

Peer Review and SAOs

Presentation to 2017
Casualty Loss Reserve Seminar

Commitment Beyond Numbers



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Managing Principal

Statements of Actuarial Opinion

- Most governed by ASOP 36
- Statutory requirement (i.e., prescribed SAO)
- SAOs not governed by ASOP 36
- Peer Review Approach
- Issues and problem areas

SAOs governed by ASOP 36

- Domestic P/C company regulated by NAIC
- Risk Retention Groups
- Self-insured entities
- Captive Insurance Companies
- Other

Peer Review Approach

- Checklist

2015 Statement of Actuarial Opinion - Peer Review Checklist

Company: _____

			Reference	
Yes	No	n/a	Practice Note	ASOP 36 Section
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
Applicability of ASOP 36				
Does ASOP 36 apply to this SAO?				1.2
Written Statement of actuarial opinion with respect to property/casualty loss and LAE reserves of insurance or reins. companies and other p/c risk financing systems, such as self-insurance, that provide similar coverages under one of the following circumstances. Check one that applies:				
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- the SAO is prepared to comply with NAIC Property and Casualty Annual Statement Instructions, or	1.2
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- the SAO is otherwise prescribed by law or regulation, or	1.2
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- the SAO is represented by actuary as being in compliance with this standard	1.2
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Disclose "Statement of Actuarial Opinion" in the title of written opinion?	4.1a
IDENTIFICATION				
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	a) Identify name, affiliation, relationship, credentials, "in good standing", meet qualification standards	2.1.1
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	b) Board appointment date	2.1.1
SCOPE				
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	a) Mention reserves listed in Exhibit A	3.1.2
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	b) Identify type of LAE covered by reserve (e.g., coverage disputes, defense, adjusting, etc.)	3.4.e
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	c) Mention loss reserve Disclosure Items 8-13 in Exhibit B	3.1.2
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	d) Disclosure of person relied upon for data (by name, affiliation and relationship to company)	3.5.2
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	e) Evaluate data for reasonableness and consistency	3.6.2
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	f) Disclose reconciliation to Sch P	3.7.2
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	g) Treatment of Pooling Arrangements	3.3.2

2015 Statement of Actuarial Opinion - Peer Review Checklist

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Yes	No	n/a		Reference	
				Practice	ASOP 36
				Note	Section

OPINION

			a) meet requirements of state of domicile		4.1.2		
			b) are (consistent with reserves) computed in accordance with accepted actuarial standards		4.2.2		
			c) make a reasonable provision for all unpaid loss and loss adjustment expense		4.3.3		
			d) mention long duration contracts in opinion and/or other loss reserve items		4.8.3		
			e) Disclosure if you made use of another actuary's work for a material portion of the reserves?		4.10.2		
			f) Was there use of another actuary's work?		3.7		
			- If Yes to above:				
			- Disclose Name, Affiliation, Credentials of other actuary	4.10.2	3.7.2		
			- Was the other actuary's work reviewed? And determined to be reasonable?	4.10.1	3.7.2		
			- Was the other actuary's work not reasonable and separate analysis completed?	4.10.1	3.7.2		
			- Amount of reserves in comparison to total; nature of exposure and coverage, reasonably likely variations	4.10.1			
			g) Disclose use of analysis/opinion of another not within the control of actuary for material portion of reserves		4.2f		
			- If Yes to above:				
			- Disclose whether actuary reviewed the others' underlying analysis	3.9.2	4.2f		
			- Disclose extent of review including methods/assumptions and underlying arithmetic	3.9.2	4.2f		
			h) State specifically - upfront in paragraph -- which type of Opinion applies	4.3	3.11		
			Circle the one that applies				
			Reasonable	Deficient/ Inadequate	Redundant/ Excessive	Qualified	No Opinion
			i) If reserves are deficient/inadequate, disclose the minimum amount believed reasonable	4.4.3	4.2b		
			j) If reserves are redundant/excessive, disclose the maximum amount believed reasonable	4.4.3	4.2c		
			k) If Qualified Opinion, disclose items to which the qualification relates, amount and reason	4.5.2	4.2d		
			- Disclose whether reserves make a reasonable provision for reserves in scope, except items to which qualification apply		4.2d		
			l) disclose that opinion applies to total loss and LAE, or other items combined or separately	4	3.5b		
			m) Identify applicable accounting standards (i.e., Stat, GAAP, IFRS, etc.)	3.2.1	3.3.c		

PINNACLE
ACTUARIAL & FINANCIAL, INC.

