

ASOP No. 36

Results from the First Year under the Revised Standard

CAS Annual Meeting
November 11-14, 2012

Agenda

Actuarial Standards of Practice (ASOP)

Impact of Revisions in ASOP No. 36

Unchanged Parts of ASOP No. 36

NAIC Opinion Requirements

2012 Opinion Requirement Changes

Actuarial Standards of Practice

Actuarial Standards of Practice (ASOPs)

- Promulgated by the Actuarial Standards Board
- Mandatory compliance for credentialed actuaries

Scope of Standards

- General - impact many practice areas
- Life, P/C and Pension

Specific to P/C

- P/C loss and LAE reserve opinions

Actuarial Standards of Practice

Why do Actuarial Standards of Practice Matter?

Impact of Revised Standards

Dates

Accounting Standard

Date Requirements

Accounting Date:

The stated cutoff date for reflecting events and recording amounts as paid or unpaid in a financial statement or accounting system.

The accounting date is sometimes referred to as the “as of date.”

Typically, for a Statement of Actuarial Opinion will be December 31, 2012.

Valuation Date:

The date through which transactions are included in the data used in the unpaid claim estimate analysis.

Typically, for a Statement of Actuarial Opinion will be December 31, 2012.

Review Date:

The date (subsequent to the valuation date) through which material information known to the actuary is included in forming the reserve opinion.

Review Date

ASOP No. 36 requires Statements of Actuarial Opinion to explicitly identify the review date, if it differs from the date the opinion is signed.

The 2012 CASTF guidance notes that, when the actuary is silent regarding the review date, this can indicate either a review date that is the same as the date the opinion is signed or that the actuary overlooked this disclosure requirement.

In instances where the actuary's review date is the same date that the opinion is signed, regulators suggest actuaries clarify that in the opinion.

Review Date

What were the challenges in adding the review date to the Opinions?

Accounting Standard

The SCOPE paragraph should indicate the accounting basis on which the entity is providing its financial information ...

Typically, the reserves are stated on a statutory basis and meet the requirements of the insurance laws of the state of domicile.

Making Use of Another Actuary's Work or Opinion

ASOP No. 36 states that the actuary should only make use of another actuary's supporting analyses or opinions only when it is reasonable to do so.

The appointed actuary should consider the following:

- a. The amount of the reserves covered by another's analyses or opinions in comparison to the total reserves subject to the actuary's opinion;
- b. The nature of the exposures and coverage;
- c. The way in which reasonably likely variations in estimates covered by another's analyses or opinions may affect the actuary's opinion on the total reserves subject to the actuary's opinion; and
- d. The credentials of the individual(s) that prepared the analyses or opinions.

Making Use of Another Actuary's Work or Opinion

In practice, how did the disclosures as well as the process surrounding “making use of another’s work product” come together for 2011 opinions?

Making Use of Another Actuary's Work or Opinion

ASOP No. 36 recognizes that Opining actuaries will have staff working for us in preparation of the opinions. How do we get comfortable with the work prepared by our staff?

Actuarial Standards of Practice

What were the challenges of the 2011 Opinion season and how much of these challenges related to the revised ASOP No. 36?

Unchanged Parts of ASOP No. 36

Basis of Presentation

Stated Basis of Reserve Presentation

1. Nominal or Discounted
2. Explicit Risk Margin
3. Net or Gross of Recoverables
4. Uncollectible Recoverables
5. Types of LAE Covered
6. Opinion for Total Reserves
7. Any Other Items

The intended users of the Statement of Actuarial Opinion

ASOP No. 36 states that the actuary should identify the intended purpose and intended users of the statement of actuarial opinion.

For example, the intended purpose may be to satisfy the requirements for such an opinion under the NAIC Annual Statement Instructions, and the intended users may be the company and its regulators.

NAIC Opinion Requirements

Schedule P Reconciliation

Actuarial Opinion Summary (AOS)

Reconciliation to Schedule P

The 2012 Instructions add the requirement that the Schedule P reconciliation be consistent with the segmentation used in the Actuary's analysis.

If data used by the actuary are subdivided more finely than that in Schedule P, then the data relied upon can be aggregated to the level shown in Schedule P.

Similarly, if the actuary chooses to combine some Schedule P lines of business for purposes of the actuarial study, then the Schedule P data can be aggregated as needed for comparison.

Reconciliation to Schedule P

How is the reconciliation to Schedule P a practical challenge?

How does this challenge interact with ASOP No. 36?

AOS Presentation Point Estimates vs. Ranges

All of the actuary's calculated estimates, including point estimates and ranges, are to be presented in the Actuarial Opinion Summary (AOS) consistent with estimates presented in the Actuarial Report.

Actuarial Standards of Practice

The NAIC requires that the actuary prepare a report supporting the opinion. ASOP 41 describes preparing a report supporting our findings. How hard is this?

Actuarial Standards of Practice

Some actuaries prepare opinions in jurisdictions other than the US. How does ASOP 36 apply?

2012 Opinion Changes

Changes to the NAIC Instructions

Upon changing the actuary

New required content in the Actuarial Report

Title insurance

Changes to the Regulatory Guidance Note

Review Date

Making Use of Another's Work

Content of the Actuarial Report