

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

Casualty Actuarial and Statistical (C) Task Force Dec. 1, 2023, Minutes
Casualty Actuarial and Statistical Task Force Oct. 24, 2023, Minutes (Attachment One)
Casualty Actuarial and Statistical Task Force Oct. 10, 2023, Minutes (Attachment Two)
 2024 Charges (Attachment Two-A)
 Blanks Proposal Regarding Number of Years of Data in Schedule P (Attachment Two-B)
Casualty Actuarial and Statistical Task Force Sept. 5, 2023, Minutes (Attachment Three)
 Academy's Committee on Property and Liability Financial Reporting (COPLFR) Proposal
 Attachment (Three-A)
Casualty Actuarial and Statistical Task Force Aug. 30, 2023, Minutes (Attachment Four)
Actuarial Opinion (C) Working Group Sept. 27, 2023, Minutes (Attachment Five)
 2023 Regulatory Guidance Exposure Response (Attachment Five-A)
 2023 Regulatory Guidance (Attachment Five-B)
 2024 Property/Casualty (P/C) Statement of Actuarial Opinion (SAO) (Attachment Five-C)
 2024 Title SAO (Attachment Five-D)
Actuarial Opinion (C) Working Group Aug. 23, 2023, Minutes (Attachment Six)
Statistical Data (C) Working Group Oct. 30, 2023, Minutes (Attachment Seven)
Statistical Data (C) Working Group Sept. 29, 2023, Minutes (Attachment Eight)
NAIC GLM Checklist (Attachment Nine)

Draft Pending Adoption

Draft: 12/15/23

Casualty Actuarial and Statistical (C) Task Force
Orlando, Florida
December 1, 2023

The Casualty Actuarial and Statistical (C) Task Force met in Orlando, FL, Dec. 1, 2023. The following Task Force members participated: D.J. Bettencourt, Chair, represented by Christian Citarella (NH); Chlora Lindley-Myers, Vice Chair, represented by Julie Lederer (MO); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Mark Fowler represented by Chuck Hale (AL); Ricardo Lara represented by Mitra Sanandajifar (CA); Andrew N. Mais represented by George Bradner and Wanchin Chou (CT); Michael Yaworsky represented by Michelle Brewer (FL); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Julie Rachford (IL); Amy L. Beard represented by Lawrence Steinert (IN); Vicki Schmidt represented by Nicole Boyd (KS); Timothy N. Schott represented by Sandra Darby (ME); Anita G. Fox represented by Kevin Dyke (MI); Grace Arnold represented by Phil Vigliaturo (MN); Mike Causey represented by Robert Croom (NC); Eric Dunning represented by Michael Muldoon (NE); Alice T. Kane represented by Melissa Robertson (NM); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Michael McKenney (PA); Cassie Brown represented by Miriam Fisk (TX); Kevin Gaffney represented by Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); and Allan L. McVey represented by Ellen Potter (WV).

1. Adopted its Oct. 24, Oct. 10, Sept. 5, Aug. 30, and Summer National Meeting Minutes

The Task Force met Oct. 24, Oct. 10, Sept. 5, and Aug. 30. During these meetings, the Task Force took the following action: 1) adopted the *Auto Insurance Database Average Premium Supplement* and the 2021 *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report); 2) adopted its proposed 2024 charges; and 3) adopted a blanks proposal to require insurers to report 10 years of data for all lines of business in Schedule P.

Botsko made a motion, seconded by Chou, to adopt the Task Force's Oct. 24 (Attachment One), Oct. 10 (Attachment Two), Sept. 5 (Attachment Three), Aug. 30 (Attachment Four), and Aug. 12 (*see NAIC Proceedings – Summer 2023, Casualty Actuarial and Statistical (C) Task Force*) minutes. The motion passed unanimously.

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

Fisk said the Actuarial Opinion (C) Working Group met Sept. 27 and Aug. 23. During these meetings, the Working Group took the following action: 1) adopted the *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year 2023* (2023 Regulatory Guidance); and 2) exposed the draft 2024 Statement of Actuarial Opinion instructions for property and title for a 30-day public comment period that ended Oct. 27. The Working Group plans to consider adoption in early 2024.

Fisk made a motion, seconded by Dyke, to adopt the report of the Actuarial Opinion (C) Working Group, including its Sept. 27 (Attachment Five) and Aug. 23 (Attachment Six) minutes. The motion passed unanimously.

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

Darby said the Statistical Data (C) Working Group met Oct. 30 and Sept. 29. During these meetings, the Working Group took the following action: 1) discussed the statistical reports. The Working Group decided to adopt more granular insurance ranges for homeowners' data collection and a separation of sellers into mutual and reciprocal companies versus stock companies; and 2) adopted the 2021 Homeowners Report. Requests for the data for the

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2022 Homeowners Report, the 2022 auto database, and average premium supplement have been sent to participating statistical agents and residual markets with an estimated release in spring of 2024 for both reports.

Darby made a motion, seconded by Chou, to adopt the report of the Statistical Data (C) Working Group, including its Oct. 30 (Attachment Seven) and Sept. 29 (Attachment Eight) minutes. The motion passed unanimously.

4. Heard a Report on its 2024 Schedule P Proposal to the Blanks (E) Working Group

Citarella said that during its Oct. 10 meeting, the Task Force adopted a proposal to the Blanks (E) Working Group to require 10 years of reporting for all lines of business in Schedule P. The motion included the request to specify in the instructions that all 10 years of data would be reported at the end of 2024. Rebecca Armon (TX) made those changes as instructed. Subsequently, Blanks (E) Working Group staff modified the proposal to: 1) incorporate any Schedule P changes already adopted by Blanks (E) Working Group; and 2) remove unneeded information to save space in the proposal. Beyond making the attachments to the proposal shorter, the significant difference is that the already-adopted agreement by the Blanks (E) Working Group was to include pet insurance as its own line of business. Pet insurance was initially planned by the Blanks (E) Working Group to be a two-year line of business in Schedule P; with the Task Force's proposal, it would now be proposed to follow suit with other two-year lines of business and require 10 years of data. This changes the blanks proposal form in that there are now seven lines of business proposed to change from two to 10 years of data, and pet insurance is now specifically mentioned.

Blanks (E) Working Group leadership will consider exposing the proposal after the Fall National Meeting.

5. Heard a Report about the Homeowners Insurance Data Call

Aaron Brandenburg (NAIC) provided a report on the upcoming Property and Casualty Insurance (C) Committee's homeowners insurance data call. Brandenburg said the project will address the Committee's charge to assist state insurance regulators in better assessing their markets and insurer underwriting practices by developing property market data intelligence.

A drafting group of subject matter experts (SMEs) identified the questions regulators want to be able to answer. Brandenburg said there is a longer list, but the questions are broad ones, such as: 1) What is driving affordability and availability challenges in the homeowners' market? 2) Are insurers changing limits, deductibles, and policy coverages? 3) How has the cost of residential homeowners' insurance changed by geography?

For each question, the drafting group created formulas and metrics and then developed data elements that would go into those metrics—both insurer data and some third-party data. The drafting group then proceeded to use the insurer data elements to create a data template. The data template asks for five years of data, at a ZIP code level and by homeowner policy type. Some of the data elements included within the final template include: premiums and policies – with and without certain coverages; non-renewals and cancellations; claims and losses; coverage a, b, c, and d amounts; deductibles, bucketed by type of deductible, whether a flat dollar or percentage deductible and by peril type; and mitigation discounts.

Brandenburg said the next steps are to decide the timing of the data call, have states sign up to participate in the data call, and decide how much of the market will be requested to submit data.

6. Received a Report on the Speed to Market (D) Working Group

Maureen Motter (OH) submitted a written report. In the report, she said the last significant revision to the *Product Filing Review Handbook* (Handbook) was in 2016. Fueled by the updates that the Task Force provided regarding the review of models, the entire Handbook was reviewed, updated, and posted to the Speed to Market (D)

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Working Group's web page. Comments on the updated Handbook will be taken until Jan. 12, 2024. She said the aim is to approve the updated Handbook in February 2024. Going forward, there will be the ability to suggest Handbook revisions annually.

7. Received a Report on the SERFF Modernization Project

Darby said the System for Electronic Rates & Forms Filing (SERFF) group has met monthly and met in person in October for a training session. She said the Interstate Insurance Product Regulation Commission (Compact) is effectively doing a pilot with a life and annuity focus, so it should be distributed for use in 2024. A new Tableau dashboard, which all regulators have access to, contains different metrics such as completion dates and timing of objections. This is expected to be rolled out in 2025.

Some of the new features include additional checks for filing submissions as well as for completeness of the filings. States can choose to use the checklist they have internally trained the new SERFF to use for checks. There will be SERFF integration with other business partners. She said there will be customization available for each SERFF user.

8. Received a Report on the Capital Adequacy (E) Task Force and Property and Casualty Risk-Based Capital (E) Working Group

Botsko gave an update on the Capital Adequacy (E) Task Force's Risk Evaluation Ad Hoc Group. He mentioned that the Ad Hoc Group is designed to evaluate risk-based capital (RBC), both from a holistic view, as well as considering any other factors that should be added or removed. He mentioned that three subgroups were created: 1) Geographic Concentration, which serves to identify localized companies; 2) Guidelines & Education, which serves to re-educate about the purpose of RBC and identify minimum capital for companies; and 3) Asset Concentration, which serves to evaluate the need to have asset concentration factors.

9. Received a Report on the Innovation, Cybersecurity, and Technology (H) Committee

Citarella said the *Use of Artificial Intelligence by Insurers* model bulletin is expected to be adopted by the Innovation, Cybersecurity, and Technology (H) Committee and then presented to Plenary at this Fall National Meeting. As a model bulletin, it would be available to each jurisdiction to adapt to their laws and regulations before issuance. He said the aim is to encourage a uniform method of carrier corporate governance around artificial intelligence (AI) and machine learning (ML) that will ease the regulatory process down the road. There is nothing in the bulletin that specifically addresses the use of AI in ratemaking. The model outlines guidelines and expectations for the insurance providers with the goal to protect consumer data and maintain professional ethical standards in the use of big data and predictive analytics.

New charges are proposed for the Innovation, Cybersecurity, and Technology (H) Committee. First, there are a new set of tasks for the Cybersecurity (H) Working Group to monitor industry trends pertaining to cyber insurance in areas such as availability and affordability of cyber coverage, disclosures, limits, policy language and trends in requirements, underwriting practices, and the role of reinsurance. Furthermore, the Working Group is specifically charged to coordinate with the Task Force, among other NAIC groups, to address cyber insurance issues. This coincides with the focus of the Task Force on cyber insurance in 2024. Second, a new Third-Party Data and Models (H) Task Force was created with charges to do the following: 1) develop and propose a framework for the regulatory oversight of third-party data and predictive models; 2) monitor and report on state, federal, and international activities related to governmental oversight and regulation of third-party data and model vendors and their products and services; and 3) provide recommendations to the committee regarding responses to such activities.

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Citarella said it would be preferable for some Task Force members to join the new Third-party Data and Models (H) Task Force. He said the actuaries have seen AI in ratemaking with models that use machine learning for tiering or to inform a generalized linear model (GLM). He said the Task Force will need to work collaboratively and in coordination with Kris DeFrain's (NAIC) rate model review team and this new Task Force to effectively meet the regulatory challenges in this space.

10. Received a Report on the Cybersecurity Insurance Supplement

Sara Robben (NAIC) described proposed changes to the Cybersecurity Insurance Supplement being made at the Blanks (E) Working Group. She said the aim is to improve the quality of reporting. She said two current reporting issues include: 1) reporting for package policies has been incorrect because cyber can be provided via endorsement, which is included, or packaging in another policy, which was sometimes included. Often it was not included when the premium is undiscernible for cyber when written in a package; and 2) reporting for claims made versus occurrence policies was confusing because sometimes both types are included on the same policy form. Robben said the proposal maintains first-party versus third-party data reporting but removes identify theft reporting. She said definitions were strengthened and made consistent, and a chart was added to identify the types of coverage written in each state. New policy buckets include primary policies, endorsements to another policy, and excess policies. For endorsements, reporting would be for incurred losses instead of case reserves.

11. Received a Report on the Special (EX) Committee on Race and Insurance

Vigliaturo said Nicole Price (Lively Paradox) presented at the diversity, equity, and inclusion (DE&I) event. He said she discussed empathy and encouraged people to go beyond recognition to take action. He said the Property/Casualty (P/C) Workstream met with two large auto carriers. One presented on the claims process, and the other presented on the rating process.

12. Received a Report from the NAIC Rate Model Review Team

DeFrain reported on the NAIC Rate Model Review Team's current activities. She said her work to create this team began at the Big Data (EX) Working Group in 2018 with a request to research the possibility of creating an NAIC service. The NAIC officially implemented the project in 2019 with a pilot and consultant Dorothy Andrews. Then DeFrain hired one full-time staff member, Sam Kloese (NAIC), in 2020 and other actuaries (Dorothy Andrews, Roberto Perez, and April Yu) since. She said Nancy Beydler (NAIC) now provides administrative assistance by gathering early background work and then finalizing the reports. DeFrain said an additional actuary is likely to be hired in 2024. She said hiring one actuary will help to produce more reports but will not be enough staff support to decrease the queue from three months to below 30 days.

Since 2020, 37 states have signed the NAIC Rate Review Support Services Agreement, which allows states the option to use the NAIC rate model review services. These services include an NAIC rate model review, a shared model database, and numerous education and training opportunities. DeFrain said the team produced 129 rate model reports last year and completed 158 reports so far this year. A multitude of Book Club recordings are on the Task Force's website on the documents tab. She said the team is currently creating module training, which will be a more "hands-on" educational program to show regulatory staff what to look for in a filing and how to interpret rate filing documentation. She said the NAIC continues to abide by the primary principle that the NAIC will not assume any regulatory authority.

DeFrain said feedback from state insurance regulators has been that the NAIC resource is valuable to them, with some states requesting model reviews and other states evaluating those reports in the database to potentially apply to their state's filings. She said it is difficult in an open session to describe the team's findings because of confidentiality provisions. At a high level, she said the big innovations in AI rate reviews have been in auto

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insurance telematics and in neural networks with use of techniques to evaluate and score property, such as roofs, using pictures. There is a lot of creativity when it comes to the data being used to allocate insurance prices by risk category. She said the requirement to provide rational reasons for the use of specific variables has aided regulators to make decisions about whether specific variables are unfairly discriminatory. The team has documented numerous technical issues, including statistical or actuarial errors, and has evaluated new and more complex statistics and methodologies.

With many initial objections to insurers in rate model reviews being requests to insurers for additional information, regulators using the NAIC service want to help speed up the entire rate model review process. These regulators asked the NAIC team to create a list of GLM information items needed in an insurer's rate filing so the NAIC can conduct what it considers to be a full-scope review. DeFrain said the list was included in materials for the meeting, and the NAIC team is requesting regulatory feedback in regard to the categorization of what information is essential and what remains as sometimes needed information.

Sam Kloese (NAIC) presented a first draft of a potential list of rate filing documentation needed before submitting a rate review request to the NAIC (Attachment Nine). He said the current plan is for regulators to evaluate what information is provided by the insurer and obtain any additional items on the list before sending the filing for review by the NAIC Rate Model Review Team. He said two other improvements on the speed to market are: 1) a request that certain information be provided in Excel so it can be evaluated quickly; and 2) the introduction of some automation in the review process.

13. Heard Reports from Professional Actuarial Associations

The American Academy of Actuaries (Academy), the Actuarial Board for Counseling and Discipline (ABCD), the Actuarial Standards Board (ASB), the Casualty Actuarial Society (CAS), and the Society of Actuaries (SOA) provided reports on current activities and research.

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Draft: 11/2/23

Casualty Actuarial and Statistical (C) Task Force
E-Vote
October 24, 2023

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Oct. 24, 2023. The following Task Force members participated: Lori Wing-Heier represented by Sian Ng-Ashcraft (AK); Ricardo Lara represented by Lynne Wehmueller (CA); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhilf and Angela King (DC); Michael Yaworsky represented by Christina Huff (FL); Dana Popish Severinghaus represented by Reid McClintock (IL); Amy L. Beard represented by Larry Steinert (IN); Vicki Schmidt represented by Nicole Boyd (KS); Kathleen A. Birrane represented by Ronald Coleman (MD); Grace Arnold represented by Phil Vigliaturo (MN); Troy Downing represented by Mari Kindberg (MT); Justin Zimmerman represented by Carl Sornson (NJ); Alice Kane represented by Anna Krylova (NM); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Andrew R. Stolfi represented by David Dahl (OR); Cassie Brown represented by J'ne Bychovski (TX); Mike Kreidler represented by Eric Slavich (WA); Allan L. McVey and Juanita Wimmer (WV).

1. Adopted the 2021 Homeowners Report

The Task Force conducted an e-vote to consider adoption of the 2021 *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report). The motion passed unanimously.

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

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Draft: 11/3/23

Casualty Actuarial and Statistical (C) Task Force
Virtual Meeting
October 10, 2023

The Casualty Actuarial and Statistical (C) Task Force met Oct. 10, 2023. The following Task Force members participated: D.J. Bettencourt, Chair, represented by Christian Citarella (NH); Chlora Lindley-Myers, Vice Chair, represented by Julie Lederer (MO); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Ricardo Lara represented by Lynne Wehmuller and Mitra Sanandajifar (CA); Andrew N. Mais represented by Wanchin Chou and Qing He (CT); Michael Yaworsky represented by Peshala Disanayaka (FL); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Chuck Jansen (IL); Amy L. Beard represented by Larry Steinert (IN); Vicki Schmidt represented by Nicole Boyd (KS); James J. Donelon represented by Nichole Torblaa (LA); Kathleen A. Birrane represented by Walter Dabrowski (MD); Anita G. Fox represented by Kevin Dyke (MI); Grace Arnold represented by Phil Vigliaturo (MN); Eric Dunning represented by Nguyen Thai (NE); Alice Kane represented by Anna Krylova (NM); Scott Kipper represented by Gennady Stolyarov (NV); Glen Mulready represented by Andrew Schallhorn (OK); Andrew R. Stolfi represented by Ying Liu (OR); Michael Humphreys represented by Michael McKenney (PA); Cassie Brown represented by Rebecca Armon and Miriam Fisk (TX); Kevin Gaffney represented by Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA), and Allan L. McVey represented by Juanita Wimmer (WV).

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

Fisk said the Actuarial Opinion (C) Working Group met Sept. 27. The Working Group adopted the *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year 2023* (2023 Regulatory Guidance) and continued discussion on proposed changes to the 2024 P&C Opinion and the 2024 Title Opinion instructions. The most significant proposed change in the P&C Opinion instructions regards qualification documentation. The requirement for qualification documentation is proposed to be provided only upon initial appointment (and no longer required annually thereafter). Proposed changes in the Title Opinion instructions would make the wording more consistent with the P&C Opinion instructions. The 2024 Property/Casualty (P/C) and Title Opinion instructions were exposed for a public comment period ending Oct. 27.

Fisk made a motion, seconded by Vigliaturo, to adopt the report of the Actuarial Opinion (C) Working Group (Attachment 5 and Attachment 6). The motion passed unanimously.

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

He said the Statistical Data (C) Working Group met Sept. 18 to discuss proposed changes to the statistical reports. During that meeting, the Working Group adopted a change in the collection of insurance ranges for the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report), expanding the number of buckets in which the data is collected and allowing for more flexibility in how the data is rolled up and shown in the report. Additionally, the Working Group adopted a change to the *Competition Database Report* (Competition Report) that will show market share information by stock and mutual companies separately. The Working Group plans to meet again on Oct. 24 to continue discussion about the proposed changes to the statistical reports.

Recently the 2021 Auto Insurance Database Average Premium Supplement was released to the public. The full 2020/2021 *Auto Insurance Database Report* (Auto Report) is being quality-checked and compiled by NAIC staff

and will be sent to the Working Group for review this month. The 2021 Homeowners Report is currently being reviewed by this Task Force. Adopted changes to the *Report on Profitability by Line by State* (Profitability Report) and Competition Report are being implemented for the 2022 data year reports, and the draft versions of those reports will be distributed to the Working Group this fall.

