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?
   1. Does the insurer’s appointed actuary maintain an Accepted Actuarial Designation and otherwise meet the definition of a Qualified Actuary, as stated in the NAIC Statement of Actuarial Opinion Instructions?
   2. If the company has an internal actuarial function, is it appropriate for the company’s size, complexity, and lines of business written?
      1. Do those within the company’s actuarial function have the appropriate knowledge, experience and background to function in the roles assigned to them?
      2. Does the organizational chart provide evidence of appropriate lines of reporting for the actuarial function?
   3. If the company outsources its actuarial function, does the actuary have the appropriate knowledge, experience and background to function in the assigned role and what oversight is the company performing?
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:
   1. The insurer’s actuarial and financial risks.
   2. The insurer’s current and prospective solvency position.
   3. Risk-assessment and risk-management policies and controls relevant to actuarial matters or the financial condition of the insurer.
   4. Distribution of policy dividend or other benefits.
   5. Underwriting policies.
   6. Reinsurance arrangements.
   7. Product development and design, including the terms and conditions of insurance contracts.
   8. The sufficiency and quality of data used in the calculation of technical provisions.
   9. 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:
   1. Recorded reserves reflect an appropriate actuarial estimate (P&C and Health).
   2. The company books the actuary’s best estimate each year (P&C).
   3. If the company’s recorded reserves differ from the actuary’s best estimate, the rationale for such deviation is appropriately documented and presented to the board of directors (P&C).
   4. 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** |
| --- | --- | --- | --- | --- | --- | --- |
| Actuarial analyses relied upon by the insurer’s management in determining carried reserves are not based on appropriate methods and/or reasonable assumptions. | RV | VA  AC  PD | RA | 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.  Senior management uses internal or independent actuaries to conduct reserve analyses of all major lines of business on an annual basis.  Actuarial analysis is subject to a peer review process**.**  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.    The insurer utilizes a fully staffed, well-qualified actuarial function that is under the direction of an actuary that has an Accepted Actuarial Designation, as defined in the NAIC Statement of Actuarial Opinion Instructions, and is experienced in the lines of business written by the insurer.  The reserving actuarial unit’s responsibilities are segregated from the pricing actuarial unit, but there is regular communication between the two units.  The insurer’s organizational structure limits the influence that management can have on the appointed actuary. | Gain an understanding of the insurer’s assumptions and methodologies and compare with prior periods.  Verify that senior management signs off on assumptions and methodologies used by the insurer, including any changes.  Verify senior management review of reports from actuaries and that reports include reserve analyses of all major lines of business.  If performed in-house, review and test the actuarial peer review process and related sign-offs**.**  Verify management review of loss reserve reporting and test the operating effectiveness of procedures in place.  Review the credentials, background and responsibilities of the insurer’s actuarial function (internal or external) for appropriateness.  Request and review the insurer’s organizational chart and job descriptions to determine whether the functions are separate and distinct.  Interview the appointed actuary during the planning phase of the examination to determine whether the insurer’s organizational structure is appropriate in this area. | Review assumptions and methodologies for reasonableness, appropriateness and accuracy with assistance from the insurance department actuary or an independent actuary.  Verify that reserving assumptions are in accordance with the relevant SSAPs related to P&C reserving, as well as applicable statutes, regulations, pronouncements and/or bulletins.  Review prior history of loss development, as well as subsequent loss development data to analyze the reasonableness of assumptions and methodologies.  Determine whether the appropriate disclosures have been made in the Notes to the Financial Statements for the changes in reserve methodologies.  Review actuarial reports and compare reports to prior periods. Investigate significant variations.  Utilize the insurance department actuary or an independent actuary to perform an independent calculation/estimate of the loss reserves.  Review correspondence related to peer review for appropriate depth of review.  Compare the opining actuary’s assumptions and estimates with those in other available actuarial analyses.  Determine whether the Actuarial Opinion was changed by the appointed actuary after meeting with insurer management. |