

**MEMORANDUM**

**TO:** Steve Alpert, President, American Academy of Actuaries  
(Sent via e-mail to Mary Downs, Executive Director, downs@actuary.org)

Brian Z. Brown, President, Casualty Actuarial Society  
(Sent via e-mail to Cynthia R. Ziegler, Executive Director, cziegler@casact.org)

Mike Lombardi, President, Society of Actuaries  
(Sent via e-mail to Greg Heidrich, Executive Director, gheidrich@soa.org)

**FROM:** Kris DeFrain, Director of Research and Actuarial Services

**DATE:** March 16, 2018

**RE:** NAIC Job Analysis Project and NAIC Standards and Assessment Project

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We appreciate all three actuarial organizations agreeing to assist the NAIC in our project to conduct a Property/Casualty (P/C) Appointed Actuary Job Analysis and Qualified Actuary Definition Review (the “Job Analysis Project”). We look forward to your continued support during the next phase, Development of P/C Appointed Actuary Educational Standards and Assessment of Professional Actuarial Organizations’ Examinations and Educational Content for Designations (the “Standards and Assessment Project”).

As you know, the NAIC released draft instructions for the Statement of Actuarial Opinion that included an evidence-based definition of a qualified actuary for public comment by the Feb. 12 deadline. After consideration of your and all of the other comments submitted, the ad hoc group<sup>1</sup> revised the proposed definition of a qualified actuary and will proceed with the attached as a “working definition” (Appendix 1). The final definition will be considered and adopted at the same time as other changes being proposed to the Statement of Actuarial Opinion instructions (e.g. the Educational Standards and the products resulting from the related charges of the Casualty Actuarial and Statistical (C) Task Force). Appendix 2 shows the current revised instructions, including placeholder Attestation Requirements for illustrative purposes.

The ad hoc group is also proposing to proceed into the next phase of work, the “Standards and Assessment Project.” While the Knowledge Statements derived from the Appointed Actuary job analysis provide the “breadth” of knowledge needed by an Appointed Actuary, the Standards and Assessment Project will provide the “depth” of knowledge needed to be an Appointed Actuary. The standards will be the foundation upon which the syllabi and examination content of the P/C actuarial educational programs will be assessed.

We request your assistance to help develop a plan of action for the Standards and Assessment Project. Appendix 2 outlines a potential plan of action. We would like to hold a meeting during the Spring National Meeting in Milwaukee to discuss the plan and timeline. We will then schedule a call after the National Meeting to arrive at an agreed way forward. At a high level, the plan is to develop an Educational Standard for each Knowledge Statement to represent what should be included in an actuarial education program. The Educational Standard may partially or fully meet the Knowledge Statement. Should the Educational Standard only partially meet the

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<sup>1</sup> The Ad Hoc Group of Commissioners consists of Commissioner Jim L. Ridling (AL), Commissioner James J. Donelon (LA); and Superintendent Eric A. Cioppa (ME).

Knowledge Statement, the remainder of knowledge would need to be achieved through experience or continuing education and such will be identified and documented in the requirements. The proposed timeline is to complete this project by year-end.

We are continuing to be aggressive with the timeline and planning to have the definition adopted by year-end to be effective for actuarial opinions issued for 2019 year-end annual statements.

At our meeting in Milwaukee we can address when the associations would like to reconvene and discuss the plan and timeline with me in detail.

Should you have any immediate questions, please contact me at [kdefrain@naic.org](mailto:kdefrain@naic.org) or 816-783-8229.

CC: Ad Hoc Commissioner Group of the Executive (EX) Committee

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Statement of Actuarial Opinion Instructions  
Definition of a Qualified Actuary

The following definition of “Qualified Actuary” is the current proposed “working definition” (not adopted) to be included in Section 1A. Definitions of the Actuarial Opinion instructions for Statements of Actuarial Opinion:

1A. Definitions

...

“Qualified Actuary” is a person who:

- (i) meets the basic education, experience and continuing education requirements of the Specific Qualification Standard 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); and
- (ii) has obtained the knowledge identified in the Knowledge Statements (Section 11 of the instructions) appropriate for the company’s lines of business and business activities; and
- (iii) is a member of a professional actuarial association subject to the same *Code of Conduct* promulgated by the Academy, the *U.S. Qualification Standards*, and the Actuarial Board for Counseling and Discipline when practicing in the U.S.