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

3. Adopted its 2024 Proposed Charges

Citarella presented draft 2024 proposed charges. He said significant changes from the 2023 charges are an addition of a charge regarding research of insurance for cyber liability, modification of the charge about artificial intelligence (AI), and inclusion of a specific charge for the Actuarial Opinion (C) Working Group to assess the changes of the Society of Actuary's (SOA's) insurance curriculum.

Amann made a motion, seconded by Dyke, to adopt its 2024 proposed charges (Attachment Two-A). The motion passed unanimously.

4. Adopted a Blanks Proposal Regarding Number of Years of Data in Schedule P

Armon said during its Sept. 5 meeting, the Task Force agreed to the development of a blanks proposal to change the two-year reporting requirements to 10 years beginning in 2024. She said the result would be that all lines of business would have 10 years of accident or report year data and 10 years of development.

Originally, the two-year reporting requirement was implemented because the lines of business were considered short-tailed. However, based on a study by the American Academy of Actuaries (Academy) Committee on Property and Liability Financial Reporting (COPLFR), the industry's loss ratio or loss development found that approximately 25% of one-year development is reported in the short-tail lines' "prior" row. She said that means the loss development is not being captured in Schedule P for those lines of business. Companies have 10 years of data because they have to report such for risk-based capital (RBC) and need the data to complete the summary section of Schedule P. The change would make all lines consistent with 10 years of data.

Armon said the instructions currently explain how to convert the two years of data to 10 years for the summary exhibit. She said that led to needing to change both Schedule P instructions and the blank. She said the blanks staff will make the adopted pet insurance changes to the document the Task Force proposes, as well.

The Task Force discussed that the proposal is long overdue and how one original reason for the two-year lines was to save paper. They also discussed how the proposal would improve the company and consulting work regarding required Schedule P reconciliations and how the proposal would seem to make it easier for all parties involved.

Tip Tipton (Thrivent) asked whether there would be gradual implementation, adding one more year of reporting for each additional calendar year until 10 years of data is reported. Armon said the plan is to report all 10 years starting in 2024 since the data is already available. She said it would be much more complicated to try to do a gradual implementation given the prior row calculation is more complicated. Tipton suggested that this be better explained in the instructions, and the Task Force agreed.

Armon made a motion, seconded by Steinert, to adopt the blanks and instruction proposal regarding the number of years of data in Schedule P, as amended, and send it to the Blanks (E) Working Group (Attachment Two-B). The motion passed unanimously.

5. Discussed the Financial Reporting of “Free” Parent or Affiliate Claims Handling Expenses

Robin Marcotte (NAIC) said COPLFR asked how regulators believe the “free” parent or affiliate claims handling expenses should be handled in the financial statement, and that apparently, some in the industry believed they could report \$0 for their adjusting and other loss adjustment expense (LAE) reserve. Marcotte explained the inaccuracies of that belief.

Marcotte said that under *Statement of Statutory Accounting Principles (SSAP) No. 25—Affiliates and Other Related Parties*, an insurer must contract with the company or parent offering the “free” claims handling, and the agreement must be in writing, must have a specified due date, and must meet the fair and reasonable standard. She said the *Insurance Holding Company System Regulatory Act (#440)* has the fair and reasonable standard, also. State insurance regulators evaluate the agreements between the insurer and the parent for approval. She said she does not believe states would approve these types of agreements for “free” loss adjustment because that would not be fair and reasonable nor arm’s length. She said even if the agreement was approved, there is still guidance in *SSAP No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses* that the LAE liability has to be established even if payments are made to third parties and that liability must remain on the insurer’s books until the claim is actually adjusted. She said that paying another party to do something for you does not mean that your obligations have been fulfilled.

She added there are other requirements in SSAP No. 25 that if a company overpaid or underpaid for something, it could be characterized by the state as either a dividend or implied capital contribution. She said even with a state-approved contract, SSAP No. 55 still says liabilities must be established until the claims are settled. She said the company that outsources its claim adjusting would still have responsibility for that activity and cannot reduce its liability until the claim is adjusted.

Armon asked about a different scenario where companies want to say they pay commission to their third-party administrator (TPA) and, as a result, the TPA takes care of the loss adjusting. Because the expense of the commission is already recorded, they do not believe they should have to carry an LAE reserve. Marcotte said the insurer would still need to record its LAE liability. Marcotte said the books and records of both parties need to be clear. Claiming an opaque payment of a commission without dividing it by purpose doesn’t work. She said the situation has happened where a company accepts the commission and cancels the contract. The insurance company was still responsible for adjusting the claim. The claim liability is not extinguished until the claim has been adjusted. Dyke agreed and said it should be well-known that an insurer must establish the liabilities for unallocated expenses, regardless of the nature of the contract in which those services are being provided. He said a prepaid asset might be established, depending on the nature of the contract that is separate and distinct from the actual liability. He said this has been the long-standing method in statutory accounting, so he questioned whether those attempting to do this are newer companies. Marcotte added that even if prepaid, the amount would not be an admitted asset.

6. Discussed the D&O Insurance Coverage and Cyber Insurance Supplements

Citarella said the cyber supplement proposal at the Blanks (E) Working Group is still being discussed. Tipton said the industry has been working with a small group of NAIC staff and state insurance regulators. He said the proposal will be revised and exposed during the Blanks (E) Working Group’s meeting on Nov. 7.

Citarella said the goal is to continue the discussion on a director and officer (D&O) supplement proposal. He said he remains anxious about a change to the supplement that would require a lot of work by the industry and

regulatory/NAIC staff who would be reviewing it. He still plans for a proposal to be drafted by the Fall National Meeting.

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

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Adopted by the Executive (EX) Committee and Plenary, Dec. 4, 2023

Adopted by the Property and Casualty Insurance (C) Committee, Dec. 3, 2023

Adopted by the Casualty Actuarial and Statistical (C) Task Force, Oct. 10, 2023

1. The **Casualty Actuarial and Statistical (C) Task Force** will:

- A. Provide reserving, pricing, ratemaking, statistical, and other actuarial support to NAIC committees, task forces, and/or working groups. Propose changes to the appropriate work products, with the most common work products noted below, and present comments on proposals submitted by others relating to casualty actuarial and statistical matters. Monitor the activities regarding casualty actuarial issues, including the development of financial services regulations and statistical reporting, including disaster.
 - i. Property and Casualty Insurance (C) Committee: Ratemaking, reserving, or data issues.
 - ii. Blanks (E) Working Group: Property/casualty (P/C) annual financial statement, including Schedule P; P/C quarterly financial statement; P/C quarterly and annual financial statement instructions, including the Statement of Actuarial Opinion (SAO) and Actuarial Opinion Summary Supplement.
 - iii. Capital Adequacy (E) Task Force: P/C risk-based capital (RBC) report.
 - iv. Statutory Accounting Principles (E) Working Group: *Accounting Practices and Procedures Manual* (AP&P Manual) and review and provide comments on statutory accounting issues being considered under *Statement of Statutory Accounting Principles (SSAP) No. 65—Property and Casualty Contracts*.
 - v. Speed to Market (D) Working Group: P/C actuarial sections of the *Product Filing Review Handbook*.
- B. Monitor national casualty actuarial developments and consider regulatory implications.
 - i. Casualty Actuarial Society (CAS): Statements of Principles and Syllabus of Basic Education.
 - ii. American Academy of Actuaries (Academy): Standards of Practices, Council on Professionalism, and Casualty Practice Council.
 - iii. Society of Actuaries (SOA): ~~General insurance track's basic education~~ Anticipated changes to education pathways.
 - iv. Federal legislation.
- C. Facilitate discussion among state insurance regulators regarding rate filing issues of common interest across the states through the scheduling of regulator-only conference calls.
- D. Conduct the following predictive analytics work:
 - i. Facilitate training and the sharing of expertise through predictive analytics webinars (Book Club).
 - ii. ~~Review the completed work on artificial intelligence (AI) from other Committee groups.~~ Coordinate with the Innovation, Cybersecurity, and Technology (H) Committee and the Life Actuarial (A) Task Force on the tracking of new uses of artificial intelligence (AI), auditing algorithms, product development, and other emerging regulatory issues, ~~in as far as these issues contain a Task Force component.~~ Discuss regulatory oversight of AI and machine learning (ML) in insurers' ratemaking, reserving, and other activities.
 - iii. With the NAIC Rate Model Team's assistance, discuss guidance for the regulatory review of models used in rate filings.
- E. ~~Research cyber liability insurance and discuss regulatory data needs.~~

2. The **Actuarial Opinion (C) Working Group** will:

- A. Propose revisions to the following as needed, especially to improve actuarial opinions, actuarial opinion summaries, and actuarial reports, as well as the regulatory analysis of these actuarial documents and loss and premium reserves:
 - i. *Financial Analysis Handbook*.
 - ii. *Financial Condition Examiners Handbook*.

- iii. *Annual Statement Instructions—Property/Casualty.*
- iv. Regulatory guidance to appointed actuaries and companies.
- v. Other financial blanks and instructions, as needed.

B. Assess the need for changes to the Property and Casualty Statement of Actuarial Opinion instructions upon release of the SOA's proposed changes to its education pathways.

3. The **Statistical Data (C) Working Group** will:

- A. Consider updates and changes to the *Statistical Handbook of Data Available to Insurance Regulators*.
- B. Consider updates and developments, provide technical assistance, and oversee the production of the following reports and databases. Periodically, evaluate the demand and utility versus the costs of production of each product.
 - i. *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance* (Homeowners Report).
 - ii. *Auto Insurance Database Report* (Auto Report).
 - iii. *Competition Database Report* (Competition Report).
 - iv. *Report on Profitability by Line by State Report* (Profitability Report).
- C. Enhance the expedited reporting and publication of average auto and average homeowners premium portions of the annual Auto Report and Homeowners Report.

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<p style="text-align: right;">DATE: _____</p> <p>CONTACT PERSON: <u>Kris DeFrain</u></p> <p>TELEPHONE: <u>816-783-8229</u></p> <p>EMAIL ADDRESS: <u>kdefrain@naic.org</u></p> <p>ON BEHALF OF: <u>Casualty Actuarial and Statistical (C) Task Force</u></p> <p>NAME: <u>Christian Citarella</u></p> <p>TITLE: <u>Chair of CASTF</u></p> <p>AFFILIATION: <u>New Hampshire Insurance Department</u></p> <p>ADDRESS: _____</p>	<p style="text-align: center;">FOR NAIC USE ONLY</p> <p>Agenda Item # _____</p> <p>Year _____</p> <p>Changes to Existing Reporting []</p> <p>New Reporting Requirement []</p> <hr/> <p style="text-align: center;">REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</p> <p>No Impact []</p> <p>Modifies Required Disclosure []</p> <p>Is there data being requested in this proposal which is available elsewhere in the Annual/Quarterly Statement? []</p> <p><i>***If Yes, complete question below***</i></p> <hr/> <p style="text-align: center;">DISPOSITION</p> <p>[] Rejected For Public Comment</p> <p>[] Referred To Another NAIC Group</p> <p>[] Received For Public Comment</p> <p>[] Adopted Date _____</p> <p>[] Rejected Date _____</p> <p>[] Deferred Date _____</p> <p>[] Other (Specify) _____</p>
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BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|---|---|---|
| <input type="checkbox"/> ANNUAL STATEMENT
<input type="checkbox"/> QUARTERLY STATEMENT

<input type="checkbox"/> Life, Accident & Health/Fraternal
<input checked="" type="checkbox"/> Property/Casualty
<input type="checkbox"/> Health | <input type="checkbox"/> INSTRUCTIONS
<input type="checkbox"/> BLANK

<input type="checkbox"/> Separate Accounts
<input type="checkbox"/> Protected Cell
<input type="checkbox"/> Health (Life Supplement) | <input type="checkbox"/> CROSSCHECKS

<input type="checkbox"/> Title
<input type="checkbox"/> Other _____
<input type="checkbox"/> Life (Health Supplement) |
|---|---|---|

Anticipated Effective Date: Annual 2024

IDENTIFICATION OF ITEM(S) TO CHANGE

Change Schedule P to show 10 years of data and a “prior” row for all lines of business beginning in 2024. This modifies requirements for six lines of business that currently only show 2 years of data and a “prior” row.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

While all 10 years of accident-year data are required for every line of business to produce summary data and comply with risk-based capital (RBC) requirements, only 2 years of accident-year data is required to be shown in the Schedule P exhibits for six lines of business: the property lines of business and financial guaranty/mortgage guaranty business. Some of the current 2-year lines of business are experiencing significant loss development after 2 years. A review of industry aggregate Schedule P—Part 2 results across these 2-year lines shows the prior line regularly has 25% or more of the reported one-year loss development. The information for more accident years will aid regulatory review of reserves for these lines.

P/C companies currently maintain 10 years of data for the current “short-tailed” lines to prepare the Schedule P Summaries and report for Risk-Based Capital (RBC). There are multiple reasons for the proposed change: 1) The 2-year reporting requires unneeded calculations that can easily result in errors on the “prior row.” 2) With all lines having 10 years of data,

Schedule P will be easier to understand because one would be able to reconcile the summary data and line of business data. 3) Given current technology, there seems to be no material time, printing or cost savings derived by only showing two years of data for six lines of business.

We recommend this change from two to ten years of data be completed in one step, because the data for ten years has been collected and stepwise progression would be prone to issues akin to those in the 2-year lines.

*****IF THE DATA IS AVAILABLE ELSEWHERE IN THE ANNUAL/QUARTERLY STATEMENT, PLEASE NOTE WHY IT IS REQUIRED FOR THIS PROPOSAL*****

Not available elsewhere

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

**** This section must be completed on all forms.**

Revised 11/17/2022

Draft: 9/18/23

Casualty Actuarial and Statistical (C) Task Force
Virtual Meeting
September 5, 2023

The Casualty Actuarial and Statistical (C) Task Force met Sept. 5, 2023. The following Task Force members participated: D.J. Bettencourt, Chair, represented by Christian Citarella (NH); Chlora Lindley-Myers, Vice Chair, represented by Julie Lederer (MO); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Mark Fowler represented by Charles Hale (AL); Ricardo Lara represented by Lynne Wehmuller (CA); Andrew N. Mais represented by Wanchin Chou (CT); Michael Yaworsky represented by Peshala Disanayaka (FL); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Reid McClintock (IL); Amy L. Beard represented by Larry Steinert (IN); Vicki Schmidt represented by Nicole Boyd (KS); James J. Donelon represented by Nichole Torblaa (LA); Kathleen A. Birrane represented by Marsha Hall (MD); Timothy N. Schott represented by Sandra Darby (ME); Anita G. Fox represented by Kevin Dyke (MI); Grace Arnold represented by Phil Vigliaturo (MN); Troy Downing represented by Mari Kindberg (MT); Mike Causey represented by Richard Kohan (NC); Eric Dunning represented by Michael Muldoon (NE); Scott Kipper represented by Gennady Stolyarov (NV); Judith L. French represented by Maureen Motter (OH); Glen Mulready represented by Cuc Nguyen (OK); Andrew R. Stolfi represented by David Dahl (OR); Michael Humphreys represented by Michael McKenney (PA); Michael Wise represented by Matt Watts (SC); Cassie Brown represented by J'ne Byckovski and Miriam Fisk (TX); and Mike Kreidler represented by Dan Forsman (WA).

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

Fisk said the Actuarial Opinion (C) Working Group met Aug. 23 to discuss potential changes to the 2024 opinion instructions. For the Title instructions, the Working Group is considering several edits for consistency with the Property instructions. The Working Group will vote on *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year 2023 (2023 Regulatory Guidance)* this month.

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

2. Discussed the Referral Regarding the SOA's Pending Education Changes

The Life Actuarial (A) Task Force asked the Casualty Actuarial and Statistical (C) Task Force to participate in writing a letter addressed to the Society of Actuaries (SOA) about the SOA's pending education changes. Lederer provided background. In July, the SOA announced some planned changes to its examination pathway, and those changes are proposed to take effect in the fall. One change is that detailed local regulatory requirements would be moved off the exams and become a stand-alone optional local regulatory certificate. Lederer provided an example that if an actuary wishes to sign a statutory Statement of Actuarial Opinion (SAO) for a U.S. entity, the actuary would need to get the optional certificate that involves learning about U.S. regulation and statutory accounting. Other actuaries would not need to get that certificate. Lederer said one concern discussed in the letter is that Appointed Actuaries do not work alone, and their credentialed staff may not have covered U.S. statutory requirements in any formal way.

Lederer also proposed a paragraph be added to the letter to address property/casualty (P/C) special requirements to evaluate the general insurance program to ensure it is accepted for Appointed Actuaries. Via the SOA website, she said it appears some ratemaking and reserving material is proposed to be removed. If changes are needed to

the opinion instructions, those need to be proposed to the Blanks (E) Working Group by January 2024 to be effective for 2024. Lederer said the Task Force will need about a year or two to review the education changes and make any changes to the instructions.

Chou said the Life Actuarial (A) Task Force has concerns about the reason for the changes and valuation issues. He said he would report on any continued discussions.

Citarella asked members to review the letter and propose any additional changes in wording in the next two weeks.

Stuart Klugman (SOA) supported the proposed P/C paragraph, and he said the P/C's 105 knowledge statements aid the SOA's curriculum committee. He said the SOA is aware of the need to continue to meet those educational requirements, and he noted the need to provide state insurance regulators with two years for review. He said the plans are to put revisions in place by the spring of 2024 but not to offer new certificates until 2026. He said that means anyone who is under the old system would still be qualifying through exams in 2025. Actuaries under the new system would not complete programs until 2026. He said the SOA views this as a collaboration, and its goal is to ensure state insurance regulators are comfortable with what it is doing. Ann Weber (SOA) added that the SOA is discussing changes with the American Academy of Actuaries (Academy) too. She said the Academy is aware that it may need to change some of the qualification standards.

3. Discussed Schedule P and Number of Years of Data

Michelle L. Iarkowski (Deloitte Consulting LLP) said the Academy's Committee on Property and Liability Financial Reporting (COPLFR) submitted a proposal Attachment (Three-A) to require all lines of business have 10 years of data shown in Schedule P. Currently, there are short-tailed lines in Schedule P that are only required to show two years. Iarkowski said an analysis shows there is still significant development happening beyond the two years that would show in a 10-year exhibit.

Task Force members mentioned examples of recent state data reporting requirements for these lines of business that require more than two years of data.

Iarkowski said the Academy hopes the Task Force will create a blanks proposal. She added that if that happens, the Task Force will need to coordinate with the Blanks (E) Working Group on other pending Schedule P changes, such as pet insurance.

4. Discussed the Financial Reporting of Parent or Affiliate Claims Handling Expenses

Iarkowski said COPLFR has received questions regarding how adjusting and other expenses should be handled when claims handling is provided by a parent or affiliate at no cost to the insurer. Robin Marcotte (NAIC) said an answer might be in the *Insurance Holding Company System Regulatory Act* (#440) through its requirements about agreements between related parties needing to be in writing and needing state regulatory approval. Also, transactions between affiliates must be fair and reasonable. Stolyarov said he would determine the legal and contractual obligations of the reporting entity and whether that entity has specific obligations for these expenses. Marcotte said she will research the issue so NAIC staff and COPLFR representatives can meet for further discussion.

5. Discussed the D&O Insurance Coverage and Cyber Insurance Supplements

Citarella said any proposed changes to annual statement supplements would need to be sent to the Blanks (E) Working Group by the early days of February for that year of reporting. He said the goal is to have a Director and Officer (D&O) Supplement proposal drafted by the Fall National Meeting. He said the main complication is that this would be the first supplement to require accident year reporting, which may over-complicate the supplement.

McKenney said the status of the cybersecurity blanks proposal is that it continues to be discussed with interested parties. State insurance regulators need to decide what needs to be reported and whether it can be simplified. Some topics under discussion are: 1) primary or excess; 2) stand-alone policy or endorsement; and 3) first-party or third-party claims. McKenney said his current concern is the admitted market rather than the excess market.

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

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April 26, 2023

Christian Citarella
Chair
Casualty Actuarial and Statistical (C) Task Force (CASTF)
National Association of Insurance Commissioners (NAIC)

c/o: Kris DeFrain
kdefrain@naic.org

Re: NAIC Blanks Proposal from the Committee on Property and Liability Financial Reporting (COPLFR)

Dear Chair Citarella,

On behalf of the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries,¹ I appreciate this opportunity to propose a change to Schedule P for companies that file the Property and Casualty Annual Statement.

