

# Maximizing the Value of Your Actuarial Opinion and Reports

September 10, 2017

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**DIFP**

Department of Insurance,  
Financial Institutions &  
Professional Registration

# What the regulator expects

- Conformance with *Annual Statement Instructions*, ASOPs, and CAS Statements of Principles
- Clear conclusions
  - In the report: a descriptive narrative and well-documented exhibits
- Opinion type (reasonable, excessive, etc.) that matches the conclusions
- Consistency between SAO, AOS, Annual Statement, and report

# Possible topics

- Resources available to SAO writers
- How regulators might use the SAO
- How a regulatory actuary might review the SAO
- Common issues with SAOs, AOSs, and reports
- Opinion statistics
- Recent changes to *Annual Statement Instructions*

# Resources available to SAO writers

# Resources available to SAO writers

- NAIC *Annual Statement Instructions* – Property/Casualty
- American Academy of Actuaries' P/C Loss Reserve Law Manual
- AAA Committee on Property and Liability Financial Reporting's practice note
- American Academy of Actuaries' Seminar on Effective P/C Loss Reserve Opinions
- Actuarial Standards of Practice, particularly:
  - 23 (Data quality)
  - 36 (SAOs)
  - 41 (Communications)
  - 43 (Unpaid claim estimates)

# Resources available to SAO writers

- Statements of Statutory Accounting Principles, including:
  - 55 (Unpaid Claims, Losses, and Loss Adjustment Expenses)
  - 62R (Property and Casualty Reinsurance)
  - 65 (Property and Casualty Contracts)
- Regulatory Guidance document promulgated annually by the NAIC Actuarial Opinion (C) Working Group

