because this year’s deadline for submission has passed.] Please submit comments, revisions, and other changes to Anna directly ([Anna.Krylova@state.nm.us](mailto:Anna.Krylova@state.nm.us)) or to Kris DeFrain ([kdefrain@naic.org](mailto:kdefrain@naic.org)) prior to the Sept. 2 call.

-----  
Anna Krylova, FCAS, MAAA  
Chief Actuary  
New Mexico Office of Superintendent of Insurance

1120 Paseo De Peralta | PO Box 1689  
Santa Fe, NM 87501  
(505) 470-3580 | E-mail: [Anna.Krylova@state.nm.us](mailto:Anna.Krylova@state.nm.us)

----- CONFIDENTIALITY NOTICE

This message and any attachments are from the NAIC and are intended only for the addressee. Information contained herein is confidential, and may be privileged or exempt from disclosure pursuant to applicable federal or state law. This message is not intended as a waiver of the confidential, privileged or exempted status of the information transmitted. Unauthorized forwarding, printing, copying, distribution or use of such information is strictly prohibited and may be unlawful. If you are not the addressee, please promptly delete this message and notify