Currently, the Schedule P Summaries in the P&C Annual Statement provide loss and loss adjustment expenses (LAE) information for the most recent 10 accident years as well as a Prior row to capture data and/or development for all accident years older than 10 years. The individual Schedule P exhibits include detail for lines of business that provide 10 years of history for certain lines and other lines that only provide the two most recent years of experience plus a Prior row to reflect accident years older than two years. This letter will refer to the lines of business that capture 10 years' data as "long-tailed" (e.g., workers' compensation) and those that capture two years' data (e.g., auto physical damage) as "short-tailed."

COPLFR proposes a modification to the Annual Statement blank so that all Schedule P reports would list 10 years of experience beginning in 2024. This change would eliminate the distinction between "short-tailed" and "long-tailed" lines of business in Schedule P.

COPLFR premises its proposal upon the following factors:

- 1) A material amount of loss development is possible for the "short-tailed" lines after two years. A review of industry aggregate Schedule P—Part 2 results across these lines shows

¹ The American Academy of Actuaries is a 19,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

the Prior row with regularly 25% or more of the reported one-year loss development. COPLFR believes it would be useful to company management and analysts to disclose development beyond two years so this Prior development is detailed by accident year for all lines of business in the P&C Annual Statement blank.

- 2) P&C insurance companies already must capture 10 years of data for all lines of business to prepare the Schedule P Summaries. Hence, removing the need to convert short-tailed lines data from 10 years to two years in the Annual Statement would reduce the effort needed by companies to prepare the Annual Statement.
- 3) Given current technology, COPLFR believes there are no material time or cost savings derived by only showing two years of data.
- 4) The current reporting can easily result in errors related to what is reported in the “Prior” row, something COPLFR members have reported seeing in the past. The potential for these errors arises when insurers convert from the 10-year reporting to the 2-year reporting format currently required for some lines of business. If all lines of business reflect 10 years of data, COPLFR anticipates that these “conversion” errors would be eliminated.

Finally, COPLFR notes that exposure 2023-01BWG proposes changes to Schedule P to be effective for the 2024 Annual Statement. COPLFR acknowledges that its recommendation would impact this exposure by expanding the newly proposed pet insurance component of Schedule P from two years to 10 years. COPLFR believes that should both 2023-01BWG and our recommendation be adopted, an effective date for the 2024 Annual Statement would provide the smoothest transition for companies.

COPLFR appreciates this opportunity to provide this proposal to CASTF. COPLFR hopes these observations are helpful and would welcome further discussion. If you have any questions about our comments, please contact Rob Fischer, the Academy’s casualty policy analyst, at fischer@actuary.org.

Sincerely,

Stephen Koca, MAAA, FCAS
Chairperson
Committee on Property and Liability Financial Reporting
American Academy of Actuaries

Draft: 9/5/23

Casualty Actuarial and Statistical (C) Task Force
E-Vote
August 30, 2023

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Aug. 30, 2023. The following Task Force members participated: D.J. Bettencourt, Chair, represented by Christian Citarella (NH); Chlora Lindley-Myers, Vice Chair, represented by Julie Lederer (MO); Ricardo Lara represented by Lynne Wehmuller (CA); Andrew N. Mais represented by Wanchin Chou (CT); Michael Yaworsky represented by Christina Huff (FL); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Reid McClintock (IL); Amy L. Beard represented by Larry Steinert (IN); Kathleen A. Birrane represented by Ron Coleman (MD); Timothy N. Schott represented by Sandra Darby (ME); Anita G. Fox represented by Kevin Dyke (MI); Grace Arnold represented by Phil Vigliaturo (MN); Troy Downing represented by Mari Kindberg (MT); Mike Causey represented by Richard Kohan (NC); Eric Dunning and Michael Muldoon (NE); Scott Kipper represented by Gennady Stolyarov (NV); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Michael McKenney (PA); Cassie Brown represented by J'ne Byckovski (TX); Mike Kreidler represented by Eric Slavich (WA); and Allan L. McVey and Juanita Wimmer (WV).

1. Adopted the 2021 Auto Supplement

The Task Force conducted an e-vote to consider adoption of the *2021 Auto Database Average Premium Supplement* (Auto Supplement). The motion passed with one abstention.

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

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Draft: 10/2/23

Actuarial Opinion (C) Working Group
Virtual Meeting
September 27, 2023

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met Sept. 27, 2023. The following Working Group members participated: Miriam Fisk, Chair (TX); Amy Waldhauer (CT); Chantel Long (IL); Sandra Darby (ME); Julie Lederer (MO); Michael Muldoon (NE); and Kevin Clark and James DiSanto (PA).

1. Adopted the Regulatory Guidance

After the exposure ending Sept. 1, the Working Group received one response (Attachment Two-A). Fisk said she made non-substantive edits based on the comment letter.

Ms. Darby made a motion, seconded by DiSanto, to adopt the 2023 Regulatory Guidance (Attachment Two-B). The motion passed unanimously.

2. Exposed P/C and Title Actuarial Opinion Instructions

Fisk noted the address of the Appointed Actuary is required in other parts of the annual statement. She also said the Working Group would need to review state laws to make sure there is no address requirement in the laws. Therefore, she suggested the address remain a requirement.

Beyond the changes discussed on a prior call, Fisk said she made one more change to the Title instructions. In the second part of the definition of “Qualified Actuary,” she replaced the “particular lines of business” used in the P/C instructions to “title insurance.” Fisk said she verified with the American Academy of Actuaries’ Casualty Practice Council that an actuary can be assessed for title insurance qualifications.

The Working Group had no discussion about the 2024 Property/Casualty (P/C) Statement of Actuarial Opinion (SAO) and the Title SAO as presented (Attachments Two-C and Two-D). Fisk asked for the documents to be exposed for a 30-day comment period ending Oct. 27, 2023.

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 2023

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). Although it is the responsibility of the Appointed Actuary to identify the applicable ASOPs, the Appointed Actuary may find it useful to review the Applicability Guidelines for Actuarial Standards of Practice published by the Actuarial Standards Board.

Changes to the 2021 and 2022 *Instructions* were minor. The Working Group did not propose any significant changes to the 2023 *Instructions*.

Table of Contents

- I. General comments..... 4
 - A. Reconciliation between documents 4
 - B. Role of illustrative language in the Instructions 4
 - C. Qualification documentation 4
 - D. Replacement of an Appointed Actuary..... 4
 - E. Reporting to the Board of Directors 5
 - F. Requirements for pooled companies..... 5
 - G. Explanation of adverse development..... 5
 - 1. Comments on unusual Insurance Regulatory Information System (IRIS) ratios in the Actuarial Opinion5
 - 2. Comments on persistent adverse development in the AOS 6
 - H. Revisions 6
- II. Comments on Actuarial Opinion and Actuarial Report 6
 - A. Review date 6
 - B. Making use of another’s work 6
 - C. Points A and B of the Opinion paragraph when opinion type is other than Reasonable 7
 - D. Conclusions on a net versus a direct and assumed basis 7
 - E. Unearned premium for P&C Long Duration Contracts..... 7
 - F. Other premium reserve items..... 7
 - G. The importance of Relevant Comments paragraphs..... 7
 - H. Risk of Material Adverse Deviation 8
 - 1. No company-specific risk factors 8
 - 2. Mitigating factors..... 8
 - 3. Consideration of carried reserves, materiality standard, and reserve range when making RMAD conclusion..... 8
 - 4. Materiality standards for intercompany pool members 8
- I. Regulators’ use of the Actuarial Report 8
 - 1. Schedule P reconciliation..... 8
 - 2. Change in estimates 9
 - 3. Narrative 9
 - 4. Support for assumptions 9
 - 5. Support for roll forward analyses 10
- J. Exhibits A and B..... 10
 - 1. “Data capture format” 10

- 2. Scope of Exhibit B, Item 12..... 10
- 3. Exhibit B, Item 13..... 10
- III. Comments on AOS..... 11
 - A. Confidentiality 11
 - B. Different requirements by state..... 11
 - C. Format..... 11
- IV. Guidance on qualification documentation..... 11
 - A. Brief biographical information 12
 - B. “Qualified Actuary” definition 12

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 appropriate language to clearly convey their opinion and the basis for that opinion. In forming their opinion, Appointed Actuaries should consider company-specific characteristics such as intercompany pooling arrangements; recent mergers or acquisitions; and significant changes in operations, product mix, or reinsurance arrangements.

C. Qualification documentation

Starting with the 2019 *Instructions*, the Appointed Actuary is required to provide "qualification documentation" to the Board of Directors upon initial appointment and annually thereafter. The Working Group is considering amending this requirement starting with Year End 2024 Opinions, to only require the Appointed Actuary to provide "qualification documentation" to the Board of Directors upon initial appointment and eliminate the requirement to provide the documentation 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 further described in Section IV of this document.

D. Replacement of an Appointed Actuary

The *Instructions* require two letters when the Board replaces an Appointed Actuary: one addressed from the insurer to the domiciliary commissioner, and one addressed from the former Appointed Actuary to the insurer. The insurer must provide both of these letters to the domiciliary commissioner.

The detailed steps are as follows:

1. Within 5 business days, the insurer shall notify its domiciliary commissioner 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 the former Appointed Actuary provide a letter addressed to the insurer stating whether the former Appointed Actuary agrees with the statements contained in the insurer's letter referenced in step 2.
4. Within 10 business days of the request from the insurer described in step 3, the former Appointed Actuary shall provide a written response to the insurer.
5. The insurer shall provide the letter described in step 2 and the response from the former Appointed Actuary described in step 4 to the domiciliary commissioner.

Regarding the disagreements referenced in step 2 above, regulators understand that there may be disagreements between the Appointed Actuary and the insurer during the course of the Appointed Actuary's analysis that are resolved by the time the Appointed Actuary concludes the analysis. For instance, the Appointed Actuary's analysis may go through several iterations, and an insurer's comments on the Appointed Actuary's draft Actuarial Report may prompt the Appointed Actuary to make changes to the report. While regulators are interested in material disagreements regarding differences between the

former Appointed Actuary's final estimates and the insurer's carried reserves, they do not expect notification on routine discussions that occur during the course of the Appointed Actuary's work.

E. Reporting to the Board of Directors

The Appointed Actuary is required to report to the insurer's Board every year, and the *Instructions* were amended in 2016 to require the Board's minutes to specify the manner in which the Appointed Actuary presented the required information. This may be done in a form of the Appointed Actuary's choosing, including, but not limited to, an executive summary or PowerPoint presentation. The Working Group strongly encourages the Appointed Actuary to present his or her analysis in person so that the risks and uncertainties that underlie the exposures and the significance of the Appointed Actuary's findings can be adequately conveyed and discussed. Regardless of how the Appointed Actuary presents his or her conclusions, the Actuarial Report must be made available to the Board.

Management is limited to reporting single values on lines 1 and 3 of the Liabilities, Surplus, and Other Funds page of the balance sheet. However, actuarial estimates are uncertain by nature, and point estimates do not convey the variability in the projections. Therefore, the Board should be made aware of the Appointed Actuary's opinion regarding the risk of material adverse deviation, the sources of risk, and what amount of adverse deviation the Appointed Actuary judges to be material.

F. Requirements for pooled companies

Effective with the 2014 *Instructions*, requirements for companies that participate in intercompany pools were enhanced 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 presented in the AOS should be that of the lead company

Note the distinction between pooling with a 100% lead company with no retrocession and ceding 100% via a quota share reinsurance agreement. The regulator must approve these affiliate agreements as either an intercompany pooling arrangement or a quota share reinsurance agreement. The proper financial reporting is dependent on the approved filings, regardless of how company management regards its operating platform.

For intercompany pooling members with a greater than 0% share of the pooled reserves, regulators encourage the Appointed Actuary to display values in the AOS on a pooled (or consolidated) basis in addition to the statutory entity basis. This can be accomplished by displaying two tables of information.

G. Explanation of adverse development

1. Comments on unusual Insurance Regulatory Information System (IRIS) ratios in the Actuarial Opinion

The Appointed Actuary is required to provide comments in the Actuarial Opinion on factors that led to unusual values for IRIS ratios 11, 12, or 13. The Working Group considers it insufficient to attribute unusual reserve development to "reserve strengthening" or "adverse development" and expects the Appointed Actuary to provide

insight into the company-specific factors which caused the unusual value. Detailed documentation should be included in the Actuarial Report to support statements provided in the Actuarial Opinion.

2. Comments on persistent adverse development in the AOS

The Appointed Actuary is required to comment on persistent adverse development in the AOS. Comments can reflect common questions that regulators have, such as:

- Is development concentrated in one or two exposure segments, or is it broad across all segments?
- How does development in the carried reserve compare to the change in the Appointed Actuary's estimate?
- Is development related to specific and identifiable situations that are unique to the company?
- Does the development or the reasons for development differ depending on the individual calendar or accident years?

H. Revisions

The *Instructions* contain a detailed definition of what it means for the Actuarial Opinion or AOS to be "in error," along with a description of steps the company and Appointed Actuary should take in that situation.

Even if the Actuarial Opinion or AOS does not meet the *Instructions'* specific definition of "in error," submitting a revised Actuarial Opinion or AOS might be appropriate or recommended in other situations. It would be prudent for the company to contact the regulator if mistakes or problems are discovered but do not meet the specific definition of "in error."

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

II. Comments on Actuarial Opinion and Actuarial Report

A. Review date

The illustrative language for the Scope paragraph includes "... and reviewed information provided to me through XXX date." This is intended to capture the ASOP No. 36 requirement to disclose the date through which material information known to the Appointed Actuary is included in forming the reserve opinion (the review date), if it differs from the date the Actuarial Opinion is signed. When the Appointed Actuary is silent regarding the review date, this can indicate either that the review date is the same as the date the Actuarial Opinion is signed or that the Appointed Actuary overlooked this disclosure requirement. When the Appointed Actuary's review date is the same as the date the Actuarial Opinion is signed, regulators suggest the Appointed Actuary clarify this in the Actuarial Opinion by including a phrase such as "... and reviewed information provided to me through the date of this opinion."

B. Making use of another's work

If the Appointed Actuary makes use of the work of another not within the Appointed Actuary's control for a material portion of the reserves, the *Instructions* say that the Appointed Actuary must provide the following information in the Actuarial Opinion:

- The person's name;
- The person's affiliation;
- The person's credential(s), if the person is an actuary; and
- A description of the type of analysis performed, if the person is not an actuary.

Furthermore, Section 4.2.f of ASOP No. 36 says that the actuary should disclose whether he or she reviewed the other's underlying analysis and, if so, the extent of the review. Though this is not mentioned in the ASOP, the Working Group encourages the Appointed Actuary to consider discussing his or her conclusions from the review.

Section 3.7.2 of ASOP No. 36 describes items the actuary should consider when determining whether it is reasonable to make use of the work of another. One of these items is the amount of the reserves covered by the other's analyses or opinions in comparison to the total reserves subject to the actuary's opinion. The Working Group encourages the Appointed Actuary to disclose these items in the Actuarial Opinion by providing the dollar amount of the reserves covered by the other's

analyses or opinions and the percentage of the total reserves subject to the Appointed Actuary's opinion that these other reserves represent.

C. Points A and B of the Opinion paragraph when opinion type is other than "Reasonable"

Regulators encourage Appointed Actuaries to think about their responses to point A (meet the requirements of the insurance laws of the state) and point B (computed in accordance with accepted actuarial standards) of the Opinion paragraph when they issue an Actuarial Opinion of a type other than "Reasonable."

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

Unless the Appointed Actuary states otherwise, regulators will assume that the Appointed Actuary's conclusion on the type of opinion rendered, provided in points C and D of the Opinion paragraph, applies to both the net and the direct and assumed reserves. If the Appointed Actuary reaches different conclusions on the net versus the direct and assumed reserves, the Appointed Actuary should include narrative comments to describe the differences and clearly convey a complete opinion. The response to Exhibit B, Item 4 should reflect the Appointed Actuary's opinion on the net reserves.

Similarly, the materiality standard in Exhibit B, Item 5 and the RMAD conclusion in Exhibit B, Item 6 should pertain to the net reserves. If the Appointed Actuary reaches a different conclusion on the risk of material adverse deviation in the net versus the direct and assumed reserves, the Appointed Actuary should include a Relevant Comments paragraph to address the differences. Regulators understand that a net versus a direct and assumed RMAD will have different meanings and, potentially, different materiality standards.

E. Unearned premium for P&C Long Duration Contracts

Exhibit A, Items 7 and 8 require disclosure of the unearned premium reserve for P&C Long Duration Contracts. The *Instructions* require the Appointed Actuary to include a point D in the Opinion paragraph regarding the reasonableness of the unearned premium reserve when these reserves are material.

The Working Group expects that the Appointed Actuary will include documentation in the Actuarial Report to support a conclusion on reasonableness whenever point D is included in the Actuarial Opinion. This documentation may include the three tests of SSAP No. 65 or other methods deemed appropriate by the Appointed Actuary to support his or her conclusion.

Regulators see many Actuarial Opinions where dollar amounts are included in Exhibit A, Items 7 and 8; some Actuarial Opinions include a Relevant Comments paragraph discussing these amounts and some do not. Regulators prefer at a minimum that Appointed Actuaries include some discussion in Relevant Comments on these amounts including an explicit statement as to whether these amounts are material or immaterial.

F. Other premium reserve items

With regard to "Other Premium Reserve Items" in Exhibit A, Item 9, the Appointed Actuary should include an explanatory paragraph about these premium reserves in Relevant Comments and state whether the amounts are material or immaterial. If the amounts are material, and the Appointed Actuary states the amounts are reasonable in an Opinion paragraph, regulators would expect the actuarial documentation to support this conclusion in the Actuarial Report.

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

G. The importance of Relevant Comments paragraphs

The Working Group considers the Relevant Comments paragraphs to be the most valuable information in the Actuarial Opinion. Relevant Comments help the regulator interpret the Actuarial Opinion and understand the Appointed Actuary's reasoning and judgment. In addition to the required Relevant Comments, the Appointed Actuary should consider providing information on other material items such as reinsurance with affiliates, mergers or acquisitions, other premium reserves, and catastrophe risk.

H. Risk of Material Adverse Deviation

The Relevant Comments paragraphs on the Risk of Material Adverse Deviation (RMAD) are particularly useful to regulators. The first two RMAD comments below respond to questions that Appointed Actuaries have posed to regulators. The second two stem from regulators' reviews of Actuarial Opinions.

1. No company-specific risk factors – The Appointed Actuary is asked to discuss company-specific risk factors regardless of the RMAD conclusion. If the Appointed Actuary does not believe that there are any company-specific risk factors, the Appointed Actuary should state that.
2. Mitigating factors – Regulators generally expect Appointed Actuaries to comment on significant company-specific risk factors that exist prior to the company's application of controls or use of mitigation techniques. The company's risk management behaviors may, however, affect the Appointed Actuary's RMAD conclusion.
3. Consideration of carried reserves, materiality standard, and reserve range when making RMAD conclusion – When deciding whether RMAD exists, the Appointed Actuary should consider the materiality standard in relation to the range of reasonable estimates and the carried reserves. For example, RMAD should likely exist when the sum of the materiality standard plus the carried reserves is within the range of reasonable estimates. Regardless, the Appointed Actuary should support the conclusion of whether RMAD exists.
4. Materiality standards for intercompany pool members – With the exception of intercompany pooling members that retain a 0% share, each statutory entity is required to have a separate Actuarial Opinion with its own materiality standard. Where there are no unusual circumstances to consider, it may be acceptable to determine a standard for the entire pool and assign each member its proportionate share of the total. It is not appropriate to use the entire amount of the materiality threshold for the pool as the standard for each individual pool member.

I. Regulators' use of the Actuarial Report

Regulators should be able to rely on the Actuarial Report as an alternative to developing their own independent estimates. A well-prepared and well-documented Actuarial Report that complies with ASOP No. 41 can provide a foundation for efficient reserve evaluation during a statutory financial examination. This expedites the examination process and may provide cost savings to the company.