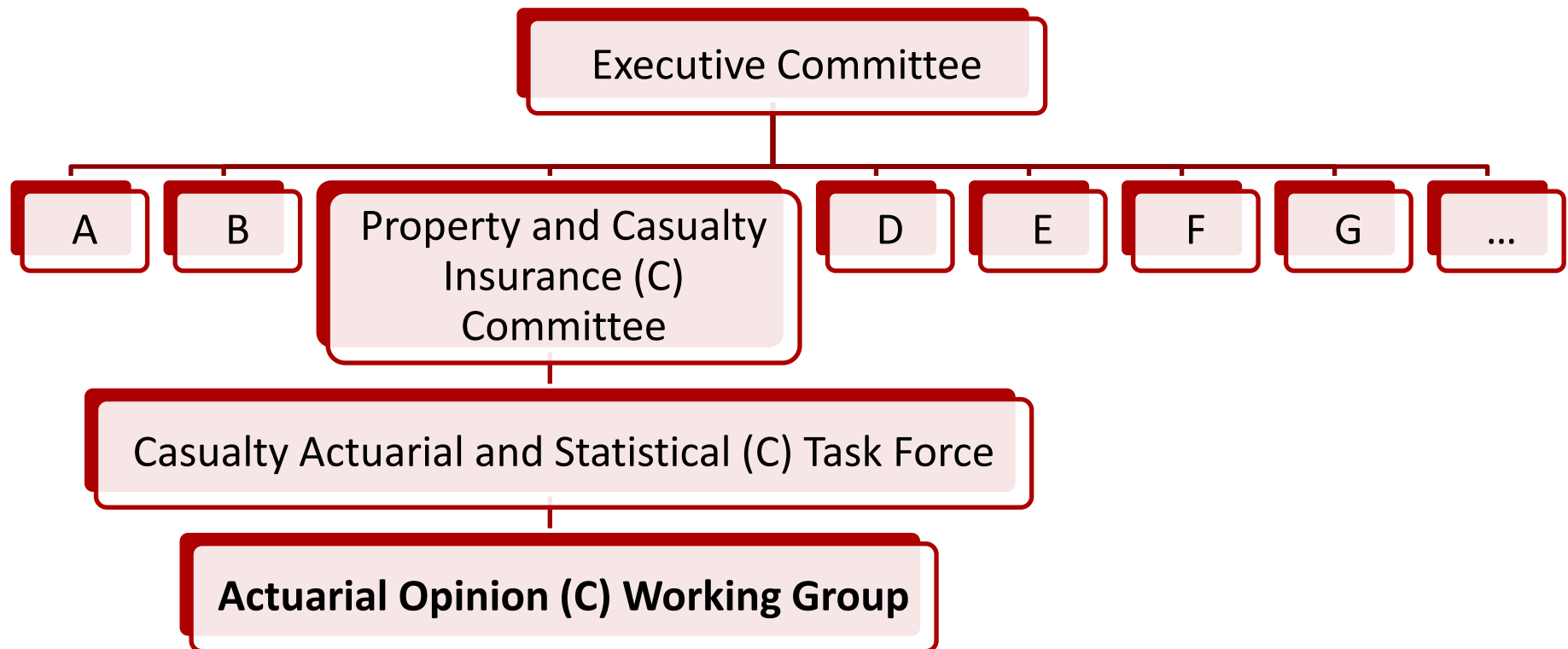
# Resources available to SAO writers

## Regulatory Guidance

- Prepared by the NAIC Actuarial Opinion (C) Working Group
- Supplements the NAIC *Annual Statement Instructions*
  - Property/Casualty
- Purpose is to provide clarity and timely guidance to companies and appointed actuaries regarding regulatory expectations with respect to the SAO, AOS, and report
- Generally included in COPLFR's practice note
- Not binding

# Resources available to SAO writers

## NAIC 2017 Committee Structure





# Resources available to SAO writers

Actuarial Opinion (C) Working Group's 2017 charge:

“Propose revisions to the following, as needed, especially to improve actuarial opinions, actuarial opinion summaries and actuarial reports, as well as the regulatory analysis of these actuarial documents and loss and premium reserves.

- Financial Analysis Handbook.
- Financial statement instructions.
- Regulatory guidance to appointed actuaries.”

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- Financial statement instructions.
- Regulatory guidance to appointed actuaries.”

# Resources available to SAO writers

Actuarial Opinion (C) Working Group's 2017 charge:

- “Provide prospective actuaries with the following resources as part of the actuarial opinion process, the documents that will be used to prepare the actuarial opinion, and the financial statement instructions.”
- 11 open calls from July 2016 through December 2016
  - 11 open calls from January 2017 through September 5, 2017
  - One regulator-to-regulator call each summer to discuss our review of the prior year-end's SAOs, AOSs, and reports
- Regulatory guidance to appointed actuaries.”

# Resources available to SAO writers

- What guidance do you find most useful?
- Are you familiar with the Regulatory Guidance document?
- Who needs more instruction?
  - Regulators?
  - Appointed actuaries?
  - Company management or boards?
  - Rating agencies?

# How regulators might use the SAO

# Regulatory users of the SAO

Who might use the SAO, and how?

|   |   |
|---|---|
| <b>Financial analyst</b>  | <b>Financial examiner</b>   |
| <ul style="list-style-type: none"><li>– Fill out the Actuarial Opinion Assessment of the <i>Financial Analysis Handbook</i></li><li>– Prepare or edit the Insurer Profile Summary</li></ul> | <ul style="list-style-type: none"><li>– Plan for the exam<ul style="list-style-type: none"><li>– Prioritize exam work</li><li>– Prepare interview questions</li><li>– Build the risk matrix</li></ul></li></ul> |






Regulatory focus: **solvency**

# Excerpt from sample Actuarial Opinion

## Assessment of *FAH*

8. Determine whether the Appointed Actuary commented on various topics and issues in Exhibit B of the Actuarial Opinion as required by the *Annual Statement Instructions - Property/Casualty*.