4 4

2015 Statement of Actuarial Opinion - Peer Review Checklist

Company: _____

Yes	No	n/a		Reference	
				Practice	ASOP 36
				Note	Section

RELEVANT COMMENTS


			a) Identify intended purpose of SAO	5	3.2, 4.1c
			b) Identify intended users of SAO	5	3.2, 4.1b
			c) Identify reserves being opined upon		3.3.a, 4.1d
			d) Identify accounting date		3.3.b
			e) RMAD paragraph included	5.1	4.2e
			- Disclose materiality standard	5.1.3	4.2e
			- Clearly state as to whether there is a significant risk of material adverse deviation (RMAD)	5.3.2	4.2e
			- If Yes, disclose major risk factors faced by company	5.2.2	4.2e
			- If No, comment on risk and other factors considered	5.2.2	
			-- Potential that a combination of factor could develop increasing the entity's RMAD	5.2.1	
			- Disclosure of basis/rationale for actuary's choice of materiality standard	5.1.3	
			f) Other Disclosures in Exh. B paragraph included (individual impact & in combination)	5	
			- Anticipated net saly/sub recoveries	5.4.1	
			- Discounting - identify whether stated reserves are nominal or discounted	5.5.2	3.4.a
			- Identify items discounted (e.g., IBNR only, tabular, etc.)		3.4.a
			- Identify basis for interest rate in discount calc (e.g., portfolio, risk-free, etc.)		3.4.a
			- Reserves for pools/associations	5.6.2	
			g) - A&E reserves & Mass Torts	5.7.3	
			- Extended reporting reserve (losses v unearned premium)	5.13.3	
			Did SAO rely on Present Values?		4.2g
			- If Yes to above and actuary judges such to have a material effect on results of evaluation:		
			- Disclose that PV were used in forming opinion		4.2g
			- Disclose interest rate(s) used by actuary		4.2g
			- Disclose monetary amount of discount reflected in reserve amount		4.2g
			h) Identify whether reserves include risk margin		3.4.b
			- If yes disclose basis of risk margin (i.e., percentile, load above mean, etc.)		3.4.b
			i) Identify whether reserves are gross or net of specified recoverables		3.4.c
			- Identify line in financial statement related to reserves being opined upon, if applicable		optional
			- Identify specified recoverables (i.e., ceded reinsurance, deductibles, saly/subro, etc.)		3.4.c
			- Identify whether uncollectible recoverables are considered		3.4.d
			- Identify when uncollectible recoverables are involved		3.4.d
			- Identify categories of uncollectible recoverables considered		3.4.d

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5 5

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Yes	No	n/a	RELEVANT COMMENTS	Reference	
				Practice Note	ASOP 36 Section
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	j) Reinsurance paragraph included	5	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose retroactive reinsurance	5.8.3	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose any loss portfolio transfers or financial rein effected in 2011	5.9.3	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose potential reinsurance collectibility problems or problem reinsurers	5.10.2	4.2h
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Identify whether concerns about these uncollectible recoverables are based on currently known and/or potential ultimate collectibility concerns		3.4.d
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose review of reinsurer ratings by A M Best	5.10.2	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose review of Sch F for indications of regulatory activity or recoverables on paid losses over 90 days past due	5.1	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose findings in reinsurance supplement	5.8.2	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	k) IRIS Ratios paragraph included	5.11	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose results of IRIS tests based on reserves	5.11.3	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Relevant comments on factors that led to unusual values	5.11.3	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Check of calculations of test results		Pinnacle Requirement
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	l) Methods and Assumptions paragraph included	5.12	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose significant changes in methods/assumptions	5.12.2	4.2a
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- If not able to review prior actuaries work, disclose prior assumptions, procedures and methods are unknown	5.12.2	4.2a
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose impact of changes in methods/assumptions		
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose whether any material assumption or method was prescribed by law	5	4.1h
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	- Disclose whether reliance on other source and/or disclaims responsibility for material assumption	5	4.1i
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	m) Prepaid Loss Adjustment Expenses appropriately addressed - if relevant	III.5	
Instruction 7					
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	a) - Disclose availability of actuarial report	8.1	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	b) - Disclose workpapers supporting Opinion will be maintained for 7 years	8.1	
More Disclosures					
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	c) Identify review date, if different from date the SAO is signed	3.4.3	3.5a
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	d) disclosure any other item needed to describe scope of review		3.5c