1. Schedule P reconciliation

The Working Group acknowledges that myriad circumstances (such as mergers, acquisitions, changes in claim systems, and the use of underwriting year data in the analysis) may make it difficult for the Appointed Actuary to reconcile the analysis data to Schedule P. The Working Group encourages Appointed Actuaries to disclose reconciliation issues in the Actuarial Report. If the data cannot be reconciled, the Appointed Actuary should document the reasons.

The Working Group believes that:

- A summary reconciliation that combines all years and all lines is an insufficient demonstration of data integrity. A reconciliation should include enough detail to reflect the segmentation of exposures used in the reserve analysis, the accident years of loss activity and the methods used by the Appointed Actuary. While it is important that the Appointed Actuary is provided with complete and accurate data, reconciling the data **provided to** the Appointed Actuary to Schedule P is not sufficient to demonstrate that the data **used by** the Appointed Actuary reconciles to Schedule P. It is important for the Appointed Actuary to demonstrate that in the process of performing the actuarial analysis, data was neither created nor destroyed. This is commonly accomplished by showing a clear mapping from the Appointed Actuary's analysis exhibits to the actuarial data shown in the Schedule P reconciliation.
- The Appointed Actuary should map the data groupings used in the analysis to Schedule P lines of business and should provide detailed reconciliations of the data at the finest level of segmentation that is possible and practical. The Working Group recognizes that the Appointed Actuary chooses the data segmentation for the analysis and that there is often not a direct correspondence between analysis segments and Schedule P lines of business.

- The Appointed Actuary should reconcile all data material to the analysis, including claim counts and earned premium if appropriate. If the Appointed Actuary chooses not to reconcile certain data elements used in the analysis, such as claim counts, a brief explanation should be included in the Actuarial Report to make it clear that these elements were not inadvertently overlooked.
- Schedule P reconciliations are expected to be performed on both a Direct & Assumed basis and a Net of Reinsurance basis. If circumstances specific to the company lead the Appointed Actuary to perform the reconciliation on only one basis, the rationale for this decision should be explained in the Actuarial Report. Similarly, while the reconciliation of the loss-related elements, such as Defense & Cost Containment and Adjusting & Other expenses, is generally expected to be on the same level as used in the analysis underlying the Actuarial Opinion, the Appointed Actuary has the discretion to deviate as long as the rationale is explained in the Actuarial Report.
- The *Instructions* require that the Appointed Actuary include an explanation for any material differences in the Schedule P Reconciliation. When differences appear in the reconciliation but are viewed as immaterial by the Appointed Actuary, the Appointed Actuary should acknowledge the immateriality of the differences in the Actuarial Report in order to assure regulators that the Appointed Actuary is aware of the differences and has considered the potential impact of the differences on the analysis underlying the Actuarial Opinion.

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

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

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

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

2. Change in estimates

The Working Group expects the Appointed Actuary to discuss any significant change in the Appointed Actuary's total estimates from the prior Actuarial Report. However, an explanation should also be included for any significant fluctuations within accident years or segments. When preparing the change-in-estimates exhibits, the Appointed Actuary should choose a level of granularity that provides meaningful comparisons between the prior and current year's results.

3. Narrative

The narrative section of the Actuarial Report should clearly convey the significance of the Appointed Actuary's findings and conclusions, the uncertainty in the estimates, and any differences between the Appointed Actuary's estimates and the carried reserves.

4. Support for assumptions

Appointed Actuaries should support their assumptions. The use of phrases like "actuarial judgment," either in the narrative comments or in exhibit footnotes, is not sufficient. A descriptive rationale is needed.

The selection of expected loss ratios could often benefit from expanded documentation. When making their selection, Appointed Actuaries should consider incorporating rate changes, frequency and severity trends, and other adjustments

needed to on-level the historical information. Historical loss ratio indications have little value if items such as rate actions, tort reform, schedule rating adjustments, or program revisions have materially affected premium adequacy.

5. Support for roll forward analyses

The Working Group recognizes that the majority of the analysis supporting an Actuarial Opinion may be done with data received prior to year-end and “rolled forward” to year-end. By reviewing the Actuarial Report, the regulator should be able to clearly identify why the Appointed Actuary made changes in the ultimate loss selections and how those changes were incorporated into the final estimates. A summary of final selections without supporting documentation is not sufficient.

J. Exhibits A and B

1. “Data capture format”

The term “data capture format” in Exhibits A and B of the *Instructions* refers to an electronic submission of the data in a format usable for computer queries. This process allows for the population of an NAIC database that contains qualitative information and financial data. Appointed Actuaries should assist the company in accurately completing the electronic submission.

2. Scope of Exhibit B, Item 12

Exhibit B, Item 12 requests information on extended loss and unearned premium reserves for all property/casualty lines of business, not just medical professional liability. The Schedule P Interrogatories referenced in the parenthetical only address reserves associated with yet-to-be-issued extended reporting endorsements offered in the case of death, disability, or retirement of an individual insured under a medical professional liability claims-made policy.

3. Exhibit B, Item 13

The Working Group added disclosure item Exhibit B, Item 13 in 2018. This item requests information on reserves associated with “A&H Long Duration Contracts,” defined in the *Instructions* as “A&H contracts in which the contract term is greater than or equal to 13 months and contract reserves are required.”

This disclosure item was added for several reasons:

- **A desire by regulators to gain a greater understanding of property and casualty insurers’ exposure to A&H Long Duration Contracts.**
 - This guidance does not specify how P&C insurers should report the liabilities associated with A&H Long Duration Contracts on the annual statement. Through work performed on financial examinations, regulators have found that P&C insurers may include the liabilities in various line items of the Liabilities, Surplus and Other Funds page. SSAP No. 54R provides accounting guidance for insurers.
 - Regardless of where the amounts are reported on the annual statement, the materiality of the amounts, and whether the insurer is subject to AG 51, the Appointed Actuary should disclose the amounts associated with A&H Long Duration Contracts on Exhibit B, Item 13. The Appointed Actuary should provide commentary in a Relevant Comments paragraph in accordance with paragraph 6.C of the *Instructions*. The Appointed Actuary should also disclose all reserve amounts associated with A&H Long Duration Contracts in the Actuarial Report.
- **The adoption of AG 51 in 2017.** On August 9, 2017, the NAIC’s Executive (EX) Committee and Plenary adopted AG 51 requiring stand-alone asset adequacy analysis of long-term care (LTC) business. The text of AG 51 is included in the March 2019 edition of the NAIC’s Accounting Practices and Procedures Manual. The effective date of AG 51 was December 31, 2017, and it applies to companies with over 10,000 in-force 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 annual practice note “Statements of Actuarial Opinion on Property and Casualty Loss Reserves” provides illustrative examples that show how the Appointed Actuary might choose to display the required information. These examples present the numerical data in an easy-to-read table format.

IV. Guidance on qualification documentation

The *Instructions* were modified for 2019 to require the Appointed Actuary to document qualifications in what is called “qualification documentation.” The qualification documentation needs to be provided to the Board of Directors at initial appointment and annually thereafter. The Working Group is considering amending this requirement, starting with YE 2023 Opinions, to provide the qualification documentation to the Board of Directors at initial appointment and only once every five years thereafter, unless there are material changes in the company’s operations or exposure. An example of such material changes could include the company acquiring a book of business with a significantly different loss exposure.

The following provides guidance Appointed Actuaries may find useful in drafting qualification documentation. Appointed Actuaries should use professional judgment when preparing the documentation and need not use the sample wording or format provided below. As a general principle, Appointed Actuaries should provide enough detail within the documentation to demonstrate that they satisfy each component of the ‘Qualified Actuary’s definition. In crafting the qualification documentation, it may be helpful to think about what is important for the Board of Directors to know about their Appointed Actuary’s qualifications, and to remember that documentation should be relevant to the subject of the Actuarial Opinion being issued.

A. Brief biographical information

- The Appointed Actuary may provide resume-type information.
- Information may include the following:
 - professional actuarial designation(s) and year(s) first attained;
 - insurance or actuarial coursework or degrees;
 - actuarial employment history: company names, position title, years of employment, and relevant information regarding the type of work (e.g., reserving, ratemaking, ERM)

B. “Qualified Actuary” definition

The Appointed Actuary should provide a description of how the definition of “Qualified Actuary” in the *Instructions* is met or expected to be met (in the case of continuing education) for that year. The Appointed Actuary should provide information similar to the following. Items (i) through (iii) below correspond with items (i) through (iii) in the Qualified Actuary definition.

- (i) “I meet the basic education, experience and continuing education requirements of the Specific Qualification Standards for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statement, as set forth in the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (U.S. Qualification Standards), promulgated by the American Academy of Actuaries (Academy). The following describes how I meet these requirements:
 - a. Basic education:”
 - [Option 1] “met through relevant examinations administered by the Casualty Actuarial Society;” or
 - [Option 2] “met through alternative basic education.” The Appointed Actuary should further review documentation necessary per section 3.1.2 of the U.S. Qualification Standards.
 - b. “Experience requirements: met through relevant experience as described below.”
 - To describe the Appointed Actuary’s responsible experience relevant to the subject of the Actuarial Opinion, information may include specific actuarial experiences relevant to the company’s structure (e.g., insurer, reinsurer, RRG), lines of business, or special circumstances.
 - Experiences may include education (through organized activities or readings) about specific types of company structures, lines of business, or special circumstances.

c. “Continuing education: met (or expected to be met) through a combination of [industry conferences; seminars (both in-person and webinar); online courses; committee work; self-study; etc.], on topics including _____ (provide a brief overview of the CE topics. For example, ‘trends in workers’ compensation’ or ‘standards of actuarial practice on reserving.’). A detailed log of my continuing education credit hours is available upon request.”

- Section 3.3 of the Specific Qualification Standards for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statement requires the Appointed Actuary to earn 15 hours of CE on topics mentioned in Section 3.1.1.2.

(ii) “I have obtained and maintain an Accepted Actuarial Designation.” One of the following statements may be made, depending on the Appointed Actuary’s exam track:

- “I am a Fellow of the CAS (FCAS) and my basic education includes credit for Exam 6 – Regulation and Financial Reporting (United States).”
- “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.”

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

REGULATORY GUIDANCE on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year 2023

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 of the Casualty Actuarial and Statistical (C) Task Force believes that the Statement of Actuarial Opinion (SAO), 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) to provide clarity and timely guidance to companies and Appointed Actuaries with regulatory expectations on the SAO, 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 SAO, AOS, and supporting Actuarial Report and work papers be consistent with relevant Actuarial Standards of Practice (ASOPs). Although it is the responsibility of the Appointed Actuary to identify the applicable ASOPs, the Appointed Actuary may find it useful to review the Applicability Guidelines for Actuarial Standards of Practice published by the Actuarial Standards Board (ASB).

Changes to the 2021 and 2022 Instructions were minor. The Working Group did not propose any significant changes to the 2023 Instructions.

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

Table of Contents

I.	General Comments.....	4
A.	Reconciliation Between Documents.....	4
B.	Role of Illustrative Language in the Instructions	4
C.	Qualification Documentation	4
D.	Replacement of an Appointed Actuary	4
E.	Reporting to the Board of Directors	5
F.	Requirements for Pooled Companies	5
G.	Explanation of Adverse Development.....	6
1.	Comments on Unusual Insurance Regulatory Information System Ratios in the Statement of Actuarial Opinion	6
2.	Comments on Persistent Adverse Development in the Actuarial Opinion Summary	6
H.	Revisions	6
II.	Comments on the Statement of Actuarial Opinion and Actuarial Report.....	6
A.	Review Date	6
B.	Making Use of Another’s Work.....	7
C.	Points A and B of the Opinion Paragraph When Opinion Type is Other Than “Reasonable”.....	7
D.	Conclusions on a Net Versus a Direct and Assumed Basis.....	7
E.	Unearned Premium for Property/Casualty Long-Duration Contracts	7
F.	Other Premium Reserve Items.....	8
G.	The Importance of Relevant Comments Paragraphs	8
H.	Risk of Material Adverse Deviation.....	8
1.	No Company-Specific Risk Factors	8
2.	Mitigating Factors	8
3.	Consideration of Carried Reserves, Materiality Standard, and Reserve Range When Making Risk of Material Adverse Deviation Conclusion.....	8
4.	Materiality Standards for Intercompany Pool Members	8
I.	State Insurance Regulators’ Use of the Actuarial Report.....	8
1.	Schedule P Reconciliation.....	9
2.	Change in Estimates	10
3.	Narrative.....	10
4.	Support for Assumptions.....	10

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

- 5. Support for Roll-Forward Analyses 10
- J. Exhibits A and B10
 - 1. Data Capture Format 10
 - 2. Scope of Exhibit B, Item 12 11
 - 3. Exhibit B, Item 13 11
- III. Comments on the Actuarial Opinion Summary12
 - A. Confidentiality.....12
 - B. Different Requirements by State12
 - C. Format12
- IV. Guidance on Qualification Documentation.....12
 - A. Brief Biographical Information13
 - B. “Qualified Actuary” Definition13

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

I. General Comments

A. Reconciliation Between Documents

If there are any differences between the values reported in the Statement of Actuarial Opinion (SAO), Actuarial Opinion Summary (AOS), Actuarial Report, and annual statement, the Actuarial Opinion (C) Working Group expects Appointed Actuaries to include an explanation for these differences in the appropriate document; i.e., the SAO, 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; i.e., the direct and assumed loss reserves on line three of the SAO'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 *Annual Statement Instructions—Property/Casualty* (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 (e.g., intercompany pooling arrangements; recent mergers or acquisitions; and significant changes in operations, product mix, or reinsurance arrangements).

C. Qualification Documentation

Starting with the 2019 Instructions, the Appointed Actuary is required to provide qualification documentation to the Board of Directors upon initial appointment and annually thereafter. The Working Group is considering an amendment to this requirement starting with year-end 2024 opinions, which would only require the Appointed Actuary to provide qualification documentation to the Board upon initial appointment and eliminate the requirement to provide the documentation annually thereafter.

The documentation provided to the Board of Directors must be available to the state insurance regulator upon request and during a financial examination. Guidance on qualification documentation is in Section IV of this document.

D. Replacement of an Appointed Actuary

The Instructions require two letters when the Board of Directors replaces an Appointed Actuary: 1) one addressed from the insurer to the domiciliary commissioner; and 2) one addressed from the former Appointed Actuary to the insurer. The insurer must provide both letters to the domiciliary commissioner.

The detailed steps are as follows:

1. Within five business days, the insurer shall notify its domiciliary commissioner 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 there were disagreements with the former Appointed Actuary in the 24 months preceding the replacement. 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 request in writing that the 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.

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

Regarding the disagreements referenced in step 2, state insurance 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 state insurance regulators are interested in material disagreements regarding differences between the former Appointed Actuary's final estimates and the insurer's carried reserves, they do not expect notification on routine discussions that occur during the course of the Appointed Actuary's work.

E. Reporting to the Board of Directors

The Appointed Actuary is required to report to the insurer's Board every year, and the Instructions were amended in 2016 to require that the Board's minutes specify the manner in which the Appointed Actuary presents 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 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 of Directors should be made aware of the Appointed Actuary's opinion regarding the risk of material adverse deviation, the sources of risk, and what amount of adverse deviation the Appointed Actuary judges to be material.

F. Requirements for Pooled Companies

Effective with the 2014 Instructions, requirements for companies that participate in intercompany pools are as follows:

For all intercompany pooling members:

- Text of the SAO 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 reconcile to the financial statement for that company.

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

- Text of the SAO should be similar to that of the lead company.
- Exhibits A and B should reflect the 0% company's value.
 - 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 SAO.
- Information presented 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 state insurance 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.

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

For intercompany pooling members with a greater than 0% share of the pooled reserves, state insurance regulators encourage the Appointed Actuary to display values in the AOS on a pooled (or consolidated) basis in addition to the statutory entity basis. This can be accomplished by displaying two tables of information.

G. Explanation of Adverse Development

1. Comments on Unusual Insurance Regulatory Information System Ratios in the Statement of Actuarial Opinion

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

2. Comments on Persistent Adverse Development in the Actuarial Opinion Summary

The Appointed Actuary is required to comment on persistent adverse development in the AOS. Comments can reflect common questions state insurance regulators have, such as:

- Is development concentrated in one or two exposure segments, or is it broad across all segments?
- How does development in the carried reserve compare to the change in the Appointed Actuary’s estimate?
- Is development related to specific and identifiable situations that are unique to the company?
- Does the development or the reasons for development differ depending on the individual calendar or accident years?

H. Revisions

The Instructions contain a detailed definition of what it means for the SAO or AOS to be “in error,” along with a description of steps the company and Appointed Actuary should take in that situation.

Even if the SAO or AOS does not meet the Instructions’ specific definition of “in error,” submitting a revised SAO or AOS might be appropriate or recommended in other situations. It would be prudent for the company to contact the state insurance regulator if mistakes or problems are discovered but do not meet the specific definition of “in error.”

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

II. Comments on the Statement of 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 Actuarial Standard of Practice (ASOP) No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*, requirement to disclose the date through which material information known to the Appointed Actuary is included in forming the reserve opinion—i.e., 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 SAO 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 SAO is signed, state insurance regulators suggest that the Appointed Actuary clarify this in the SAO by including a phrase such as “... and reviewed information provided to me through the date of this opinion.”

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

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 *Annual Statement Instructions—Property/Casualty* (Instructions) note that the Appointed Actuary must provide the following information in the SAO:

- The person's name.
- The person's affiliation.
- The person's credential(s) if the person is an actuary.
- 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 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 SAO 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"

State insurance regulators encourage Appointed Actuaries to think about their responses to point A—meet the requirements of the insurance laws of the state—and point B—computed in accordance with accepted actuarial standards—of the Opinion paragraph when they issue an SAO of a type other than "Reasonable."

D. Conclusions on a Net Versus a Direct and Assumed Basis

Unless the Appointed Actuary states otherwise, state insurance 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 Risk of Material Adverse Deviation (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. State insurance regulators understand that a net versus a direct and assumed RMAD will have different meanings and, potentially, different materiality standards.

E. Unearned Premium for Property/Casualty Long-Duration Contracts

Exhibit A, Items 7 and 8 require disclosure of the unearned premium reserve for property/casualty (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 SAO. This documentation may include the three tests of *Statement of Statutory Accounting Principles (SSAP) No. 65—Property and Casualty Contracts* or other methods deemed appropriate by the Appointed Actuary to support his or her conclusion.

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

State insurance regulators see many SAOs where dollar amounts are included in Exhibit A, Items 7 and 8; some SAOs include a Relevant Comments paragraph discussing these amounts, and some do not. State insurance regulators 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

Regarding “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 that the amounts are reasonable in an Opinion paragraph, state insurance regulators would expect the actuarial documentation to support this conclusion in the Actuarial Report.

Typical items state insurance regulators see listed as other premium reserve items are medical professional liability death, disability, and retirement (DD&R) unearned premium reserves (UPRs) and other liability claims DD&R UPRs. Depending on the nature of these exposures, these items may be also listed on Exhibit B, Line 12.2 as claims made extended UPRs.

G. The Importance of Relevant Comments Paragraphs

The Working Group considers the Relevant Comments paragraphs to be the most valuable information in the SAO. Relevant Comments help the state insurance regulator interpret the SAO 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 RMAD are particularly useful to state insurance regulators. The first two RMAD comments below respond to questions that Appointed Actuaries have posed to state insurance regulators. The second two stem from state insurance regulators’ reviews of SAOs.

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 there are any company-specific risk factors, the Appointed Actuary should state that.
2. Mitigating Factors—State insurance 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 Risk of Material Adverse Deviation 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 SAO 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. State Insurance Regulators’ Use of the Actuarial Report

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

State insurance 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, *Actuarial Communications*, can provide a foundation for efficient reserve evaluation during a statutory financial examination. This expedites the examination process and may provide cost savings for the company.