|  | <i>Comments</i>  |
|--|--|
| a. Risk of Material Adverse Deviation:   |  |
| i. Description of company-specific risk factors  | <ul style="list-style-type: none"> <li>• Exposure to environmental claims</li> <li>• Concentration of reserves in long-tailed lines subject to inflation pressures</li> </ul>    |
| ii. Identification of materiality standard and the basis for establishing this standard  | <ul style="list-style-type: none"> <li>• 15% of surplus</li> <li>• Selection was driven by the fact that the SAO is prepared for the regulatory review of the company</li> </ul> |
| iii. Risk of material adverse deviation (“yes” or “no”)  | Yes  |
| iv. Bright Line Indicator triggered (If “yes,” comments from the Appointed Actuary should be pursued if the Appointed Actuary does not believe a risk of material adverse deviation exists.) | No   |



# Excerpt from sample Actuarial Opinion

## Assessment of *FAH*

8. Determine whether the Appointed Actuary commented on various topics and issues in Exhibit B of the Actuarial Opinion as required by the *Annual Statement Instructions - Proper*

The Actuarial Opinion Assessment helps the analyst:

- Verify compliance with the *Annual Statement Instructions*
- Identify risks
- Highlight areas that may merit follow-up with the regulatory actuary or the company

|  |          |
|--|----------|
| a. Risk  |          |
| i. Des   |          |
| ii. Ide<br>bas   | g-tailed |
| iii. Risk of material adverse deviation ("yes" or "no")  | Yes      |
| iv. Bright Line Indicator triggered (If "yes," comments from the Appointed Actuary should be pursued if the Appointed Actuary does not believe a risk of material adverse deviation exists.) | No       |