An exception to this definition would be a person evaluated by the Academy’s Casualty Practice Council and determined to be a Qualified Actuary for particular lines of business and business activities. Should a person qualify under this alternate route, the actuary must attach a copy of the approval letter from the Academy to the Actuarial Opinion each year.

Note: This definition contemplates the Academy will revise the U.S. Qualification Standards in line with the NAIC instructions.

## Proposed Changes to the Statement of Actuarial Opinion Instructions

The following is a draft of potential changes to the Actuarial Opinion instructions for Statements of Actuarial Opinion, including the revised working definition of “Qualified Actuary.” The Attestation is included here, but is only provided for illustrative purposes. The Attestation will be decided by the Casualty Actuarial and Statistical (C) Task Force. We also note below that the Education Standards, the assessment of professional actuarial designations for each Knowledge Statement, and any split of a knowledge statement between basic education, experience, or continuing education will be documented in the instructions. This proposal will continue to be modified with expectation of adoption for Statements of Actuarial Opinion filed on 2019 annual financial statements.

### ACTUARIAL OPINION

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#### 1A. Definitions

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“Qualified Actuary” is a person who:

- (i) meets the basic education, experience and continuing education requirements of the Specific Qualification Standard 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); and
- (ii) has obtained the knowledge identified in the Knowledge Statements (Section 11 of the instructions) appropriate for the company’s lines of business and business activities; and
- (iii) is a member of a professional actuarial association subject to the same *Code of Conduct* promulgated by the Academy, the *U.S. Qualification Standards*, and the Actuarial Board for Counseling and Discipline when practicing in the U.S.

An exception to this definition would be a person evaluated by the Academy’s Casualty Practice Council and determined to be a Qualified Actuary for particular lines of business and business activities. Should a person qualify under this alternate route, the actuary must attach a copy of the approval letter from the Academy to the Actuarial Opinion each year.

...

“Knowledge Statement” is what an Appointed Actuary should know either through basic education or subsequent learning. Knowledge Statements are grouped into six broad domains: Law; Policy Forms and Coverages, Underwriting, and Marketing; Reinsurance; Premium, Loss, and Expense Reserves; Statutory Insurance Accounting and Role of The Appointed Actuary; and Professionalism and Business Skills. The Knowledge Statements are located in Section 11. Attestation.

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#### 3. Identification Paragraph

The IDENTIFICATION paragraph should indicate the Appointed Actuary’s relationship to the Company, qualifications for acting as Appointed Actuary and date of appointment, and specify that the appointment was made by the Board of Directors.

These Instructions require that a Qualified Actuary prepare the Actuarial Opinion. Nevertheless, if a person who does not meet the definition of a Qualified Actuary has been approved by the insurance regulatory official of the domiciliary state, the Company must attach, each year, a letter from that official stating that the individual meets the state’s requirements for rendering the Actuarial Opinion.

#### 10. Exhibit B: DISCLOSURES

.....3. The Appointed Actuary has the following designation (indicated by the letter code):

- F if a Fellow of the Casualty Actuarial Society (FCAS)
- A if an Associate of the Casualty Actuarial Society (ACAS)
- G if a Fellow of the Society of Actuaries (FSA) and completed the General Insurance Track
- M if approved by the Academy's Casualty Practice Council.
- O for Other

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### 11. Attestation and Supporting Documentation

**The ATTESTATION should be attached as part of the Statement of Actuarial Opinion. The Appointed Actuary should check all boxes that apply:**

- 1. I meet the definition of a Qualified Actuary.
  - 1A. I meet the basic education, experience and continuing education requirements of the Specific Qualification Standard 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.
  - 1B. After review of the Knowledge Statements in the Statement of Actuarial Opinion instructions, I have the knowledge needed to sign this Statement of Actuarial Opinion appropriate for the company's lines of business and business activities.
  - 1C. I have supported the assertion in #1B in the Actuarial Report.
  - 1D. I am a member of a professional actuarial association subject to the same *Code of Conduct* promulgated by the American Academy of Actuaries (Academy), the *U.S. Qualification Standards*, and the Actuarial Board for Counseling and Discipline when practicing in the U.S.
- 2. The Academy's Casualty Practice Council determined that I am a Qualified Actuary for particular lines of business and business activities and I have attached the approval letter.
- 3. I do not meet the definition of a Qualified Actuary in the instructions for the Statement of Actuarial Opinion, but an insurance regulatory official of the domiciliary state approved me to sign this Statement of Actuarial Opinion and I have attached the approval letter.