1. Schedule P Reconciliation

The Working Group acknowledges that myriad circumstances (e.g., 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:

- A summary reconciliation that combines all years and all lines is an insufficient demonstration of data integrity. A reconciliation should include enough detail to reflect the segmentation of exposures used in the reserve analysis, the accident years of loss activity, and the methods used by the Appointed Actuary. While it is important that the Appointed Actuary is provided with complete and accurate data, reconciling the data **provided** to the Appointed Actuary to Schedule P is not sufficient to demonstrate that the data **used** by the Appointed Actuary reconciles to Schedule P. It is important for the Appointed Actuary to demonstrate that in the process of performing the actuarial analysis, data was neither created nor destroyed. This is commonly accomplished by showing a clear mapping from the Appointed Actuary's analysis exhibits to the actuarial data shown in the Schedule P reconciliation.
- The Appointed Actuary should map the data groupings used in the analysis to Schedule P lines of business and 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 there is often not a direct correspondence between analysis segments and Schedule P lines of business.
- The Appointed Actuary should reconcile all data material to the analysis, including claim counts and earned premium if appropriate. If the Appointed Actuary chooses not to reconcile certain data elements used in the analysis, such as claim counts, a brief explanation should be included in the Actuarial Report to make it clear that these elements were not inadvertently overlooked.
- Schedule P reconciliations are expected to be performed on both a direct and assumed basis and a net of reinsurance basis. If circumstances specific to the company lead the Appointed Actuary to perform the reconciliation on only one basis, the rationale for this decision should be explained in the Actuarial Report. Similarly, while the reconciliation of the loss-related elements, such as defense and cost containment and adjusting and other expenses, is generally expected to be on the same level as used in the analysis underlying the SAO, the Appointed Actuary has the discretion to deviate as long as the rationale is explained in the Actuarial Report.
- The Instructions require that the Appointed Actuary include an explanation for any material differences in the Schedule P Reconciliation. When differences appear in the reconciliation but are viewed as immaterial by the Appointed Actuary, the Appointed Actuary should acknowledge the immateriality of the differences in the Actuarial Report in order to assure state insurance regulators that the Appointed Actuary is aware of the differences and has considered the potential impact of the differences on the analysis underlying the SAO.

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

- The Schedule P reconciliation performed by the Appointed Actuary 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.

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

- Annual testing performed by independent certified public accountants (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 (e.g., 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, state insurance 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 most of the analysis supporting an SAO may be done with data received prior to year-end and "rolled forward" to year-end. By reviewing the Actuarial Report, the state insurance 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 data in a format usable for computer queries. This process allows for the population of an NAIC database that contains

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

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 P/C 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 DD&R 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 accident and health (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 state insurance regulators to gain a greater understanding of P/C 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, state insurance 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—Individual and Group Accident and Health Contracts* 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 *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (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 Aug. 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* (AP&P Manual). The effective date of AG 51 was Dec. 31, 2017, and it applies to companies with over 10,000 in-force lives covered by long-term care insurance (LTCI) contracts as of the valuation date. The Instructions state that the Actuarial Report and workpapers summarizing the asset adequacy testing (AAT) of LTC business must comply with AG 51 requirements.
- **Recent adverse reserve development in LTC business.** State insurance regulators expect Appointed Actuaries to disclose company-specific risk factors in the SAO. 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 SAO. 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,

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

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 SAO 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 SAO and Actuarial Report.

III. Comments on the Actuarial Opinion Summary

A. Confidentiality

The AOS is a confidential document, and it 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 avoid attaching the related SAO 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 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 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' (Academy's) Committee on Property and Liability Financial Reporting (COPFLR) annual practice note, "Statements of Actuarial Opinion on Property and Casualty Loss Reserves," provides illustrative examples that show how the Appointed Actuary might choose to display the required information. These examples present the numerical data in an easy-to-read table format.

IV. Guidance on Qualification Documentation

The Instructions were modified for 2019 to require the Appointed Actuary to document qualifications in what is called "qualification documentation." The qualification documentation needs to be provided to the Board of Directors at initial appointment and annually thereafter. The Working Group is considering amending this requirement, starting with year-end 2023 Opinions, to provide the qualification documentation to the Board of Directors at initial appointment and only once every five years thereafter, unless there are material changes in the company's operations or exposure. An example of such material changes could include the company acquiring a book of business with a significantly different loss exposure.

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

The following provides guidance Appointed Actuaries may find useful in drafting qualification documentation. Appointed Actuaries should use professional judgment when preparing the documentation, and they 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 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, enterprise risk management [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 (CE)—for that year. The Appointed Actuary should provide information similar to the following. Items 1 through 3 below correspond with items (i) through (iii) in the Qualified Actuary definition.

1. I meet the basic education, experience, and CE 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 (CAS).
 - [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 SAO, information may include specific actuarial experiences relevant to the company's structure (e.g., insurer, reinsurer, risk retention group [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. CE: 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 CE credit hours is available upon request.

Adopted by the Actuarial Opinion (C) Working Group: Sept. 27, 2023

- 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.
2. 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 (U.S.).
 - I am an Associate of the CAS (ACAS), and my basic education includes credit for Exam 6—Regulation and Financial Reporting (U.S.) 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 U.S. 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.

3. 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 (ABCD) when its members are practicing in the U.S.

ACTUARIAL OPINION

1. There is to be included with or attached to Page 1 of the Annual Statement the statement of the Appointed Actuary, entitled "Statement of Actuarial Opinion" (Actuarial Opinion), setting forth his or her opinion relating to reserves specified in the SCOPE paragraph. The Actuarial Opinion, both the narrative and required Exhibits, shall be in the format of and contain the information required by this section of the *Annual Statement Instructions – Property and Casualty*.

Upon initial engagement, the Appointed Actuary must be appointed by the Board of Directors by Dec. 31 of the calendar year for which the opinion is rendered. The Company shall notify the domiciliary commissioner within five business days of the initial appointment with the following information:

- a. Name and title (and, in the case of a consulting actuary, the name of the firm).
- b. Manner of appointment of the Appointed Actuary (e.g., who made the appointment and when).
- c. A statement that the person meets the requirements of a Qualified Actuary (or was approved by the domiciliary commissioner) and that documentation was provided to the Board of Directors.

Once this notification is furnished, no further notice is required with respect to this person unless the Board of Directors takes action to no longer appoint or retain the actuary or the actuary no longer meets the requirements of a Qualified Actuary.

If subject to the *U.S. Qualification Standards*, the Appointed Actuary shall annually attest to having met the continuing education requirements under Section 3 of the *U.S. Qualification Standards* for issuing Actuarial Opinions. As agreed with the actuarial organizations, the Casualty Actuarial Society (CAS) and Society of Actuaries (SOA) will determine the process for receiving the attestations for their respective members and make available the attestations to the public. An Appointed Actuary subject to the *U.S. Qualification Standards* and not a member of the CAS or SOA shall select one of the above organizations to submit their attestation.

The Appointed Actuary shall provide to the Board of Directors qualification documentation on occasion of their appointment, ~~and on an annual basis thereafter,~~ directly or through company management. The documentation should include brief biographical information and a description of how the definition of "Qualified Actuary" is met or expected to be met (in the case of continuing education) for that year. The documentation should describe the Appointed Actuary's responsible experience relevant to the subject of the Actuarial Opinion. The Board of Directors shall document their review of those materials and any other information they may deem relevant, including information that may be requested directly from the Appointed Actuary. It is generally expected that the review of the Appointed Actuary's qualification documentation should take place at the level within a holding company structure that is responsible for overseeing insurance operations. If a statutory entity is a subsidiary or a non-lead pool member with an Appointed Actuary whose qualifications were reviewed by the pool lead or principal's Board, the statutory entity's Board can satisfy the review requirement by acknowledging the parent Board's review. This can be done by noting in the meeting minutes the name of the principal or lead entity and the date the parent Board reviewed the qualification documentation, or by attaching a copy of the parent Board's meeting minutes reflecting their review of the qualification documentation. The qualification documentation shall be considered workpapers and be available for inspection upon regulator request or during a financial examination.

If an actuary who was the Appointed Actuary for the immediately preceding filed Actuarial Opinion is replaced by an action of the Board of Directors, the Insurer shall within five (5) business days notify the Insurance Department of the state of domicile of this event. The Insurer shall also furnish the domiciliary commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former Appointed Actuary regarding the content of the opinion on matters of the risk of material adverse deviation, required disclosures, scope, procedures, type of opinion issued, substantive wording of the opinion or data quality. The disagreements required to be reported in response to this paragraph include both those resolved to the former Appointed Actuary's satisfaction and those not resolved to the former Appointed Actuary's satisfaction. The letter should include a description of ~~the each~~ disagreement and the nature of its resolution (or that it was not resolved). Within this same ten (10) business days, the Insurer shall in writing also request such former Appointed Actuary to furnish a letter addressed to the Insurer stating whether the Appointed Actuary agrees with the statements contained in the Insurer's letter and, if not, stating the reasons for which he or she does not agree. The former Appointed Actuary shall provide a written response to the insurer within ten (10) business days of such request, and the Insurer shall furnish such responsive letter from the former Appointed Actuary to the domiciliary commissioner together with its own responses.

The Appointed Actuary must report to the Board of Directors each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors and identify the manner of presentation (e.g., webinar, in-person presentation, written). A separate Actuarial Opinion is required for each company filing an Annual Statement. When there is an affiliated company pooling arrangement, one Actuarial Report for the aggregate pool is sufficient, but there must be addendums to the Actuarial Report to cover non-pooled reserves for individual companies.

The Actuarial Opinion and the supporting Actuarial Report and workpapers should be consistent with the appropriate Actuarial Standards of Practice (ASOPs), including, but not limited to, ASOP No. 23, ASOP No. 36, ASOP No. 41 and ASOP No. 43, as promulgated by the Actuarial Standards Board.

1A. Definitions

"Appointed Actuary" is a Qualified Actuary (or individual otherwise approved by the domiciliary commissioner) appointed by the Board of Directors in accordance with Section 1 of these instructions.

"Board of Directors" can include the designated Board of Directors, its equivalent or an appropriate committee directly reporting to the Board of Directors.

"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. Qualifications Standards)*, promulgated by the American Academy of Actuaries (Academy);
- (ii) Has obtained and maintains an Accepted Actuarial Designation; and
- (iii) Is a member of a 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.

An exception to parts (i) and (ii) of this definition would be an actuary evaluated by the Academy's Casualty Practice Council and determined to be a Qualified Actuary for particular lines of business and business activities.

“Accepted Actuarial Designation” in item (ii) of the definition of a Qualified Actuary, is an actuarial designation accepted as meeting or exceeding the NAIC’s Minimum Property/Casualty (P/C) Actuarial Educational Standards for a P/C Appointed Actuary (published on the NAIC website). The following actuarial designations, with any noted conditions, are accepted as meeting or exceeding basic education minimum standards:

- (i) Fellow of the CAS (FCAS) – Condition: basic education must include Exam 6 – Regulation and Financial Reporting (United States);
- (ii) Associate of the CAS (ACAS) – Conditions: basic education must include Exam 6 – Regulation and Financial Reporting (United States) and Exam 7 – Estimation of Policy Liabilities, Insurance Company Valuation, and Enterprise Risk Management;
- (iii) Fellow of the SOA (FSA) – Conditions: basic education must include 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.

The table below provides some allowable exam substitutions for (i), (ii) and (iii) in the definition of “Accepted Actuarial Designation.” Noting that CAS exams have changed over time, exceptions for (i) and (ii) provide for FCAS/ACAS designations achieved before an exam was created (e.g. CAS Exam 6-US) or with an earlier version of an exam or exam topic (e.g., 2010 CAS Exam 6 instead of the current CAS Exam 7 Section A). FCAS/ACAS qualified under the 2018 and prior Statement of Actuarial Opinion instructions can use the noted substitution rules to achieve qualification under the new instructions by demonstrating basic and/or continuing education of the required topics including material in CAS Exam 6 (US) and section A of CAS Exam 7 (in the May 2019 CAS syllabus). Exceptions for (iii) for an FSA are also included in the table. The SOA exams completed in the general insurance track in 2019 and prior should be supplemented with continuing education and experience to meet basic education requirements in the *U.S. Qualification Standards*. For purpose of these instructions only, the table also includes specific exams from other organizations that are accepted as substitutes.

Exception for (i), (ii), or (iii)	Exam:	Exam Substitution Allowed*
(i) and (ii)	CAS Exam 6 (US)	<ol style="list-style-type: none"> 1. Any CAS version of a U.S. P/C statutory accounting and regulation exam administered prior to creation of the CAS Exam 6 (US) in 2011. 2. An FCAS or ACAS earned prior to 2021 who did not pass CAS Exam 6 (US) or an allowable exam substitution, may substitute experience and/or continuing education for CAS Exam 6 (US) provided the Appointed Actuary explains in his/her qualification documentation how knowledge of U.S. financial reporting and regulation was obtained. 3. SOA FREU (US) Exam
(ii)	CAS Exam 7	<ol style="list-style-type: none"> 1. Any CAS version of an exam including advanced P/C reserving administered prior to creation of Exam 7 in 2011. 2. An ACAS earned prior to 2021 who did not pass CAS Exam 7 or an allowable exam substitution, may substitute experience and/or continuing education for CAS Exam 7 provided the Appointed Actuary explains in his/her qualification documentation how knowledge of the additional reserving topics in CAS Exam 7 (Section A) in the May 2019 syllabus was obtained. 3. SOA Advanced Topics Exam (Note: The ERM portion of Exam 7 is not needed to meet NAIC educational standards, therefore SOA ERM Exam is not needed for the substitution for this purpose.)
(iii)	SOA FREU (US) Exam	<ol style="list-style-type: none"> 1. CAS Exam 6 (US) 2. Any CAS version of a U.S. statutory accounting and regulation exam administered prior to creation of the CAS Exam 6 in 2011.
(iii)	SOA Advanced Topics Exam	<ol style="list-style-type: none"> 1. CAS Exam 7 2. Any CAS version of an exam containing the advanced techniques to estimate policy liabilities (i.e., advanced reserving).
*Note: These exam substitutions only apply to these instructions and are not applicable for CAS or SOA exam		

waivers.

“Insurer” or “Company” means an insurer or reinsurer authorized to write property and/or casualty insurance under the laws of any state and who files on the Property and Casualty Blank.

“Actuarial Report” means a document or other presentation prepared as a formal means of conveying to the state regulatory authority and the Board of Directors the Appointed Actuary’s professional conclusions and recommendations, of recording and communicating the methods and procedures, of assuring that the parties addressed are aware of the significance of the Appointed Actuary’s opinion or findings, and of documenting the analysis underlying the opinion. The required content of the Actuarial Report is further described in paragraph 7. (Note that the inclusion of the Board of Directors as part of the intended audience for the Actuarial Report does not change the content of the Actuarial Report as described in paragraph 7. The Appointed Actuary should present findings to the Board of Directors in a manner deemed suitable for such audience.)

“Property and Casualty (P&C) Long Duration Contracts” refers to contracts (excluding financial guaranty contracts, mortgage guaranty contracts and surety contracts) that fulfill both of the following conditions: (1) the contract term is greater than or equal to 13 months; and (2) the insurer can neither cancel the contract nor increase the premium during the contract term. These contracts are subject to the three tests of *SSAP No. 65—Property and Casualty Contracts* of the NAIC *Accounting Practices and Procedures Manual*.

“Accident and Health (A&H) Long Duration Contracts” refers to A&H contracts in which the contract term is greater than or equal to 13 months and contract reserves are required. See Schedule H instructions for a description of categories of contract reserves, as well as policy features that give rise to contract reserves. Two specific examples of contracts that typically require contract reserves are long-term care and disability income insurance.

1B. Exemptions

An insurer who intends to file for one of the exemptions under this Section must submit a letter of intent to its domiciliary commissioner no later than December 1 of the calendar year for which the exemption is to be claimed. The commissioner may deny the exemption prior to December 31 of the same year if he or she deems the exemption inappropriate.

A copy of the approved exemption must be filed with the Annual Statement in all jurisdictions in which the company is authorized.

Exemption for Small Companies

An insurer that has less than \$1,000,000 total direct plus assumed written premiums during a calendar year, and less than \$1,000,000 total direct plus assumed loss and loss adjustment expense reserves at year-end, in lieu of the Actuarial Opinion required for the calendar year, may submit an affidavit under oath of an officer of the insurer that specifies the amounts of direct plus assumed written premiums and direct plus assumed loss and loss adjustment reserves.

Exemption for Insurers under Supervision or Conservatorship

Unless ordered by the domiciliary commissioner, an insurer that is under supervision or conservatorship pursuant to statutory provision is exempt from the filing requirements contained herein.

Exemption for Nature of Business

An insurer otherwise subject to the requirement and not eligible for an exemption as enumerated above may apply to its domiciliary commissioner for an exemption based on the nature of business written.

Financial Hardship Exemption

An insurer otherwise subject to this requirement and not eligible for an exemption as enumerated above may apply to the commissioner for a financial hardship exemption. Financial hardship is presumed to exist if the projected reasonable cost of the Actuarial Opinion would exceed the lesser of:

- (i) One percent (1%) of the insurer's capital and surplus reflected in the insurer's latest quarterly statement for the calendar year for which the exemption is sought; or
- (ii) Three percent (3%) of the insurer's direct plus assumed premiums written during the calendar year for which the exemption is sought as projected from the insurer's latest quarterly statements filed with its domiciliary commissioner.

1C. Reporting Requirements for Pooled Companies

For each company in the pool, the Appointed Actuary shall include a description of the pool, identification of the lead company and a listing of all companies in the pool, their state of domicile and their respective pooling percentages.

Exhibits A and B for each company in the pool should represent the company's share of the pool and should reconcile to the financial statement for that company.

The following paragraph applies to companies that have a 0% share of the pool (no reported Schedule P data). The company shall submit an Actuarial Opinion that reads similar to that provided for the lead company. For example, the IRIS ratio and risk of material adverse deviation discussions, and other relevant comments shall relate to the risks of the lead company in the pool. The Exhibit B responses to question 5 should be \$0 and to question 6 should be "not applicable." Exhibits A and B of the lead company should be attached as an addendum to the PDF file and/or hard copy being filed (but would not be reported by the 0% companies in their data capture).

2. The Actuarial Opinion must consist of an IDENTIFICATION paragraph identifying the Appointed Actuary; a SCOPE paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the Appointed Actuary's work; an OPINION paragraph expressing his or her opinion with respect to such subjects; and one or more additional RELEVANT COMMENTS paragraphs. These four sections must be clearly designated.
3. 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. ~~Additionally, the IDENTIFICATION paragraph should include a statement asserting that the Appointed Actuary has complied with the requirement to provide qualification documentation to the Board of Directors, either directly or through company management.~~

If the Appointed Actuary was approved by the Academy to be a "Qualified Actuary," with or without limitation, or if the Appointed Actuary is not a Qualified Actuary but was approved by the domiciliary commissioner, the company must attach, each year, the approval letter and reference such in the identification paragraph.

4. The SCOPE paragraph should contain a sentence such as the following:

"I have examined the actuarial assumptions and methods used in determining reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 20__, and reviewed information provided to me through XXX date."

Exhibit A should list those items and amounts with respect to which the Appointed Actuary is expressing an opinion.

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.

The SCOPE paragraph should include a paragraph such as the following regarding the data used by the Appointed Actuary in forming the opinion:

“In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by _____ (officer name and title at the Company). I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P, Part 1 of the Company’s current Annual Statement. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.”

5. 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.
- 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.”

If the Scope includes material Unearned Premium Reserves for P&C Long Duration Contracts or Other Loss Reserve items on which the Appointed Actuary is expressing an opinion, the Actuarial Opinion should contain language such as the following:

- D. Make a reasonable provision for the unearned premium reserves for P&C Long Duration Contracts and/or <insert Other Loss Reserve item on which the Appointed Actuary is expressing an Opinion> of the Company under the terms of its contracts and agreements.

If there is any aggregation or combination of items in Exhibit A, the opinion language should clearly identify the combined items.

Insurance laws and regulations shall at all times take precedence over the actuarial standards.

If the Appointed Actuary has made use of the analysis of another actuary not within the Appointed Actuary’s control (such as for pools and associations, for a subsidiary or for special lines of business) for a material portion of the reserves, the other actuary must be identified by name, credential and affiliation within the OPINION paragraph. If the Appointed Actuary has made use of the work of a non-actuary (such as for modeling) for a material portion of the reserves, that individual must be identified by name and affiliation and a description of the type of analysis performed must be provided.

A Statement of Actuarial Opinion should be made in accordance with one of the following sections (1 through 5). The Appointed Actuary must explicitly identify in Exhibit B which type applies.