the company

hat the  
review of

# Excerpt from sample Insurer Profile

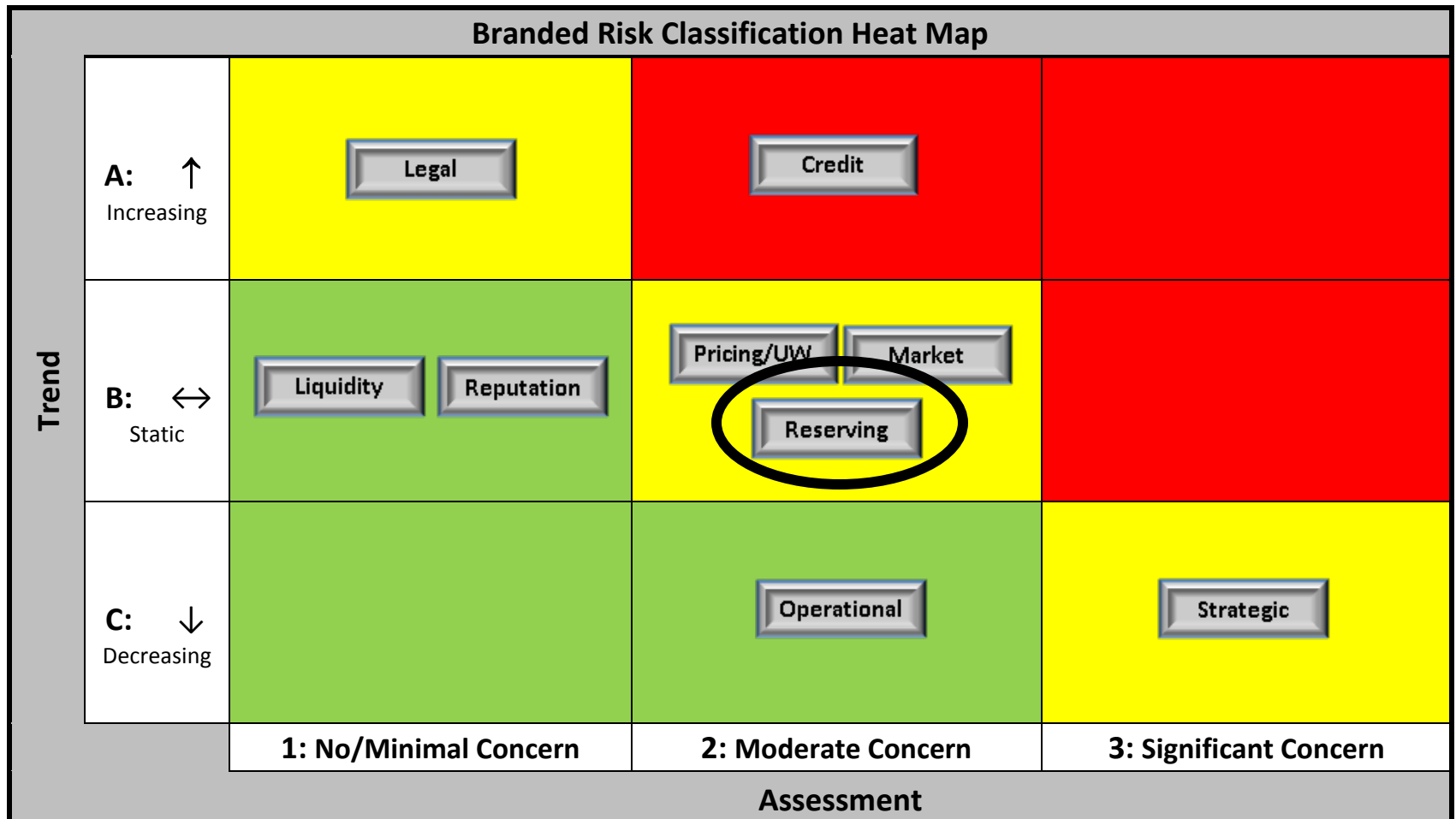
## Summary

### Reserving:

- The appointed actuary cited two risk factors in his SAO: environmental liabilities and concentration of reserves in long-tailed lines subject to inflation pressures.
- The appointed actuary concluded that there was a risk of material adverse deviation in the carried reserves.
- Reserve development has been favorable in each of the past five calendar years, and the carried reserves have been slightly above the appointed actuary's central estimate in each of these years.

| No/Minimal Concern   | Moderate Concern   | Significant Concern | Trend |
|--|--|---------------------|-------|
|  | <ul style="list-style-type: none"> <li>- Environmental liabilities</li> <li>- Long-tailed lines</li> </ul> |                     | ↔     |
| <ul style="list-style-type: none"> <li>- Company's reserving procedures</li> <li>- Appointed actuary's analysis</li> </ul> |  |                     | ↔     |
| Overall Reserving Assessment: Moderate   |  | Overall Trend:      | ↔     |

# Excerpt from sample Insurer Profile Summary



# Excerpt from sample Insurer Profile Summary

The Insurer Profile Summary (IPS) is a living document maintained by the state of domicile to house high-level summaries of risk-focused financial analysis, examinations, internal and external changes, priority scores, supervisory plans, and other standard Information (from 2016 *FAH*).

The analyst can use the information in the SAO to complete information in the IPS on reserving risk and other risk categories (strategic, pricing/underwriting, operational, etc.).