**The ATTESTATION SUPPORT should be included in the Actuarial Report. The Appointed Actuary should support having the knowledge needed to sign this Statement of Actuarial Opinion and provide the following information (at a minimum):**

1. Professional Actuarial Designation(s) and Year Attained
2. Knowledge Statements Identified by the NAIC as adequately covered in the actuarial designation(s) in #1: (e.g. A1, A5, B3...)
3. For each Remaining Knowledge Statement, identify if the knowledge has been acquired (yes or no) and the source of experience, training, continuing education, assistance from another professional, etc.
4. Identify the Annual Statement Lines of Business for which the Appointed Actuary Would Meet the U.S. Qualification Standards and abide by the Code of Conduct.
5. During the last five years, identify the P/C companies for which you were the Appointed Actuary.
6. During the last five years, identify the P/C companies for which you were not the Appointed Actuary but for which you performed significant loss reserve duties.
7. List Continuing Education Credits Earned over the last two (2) years (Provider, Date, #Hourly Credits, Subject), grouping the continuing education together that is relevant for an Appointed Actuary (e.g. regarding skills to complete the statutory P/C Statement of Actuarial Opinion).

### **Appointed Actuary "Knowledge Statements"**

The following are the Knowledge Statements grouped by educational domain. For each Knowledge Statement, the Educational Standard is provided to explain the level of depth of knowledge needed; the assessment of whether professional actuarial designations are sufficient support for achievement of the Knowledge Statement; and/or whether any knowledge is identified that needs to be learned outside of basic education through experience or in continuing education.

#### **A. Law**

The Appointed Actuary must be able to assess the effect of the legal environment on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand relevant U.S. and state insurance law, regulatory authority, and regulations. The Appointed Actuary must be aware of tort law, relevant types of litigation, including class actions and mass torts, as well as precedent case law and changes therein.

Knowledge Statements:

1. Key elements of tort law, tort trends and reforms
2. Insurance law with respect to its impact on P/C insurance
3. Mass torts/class action suits and their impact on the P/C insurance industry
4. Legal environment (e.g., coverages and claims subject to the Statement of Actuarial Opinion) and changes therein
5. Financial solvency regulation's purpose
6. U.S. federal and state laws and regulations that pertain to the Statement of Actuarial Opinion
7. State specific laws, regulations, regulatory authority and rules regarding the preparation of annual statements
8. Precedent case law on issues affecting P/C reserves (e.g., bad faith, punitive damages awards, class certification)

#### **B. Policy Forms and Coverages, Underwriting, and Marketing**

The Appointed Actuary must be able to assess the effect of insurance coverages, underwriting and marketing, and changes therein on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand types of insurable exposures, related insurance products, and how insurance companies assume risk through marketing and underwriting.

Knowledge Statements:

1. Policy forms including exposures, limits, coverage triggers, policy terms and conditions, endorsements and exclusions, attachment points, and reinsurance reinstatement provisions
2. Claims experience impact from deductibles, limits, treatment of loss adjustment expenses and exclusions to coverage
3. Primary insurance, excess insurance, ceded reinsurance and assumed reinsurance
4. Company liabilities that arise from participation in government/industry programs and their interaction with voluntary private insurance sector
5. Exposures across different lines of business (e.g., possible differences)
6. The impact of changes in underwriting, mix of business, or target market on claims' experience (e.g., classifications, underwriting variables, guidelines, growth, profitability, staffing, programs, appetite, rate changes)
7. Rating plans (e.g., individual risk rating, class rating, experience rating, retrospective rating, participating policies, judgment rating, schedule rating), and the impact of changes therein.
8. Risks specific to the business (e.g., mass tort potential, latent exposures, new coverages, emerging risk, bad faith, extra contractual obligations, long duration contracts, potential for salvage and subrogation)
9. Claims experience changes when considering organizational, operational and marketing differences (e.g., stock, mutual, direct, agency, captives, risk retention groups, voluntary and involuntary pools, use of third party administrators, target markets, distribution channels, sales incentives, competitors)