1. Determination of Reasonable Provision. When the carried reserve amount is within the Appointed Actuary’s range of reasonable reserve estimates, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves.
2. Determination of Deficient or Inadequate Provision. When the carried reserve amount is less than the minimum amount that the Appointed Actuary believes is reasonable, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves. In addition, the Appointed Actuary should disclose the minimum amount that the Appointed Actuary believes is reasonable.
3. Determination of Redundant or Excessive Provision. When the carried reserve amount is greater than the maximum amount that the Appointed Actuary believes is reasonable, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount does not make a reasonable provision for

the liabilities associated with the specified reserves. In addition, the Appointed Actuary should disclose the maximum amount that the Appointed Actuary believes is reasonable.

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4. Qualified Opinion. When, in the Appointed Actuary's opinion, the reserves for a certain item or items are in question because they cannot be reasonably estimated or the Appointed Actuary is unable to render an opinion on those items, the Appointed Actuary should issue a qualified Statement of Actuarial Opinion. The Appointed Actuary should disclose the item (or items) to which the qualification relates, the reason(s) for the qualification and the amounts for such item(s), if disclosed by the Company. Such a qualified opinion should state whether the carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, *except for* the item (or items) to which the qualification relates. The Appointed Actuary is not required to issue a qualified opinion if the Appointed Actuary reasonably believes that the item (or items) in question are not likely to be material.
5. No Opinion. The Appointed Actuary's ability to give an opinion is dependent upon data, analyses, assumptions, and related information that are sufficient to support a conclusion. If the Appointed Actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information, then the Appointed Actuary may issue a statement of no opinion. A statement of no opinion should include a description of the reasons why no opinion could be given.
6. The Appointed Actuary must provide RELEVANT COMMENT paragraphs to address the following topics of regulatory importance.

A. Company-Specific Risk Factors

The Appointed Actuary should include an explanatory paragraph to describe the major factors, combination of factors or particular conditions underlying the risks and uncertainties the Appointed Actuary considers relevant. The explanatory paragraph should not include general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc., nor is the Appointed Actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

B. Risk of Material Adverse Deviation

The Appointed Actuary must provide specific RELEVANT COMMENT paragraphs to address the risk of material adverse deviation. The Appointed Actuary must identify the materiality standard and the basis for establishing this standard. The materiality standard must also be disclosed in U.S. dollars in Exhibit B: Disclosures. The Appointed Actuary should explicitly state whether or not he or she reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation. This determination is also to be disclosed in Exhibit B.

C. Other Disclosures in Exhibit B

RELEVANT COMMENT paragraphs should describe the significance of each of the remaining Disclosure items (8 through 14) in Exhibit B. The Appointed Actuary should address the items individually and in combination when commenting on a material impact.

D. Reinsurance

RELEVANT COMMENT paragraphs should address reinsurance collectability, retroactive reinsurance and financial reinsurance.

The Appointed Actuary's comments on reinsurance collectability should address any uncertainty associated with including potentially uncollectable amounts in the estimate of ceded reserves. Before commenting on reinsurance collectability, the Appointed Actuary should solicit information from management on any actual collectability problems, review ratings given to reinsurers by a recognized rating service and examine Schedule F for the current year for indications of regulatory action or reinsurance recoverable on paid losses over ninety (90) days past due. The comment should also reflect any other information the Appointed Actuary has received from management or that is publicly available about the capability or willingness of reinsurers to pay claims. The Appointed Actuary's comments do not imply an opinion on the financial condition of any reinsurer.

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Retroactive reinsurance refers to agreements referenced in *SSAP No. 62R—Property and Casualty Reinsurance of the NAIC Accounting Practices and Procedures Manual*.

Financial reinsurance refers to contracts referenced in SSAP No. 62R in which credit is not allowed for the ceding insurer because the arrangements do not include a transfer of both timing and underwriting risk that the reinsurer undertakes in fact to indemnify the ceding insurer against loss or liability by reason of the original insurance.

E. IRIS Ratios

If the Company's reserves will create exceptional values under the NAIC IRIS Tests for One-Year Reserve Development to Policyholders' Surplus, Two-Year Reserve Development to Policyholders' Surplus or Estimated Current Reserve Deficiency to Policyholders' Surplus, the Appointed Actuary must include RELEVANT COMMENT on the factors that led to the unusual value(s).

F. Methods and Assumptions

If there has been any significant change in the actuarial assumptions and/or methods from those previously employed, that change should be described in a RELEVANT COMMENT paragraph. If the Appointed Actuary is newly appointed and does not review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.

7. The Actuarial Opinion must include assurance that an Actuarial Report and underlying actuarial workpapers supporting the Actuarial Opinion will be maintained at the Company and available for regulatory examination for seven (7) years. The Actuarial Report contains significant proprietary information. It is expected that the Actuarial Report be held confidential and not be intended for public inspection. The Actuarial Report must be available by May 1 of the year following the year-end for which the Actuarial Opinion was rendered or within two (2) weeks after a request from an individual state commissioner.

The Actuarial Report should be consistent with the documentation and disclosure requirements of ASOP No. 41, Actuarial Communications. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to Company management, the Board of Directors, the regulator or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data (e.g., loss triangles) to the conclusions.

Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51) in the *NAIC Accounting Practices and Procedures Manual* requires a company with over 10,000 in force lives covered by long-term care (LTC) insurance contracts as of the valuation date to perform a stand-alone asset adequacy analysis for its in force long-term care (LTC) contracts. The Actuarial Report and workpapers summarizing the results, assumptions and testing procedures for the asset adequacy testing of LTC business must be in compliance with AG 51 requirements. When referring to AG 51, the term "Actuarial Memorandum" is synonymous with Actuarial Report and workpapers.

The Actuarial Report should contain disclosure of all reserve amounts associated with A&H Long Duration Contracts reported by the Company; the reserve amounts in the Actuarial Report should tie to the Annual Statement.

The Actuarial Report must also include:

- A. A description of the Appointed Actuary's relationship to the Company, with clear presentation of the Appointed Actuary's role in advising the Board of Directors and/or management regarding the carried reserves. The Actuarial Report should identify how and when the Appointed Actuary presents the analysis to the Board of Directors and, where applicable, to the officer(s) of the Company responsible for determining the carried reserves.
 - B. An exhibit that ties to the Annual Statement and compares the Appointed Actuary's conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis. The Appointed Actuary's conclusions include the Appointed Actuary's point estimate(s), range(s) of reasonable estimates or both.
 - C. An exhibit that reconciles and maps the data used by the Appointed Actuary, consistent with the segmentation of exposure or liability groupings used in the Appointed Actuary's analysis, to the Annual Statement Schedule P line of business reporting. An explanation should be provided for any material differences.
 - D. An exhibit or appendix showing the change in the Appointed Actuary's estimates from the prior Actuarial Report, including extended discussion of factors underlying any material changes. The exhibit or appendix should illustrate the changes on a net basis but should also include the changes on a gross basis, if relevant. If the Appointed Actuary is newly appointed and does not review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.
 - E. Extended comments on trends that indicate the presence or absence of risks and uncertainties that could result in material adverse deviation.
 - F. Extended comments on factors that led to unusual IRIS ratios for One-Year Reserve Development to Policyholders' Surplus, Two-Year Reserve Development to Policyholders' Surplus or Estimated Current Reserve Deficiency to Policyholders' Surplus, and how these factors were addressed in prior and current analyses.
8. The Actuarial Opinion should conclude with the signature of the Appointed Actuary responsible for providing the Actuarial Opinion and the date when the Actuarial Opinion was rendered. The signature and date should appear in the following format:

Signature of Appointed Actuary
Printed name of Appointed Actuary
Employer's name
Address of Appointed Actuary
Telephone number of Appointed Actuary
Email address of Appointed Actuary
Date opinion was rendered

The same information should be reproduced within the Actuarial Report, along with the date the Actuarial Report was finalized.

9. The Insurer required to furnish an Actuarial Opinion shall require its Appointed Actuary to notify its Board of Directors or its audit committee in writing within five (5) business days after any determination by the Appointed Actuary that the Actuarial Opinion submitted to the domiciliary commissioner was in error as a result of reliance on data or other information (other than assumptions) that, as of the balance sheet date, was factually incorrect. The Actuarial Opinion shall be considered to be in error if the Actuarial Opinion would have not been issued or would have been materially altered had the correct data or other information been used. The Actuarial Opinion shall not be considered to be in error if it would have been materially altered or not issued solely because of data or information concerning events subsequent to the balance sheet date or because actual results differ from those projected.

Notification is required when discovery is made between the issuance of the Actuarial Opinion and Dec. 31 of that year. Notification should include a summary of such findings.

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If the Appointed Actuary learns that the data or other information relied upon was factually incorrect, but cannot immediately determine what, if any, changes are needed in the Actuarial Opinion, the Appointed Actuary and the Company should quickly undertake procedures necessary for the Appointed Actuary to make such determination. If the Insurer does not provide the necessary data corrections and other support (including financial support) within ten (10) business days, the Appointed Actuary should proceed with the notification to the Board of Directors and the domiciliary commissioner.

An Insurer who is notified pursuant to the preceding paragraphs shall forward a copy of the amended Actuarial Opinion to the domiciliary commissioner within five (5) business days of receipt of such and shall provide the Appointed Actuary making the notification with a copy of the letter and amended Actuarial Opinion submitted to the domiciliary commissioner. If the Appointed Actuary fails to receive such copy within the five (5) business day period referred to in the previous sentence, the Appointed Actuary shall notify the domiciliary commissioner within the next five (5) business days that an amended Actuarial Opinion has been finalized.

No Appointed Actuary shall be liable in any manner to any person for any statement made in connection with the above paragraphs if such statement is made in a good faith effort to comply with the above paragraphs.

10. Data in Exhibits A and B are to be filed in both print and data capture format.

Exhibit A: SCOPE
DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

<u>Loss and Loss Adjustment Expense Reserves:</u>	<u>Amount</u>
1. Unpaid Losses (Liabilities, Surplus and Other Funds page, Col 1, Line 1)	\$ _____
2. Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3)	\$ _____
3. Unpaid Losses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 13 and 15, Line 12 * 1000)	\$ _____
4. Unpaid Loss Adjustment Expenses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 17, 19 and 21, Line 12 * 1000)	\$ _____
5. The Page 3 write-in item reserve, “Retroactive Reinsurance Reserve Assumed”	\$ _____
6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	\$ _____
 <u>Premium Reserves:</u>	
7. Reserve for Direct and Assumed Unearned Premiums for P&C Long Duration Contracts	\$ _____
8. Reserve for Net Unearned Premiums for P&C Long Duration Contracts	\$ _____
9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	\$ _____

Exhibit B: DISCLOSURES
DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

NOTE: Exhibit B should be completed for Net dollar amounts included in the SCOPE. If an answer would be different for Direct and Assumed amounts, identify and discuss the difference within RELEVANT COMMENTS.

1. Name of the Appointed Actuary Last _____ First _____ Mid _____
2. The Appointed Actuary's relationship to the Company
Enter E or C based upon the following:
 E if an Employee of the Company or Group
 C if a Consultant _____
3. The Appointed Actuary's Accepted Actuarial 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)
 S if a Fellow of the Society of Actuaries (FSA) through the General Insurance track
 M if the actuary does not have an Accepted Actuarial Designation but is approved by the Academy's Casualty Practice Council.
 O for Other _____
4. Type of Opinion, as identified in the OPINION paragraph.
Enter R, I, E, Q, or N based upon the following:
 R if Reasonable
 I if Inadequate or Deficient Provision
 E if Excessive or Redundant Provision
 Q if Qualified. Use Q when part of the OPINION is Qualified.
 N if No Opinion _____
5. Materiality Standard expressed in U.S. dollars (used to Answer Question #6) \$ _____
6. Are there significant risks that could result in Material Adverse Deviation? Yes [] No [] Not Applicable []
7. Statutory Surplus (Liabilities, Surplus and Other Funds page, Col 1, Line 37) \$ _____
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (should equal Part 1 Summary, Col 23, Line 12 * 1000) \$ _____
9. Discount included as a reduction to loss reserves and loss adjustment expense reserves as reported in Schedule P
 - 9.1 Nontabular Discount [Notes, Line 32B23, (Amounts 1, 2, 3 & 4)], Electronic Filing Cols 1, 2, 3, & 4 \$ _____
 - 9.2 Tabular Discount [Notes, Line 32A23, (Amounts 1 & 2)], Electronic Filing Col 1 & 2 \$ _____

10. The net reserves for losses and loss adjustment expenses for the Company’s share of voluntary and involuntary underwriting pools’ and associations’ unpaid losses and loss adjustment expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines \$ _____

11. The net reserves for losses and loss adjustment expenses that the Company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines *
 - 11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 33A03D, ending net asbestos reserves for current year) Electronic Filing Col 5 \$ _____
 - 11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03D, ending net environmental reserves for current year), Electronic Filing Col 5 \$ _____

12. The total claims made extended loss and loss adjustment expense, and unearned premium reserves (Greater than or equal to Schedule P Interrogatories)
 - 12.1 Amount reported as loss and loss adjustment expense reserves \$ _____
 - 12.2 Amount reported as unearned premium reserves \$ _____

13. The net reserves for the A&H Long Duration Contracts that the Company carries on the following lines on the Liabilities, Surplus and Other Funds page:
 - 13.1 Losses \$ _____
 - 13.2 Loss Adjustment Expenses \$ _____
 - 13.3 Unearned Premium \$ _____
 - 13.4 Write-In (list separately, adding additional lines as needed, and identify (e.g., “Premium Deficiency Reserves”, “Contract Reserves other than Premium Deficiency Reserves” or “AG 51 Reserves”)) \$ _____

14. Other items on which the Appointed Actuary is providing relevant comment (list separately, adding additional lines as needed) \$ _____

* The reserves disclosed in item 11 above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor’s Pollution Liability, Consultant’s Environmental Liability, and Pollution and Remediation Legal Liability.

ACTUARIAL OPINION

1. There is to be included with or attached to Page 1 of the Annual Statement the statement of the Appointed Actuary, entitled “Statement of Actuarial Opinion” (Actuarial Opinion), setting forth his or her opinion relating to reserves specified in the SCOPE paragraph. The Actuarial Opinion, both the narrative and required Exhibits, shall be in the format of and contain the information required by this section of the *Annual Statement Instructions – Property and Casualty*.

Upon initial engagement, the Appointed Actuary must be appointed by the Board of Directors by Dec. 31 of the calendar year for which the opinion is rendered. The Company shall notify the domiciliary commissioner within five business days of the initial appointment with the following information:

- a. Name and title (and, in the case of a consulting actuary, the name of the firm).
- b. Manner of appointment of the Appointed Actuary (e.g., who made the appointment and when).
- c. A statement that the person meets the requirements of a Qualified Actuary (or was approved by the domiciliary commissioner) and that documentation was provided to the Board of Directors.

Once this notification is furnished, no further notice is required with respect to this person unless the Board of Directors takes action to no longer appoint or retain the actuary or the actuary no longer meets the requirements of a Qualified Actuary.

If subject to the *U.S. Qualification Standards*, the Appointed Actuary shall annually attest to having met the continuing education requirements under Section 3 of the *U.S. Qualification Standards* for issuing Actuarial Opinions. As agreed with the actuarial organizations, the Casualty Actuarial Society (CAS) and Society of Actuaries (SOA) will determine the process for receiving the attestations for their respective members and make available the attestations to the public. An Appointed Actuary subject to the *U.S. Qualification Standards* and not a member of the CAS or SOA shall select one of the above organizations to submit their attestation.

The Appointed Actuary shall provide to the Board of Directors qualification documentation on occasion of their appointment, ~~and on an annual basis thereafter~~, directly or through company management. The documentation should include brief biographical information and a description of how the definition of “Qualified Actuary” is met or expected to be met (in the case of continuing education) for that year. The documentation should describe the Appointed Actuary’s responsible experience relevant to the subject of the Actuarial Opinion. The Board of Directors shall document their review of those materials and any other information they may deem relevant, including information that may be requested directly from the Appointed Actuary. It is generally expected that the review of the Appointed Actuary’s qualification documentation should take place at the level within a holding company structure that is responsible for overseeing insurance operations. If a statutory entity is a subsidiary or a non-lead pool member with an Appointed Actuary whose qualifications were reviewed by the pool lead or principal’s Board, the statutory entity’s Board can satisfy the review requirement by acknowledging the parent Board’s review. This can be done by noting in the meeting minutes the name of the principal or lead entity and the date the parent Board reviewed the qualification documentation, or by attaching a copy of the parent Board’s meeting minutes reflecting their review of the qualification documentation. The qualification documentation shall be considered workpapers and be available for inspection upon regulator request or during a financial examination.

If an actuary who was the Appointed Actuary for the immediately preceding filed Actuarial Opinion is replaced by an action of the Board of Directors, the Insurer shall within five (5) business days notify the Insurance Department of the state of domicile of this event. The Insurer shall also furnish the domiciliary commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former Appointed Actuary regarding the content of the opinion on matters of the risk of material adverse deviation, required disclosures, scope, procedures, type of opinion issued, substantive wording of the opinion or data quality. The disagreements required to be reported in response to this paragraph include both those resolved to the former Appointed Actuary's satisfaction and those not resolved to the former Appointed Actuary's satisfaction. The letter should include a description of ~~the each~~ disagreement and the nature of its resolution (or that it was not resolved). Within this same ten (10) business days, the Insurer shall in writing also request such former Appointed Actuary to furnish a letter addressed to the Insurer stating whether the Appointed Actuary agrees with the statements contained in the Insurer's letter and, if not, stating the reasons for which he or she does not agree. The former Appointed Actuary shall provide a written response to the insurer within ten (10) business days of such request, and the Insurer shall furnish such responsive letter from the former Appointed Actuary to the domiciliary commissioner together with its own responses.

The Appointed Actuary must report to the Board of Directors each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors and identify the manner of presentation (e.g., webinar, in-person presentation, written). A separate Actuarial Opinion is required for each company filing an Annual Statement. When there is an affiliated company pooling arrangement, one Actuarial Report for the aggregate pool is sufficient, but there must be addendums to the Actuarial Report to cover non-pooled reserves for individual companies.

The Actuarial Opinion and the supporting Actuarial Report and workpapers should be consistent with the appropriate Actuarial Standards of Practice (ASOPs), including, but not limited to, ASOP No. 23, ASOP No. 36, ASOP No. 41 and ASOP No. 43, as promulgated by the Actuarial Standards Board.

1A. Definitions

"Appointed Actuary" is a Qualified Actuary (or individual otherwise approved by the domiciliary commissioner) appointed by the Board of Directors in accordance with Section 1 of these instructions.

"Board of Directors" can include the designated Board of Directors, its equivalent or an appropriate committee directly reporting to the Board of Directors.

"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. Qualifications Standards)*, promulgated by the American Academy of Actuaries (Academy);
- (ii) Has obtained and maintains an Accepted Actuarial Designation; and
- (iii) Is a member of a 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.

An exception to parts (i) and (ii) of this definition would be an actuary evaluated by the Academy's Casualty Practice Council and determined to be a Qualified Actuary for particular lines of business and business activities.

“Accepted Actuarial Designation” in item (ii) of the definition of a Qualified Actuary, is an actuarial designation accepted as meeting or exceeding the NAIC’s Minimum Property/Casualty (P/C) Actuarial Educational Standards for a P/C Appointed Actuary (published on the NAIC website). The following actuarial designations, with any noted conditions, are accepted as meeting or exceeding basic education minimum standards:

- (i) Fellow of the CAS (FCAS) – Condition: basic education must include Exam 6 – Regulation and Financial Reporting (United States);
- (ii) Associate of the CAS (ACAS) – Conditions: basic education must include Exam 6 – Regulation and Financial Reporting (United States) and Exam 7 – Estimation of Policy Liabilities, Insurance Company Valuation, and Enterprise Risk Management;
- (iii) Fellow of the SOA (FSA) – Conditions: basic education must include 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.

