

# Accountants, Auditors and Actuaries, Oh My: Speaking the Same Language

Matt Kunish, RiverStone

Lisa Slotznick, PricewaterhouseCoopers

Magali Welch, Johnson Lambert

Casualty Loss Reserve Seminar

Monday, September 15, 2014: 1:15 pm



# Accountants, Auditors and Actuaries, Oh My: Speaking the Same Language

## ● Agenda

- Introductions and Format of Session
- Definitions
- The Players
- Roles/Responsibilities
- Setting Management's Best Estimate
- Reasonability of the Carried Reserve
- Data Letter



# Introductions

- Paul Struzzieri, FCAS, MAAA (moderator)
  - Principal & Consulting Actuary, Milliman
- Matt Kunish, FIA, FSA, FCAS, MAAA
  - Chief Actuary, RiverStone
- Lisa Slotznick, FCAS, MAAA
  - Managing Director, PricewaterhouseCoopers
- Magali Welch, CPA, CA, AIAF
  - Partner, Johnson Lambert



# Definitions

- Actuarial Central Estimate (ACE)
  - Expected value over the range of reasonably possible outcomes
- Management's Best Estimate
  - SSAP #55
- Range of Reasonable Estimates
  - Range of reasonable actuarial central estimates



# The Players Involved in the Loss Reserve Process

- **Company**
  - CEO / CFO
  - Other Company Management (Underwriters, Business units, Claims, Internal Audit)
  - Program / Captive Manager
- **Actuaries**
  - Company
  - Consulting
  - Auditing
- **Independent Auditor**



# Roles and Responsibilities

- Company

- Sets the carried reserves (SSAP 55)
- Managements Best Estimate



# Roles and Responsibilities

- Actuary – ASOP 21 - What is the actuary's responsibilities/obligations to the auditor?
  - Reviewing Actuary
    - Planning
    - Documentation
  - Responding Actuary
    - Data, Assumptions and Methods
    - Environment



# Roles and Responsibilities

## ● Auditor

- Express an opinion on the financial statements which includes the liability for losses and LAE (fairly presented in accordance with GAAP or SAP)
- Usually the largest item on the balance sheet
- Audit evidence of loss reserve
- Reliability of Information produced by a Management's Specialist (Actuary)
  - Evaluate the competence, capabilities and objectivity of that specialist
  - Obtain an understanding of the work of that specialist
  - Evaluate the appropriateness of that specialist's work as audit evidence for the relevant assertion





# Setting Management's Best Estimate

- Generally internal studies performed semi-annually / Roll forward on the off quarters
- Typically completed within one month of quarter end
- Two level peer review
- No outside actuarial review
- Central estimate and range produced
- Results discussed with senior management soon after completion
- At quarter end Loss reserve committee meets (CEO/CFO/ Chief Actuary/Chief claims officer) – no UW representative



# Setting Management's Best Estimate – Alternative Approaches

- What is the timing of the detailed reviews?
- Is the result a single point estimate or a range?
- How does the actuarial process feed into the management decision making process?
- How are controls built into the process?



# Setting Management's Best Estimate – Other Considerations

- Considerations for reserving at higher or lower confidence levels:
  - Regulators will not allow to book below “expected” level
  - If higher, better solvency regulation but you could have IRS concerns of fair and reasonable reserve
  - If lower, assuming that funding = reserving, you may not build surplus fast enough to cover an adverse year
- Implications of booking outside the range
  - Probable regulatory, audit and actuarial concerns



# Reasonability of the Reserves

- Auditor's point of view
  - With auditing actuary
  - No auditing actuary
- Opining Actuary



# Reasonability of Reserves - Auditor

- Review and test Management's process
  - Understand Management's estimation process
  - Data
  - Controls effectiveness
  - Develop a single point estimate or range or perform procedures on the actuarial report (narrative & exhibits)



# Reasonability of Reserves - Auditing Actuary

- Approach to Developing a Point Estimate or Range
  - Planning
    - Risk Assessment to Determine “Coverage”
    - Level of risk in line of business
    - Efficiency of level of review
    - Communication and Data Requests
  - Analysis
  - Results - See Company Results First
    - Documentation



# Reasonability of Reserves – No Auditing Actuary

- Perform Procedures on the Actuarial Report (narrative & exhibits); agree actuary's understanding of coverage
- Agree cumulative paid losses and loss reserves from audited loss runs to report in total and on a test basis by line by year
- Test significant data identified by opining actuary (payroll, premiums, # of beds...)
- Verify methodologies used for consistency from PY and to other similar companies
- Recalculate on a test basis for clerical accuracy



# Reasonability of Reserves – Question 1

- When the Company records their best estimate at either the internal actuary's central estimate or the outside actuary's central estimate, what happens next?





# Reasonability of Reserves – Question 2

- When the Company's recorded best estimate is different from either the internal actuary's central estimate or the outside actuary's central estimate, what happens next?
- Difference can be higher or lower.



# Reasonability of Reserves – Question 3

- Under either of the prior situations, what happens when the auditing actuary determines that the carried reserve is outside a reasonable range?
- Difference can be higher or lower.



# Reasonability of Reserves – Auditor Range Considerations

- Is Company estimate moving within the internal /external actuaries range?
- Movement in the range year over year
- Auditor Guideline ranges versus Actuarial corroborative ranges
  - Surplus considerations
  - Narrower sometimes than actuarial ranges



# Reasonability of Reserves – Auditor Range Considerations

- Valid Reasons for Moving within the Range from One Year to the Other
  - Implemented great loss control not considered YET by actuary
  - Significant loss development not expected by Management to reoccur (unusual event)
  - New product not considered in the actuary's estimate



# Data (Attributes) Letter

- Formal intersection of the Auditor and the Opining Actuary
- What is being asked of the auditor?
- What are the actuary's responsibilities?
- What does it mean if the data is "audited"?



# Questions and Discussion

