

Casualty Actuaries of the Southeast

NAIC Statements of Actuarial Opinion ASOP 36 Exposure Draft September 30, 2009

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NAIC Statements of Actuarial Opinion – Nuts and Bolts

ASOP 36 Exposure Draft

Agenda

What is an NAIC Statement of Actuarial Opinion?

Getting Started on an Opinion

Analysis Resulting in the Opinion

The Opinion Itself

The AOS

The Report

ASOP 36 Refresher – Current Language

ASOP 36 Exposure Draft

What is an NAIC Statement of Actuarial Opinion?

- Subject:
 - Loss and loss adjustment expense reserves
 - Gross and Net
 - Long duration unearned premium reserves
- Conclusion on whether these reserves are reasonable
- Filed with statutory annual statement
- Length:
 - Two to ten pages
- Signed by a qualified actuary


Types of Opinion

- Reasonable
- Deficient or Inadequate
- Redundant or Excessive
- Qualified
- No Opinion

Learning What the Appointed Actuary Must Do

- NAIC Annual Statement Instructions
- Actuarial Standards of Practice
- AAA Qualifications Standard
- AAA COPLFR Practice Note and Law Manual
- Becoming Appointed
- Planning the Entire Project
 - Learning about the underlying business
 - Planning the level of detail of the reserve analysis
 - Understanding timing and deadlines

The Mechanics of Becoming an Appointed Actuary

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- Board Appointment
 - Notification of State Related to Newly Appointed Actuary
 - Commentary from Former Actuary

Analysis Resulting in the Opinion

Loss Reserve Analysis

Learning about the underlying business

- Sources of information about what an actuary should know
 - ASOP 43
 - ASOP 36
 - Appendix to Berquist Sherman article
- Approaches for finding out this information
 - Review report supporting prior actuarial opinion
 - Meet with Company Management
 - Underwriters
 - Claims
 - Reinsurance Department
 - Collaborate with Financial Professionals

Loss Reserve Analysis

Scope of the Analysis

- Timing of detailed analysis
 - 12/31
 - 9/30 with roll-forward
- Detailed analysis or not
 - Review or Rely on work of others
 - Compare with prior work
- Schedule P reconciliation
- Materiality
- Disclosures related to scope decisions

Loss Reserve Analysis

Timing of Opinion Assignment

- Key dates
 - Continuing Education/Qualifications
 - Data Letter
 - March 1 - Opinion
 - March 15 - AOS
 - May 1- Report
- Key timing constraints
 - Year end company data cut off
 - “Going to Printer’s” date

Components of the Opinion

- Identification
 - Board Appointment Date
- Scope
 - Schedule P reconciliation assertion
 - Data provider
- Opinion
 - State of domicile
 - Type of opinion
 - Reliance on other actuary's opinion

Additional Components of the Opinion

- Explanatory Paragraph and Other Relevant Comments
 - Commentary about the entity
 - Risk of potential for material adverse deviation
- Topics affecting loss reserves
 - Reinsurance collectibility
 - Asbestos and environmental
 - NAIC IRIS ratios
 - Salvage and subrogation
 - Pools
- Signature
 - Email address
- Exhibits A and B

Actuarial Opinion Summary (AOS)

- Additional information for regulators
- Confidential nature
- Compares carried reserve with opening actuary's central estimate or range.
- Explanation if the Company run-off in three of past five years is greater than 5% of surplus.

The Report Report

- Shows how the actuary came to the type of opinion
- Text and exhibits
 - ASOP 43
 - ASOP 9 and ASOP 41
- Schedule P reconciliation
- IRIS ratio documentation

ASOP 36 Statements of Opinion Regarding Property Casualty Loss and Loss Adjustment Expense Reserves

- Refresher course on ASOP 36
- Exposure Draft of Revised ASOP 36

Refresher – ASOP 36 Current Language

- Opinions
 - Required by law
 - Represented by actuary as an SAO
- Professional Qualifications
- Professional Guidance
 - Statement of Principles on Loss Reserves
 - ASOP 20 Discounting
- Contents of a Statement of Actuarial Opinion
- Disclosures

Contents of Actuarial Opinions – ASOP 36 Current Language

- Items covered by the Opinion
- Types of Statements of Actuarial Opinions
- Significant Risks and Uncertainties
- Materiality
- Reserve Analysis
- Range of Reasonable Estimates
- Reinsurance Ceded

Exposure Draft

- Motivations
 - Consistency with ASOP 43
- Status
 - Comment deadline June 15, 2009
 - Comments posted on AAA website
 - Likely not effective for 2009 Opinions

Exposure Draft: Scope and Purpose

- Scope
 - NAIC (specifically mentioned)
 - Prescribed by law or regulation
 - SAO represented by actuary as in compliance with the standard
- Legal and regulatory guidance
 - Consider guidance distributed by regulators
- Purpose of the Statement of Actuarial Opinion
 - Identify the purpose of the SAO

Exposure Draft: Reserves opined upon

- Reserves being opined upon
 - Reserve amount
 - Accounting date
- Description of the reserves being opined upon
 - Intended measure
 - Gross or net of specified recoverables
 - Extent reflect collectibility risk
 - Specific types of loss adjustment expense covered
 - Claims covered by the reserve

Exposure Draft: Analysis

- Scope of the analysis underlying SAO
 - Valuation and review dates
 - Separate reserves – opinion in aggregate or not
- Materiality
- Reserve analysis
 - Reasonable range discussion
 - Actuary's analysis or review or another's analysis

Exposure Draft: Other Practices

- Reliance on others
- Prior Opinion
- Adverse deviation
- Reinsurance ceded
- Types of SAO's

Exposure Draft: Disclosures

- Statement of Actuarial Opinion
- Intended Purpose
- Reserves opined upon
- Description of the reserves
- Scope of the analysis
- Intended users of the SAO
- Type of opinion
- Significant risk and uncertainties that could result in material adverse deviation
- Additional Disclosures

The End