The table below provides some allowable exam substitutions for (i), (ii) and (iii) in the definition of “Accepted Actuarial Designation.” Noting that CAS exams have changed over time, exceptions for (i) and (ii) provide for FCAS/ACAS designations achieved before an exam was created (e.g. CAS Exam 6-US) or with an earlier version of an exam or exam topic (e.g., 2010 CAS Exam 6 instead of the current CAS Exam 7 Section A). FCAS/ACAS qualified under the 2018 and prior Statement of Actuarial Opinion instructions can use the noted substitution rules to achieve qualification under the new instructions by demonstrating basic and/or continuing education of the required topics including material in CAS Exam 6 (US) and section A of CAS Exam 7 (in the May 2019 CAS syllabus). Exceptions for (iii) for an FSA are also included in the table. The SOA exams completed in the general insurance track in 2019 and prior should be supplemented with continuing education and experience to meet basic education requirements in the *U.S. Qualification Standards*. For purpose of these instructions only, the table also includes specific exams from other organizations that are accepted as substitutes.

Exception for (i), (ii), or (iii)	Exam:	Exam Substitution Allowed*
(i) and (ii)	CAS Exam 6 (US)	<ol style="list-style-type: none"> 1. Any CAS version of a U.S. P/C statutory accounting and regulation exam administered prior to creation of the CAS Exam 6 (US) in 2011. 2. An FCAS or ACAS earned prior to 2021 who did not pass CAS Exam 6 (US) or an allowable exam substitution, may substitute experience and/or continuing education for CAS Exam 6 (US) provided the Appointed Actuary explains in his/her qualification documentation how knowledge of U.S. financial reporting and regulation was obtained. 3. SOA FREU (US) Exam
(ii)	CAS Exam 7	<ol style="list-style-type: none"> 1. Any CAS version of an exam including advanced P/C reserving administered prior to creation of Exam 7 in 2011. 2. An ACAS earned prior to 2021 who did not pass CAS Exam 7 or an allowable exam substitution, may substitute experience and/or continuing education for CAS Exam 7 provided the Appointed Actuary explains in his/her qualification documentation how knowledge of the additional reserving topics in CAS Exam 7 (Section A) in the May 2019 syllabus was obtained. 3. SOA Advanced Topics Exam (Note: The ERM portion of Exam 7 is not needed to meet NAIC educational standards, therefore SOA ERM Exam is not needed for the substitution for this purpose.)
(iii)	SOA FREU (US) Exam	<ol style="list-style-type: none"> 1. CAS Exam 6 (US) 2. Any CAS version of a U.S. statutory accounting and regulation exam administered prior to creation of the CAS Exam 6 in 2011.
(iii)	SOA Advanced Topics Exam	<ol style="list-style-type: none"> 1. CAS Exam 7 2. Any CAS version of an exam containing the advanced techniques to estimate policy liabilities (i.e., advanced reserving).
*Note: These exam substitutions only apply to these instructions and are not applicable for CAS or SOA exam waivers.		

“Insurer” or “Company” means an insurer or reinsurer authorized to write property and/or casualty insurance under the laws of any state and who files on the Property and Casualty Blank.

“Actuarial Report” means a document or other presentation prepared as a formal means of conveying to the state regulatory authority and the Board of Directors the Appointed Actuary’s professional conclusions and recommendations, of recording and communicating the methods and procedures, of assuring that the parties addressed are aware of the significance of the Appointed Actuary’s opinion or findings, and of documenting the analysis underlying the opinion. The required content of the Actuarial Report is further described in paragraph 7. (Note that the inclusion of the Board of Directors as part of the intended audience for the Actuarial Report does not change the content of the Actuarial Report as described in paragraph 7. The Appointed Actuary should present findings to the Board of Directors in a manner deemed suitable for such audience.)

“Property and Casualty (P&C) Long Duration Contracts” refers to contracts (excluding financial guaranty contracts, mortgage guaranty contracts and surety contracts) that fulfill both of the following conditions: (1) the contract term is greater than or equal to 13 months; and (2) the insurer can neither cancel the contract nor increase the premium during the contract term. These contracts are subject to the three tests of *SSAP No. 65—Property and Casualty Contracts* of the NAIC *Accounting Practices and Procedures Manual*.

“Accident and Health (A&H) Long Duration Contracts” refers to A&H contracts in which the contract term is greater than or equal to 13 months and contract reserves are required. See Schedule H instructions for a description of categories of contract reserves, as well as policy features that give rise to contract reserves. Two specific examples of contracts that typically require contract reserves are long-term care and disability income insurance.

1B. Exemptions

An insurer who intends to file for one of the exemptions under this Section must submit a letter of intent to its domiciliary commissioner no later than December 1 of the calendar year for which the exemption is to be claimed. The commissioner may deny the exemption prior to December 31 of the same year if he or she deems the exemption inappropriate.

A copy of the approved exemption must be filed with the Annual Statement in all jurisdictions in which the company is authorized.

Exemption for Small Companies

An insurer that has less than \$1,000,000 total direct plus assumed written premiums during a calendar year, and less than \$1,000,000 total direct plus assumed loss and loss adjustment expense reserves at year-end, in lieu of the Actuarial Opinion required for the calendar year, may submit an affidavit under oath of an officer of the insurer that specifies the amounts of direct plus assumed written premiums and direct plus assumed loss and loss adjustment reserves.

Exemption for Insurers under Supervision or Conservatorship

Unless ordered by the domiciliary commissioner, an insurer that is under supervision or conservatorship pursuant to statutory provision is exempt from the filing requirements contained herein.

Exemption for Nature of Business

An insurer otherwise subject to the requirement and not eligible for an exemption as enumerated above may apply to its domiciliary commissioner for an exemption based on the nature of business written.

Financial Hardship Exemption

An insurer otherwise subject to this requirement and not eligible for an exemption as enumerated above may apply to the commissioner for a financial hardship exemption. Financial hardship is presumed to exist if the projected reasonable cost of the Actuarial Opinion would exceed the lesser of:

- (i) One percent (1%) of the insurer's capital and surplus reflected in the insurer's latest quarterly statement for the calendar year for which the exemption is sought; or
- (ii) Three percent (3%) of the insurer's direct plus assumed premiums written during the calendar year for which the exemption is sought as projected from the insurer's latest quarterly statements filed with its domiciliary commissioner.

1C. Reporting Requirements for Pooled Companies

For each company in the pool, the Appointed Actuary shall include a description of the pool, identification of the lead company and a listing of all companies in the pool, their state of domicile and their respective pooling percentages.

Exhibits A and B for each company in the pool should represent the company's share of the pool and should reconcile to the financial statement for that company.

The following paragraph applies to companies that have a 0% share of the pool (no reported Schedule P data). The company shall submit an Actuarial Opinion that reads similar to that provided for the lead company. For example, the IRIS ratio and risk of material adverse deviation discussions, and other relevant comments shall relate to the risks of the lead company in the pool. The Exhibit B responses to question 5 should be \$0 and to question 6 should be "not applicable." Exhibits A and B of the lead company should be attached as an addendum to the PDF file and/or hard copy being filed (but would not be reported by the 0% companies in their data capture).

2. The Actuarial Opinion must consist of an IDENTIFICATION paragraph identifying the Appointed Actuary; a SCOPE paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the Appointed Actuary's work; an OPINION paragraph expressing his or her opinion with respect to such subjects; and one or more additional RELEVANT COMMENTS paragraphs. These four sections must be clearly designated.

3. 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. **Additionally, the IDENTIFICATION paragraph should include a statement asserting that the Appointed Actuary has complied with the requirement to provide qualification documentation to the Board of Directors, either directly or through company management.**

If the Appointed Actuary was approved by the Academy to be a "Qualified Actuary," with or without limitation, or if the Appointed Actuary is not a Qualified Actuary but was approved by the domiciliary commissioner, the company must attach, each year, the approval letter and reference such in the identification paragraph.

4. The SCOPE paragraph should contain a sentence such as the following:

"I have examined the actuarial assumptions and methods used in determining reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 20__, and reviewed information provided to me through XXX date."

Exhibit A should list those items and amounts with respect to which the Appointed Actuary is expressing an opinion.

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.

The SCOPE paragraph should include a paragraph such as the following regarding the data used by the Appointed Actuary in forming the opinion:

“In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by _____ (officer name and title at the Company). I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P, Part 1 of the Company’s current Annual Statement. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.”

5. 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.
 - 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.”

If the Scope includes material Unearned Premium Reserves for P&C Long Duration Contracts or Other Loss Reserve items on which the Appointed Actuary is expressing an opinion, the Actuarial Opinion should contain language such as the following:

- D. Make a reasonable provision for the unearned premium reserves for P&C Long Duration Contracts and/or <insert Other Loss Reserve item on which the Appointed Actuary is expressing an Opinion> of the Company under the terms of its contracts and agreements.

If there is any aggregation or combination of items in Exhibit A, the opinion language should clearly identify the combined items.

Insurance laws and regulations shall at all times take precedence over the actuarial standards.

If the Appointed Actuary has made use of the analysis of another actuary not within the Appointed Actuary’s control (such as for pools and associations, for a subsidiary or for special lines of business) for a material portion of the reserves, the other actuary must be identified by name, credential and affiliation within the OPINION paragraph. If the Appointed Actuary has made use of the work of a non-actuary (such as for modeling) for a material portion of the reserves, that individual must be identified by name and affiliation and a description of the type of analysis performed must be provided.

A Statement of Actuarial Opinion should be made in accordance with one of the following sections (1 through 5). The Appointed Actuary must explicitly identify in Exhibit B which type applies.

1. Determination of Reasonable Provision. When the carried reserve amount is within the Appointed Actuary’s range of reasonable reserve estimates, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves.
2. Determination of Deficient or Inadequate Provision. When the carried reserve amount is less than the minimum amount that the Appointed Actuary believes is reasonable, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves. In addition, the Appointed Actuary should disclose the minimum amount that the Appointed Actuary believes is reasonable.
3. Determination of Redundant or Excessive Provision. When the carried reserve amount is greater than the maximum amount that the Appointed Actuary believes is reasonable, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves. In addition, the Appointed Actuary should disclose the maximum amount that the Appointed Actuary believes is reasonable.

4. **Qualified Opinion.** When, in the Appointed Actuary's opinion, the reserves for a certain item or items are in question because they cannot be reasonably estimated or the Appointed Actuary is unable to render an opinion on those items, the Appointed Actuary should issue a qualified Statement of Actuarial Opinion. The Appointed Actuary should disclose the item (or items) to which the qualification relates, the reason(s) for the qualification and the amounts for such item(s), if disclosed by the Company. Such a qualified opinion should state whether the carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, *except for* the item (or items) to which the qualification relates. The Appointed Actuary is not required to issue a qualified opinion if the Appointed Actuary reasonably believes that the item (or items) in question are not likely to be material.
5. **No Opinion.** The Appointed Actuary's ability to give an opinion is dependent upon data, analyses, assumptions, and related information that are sufficient to support a conclusion. If the Appointed Actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information, then the Appointed Actuary may issue a statement of no opinion. A statement of no opinion should include a description of the reasons why no opinion could be given.
6. The Appointed Actuary must provide RELEVANT COMMENT paragraphs to address the following topics of regulatory importance.

A. Company-Specific Risk Factors

The Appointed Actuary should include an explanatory paragraph to describe the major factors, combination of factors or particular conditions underlying the risks and uncertainties the Appointed Actuary considers relevant. The explanatory paragraph should not include general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc., nor is the Appointed Actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

B. Risk of Material Adverse Deviation

The Appointed Actuary must provide specific RELEVANT COMMENT paragraphs to address the risk of material adverse deviation. The Appointed Actuary must identify the materiality standard and the basis for establishing this standard. The materiality standard must also be disclosed in U.S. dollars in Exhibit B: Disclosures. The Appointed Actuary should explicitly state whether or not he or she reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation. This determination is also to be disclosed in Exhibit B.

C. Other Disclosures in Exhibit B

RELEVANT COMMENT paragraphs should describe the significance of each of the remaining Disclosure items (8 through 14) in Exhibit B. The Appointed Actuary should address the items individually and in combination when commenting on a material impact.

D. Reinsurance

RELEVANT COMMENT paragraphs should address reinsurance collectability, retroactive reinsurance and financial reinsurance.

The Appointed Actuary's comments on reinsurance collectability should address any uncertainty associated with including potentially uncollectable amounts in the estimate of ceded reserves. Before commenting on reinsurance collectability, the Appointed Actuary should solicit information from management on any actual collectability problems, review ratings given to reinsurers by a recognized rating service and examine Schedule F for the current year for indications of regulatory action or reinsurance recoverable on paid losses over ninety (90) days past due. The comment should also reflect any other information the Appointed Actuary has received from management or that is publicly available about the capability or willingness of reinsurers to pay claims. The Appointed Actuary's comments do not imply an opinion on the financial condition of any reinsurer.

Retroactive reinsurance refers to agreements referenced in *SSAP No. 62R—Property and Casualty Reinsurance of the NAIC Accounting Practices and Procedures Manual*.

Financial reinsurance refers to contracts referenced in SSAP No. 62R in which credit is not allowed for the ceding insurer because the arrangements do not include a transfer of both timing and underwriting risk that the reinsurer undertakes in fact to indemnify the ceding insurer against loss or liability by reason of the original insurance.

E. IRIS Ratios

If the Company's reserves will create exceptional values under the NAIC IRIS Tests for One-Year Reserve Development to Policyholders' Surplus, Two-Year Reserve Development to Policyholders' Surplus or Estimated Current Reserve Deficiency to Policyholders' Surplus, the Appointed Actuary must include RELEVANT COMMENT on the factors that led to the unusual value(s).

F. Methods and Assumptions

If there has been any significant change in the actuarial assumptions and/or methods from those previously employed, that change should be described in a RELEVANT COMMENT paragraph. If the Appointed Actuary is newly appointed and does not review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.

7. The Actuarial Opinion must include assurance that an Actuarial Report and underlying actuarial workpapers supporting the Actuarial Opinion will be maintained at the Company and available for regulatory examination for seven (7) years. The Actuarial Report contains significant proprietary information. It is expected that the Actuarial Report be held confidential and not be intended for public inspection. The Actuarial Report must be available by May 1 of the year following the year-end for which the Actuarial Opinion was rendered or within two (2) weeks after a request from an individual state commissioner.

The Actuarial Report should be consistent with the documentation and disclosure requirements of ASOP No. 41, Actuarial Communications. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to Company management, the Board of Directors, the regulator or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data (e.g., loss triangles) to the conclusions.

Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51) in the *NAIC Accounting Practices and Procedures Manual* requires a company with over 10,000 in force lives covered by long-term care (LTC) insurance contracts as of the valuation date to perform a stand-alone asset adequacy analysis for its in force long-term care (LTC) contracts. The Actuarial Report and workpapers summarizing the results, assumptions and testing procedures for the asset adequacy testing of LTC business must be in compliance with AG 51 requirements. When referring to AG 51, the term "Actuarial Memorandum" is synonymous with Actuarial Report and workpapers.

The Actuarial Report should contain disclosure of all reserve amounts associated with A&H Long Duration Contracts reported by the Company; the reserve amounts in the Actuarial Report should tie to the Annual Statement.

The Actuarial Report must also include:

- A. A description of the Appointed Actuary's relationship to the Company, with clear presentation of the Appointed Actuary's role in advising the Board of Directors and/or management regarding the carried reserves. The Actuarial Report should identify how and when the Appointed Actuary presents the analysis to the Board of Directors and, where applicable, to the officer(s) of the Company responsible for determining the carried reserves.
 - B. An exhibit that ties to the Annual Statement and compares the Appointed Actuary's conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis. The Appointed Actuary's conclusions include the Appointed Actuary's point estimate(s), range(s) of reasonable estimates or both.
 - C. An exhibit that reconciles and maps the data used by the Appointed Actuary, consistent with the segmentation of exposure or liability groupings used in the Appointed Actuary's analysis, to the Annual Statement Schedule P line of business reporting. An explanation should be provided for any material differences.
 - D. An exhibit or appendix showing the change in the Appointed Actuary's estimates from the prior Actuarial Report, including extended discussion of factors underlying any material changes. The exhibit or appendix should illustrate the changes on a net basis but should also include the changes on a gross basis, if relevant. If the Appointed Actuary is newly appointed and does not review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.
 - E. Extended comments on trends that indicate the presence or absence of risks and uncertainties that could result in material adverse deviation.
 - F. Extended comments on factors that led to unusual IRIS ratios for One-Year Reserve Development to Policyholders' Surplus, Two-Year Reserve Development to Policyholders' Surplus or Estimated Current Reserve Deficiency to Policyholders' Surplus, and how these factors were addressed in prior and current analyses.
8. The Actuarial Opinion should conclude with the signature of the Appointed Actuary responsible for providing the Actuarial Opinion and the -date when the Actuarial Opinion was rendered. The signature and date should appear in the following format:

Signature of Appointed Actuary
Printed name of Appointed Actuary
Employer's name
Address of Appointed Actuary
Telephone number of Appointed Actuary
Email address of Appointed Actuary
Date opinion was rendered

The same information should be reproduced within the Actuarial Report, along with the date the Actuarial Report was finalized.

9. The Insurer required to furnish an Actuarial Opinion shall require its Appointed Actuary to notify its Board of Directors or its audit committee in writing within five (5) business days after any determination by the Appointed Actuary that the Actuarial Opinion submitted to the domiciliary commissioner was in error as a result of reliance on data or other information (other than assumptions) that, as of the balance sheet date, was factually incorrect. The Actuarial Opinion shall be considered to be in error if the Actuarial Opinion would have not been issued or would have been materially altered had the correct data or other information been used. The Actuarial Opinion shall not be considered to be in error if it would have been materially altered or not issued solely because of data or information concerning events subsequent to the balance sheet date or because actual results differ from those projected. Notification is required when discovery is made between the issuance of the Actuarial Opinion and Dec. 31 of that year. Notification should include a summary of such findings.

If the Appointed Actuary learns that the data or other information relied upon was factually incorrect, but cannot immediately determine what, if any, changes are needed in the Actuarial Opinion, the Appointed Actuary and the Company should quickly undertake procedures necessary for the Appointed Actuary to make such determination. If the Insurer does not provide the necessary data corrections and other support (including financial support) within ten (10) business days, the Appointed Actuary should proceed with the notification to the Board of Directors and the domiciliary commissioner.

An Insurer who is notified pursuant to the preceding paragraphs shall forward a copy of the amended Actuarial Opinion to the domiciliary commissioner within five (5) business days of receipt of such and shall provide the Appointed Actuary making the notification with a copy of the letter and amended Actuarial Opinion submitted to the domiciliary commissioner. If the Appointed Actuary fails to receive such copy within the five (5) business day period referred to in the previous sentence, the Appointed Actuary shall notify the domiciliary commissioner within the next five (5) business days that an amended Actuarial Opinion has been finalized.

No Appointed Actuary shall be liable in any manner to any person for any statement made in connection with the above paragraphs if such statement is made in a good faith effort to comply with the above paragraphs.

10. Data in Exhibits A and B are to be filed in both print and data capture format.

Exhibit A: SCOPE
DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

<u>Loss and Loss Adjustment Expense Reserves:</u>	<u>Amount</u>
1. Unpaid Losses (Liabilities, Surplus and Other Funds page, Col 1, Line 1)	\$ _____
2. Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3)	\$ _____
3. Unpaid Losses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 13 and 15, Line 12 * 1000)	\$ _____
4. Unpaid Loss Adjustment Expenses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 17, 19 and 21, Line 12 * 1000)	\$ _____
5. The Page 3 write-in item reserve, “Retroactive Reinsurance Reserve Assumed”	\$ _____
6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	\$ _____
 <u>Premium Reserves:</u>	
7. Reserve for Direct and Assumed Unearned Premiums for P&C Long Duration Contracts	\$ _____
8. Reserve for Net Unearned Premiums for P&C Long Duration Contracts	\$ _____
9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	\$ _____

Exhibit B: DISCLOSURES

DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

NOTE: Exhibit B should be completed for Net dollar amounts included in the SCOPE. If an answer would be different for Direct and Assumed amounts, identify and discuss the difference within RELEVANT COMMENTS.