## **C. Reinsurance**

The Appointed Actuary must be able to assess the effect of reinsurance on the reserves for which the Appointed Actuary is opening, along with the associated risks and uncertainties. The Appointed Actuary must understand the functions and types of reinsurance, relevant contract features, risk transfer principles, and reinsurance accounting, recognition and collectability issues.

Knowledge Statements:

1. Basic reinsurance terminology (e.g., limits, retentions/attachment points, quota share, excess of loss, clauses, reinstatements, co-insurance, commissions)
2. The function and types of reinsurance
3. Reinsurance contracts interpretation
4. Reinsurance contracts to determine the treatment of loss adjustment expenses (LAE) (e.g., within limits, in addition to limits, shared pro rata)
5. Commutations and novations including definition, motivations of parties, accounting treatment
6. Impact on financial statements from contract qualification criteria for prospective or retroactive reinsurance accounting treatment or deposit accounting treatment
7. Reinsurance risk transfer testing
8. Assessing collectability (e.g., sources, rating agencies, letters of credit, news items, amounts in dispute or overdue)
9. The impact of authorized, unauthorized, certified reinsurance on collateral and collectability
10. Differences between reinsurance and primary reserving procedures (e.g., adapting methods for available data, type of reinsurance, terms)
11. Factors considered in the evaluation of the applicability of a reinsurance program to an unpaid claim estimate
12. Possible parameter differences for direct, assumed, gross, ceded and net data (e.g., loss development factors and initial expected loss ratios)

## **D. Premium, Loss, and Expense Reserves**

The Appointed Actuary must be able to derive estimates that recognize the internal and external environment, along with the associated risks and uncertainties. The Appointed Actuary must understand and apply reserving methods, analysis, and diagnostics to derive actuarial reserve estimates. The Appointed Actuary must understand the company's internal operations and data, external environment, and relevant changes therein.

Knowledge Statements:

1. Possible effects of external conditions on the analysis (e.g., legal, recent court decisions, economic, judicial, regulatory, market) and changes therein
2. The company's internal operations (e.g., underwriting, claims, marketing, IT, finance, investment, reporting, product offerings, assumed and ceded reinsurance programs) and changes therein
3. P/C claims' operations and changes therein
4. Key activities in the claims handling process (e.g., claims' investigations, claims' documentation, cause of loss determination, liability, loss amount, claim conclusion, procedures, staffing or outsourcing, controls on timing and amounts of case investigations, case reserves and payments, diary dates, claims audit involvement, information flows from claims to accounting/actuarial sources)
5. Processes used by the company for handling and managing claims in various lines and classes of business
6. The effects of changes in claims handling on the reserve analysis
7. IT environment (e.g., exposure, premium and loss reporting, claim count data, claim closing, report dates, year-end closing date, claim processing speeds, system implementations) and changes therein
8. Data compiling methods to conduct data analysis (e.g., accident year, report year, policy year, limited, unlimited, truncated, loss adjustment expenses' treatment, salvage and subrogation, direct, assumed, ceded, net, gross, coverage)