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2015 Statement of Actuarial Opinion - Peer Review Checklist
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Yes	No	n/a	SIGNATURE BLOCK	Reference	
				Practice Note	ASOP 36 Section
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	a) Date included	6.1.1	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	b) Original signature	6.1.1	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	c) Printed name, company affiliation, address, phone #, e-mail	6.1.1	
GENERAL					
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	a) Was opinion qualified due to material amounts not within scope? if "Yes" to a), identify claims exposure covered by SAO (i.e., LOB, AY, state, etc.)?		3.4.f
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	b) Was Letter of Representation obtained?		Pinnacle Requirement
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	c) Law manual for domiciliary state was reviewed		Pinnacle Requirement
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	d) Was an electronic version of opinion provided to client?	6.1	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	e) Disclose material deviation from ASOP 36		4.1j
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	f) Form/content specified by regulators followed in this SAO?		4.2i
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	g) Opining actuary has knowledge to comply with specific requirements of the laws or regulations.		3.1
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	h) Data testing letter sent to auditor?	3.8.2	

Peer Reviewed by: _____
 Initials Date

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Common Issues

- Net reserves are reasonable by D&A reserves are outside the reasonable range, or vice versa
- Reliance on another for material portion of held reserves (i.e., pools & associations, A&H book, other)
- Redundant Opinion
- Qualified / No opinion

Common Issues (cont.)

- UPR for long duration contracts
- DD&R reserves – assumptions
- A&E a material portion of reserves
- Changes in Methods/Assumptions – yours or you as new AA
- Receivables
 - Salvage/Subrogation – what if company lists \$0 in anticipated recoveries?
 - Deductibles – are future recoverables a legitimate offset to otherwise indicated reserves?

More Issues (cont.)

- Reliance on data provided by 3rd party
- Unable to review work of prior actuary
- Sch P reconciliation
 - By Line of Business
 - Direct vs. Net
 - ITD vs. Calendar Year paid amounts
 - Policy/Underwriting Year vs. Accident Year
 - Salv/Subro – Direct vs. Net

RRG Issues

- File Yellow Book, but use GAAP accounting (DC, MT)
- Held loss and LAE reserves on Page 3 are direct, not net
- Held surplus is direct, not net
- IRIS tests – direct or net?

“Other SAO” Issues

- Regulation indicates reserves must be “adequate” – not one of the 5 SAOs identified by ASOP 36 (Bermuda, Intergovernmental risk pools in IL)
- SAOs outside the jurisdiction of U.S. and Canada – does ASOP 36 apply? Do other ASOPs apply?
- P/C carrier that writes Long Term Care Insurance
 - Active Life Reserves
 - Disabled life and IBNR reserves discounted to PV using statutory discount rates
 - 100% reliance on another

SAO/AOS Issues – IRIS Tests

- SAO: Extended comments when IRIS tests produce unusual values for
 - 1 year development to surplus
 - 2 year development to surplus
 - Estimated current reserve deficiency to surplus
- AOS: Extended comments when 1 year loss development to surplus exceeds 5% in 3 or more of the 5 latest calendar years

all figures in 000s

Acc. Year End	Earned Premium	Total Incurred Loss + DCC per Schedule P		Loss Dev. since Year-end	Unpaid Loss and LAE as % of EP	
		Original	Current		Held	Restated
2011	\$119,142	\$61,174	\$68,722	\$7,548	50.0%	56.4%
2012	137,069	70,221	83,021	12,800	41.8%	51.1%
2013	161,159	97,359	103,992	6,633	46.1%	50.2%
2014	194,658	109,568	115,294	5,726	46.6%	49.5%
2015	228,691	144,598	146,690	2,092	56.7%	57.6%
2016	274,587	174,278			52.8%	

Thank You for Your Attention

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