

# Case Studies of Problem Situations Arising in the Actuarial Opinion & Report

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**Casualty Loss Reserve Seminar  
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**by:**

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**Patricia A. Teufel, KPMG LLP**

# OUTLINE OF PRESENTATION

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- Background on Panelists
- SAO Issues – Domestic U.S. P/C Carriers
- AOS Issues
- Other SAOs
  - RRGs, Captives
  - Bermuda, Other
- Actuarial Report
- Q&A

# Background on Herbers

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- Managing Principal at Pinnacle
- COPLFR Member since 1998
  - Faculty for AAA Seminar on Effective P/C Loss Reserve Opinions
  - Practice Note Subcommittee
  - Incoming Chair 2009
- Appointed Actuary for 28 domestic P/C companies / RRG's in 2008
- Loss Reserve Specialist / AA for dozens of captives
- CAS paper on Materiality and SAOs (2004)

# Background on Walker

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- Principal at PWC
- Appointed Actuary for over 30 domestic P/C companies / RRG's in 2008
- Loss Reserve Specialist for several Bermuda captives
- Working Group on SAOs (PWC)
- Member – Professionalism Education
- Co-author of Paper on DD&R Reserves – CAS Forum, Winter 1996

# Background on Teufel

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- Principal at KPMG
- Past Chair of COPLFR
- VP of AAA Financial Reporting Council
- Chair of CAS Leadership Development Committee
- Member of CAS Task Force for Enhancing the Reputation of Casualty Actuaries
- Appointed Actuary for domestic P/C companies / RRG's in 2008
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## SAO - Exhibit A

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### ■ Scope

- Gross v Net Loss Reserves
- Retroactive Reinsurance Assumed
- Other Loss Reserves
- UPR for Long Duration Contracts – D&A/Net
- Other Premium Reserves (DD&R, PDR)

# SAO Disclosures – Exhibit B

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- Types - Reasonable, Inadequate/Deficient, Excessive/Redundant, Qualified, No Opinion
- Materiality Standard
- RMAD
- Anticipated Net Salv/Sub Recoveries
- Discount – Tabular v Non-tabular
- Pools & Associations
- A&E
- Extended loss and expense reserves – loss v UPR

# SAO – Other Disclosures

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- Reconciliation to Schedule P
- Reliance on Officer of Company
- RMAD / Risk Factors
- Materiality Standard - % of Surplus, RBC, Reserves; Other & rationale for choice
- Discounting, Anticipated Salv/Sub Recoveries, Pools & Associations, A&E, Extended loss and expense reserves
- Reliance on Another's Work or SAO
- Reinsurance – LPT/Retro/Fin'l, uncollectible rein.
- Loss Sensitive Programs
- IRIS Ratios
- Methods & Assumptions



# SAO – Problems with Type of Opinion

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- Reasonable
  - Both Gross & Net?
- Inadequate/Deficient
- Excessive/Redundant
  - Basis of Redundancy?
- Qualified
  - What is to be carved out and is it material?
- No Opinion
  - Data Issues
  - Representations of Management

## SAO – Problems with Type of Opinion

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- Reasonable on Loss Reserves by not so on UPR for long duration contracts
- Likewise for adequacy of extended reporting reserves
- Does Scope include other reserves (other than DD&R for medical malpractice)?

# UPR for Long Duration Contracts

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- Tests Required
- Test adequacy overall or by segment?
- What combined ratios to use for calculation?
- What interest rate to use for calculation?

# DD&R – Unearned Premium Reserves

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- What lines? How to test?
- Mortality / disability tables
- Insured Population by Age
- NB / lapse / cancellation rates
- Future inflation / interest rate scenarios
- Direct v Net
- Average Premiums – what limits?

# SAO Disclosures

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- Sch P Reconciliation

- Materiality Standards

- RMAD

# SAO Disclosures

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- Anticipated Salv/Sub Recoveries

- Pools & Associations

- A&E

## SAO Disclosures

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- LPT / Financial Re / Retroactive Re
- Uncollectible Reinsurance
- Reliance on Another's Work or SAO

# SAO Disclosures

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- IRIS Ratios
- Uncollectible Reinsurance
- Reliance on Another's Work or SAO
- Methods & Assumptions



## SAO - General

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- Appointment by Board
- In Good Standing
- Amended SAO
- Changes in Appointed Actuary

# AOS Issues

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- Point Estimate v Range
- Discussion required when 1 year development to surplus exceed 5% in 3 of past 5 years
- Protecting Confidentiality
- Process

## SAO Issues - Other

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- RRGs in Washington DC – GAAP accounting required using Yellow Book format
- Captive requirements in certain jurisdictions
- Bermuda
  - SAOs governed by Guidance Note #4 from Bermuda Monetary Authority (BMA) – “Role of the Loss Reserve Specialist”
  - Frequency of SAO varies by Class of carrier
  - Must use BMA Statutory Financial Statement format

## SAO Issues - Other

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- Self-insured entities, other – be guided by ASOP 36
  - Identification, Qualifications, Type of Opinion
  - Must disclose reserves being opined upon
  - Material Risk Factors
  - Materiality Standard
  - Changes in Methods & Assumptions

# Actuarial Report Supporting SAO

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- Schedule P Reconciliation
- Net Analysis only
- Documentation of Reinsurance Program
- Documentation of Critical Assumptions
- Report Narrative
- Changes since Prior Year

Q & A

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