9. Key terms including case outstanding, paid claims, reported claims, IBNR, ultimate claims, claims related expenses, reported and closed claim counts, claim counts closed with no payment, insurance recoverables, exposures, experience period, maturity or age, and components of unpaid claim estimates
10. Role of homogeneity and credibility of data in the process of compiling and segmenting data and estimating unpaid claims
11. Accounting date, valuation date, and review date differences
12. Data reconciliations
13. IT and Accounting procedures and processes
14. Data management and quality (e.g., request, compile, and clean data; check data for reasonableness and consistency)
15. Diagnostics (e.g., triangles and ratios of average case reserves, paid severities, incurred severities, closed-to-reported claim counts)
16. Researching data issues
17. Appropriateness of using industry data and potential differences between industry experience and company experience (e.g., differences in policy forms and coverages, underwriting and marketing)
18. Composition and applicability of industry benchmarks for reserve analysis
19. Actuarial analysis methods to determine actuarial estimates for all items within the scope of the opinion (e.g., premium reserves, unpaid claims, claim counts, recoveries) including carrying out the mechanics, selecting the assumptions, identifying the strengths and weaknesses of those methods (e.g., Chain-Ladder, Expected claim, Bornhuetter-Ferguson, Cape Cod, Frequency-Severity methods, methods to calculate Defense and Cost Containment Loss Adjustment Expenses (DCC) and Adjusting and Other Loss Adjustment Expenses (AO), and legal entity allocation)
20. Computation methods for other premium reserves required in the opinion (e.g., death, disability and retirement, extended reporting endorsements, long duration contracts)
21. Reserving methods for unearned premiums and IBNR for policies with non pro-rata earning patterns
22. Diagnostic usage to select methods and parameters
23. Treatment of recoveries such as reinsurance, policyholder deductibles, and salvage and subrogation
24. Three tests required by Statement of Statutory Accounting Principles (SSAP) 65--Property and Casualty Contracts to test unearned premium reserves on long duration contracts
25. Loss development, trend, and the differences between them
26. Estimating unpaid claims by layer methods
27. Methodologies and considerations for unique lines of business or claim types (e.g., asbestos, surplus lines, construction defect claims, health coverages written on P/C annual statement)
28. Fundamentals of different types of insurance (e.g., long tail versus short tail lines of business, low frequency versus high frequency lines)
29. Data adjustments and estimation techniques for material changes (e.g., large losses, catastrophes, pattern selection, retentions, limits, claims' processes, case reserve adequacy, closing and payout rates, economic and legal environment, mix of business, coverages, trend, rapid growth or decline)
30. Test assumptions and results for reasonableness (e.g., ultimate frequencies and severities, ultimate pure premiums, ultimate loss ratios, actual vs. expected, diagnostics, prior year results)
31. Approaches to select actuarial central estimates and/or ranges of reasonable estimates (e.g., stochastic, deterministic)
32. Intended measures of the reserve estimate (e.g., actuarial central estimate, management's best estimate, high and low estimates, range of reasonable estimates)
33. Risk and uncertainty associated with a reserve analysis including approaches to quantify risk
34. Approaches and considerations in discounting reserves (e.g., interest rates, risk margins)
35. Relevant principles regarding property and casualty unpaid claims estimates
36. Premium asset for retrospectively rated policies
37. Premium deficiency reserves
38. Earning premiums
39. Premium earning patterns based on expected claim occurrence timelines
40. Principles and techniques of ratemaking as may be applicable for estimation of unpaid claims (e.g., rate changes, on-level loss ratios, trend, benefit, mix of business)
41. The effect of rate changes by year on loss ratios if using loss ratios as a guide to select the ultimate loss

42. Trend analyses (e.g., exposure trend, frequency trend, severity trend, pure premium trend, premium trend)
43. Analysis adjustments (e.g., effect of law changes, effect of changes in mix of business, adjustment for coverage and benefit level changes, large loss adjustment)
44. Use of relevant available work products of the previous Appointed Actuary

## **E. Statutory Insurance Accounting and Role of The Appointed Actuary**

The Appointed Actuary must be able to produce a Statement of Actuarial Opinion, an Actuarial Opinion summary, and an Actuarial Report in accordance with the NAIC Annual Statement Instructions. The Appointed Actuary must understand relevant statutory accounting principles and reporting requirements for the U.S. NAIC P/C Annual Statement. The Appointed Actuary must understand the responsibilities of an Appointed Actuary, including key deliverables.