1. Name of the Appointed Actuary Last _____ First _____ Mid _____
2. The Appointed Actuary's relationship to the Company
Enter E or C based upon the following:
 E if an Employee of the Company or Group
 C if a Consultant _____
3. The Appointed Actuary's Accepted Actuarial 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)
 S if a Fellow of the Society of Actuaries (FSA) through the General Insurance track
 M if the actuary does not have an Accepted Actuarial Designation but is approved by the Academy's Casualty Practice Council.
 O for Other _____
4. Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N based upon the following:
 R if Reasonable
 I if Inadequate or Deficient Provision
 E if Excessive or Redundant Provision
 Q if Qualified. Use Q when part of the OPINION is Qualified.
 N if No Opinion _____
5. Materiality Standard expressed in U.S. dollars (used to Answer Question #6) \$ _____
6. Are there significant risks that could result in Material Adverse Deviation? Yes [] No [] Not Applicable []
7. Statutory Surplus (Liabilities, Surplus and Other Funds page, Col 1, Line 37) \$ _____
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (should equal Part 1 Summary, Col 23, Line 12 * 1000) \$ _____
9. Discount included as a reduction to loss reserves and loss adjustment expense reserves as reported in Schedule P
 - 9.1 Nontabular Discount [Notes, Line 32B23, (Amounts 1, 2, 3 & 4)], Electronic Filing Cols 1, 2, 3, & 4 \$ _____
 - 9.2 Tabular Discount [Notes, Line 32A23, (Amounts 1 & 2)], Electronic Filing Col 1 & 2 \$ _____
10. The net reserves for losses and loss adjustment expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and loss adjustment expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines \$ _____

11. The net reserves for losses and loss adjustment expenses that the Company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines *
 - 11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 33A03D, ending net asbestos reserves for current year) Electronic Filing Col 5 \$ _____
 - 11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03D, ending net environmental reserves for current year), Electronic Filing Col 5 \$ _____
12. The total claims made extended loss and loss adjustment expense, and unearned premium reserves (Greater than or equal to Schedule P Interrogatories)
 - 12.1 Amount reported as loss and loss adjustment expense reserves \$ _____
 - 12.2 Amount reported as unearned premium reserves \$ _____
13. The net reserves for the A&H Long Duration Contracts that the Company carries on the following lines on the Liabilities, Surplus and Other Funds page:
 - 13.1 Losses \$ _____
 - 13.2 Loss Adjustment Expenses \$ _____
 - 13.3 Unearned Premium \$ _____
 - 13.4 Write-In (list separately, adding additional lines as needed, and identify (e.g., "Premium Deficiency Reserves", "Contract Reserves other than Premium Deficiency Reserves" or "AG 51 Reserves")) \$ _____
14. Other items on which the Appointed Actuary is providing relevant comment (list separately, adding additional lines as needed) \$ _____

* The reserves disclosed in item 11 above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability, and Pollution and Remediation Legal Liability.

Draft: 8/23/23

Actuarial Opinion (C) Working Group
Virtual Meeting
August 23, 2023

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met Aug. 23, 2023. The following Working Group members participated: Miriam Fisk, Chair (TX); Anna Krylova, Vice Chair (NM); Amy Waldhauer (CT); Chantel Long (IL); Julie Lederer (MO); Tom Botsko (OH); and Kevin Clark and James DiSanto (PA). Also participating was: Kevin Dyke (MI).

1. Discussed P/C Actuarial Opinion Instructions

The Working Group continued its Aug. 2 discussion of potential changes to instructions for the 2024 Property/Casualty (P/C) Statement of Actuarial Opinion (SAO) and the Title SAO.

Beginning with discussion of the P/C instructions, Lederer suggested not removing the requirement for the Board of Directors to appoint a qualified actuary as the appointed actuary. She said that the Board not doing a good job at this time is not the best reason for removal of the requirement. Fisk said limiting the actions around qualification documentation to be only at the initial appointment (and not annually) limits the responsibility of the Board.

Fisk said there are problems getting information about known disagreements from the Appointed Actuary. She said changing instruction wording might not improve the situation.

The Working Group discussed whether the Appointed Actuary's address needs to be in the signature section of the SAO. Dyke suggested that knowing the city and state of location might be helpful in the signature line and maybe even legally needed. Given the appointed actuary's address is included in an interrogatory, Fisk suggested leaving the requirement as is. Michelle Iarkowski (Academy) suggested changing the lead-in to the list of items needed in the signature block so that Appointed Actuaries can include additional useful information in the signature block. She added the current language seems unnecessarily prescriptive.

2. Discussed Title Actuarial Opinion Instructions

Fisk walked through proposed changes to the Title SAO instructions, which would make the Title instructions more consistent with the P/C instructions and would correct a few instructions.

The Working Group discussed whether part (ii) of the definition of "Qualified Actuary" should be changed from "A member in good standing of the American Academy of Actuaries who has been approved as qualified for signing casualty loss reserve opinions by the Casualty Practice Council of the American Academy of Actuaries." to "An actuary evaluated by the Casualty Practice Council of the American Academy of Actuaries and determined to be a Qualified Actuary for particular lines of business and business activities." Iarkowski said the application for the process allows someone to request approval for all areas of loss reserve assignments or approval for specific areas or a specific company. Fisk asked whether "particular lines of business" could be changed to "title insurance." Rich Gibson (Academy) will ask the Casualty Practice Council.

Fisk asked if anyone wanted to include the more detailed definition of "Appointed Actuary" and/or include the Society of Actuaries specifically in the definition. No one voiced interest in either option. Fisk said we should be consistent and apply the same decision about inclusion of the Appointed Actuary's address as will be made for P/C.

Regarding the instructions about errors, Fisk asked for a proposal on adding a pictorial to make it easier to understand. She said the same should be considered for P/C instructions.

3. Discussed the Timing for Adoption of the Regulatory Guidance

larkowski asked how soon the Regulatory Guidance can be adopted. She said the Academy will not be submitting a comment letter on the Regulatory Guidance. Fisk suggested that depending on the extent of comments to be received by Sept. 1, the Working Group might conduct an E-vote at the beginning of September.

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

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Draft: 11/14/23

Statistical Data (C) Working Group
Virtual Meeting
October 30, 2023

The Statistical Data (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met Oct. 30, 2023. The following Working Group members participated: Sandra Darby, Chair (ME); Qing He, Vice Chair (CT); David Christhilf (DC); Arthur Schwartz and John Sobhanian (LA); Brad Gerling (MO); Alexander Vajda (NY); Tom Botsko (OH); Andrew Schallhorn and Landon Hubbart (OK); David Dahl and Ying Liu (OR); and Brian Ryder (TX). Also participating were: Luciano Gobbo (CA); and Mari Kindberg (MT).

1. Discussed Proposed Changes to NAIC Statistical Reports

Darby said this meeting would continue the discussion from the Working Group's Sept. 18 meeting, during which it discussed proposed changes to the NAIC statistical reports.

Schwartz said that in the *Competition Database Report* (Competition Report), he would like to see the market share shown by the top 20 sellers instead of the top four. He said the Top Four Market Share is an economic indicator that works in industries with fewer competitors, but it does not work as well in the insurance industry, which has much more competition. Darby asked if there was room for two columns in the report to show both the top four and the top 20. Libby Crews (NAIC) said the formatting could be changed to incorporate two columns. Botsko agreed that a column should be added.

Schwartz made a motion, seconded by Christhilf, to add a column to the Competition Report to show the Top 20 Market Share. The motion passed unanimously.

Schwartz said the purpose of the report is to measure competition in various metrics. He said he would like to see a metric on price variability, which would show the coefficient of variation. Schwartz said this would be a difficult calculation for the different types of insurance and different states, but he wanted to bring forth the proposal to talk through as a Working Group. Darby agreed it would be difficult to consistently calculate.

Christhilf said if the NAIC had the data for the average rate for each line of business for every company, that would be one way to measure the variability. Schwartz said the NAIC does have data on the average rates for personal auto and homeowners in those respective statistical reports. He said those rates do not reflect the competition within each state's market. Christhilf said that even if the average rate for each company is known, there are different distributions of insurance by the level of insurance. Botsko said these metrics would be so different by state that they should not be shown in an NAIC report at the national level but could be added to state websites.

Schwartz said that each state has a guide for ratemaking. He said that based on those guides, the report could take rates from multiple companies and calculate the standard deviation, which would then give the coefficient of variation. He said the higher that number is, the more competition there is in the state. Darby said that while every state has rate guides, they do not necessarily include sample rates; therefore, that information would be hard to collect for this report. Darby said this proposal will remain an open discussion item.

Schwartz said he had originally proposed adding a section to the Competition Report for title insurance and credit insurance but, after review, did not think those sections should be added to the report.

Schwartz said the Herfindahl-Hirschman Index (HHI) number for homeowners insurance in Florida looks low compared to countrywide numbers. He said that the calculation was validated and the number in the report is correct, but he believes that data for Citizens Property Insurance Corporation in Florida should be excluded from the calculation.

Schwartz said he would like to change the word “sellers” to “insurers” throughout the report. He said every page of the report should also have a footnote indicating that “insurer” means either a group of affiliated insurance companies or an independent insurer not affiliated with a group. Botsko said the reason the word “sellers” has been used is likely due to the inclusion of reciprocals and risk retention groups (RRGs) that may not fit the definition of insurer. Schwartz said he would consider those types of companies to be insurers.

Darby asked if there was any concern about how the report shows groups of affiliated sellers instead of individual companies. Botsko said he is not sure why the report was designed that way, but he did not have a concern as it is a correct display of competition in the market and is similar to what is shown in market share reports.

Schwartz made a motion to add a footnote to each page of the Competition Report to clarify that each seller count is either a group of affiliated sellers or an independent seller that is not affiliated with a group. There was not a second.

Schwartz said that in the Competition Report, the private passenger auto (PPA) number of exits from the market exceeds the number of entries both nationally and in many states. He said this is because small and large companies are counted equally, but a larger company exiting the market would have a much greater impact. Schwartz said weighting entries and exits by premium volume may make the statistic more meaningful. Darby asked if Schwartz could compile the data where he sees these patterns to bring to the group, which would better highlight any issues with how these numbers are presented in the report. Botsko said the entries would almost always be smaller carriers, as they will not be able to write large premium volumes in their first year. He said large companies rarely exit whole markets. Botsko said that possibly adding a footnote when a large company exits could help solve this problem.

Darby said there have been instances recently with major catastrophic events where larger carriers are leaving markets. She said that these events happening more frequently could lead to more carrier exits, which would be important to capture in the report. Rich Gibson (American Academy of Actuaries—Academy) said many carriers exiting markets are only exiting on a new business basis. Darby said discontinuing the writing of new business would likely not be captured in the NAIC data as an exit. Vajda said if one group acquires another group, that would be counted as an exit even if all companies in both groups remain writing in the state.

Darby asked whether it would be considered an exit if an insurer went insolvent. Crews said insolvencies are captured as exits in this report. Schwartz said it is important to see the impact of both insolvencies and the discontinuation of writing new business in a market. He said the best way to track this would be to capture data on the number of exposures written. Darby asked NAIC staff to do a deep dive into how the number of exits is counted so the Working Group can see what different scenarios of mergers, acquisitions, insolvencies, and the discontinuation of new business would look like in the report.

Schwartz said the Working Group should consider recalculating the “Number of Sellers” countrywide by weighting the number of sellers by state with that state’s premium volume. He said the current statistic looks too high compared to values for the individual states. He said he would compile examples to distribute to the Working Group for further evaluation.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2023_Fall/CASTF/SDWG/StatDataWGmin_1030

Draft: 10/01/23

Statistical Data (C) Working Group
E-Vote
September 29, 2023

The Statistical Data (C) Working Group conducted an e-vote that concluded September 29, 2023. The following Working Group members participated: Sandra Darby, Chair (ME); Qing He, Vice Chair (CT); David Christhilf (DC); Arthur Schwartz (LA); Christian Citarella (NH); Carl Sornson (NJ); Tom Botsko (OH); Andy Schallhorn (OK); and Brian Ryder (TX).

1. Adopted the 2021 Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report

The Working Group reviewed and considered for adoption the 2021 *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report).

A majority of the Working Group members voted in favor of adopting the Homeowners Report. The motion passed.

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

SharePoint/NAIC Support Staff Hub/Committees/C CMTE/2023_Fall/CASTF/SDWG/SDWG-evote-0929

11/28/23

NAIC Rate Model Review Team’s GLM Checklist

Regulators frequently using the NAIC rate model review service asked the NAIC rate model review team to create a list of rate filing documentation needed for the NAIC to complete a full-scope rate model review. The goals of such a list are to make the NAIC review process more efficient and expeditious. Regulators may evaluate this list and determine the state’s needs. Regulators can share this list with insurers, can revise the state’s rate filing checklist, or can communicate with insurers through rate filing objections, when needed.

The list is divided by “Essential Information” and “Sometimes Needed Information.” These terms are defined in this table:

Category	Description
Essential Information	Information that the NAIC rate model review team requests before writing a full-scope initial assessment of a model.
Sometimes Needed Information	Information that the NAIC model review team finds useful for model reviews but may only be needed if something appears non-standard about the modeling approach. Regulators may want to wait to request such information from insurers only when requested in the initial NAIC report.

Model Introduction – Essential Information

- A narrative discussing what the company is trying to accomplish with the model, including the following details:
 - Is this a new model or refresh? What is the prior model’s SERFF number (if applicable)?
 - Does the filing impact existing renewals?
 - Who is the target consumer?
 - What is the GLM intended to model? (Frequency, Severity, Loss Ratios, Pure Premium, etc.)
 - What is being optimized? Does the model consider anything other than differences in loss cost?
- A narrative discussing the specifications and high-level assumptions of the model, including the following details:
 - Number & Type of models (GLM, GBM, etc.)
 - Split of the data into models (by coverage, by peril, etc.)
 - Split of the data into datasets (training, test, holdout)
 - How models were combined to derive the final rating algorithm

Model Introduction – Sometimes Needed Information

- A narrative discussing the credentials of the modeling team, including the following details:
 - Name of each individual
 - Relevant educational experience
 - Relevant credentials and designations
 - Years of experience building predictive models
 - Years of experience in the insurance industry

- Discuss how Actuarial Standards of Practice (ASOPs) 12, 23, 41, and 56 were considered in building the models.
- Describe the software used to build the models.
- Provide copies of or links to academic references for their modeling techniques.
- A table listing the states where the model has been filed for review, the SERFF tracking number, and an indicator showing whether the filing has been approved.

Data – Essential Information

- A narrative providing the description of each data source including the following:
 - Informational materials or website links for each 3rd party
 - Commentary on how the company reviewed the veracity of the data source
 - Why the company believes the data source is useful for the model’s intended purpose
 - Disclosure of known data errors
 - SERFF filing numbers where the use of the data was previously approved (if applicable)
- A description of the relevance of the data
 - The lines of business and companies included should be identified
 - Description of any considerations or adjustments made to make the data more applicable for its intended use
- A data dictionary provided as a table with the following columns:
 - Data Source (Vendor name or “Internal”)
 - Variable name
 - Alternate names appearing in other filing documents
 - Data types (discrete, continuous, logical, categorical)
 - Treatment Type (Model, Control, Offset, Target)
 - Possible values (Empirical min and max for numerical variables, all categories for categorical variables)
- Tables showing summary metrics for each dataset by year (training, testing, holdout)
 - Year
 - Losses
 - Exposures (or Policy Count)
 - Claim Count (if applicable)
- A narrative on how the company determined the final variables to include in the final model
- A narrative on the data accuracy and data reconciliation process
 - Description of the methods used to compile, filter, and/or merge data from different sources
 - How the data was reconciled to other sources
- A listing of the rational explanation for each modeled variable that discusses why it would plausibly impact insurance risk as discussed in the CASTF white paper¹.
- A guarantee that the modeling dataset will be retained for at least 7 years
- A description of any dimensionality reduction techniques (PCA, clustering, etc.) that were applied to the data.
- An Excel file with 100 anonymized sample modeling records including all predictor variables and target variables.

Data – Sometimes Needed Information

- A description of steps taken to meet state requirements regarding unfair discrimination (if applicable).

¹ https://content.naic.org/sites/default/files/inline-files/9-15%20CASTF%20-%20Predictive%20Model%20White%20Paper%209-09-2020_1.pdf

- A listing of variables which are subject to the fair credit reporting act (if applicable).
- A table showing the data volume distribution by state for each dataset (training, testing, holdout)

Modeling – Essential Information

- A narrative discussing the specifications and assumptions of the model, including the following details:
 - Form of the regression equation
 - Distribution assumed for the error term
 - The link function (if applicable)
 - Weights used in regression (if applicable)
 - Hyperparameter values and tuning procedure (if applicable)
- A description of how the model differs from prior versions of the model (if applicable).
- A description for each control or offset variable of why it was necessary to treat them as control/offset variables.
- A description of how the variables with null or missing values will be treated, including the following:
 - A table showing the rate of null or missing values for each variable
 - A description of the scenarios which generated null or missing values
 - A description of how each null or missing value is treated (might include imputation method or simply left in as a control)
 - A description of what happens to null and/or missing values when generated in production. (Is there a rating factor applied for null/missing or is the data populated before policy issuance?)
- A description of any large loss capping applicable to the dataset
 - Identify the size of the large loss cap
 - Identify the percentile of claim severity represented by large loss cap
- A description of adjustments and modifications to the data including trending, loss development, capping at minimums or maximums, and removal of outliers.
- A description of variable transformations applied to the data. The description should include the name of each transformation technique used and an example transformation complete with a sample unadjusted value and a final transformed value.
- A description of each feature engineered variables. The description should include the rationale behind the feature engineered variable and a sample calculation including unadjusted original variable values and the final feature engineered variable value.
- A description of how binning was applied to numeric variables and how categorical variable values were grouped together.

Modeling – Sometimes Needed Information

- Deviance residual plots for each model demonstrating the appropriateness of the model assumptions.

Validation – Essential Information

- A narrative on how the model was validated and assessed for model stability
- A narrative on how the model was assessed for improvement over the prior version of the model (if applicable)
- An Excel file containing model output in this format:
 - Each model is a separate worksheet
 - Column A is Variable Name
 - Column B is Variable Level Name
 - Column C is the coefficient
 - Column D is the p-value (if applicable)
 - Column E is the 95th confidence interval lower bound (if applicable)
 - Column F is the 95th confidence interval upper bound (if applicable)
- Ventile plots (quantile plots with at least 20 buckets) for both state specific data and countrywide data, built on data not used for model training. Each plot should include lines for both predicted averages and actual average.
- Lorenz curve for each model built on countrywide data. The plot should include the Lorenz curve and the equality reference line. The plot should also include the Gini value for the model.
- An Excel file containing correlation matrices in this format:
 - Each model's correlation matrix is a separate worksheet
 - Row 1 and Column 1 include variable names
 - The rest of the table displays the correlation metrics
- Commentary on which correlation metric (Pearson's, Cramer's V, etc.) was provided in the correlation matrix Excel file

Validation – Sometimes Needed Information

- A description of how often the model will be validated against new data in the future
- A double lift chart comparing the newly proposed model and the current model (if applicable)
- Actual vs. Expected plots by model and variable (aka "Univariate Plots") which show the closeness between actual averages and predicted averages.
- AIC tests showing the new AIC after the introduction of each additional predictor variable
- F-nested model tests comparing the full model to subset models excluding one variable at a time to demonstrate the significance of each term. Each test should include the following:
 - F-statistic
 - F-test critical values
 - Numerator degrees of freedom
 - Denominator degrees of freedom
- Variance Inflation Factors (VIFs) for each variable

Implementation – Essential Information

- A description of how the models being filed are ultimately integrated into the company's final rating algorithm
- A narrative about all post modeling adjustments, such as smoothing, mapping to scores, and tempering of factors
- A narrative identifying the variables where deviations from indicated were made and commentary on the reason for the deviations
- A dislocation analysis, including the following:
 - Histograms showing percentage premium change on uncapped and capped basis (if applicable), using buckets of 5%
 - Descriptions of the scenarios with the highest increases
 - Descriptions of the scenarios with the biggest decreases
- Commentary on the differences between rating new and existing policyholders
- An Excel file which documents deviations between indicated and selected in this format:
 - Each model is a separate worksheet
 - Column A is Variable Name
 - Column B is Variable Level Name
 - Column C is the Current Factor (if applicable)
 - Column D is the Indicated Factor
 - Column E is the Proposed Factor
 - Column F is the percentage difference between indicated and proposed. If the absolute value of the percentage difference is > 10%, the cell should be highlighted.
- Sample rating/scoring exhibits for 10 risks in Excel, which show risk characteristics, all intermediate adjustments, and the final algorithm output considering the company's final selections.

Implementation – Sometimes Needed Information

None are listed at this time.