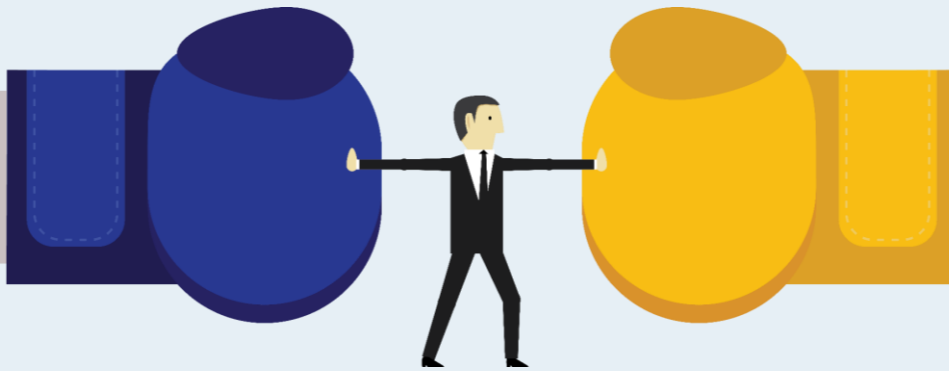


Battle of the Statement of Actuarial Opinion



**CAS Annual
Meeting**

Las Vegas, NV

November 14, 2018



Presenters



Ann M. Conway
FCAS, MAAA, CERA

- Managing Director at Willis Towers Watson
- Past Board Member and Committee Chair
- FRPE Committee at Willis Towers Watson



Joe Herbers
ACAS, MAAA, CERA

- Managing Principal at Pinnacle Actuarial Resources, Inc.
- Past Chair and Member of COPLFR
- Providing SAOs for over 25 years



Outline of Session

- **Outline of Roles**
 - Appointed Actuary (AA)
 - Regulator
 - Current and Prior AAs
 - Reviewing Actuary
- **Discussion with Q&A mixed in**



Situation 1 – AA/Company

- Held reserves determined to be redundant
- Company disagrees with findings
- Sale of Company in the works
- Reviewing Actuary not as “optimistic” as AA



Situation 2 – AA/Company

- Schedule P Reconciliation Issues
- Where is the line before AA may have to issue a “No Opinion” and what do you need to consider?



What does it mean to reconcile to Schedule P?



- “I also reconciled the paid loss and loss adjustment expense amounts and case reserve amounts, and reported and open claim counts as of December 31, 2018 used in my analysis against Schedule P – Part 1 of the Company’s current Annual Statement.”



Situation 3 – AA/Company

- Held reserves determined to be deficient
- Company files Annual Statement and SAO indicates “Inadequate/Deficient” Opinion
- Company is ordered to bump up reserves by regulator
- AA is fired and replaced by another (who comes to same conclusion as AA)



Situation 4 – AA/Company

- Numerous operational changes at Company
 - Strengthening of case reserves
 - Acceleration in rate of claims payments
 - Reorganization of claims department
 - New computer system
 - Changes in accounting for A&O reserves
- Changes have varying impacts on the AA's view of underlying claims experience
- Can AA even form an Opinion?



Changes in operations can trigger additional disclosures



- “I have reviewed the calculations of IRIS Test numbers 11, 12 and 13. No exceptional values were observed”

OR

- “The Company reported an exceptional value on IRIS Test number 11.....”



Situation 5 – AA/Company

- Whose RMAD (Risk of Material Adverse Deviation) is it?
- AA believes the Company's risk factors trigger an RMAD
- The Company disagrees
- How do you resolve?



What the RMAD says

- “I believe that there are (are not) significant risks and uncertainties that could result in material adverse deviation in the Company’s loss and loss adjustment expense reserves. I have identified...”
- “The absence of other risks and uncertainties from this listing does not imply that additional factors will not be identified in the future as having been a significant influence on the Company’s reserves.”



Situation 7 – AA / Prior AA

- 1st year as AA
- Prior AA issued “Reasonable” Opinions in each of prior five years
- Company saw significant adverse loss development in each of prior five calendar years
- Communication with prior AA unsatisfactory
- Reportable situation to ABCD – what do you need to consider?



Is this what you say?



“I was not the AA for the Company as of December 31, 2017. I did not review the analysis performed by the prior actuary because the analysis done by the prior actuary was performed using a different aggregation of the data. Therefore, I am not able to determine whether the change in actuarial assumptions and methods is material.”



Situation 9 – AA / Reviewing Actuary

- AA never computed indicated A&O reserves
- AA says Company never provided A&O data
- Company states it “never believed in the need for A&O reserves”
- How does one proceed?



Questions and Discussion