### Knowledge Statements:

1. Opinion reporting requirements for the actuary; type of opinion to render (“Reasonable Provision,” “Deficient or Inadequate Provision,” “Redundant or Excessive Provision,” “Qualified Opinion” or “No Opinion”)
2. Basic terms used in statutory insurance accounting (e.g., paid loss, incurred loss, incurred but not reported--IBNR, defense and cost containment expenses, adjusting and other expenses)
3. Derivation of statutory surplus and income
4. Annual statement pages for evaluating reserves and overall financial health of the company (e.g., income statement, five-year historical data, Schedule P, Schedule P interrogatories, Schedule F, balance sheet, Notes to Financial Statements, general interrogatories, Underwriting and Investment Exhibit)
5. NAIC Risk-Based Capital (RBC) and relevant state laws
6. Financial health evaluation methods (e.g., NAIC IRIS, financial rating, risk-focused examinations/analysis, NAIC RBC)
7. Relevant Statements of Statutory Accounting Principles (SSAPs) and permitted practices
8. The role of the Appointed Actuary
9. Instructions, purposes and users for the Statement of Actuarial Opinion and Actuarial Opinion Summary in the NAIC annual statement instructions
10. Exposures included in the P/C statutory annual statement that are outside of the Appointed Actuary's area of expertise and whether/how to make use of appropriate expertise
11. Schedule P reconciliation vs audit of the analysis data
12. Materiality standard selection (e.g., intended purpose and the intended users of the Statement of Actuarial Opinion, Risk-based Capital (RBC) calculations and the impact on a materiality standard)
13. Company's legal structure including pooling and reinsurance agreements
14. Changes in Company activities related to policy forms and coverages, underwriting and marketing
15. IRIS Property/Casualty Ratios
16. Reasons for unusual value(s) for IRIS Property/Casualty Ratio 11 - One-Year Reserve Development to Policyholders' Surplus, Ratio 12 - Two-Year Reserve Development to Policyholders' Surplus, or Ratio 13 - Estimated Current Reserve Deficiency to Policyholders' Surplus and reasons for adverse development exceeding 5% of surplus in at least three of the last five years
17. Meaning of "significant" and "material" considering users' needs for the purposes of determining Risk of Material Adverse Deviation (RMAD)
18. Understand the causes and drivers of loss and LAE development
19. State law and/or state filing requirements for the Actuarial Opinion Summary (to determine if required)
20. Data elements that are significant to the analysis in compliance with the NAIC Annual Statement Instructions for annual audited financial reports
21. How to effectively communicate with and to an auditor audience
22. Processes after discovery of a material error
23. Processes related to the change in Appointed Actuary
24. Reconcile net and gross values in the Actuarial Opinion Summary to the Actuarial Report and the Statement of Actuarial Opinion

25. Practices described in the American Academy of Actuaries Committee on Property and Liability Financial Reporting's (COPLFR) Practice Note *Statements of Actuarial Opinion on Property and Casualty Loss Reserves*
26. Other items that might be within the scope of the opinion (e.g., unearned premium reserve on long duration contracts, Death, Disability and Retirement (DD&R) reserves, retroactive reinsurance liabilities and deposit contract liabilities)
27. The effect of reinsurance including retroactive and financial; potential reinsurance collectability issues
28. Narrative and technical components of an Actuarial Report consistent with relevant actuarial standards and regulatory requirements, including a comparison of current estimates to comparable prior estimates, and reference to use of another Actuary's work

## **F. Professionalism and Business Skills**

The Appointed Actuary must have professional and business skills to enable the Appointed Actuary to perform the required actuarial services in an ethical manner that upholds the reputation of the actuarial profession. The Appointed Actuary must know and adhere to the Code of Professional Conduct as well as relevant Actuarial Standards of Practice and must meet the U.S. Qualification Standards. The Appointed Actuary must have the professional and business skills to manage the tasks, make informed decisions, communicate effectively with users of the actuary's work products, resolve disagreements, and seek guidance as necessary.

### Knowledge Statements:

1. Relevant Actuarial Standards Board's Actuarial Standards of Practice (ASOPs), Qualification Standards for Actuaries Issuing Statement of Actuarial Opinion in the United States (U.S. Qualification Standards), Code of Professional Conduct
2. Decision Making and Communication skills (e.g., oral, written, listening), professional and business skills, and dispute resolution skills to resolve any issues related to the assignment as raised by company management, the company's Board of Directors, regulatory authorities, the actuarial profession, auditors, and/or the actuary's employer

## Educational Standards and Assessment Project

### Potential Action Plan

The following is a potential action plan for development of Educational Standards, for assessment of the CAS and SOA P/C actuarial educational programs, and for final adoption of revisions to the Statement of Actuarial Opinion Instructions. The NAIC would like to discuss the plan with the actuarial organizations and agree to workable timelines.

#### **Participants**

The NAIC ad hoc group of Commissioners will continue to oversee the development of Educational Standards and the assessment and will determine the final proposal to the Executive (EX) Committee for adoption.

The NAIC will establish groups of actuaries with the following stated minimum responsibilities:

- 1) The actuarial associations will nominate Subject Matter Experts (SMEs) and the NAIC will select SMEs and regulators to participate in the process.
- 2) The NAIC will establish SME Subgroups - a group of 25 to 30 SMEs will be paired-up and each pair assigned a set of 5-10 related Knowledge Statements. The SME Subgroups will meet via conference call.
- 3) The NAIC will establish a Focus Group – a group of 5 members. The Focus Group will oversee all of the SME Subgroups and be the decision makers on what to present to the NAIC, when needed. The Focus Group will conduct some work via conference call and hold up to 5 meetings in person.
- 4) As the current U.S. educational societies, the CAS and SOA will be asked to participate in multiple steps.

#### **Educational Standards and Assessment**

The following is the action plan for development of Educational Standards and the Assessment:

- A. Evaluate Knowledge Statements and propose any revised wording.
- B. Propose Educational Standards.
- C. Evaluate the proposed Educational Standards and create the Educational Standards to use in the Assessment process.
- D. Map the CAS and SOA educational content (reading materials, etc.) to each Knowledge Statement and Educational Standard
- E. Assess the CAS and SOA educational content for each Educational Standard.
- F. Produce an over-all assessment of whether the CAS and SOA educational content meets the NAIC's minimum standards.

The following provides details of the action plan for development of Educational Standards and the Assessment and includes potential deadlines for each step:

- A. Evaluate Knowledge Statements and propose any revised wording.
  - 1) Who:
    - i) The SME Subgroups will evaluate the Knowledge Statements to propose any revised wording, considering any suggested changes made via Feb. 12 comment letters. [April 30]
    - ii) The NAIC will decide the final Knowledge Statements. [May 15]
  - 2) Why: This is being done because the drafting process in the job analysis project did not include time to wordsmith the Knowledge Statements.
- B. Propose Educational Standards.
  - 1) Who:
    - 1) The SME Subgroups will propose standards to the Focus Group. [June 1]
    - 2) The Focus Group will propose standards to the NAIC. [June 15]

- 2) Principles: The Educational Standards should be developed using the following principles:
  - i) The standards should be minimum standards for a 2019 P/C Appointed Actuary.
    - The CAS and SOA will educate a wider group of actuaries for multiple tasks beyond that needed for a P/C Appointed Actuary.
  - ii) The standards are for a point in time for what an actuary needs to know NOW.
    - The CAS and SOA will have their own Educational Standards that will be more futuristic; again, for our purposes, these are minimum standards.
  - iii) The standards should be such that typical lines of business and business activities are included in education.
    - The proposal will include documentation of any portion of Knowledge Statements where the view is that a large portion (e.g. 90%) of practicing Appointed Actuaries will not need the knowledge and thus, the education does not need to be in the minimum Educational Standards but could be learned by experience and/or continuing education when needed.
  - iv) The standards should follow the 103 current Knowledge Statements closely, if not be a one to one match.
  - v) Document any remaining Knowledge Statements or portions of Knowledge Statements that must be met by experience and/or continuing education.
  - vi) Document any remaining Knowledge Statements where the view is that a large portion (e.g. 90%) of practicing Appointed Actuaries will not need the knowledge and thus, do not need to be in the Educational Standards but could be learned by experience and/or continuing education when needed.
- C. Evaluate the proposed Educational Standards and create the Educational Standards for use in the Assessment process.
  - 1) Who: The NAIC will complete this step. [July 1]
- D. Map the CAS and SOA educational content (reading materials, etc.) to each Knowledge Statement and Educational Standard.
  - 1) Who: The CAS and SOA will conduct their respective mapping.
  - 2) Process: The CAS and SOA will submit the following to the NAIC: [July 15]
    - i. Map study materials to the Knowledge Statements and Educational Standards, identifying the syllabus article/textbook/document and the page(s) and paragraphs directly educating on the knowledge,
    - ii. Provide a self-assessment of how well the organization's materials educate on a Knowledge Statement.
    - iii. Note where the educational training is provided for only some P/C lines of business
    - iv. Inform of any planned changes to study materials, to better educate for a particular Knowledge Statement(s) and/or for other purposes that might change the assessment.
- E. Assess the CAS and SOA educational content for each Educational Standard.
  - 1) Who:
    - i. The SME Subgroups will conduct the initial Assessment for their individual Educational Standards. [Aug. 15]
    - ii. The Focus Group will review the SME Subgroups' Assessments and combine them to propose the initial Assessment to discuss with the CAS and SOA. [Sept. 1]
    - iii. The NAIC will finalize the CAS initial Assessment and the SOA initial Assessment. [Sept. 15]
    - iv. The NAIC and Focus Group will discuss the respective initial Assessments with the CAS and SOA. [Oct. 1]
    - v. The CAS and SOA will provide written comments on their respective initial Assessments. [Oct. 15]
    - vi. The Focus Group will discuss submitted comments with the SME Subgroups, as needed. [Nov. 1]
    - vii. The Focus Group will consider comments, modify if needed, and propose the Assessment results to the NAIC. [Nov. 2]
    - viii. The NAIC will determine the final Assessment results. [Nov. 9]

- 2) Process:
  - i. Evaluate the study materials provided by the CAS and SOA to provide the assessments as to whether the Educational Standard is met.
    - Where only part of the Educational Standard is met, such will be documented.
  - ii. Document the draft assessment results for NAIC approval.
  - iii. Discuss draft assessment results with the CAS and SOA, individually, allowing the CAS and SOA to provide written comments.
  - iv. The CAS and SOA should inform the Focus Group if and how the organization will rectify any deficiency as identified in the assessment.
    - If the deficiency is rectified using the approved materials of the other society, the solution is sufficient.
    - If new materials are proposed to address the deficiency, the appropriate SME Subgroup will be asked to review the new materials.
  - v. The Focus Group will review comments with the SME Subgroups (as needed) and propose a final assessment to the NAIC,
  - vi. The NAIC will determine the final assessment by Knowledge Statement and Educational Standard.

### **Revised Instructions for the Statement of Actuarial Opinion**

The following activities will impact the NAIC's final proposal to change the instructions for the Statement of Actuarial Opinion:

- I. Adopt the Attestation, 3-Year Experience, and Continued Competence requirements.
  - a. The Casualty Actuarial and Statistical (C) Task Force (CASTF) has been asked to adopt these requirements.
  - b. The Attestation requirements will need to be adjusted in step with any changes in the Standards and Assessment work stream.
  - c. The Attestation Documentation requirements for actuaries with ACAS, FCAS and FSA designations will be limited to Knowledge Statements that must be met by experience and/or continuing education.
  - d. The 3-Year Experience requirements (to be considered by CASTF).
  - e. The continued competence requirements will need to be documented somewhere (to be considered by CASTF).
- II. Expose the combined Statement of Actuarial Opinion instruction proposals (e.g. instructions, definition, attestation, etc.) for new comments. Hold a 90-minute Public Hearing. This hearing may be conducted via conference call given our aim to continue on an aggressive timeline.
  - a. Ask CASTF to consider any proposed changes (not already considered) to their parts of the project.
  - b. The NAIC will evaluate any other proposed changes and submit a proposal to the Executive (EX) Committee for consideration.
- III. Finalize the effective date (e.g. Actuarial Opinions filed for 2019 annual statements).
- IV. Finalize the Definition of Qualified Actuary and the Statement of Actuarial Opinion Instructions.
  - a. Executive (EX) Committee will adopt the Qualified Actuary definition and related instructions.
  - b. CASTF will adopt the attestation requirements, 3-year experience requirements, and the continued competence requirements and related instructions.
  - c. The instructions will be sent to the Blanks (E) Working Group in a combined package for implementation.
- V. Decide an on-going maintenance and review process of the Knowledge Statements, Educational Standards, and assessments. The Executive (EX) Committee will decide who will be charged with this work.