1: No/Minimal Concern

2: Moderate Concern

3: Significant Concern

Assessment

# Sample risk matrix

|                                  | Phase Two  | Phase Three                                 |                                      |   | Phase Four               |                          |                                  | Phase Five                        | Phase Six                               | Phase Seven                                  |
|----------------------------------|--|---|--------------------------------------|---|--------------------------|--------------------------|----------------------------------|-----------------------------------|---|--|
|                                  | 2a   | 3a  | 3b                                   | 3c  | 4a                       | 4b                       | 4c                               | 5                                 | 6                                       | 7  |
|                                  | Risk Identification  | Risk Mitigation Strategy/Control Assessment |                                      |   | Residual Risk Assessment |                          |                                  |                                   |   |  |
| Identified Risk Number           | Identified Risks   | Risk Mitigation Strategy                    | Evidence & Document Testing Controls | Overall Risk Mitigation Strategy Assessment | Calculated Residual Risk | Judgmental Residual Risk | Overall Residual Risk Assessment | Examination Procedures / Findings | Prioritization Results Supervisory Plan | Report Findings & Management Letter Comments |
| <b>Financial Reporting Risks</b> |  |   |                                      |   |                          |                          |                                  |                                   |   |  |
| #1                               | Initial case reserves are not established in accordance with insurer standards and are not updated accurately.   |   |                                      |   |                          |                          |                                  |                                   |   |  |
| #2                               | The claims data utilized by the actuary to estimate reserves does not correspond to the data in the insurer's claims system and to the data in the insurer's accounting records. |   |                                      |   |                          |                          |                                  |                                   |   |  |
| #3                               | Reinsurance is not properly taken into account in accumulating claims data.  |   |                                      |   |                          |                          |                                  |                                   |   |  |

# Sample risk matrix

Risk matrices are tools to help examiners formalize and document the risk assessment process and testing conclusions. They are organized around key functional activities, such as reserving and claims handling. Information from the SAO on risk factors and mitigation strategies can inform the building of the risk matrix.

|                        | Phase Two   | Phase Three | Phase Four | Phase Five | Phase Six | Phase Seven                                  |
|------------------------|---|-------------|------------|------------|-----------|--|
|                        |   |             |            |            |           | 7  |
| Identified Risk Number |   |             |            |            |           | Report Findings & Management Letter Comments |
| Financial Reporting    |   |             |            |            |           |  |
| #1                     | Initial case<br>accordance<br>updated ac  |             |            |            |           |  |
| #2                     | The claims data utilized by the actuary to<br>estimate<br>data in the<br>data in the ins. |             |            |            |           |  |
| #3                     | Reinsurance<br>in accu  |             |            |            |           |  |

Assess  
inherent  
risk

Consider  
mitigation  
activities

Determine  
residual risk

Perform  
testing as  
warranted

# Regulatory users of the SAO

Who might use the SAO, and how?

|   |  |
|---|--|
| <b>Regulatory actuary</b> <ul style="list-style-type: none"><li>– Understand risk factors</li><li>– Recognize changes from previous SAOs</li><li>– Recommend areas of focus for exam team and examination actuary</li></ul> | <b>Examination actuary</b> <ul style="list-style-type: none"><li>– Understand changes over the course of the exam period</li><li>– Identify areas of the actuarial report that merit further attention</li><li>– Prepare appointed actuary interview questions</li></ul> |
|---|--|






Regulatory focus: **solvency**

# Sample exam recommendations

| <b>In SAO and report</b>   | <b>Recommendation in regulatory actuary's pre-exam memo</b>   |
|--|---|
| <ul style="list-style-type: none"><li>• Appointed actuary discusses his analysis of DD&amp;R UEPR. The report includes summary exhibits but not the detailed work papers.</li><li>• The Company's carried DD&amp;R UEPR exceeds the appointed actuary's materiality standard.</li><li>• The Company's carried DD&amp;R UEPR does not equal the appointed actuary's estimate.</li></ul> | <p>"I recommend that:</p> <ul style="list-style-type: none"><li>• The examination actuary review the methodology and assumptions used by the appointed actuary to estimate DD&amp;R UEPR, and</li><li>• The exam team ask the Company how it determined its carried reserve."</li></ul> |



# Sample exam recommendations

| <b>In examination actuary's final report</b>  | <b>In management letter sent by Department to Company</b>  |
|---|--|
| <p>“We reviewed the methodology and assumptions used by the appointed actuary to estimate unearned premium reserves associated with not-yet-issued death, disability, and retirement policies. We find the methodology to be appropriate. We recommend that the appointed actuary review the Company’s actual experience when selecting parameters such as lapse rates and retirement rates, instead of relying entirely on industry benchmarks...”</p> | <ul style="list-style-type: none"><li>• “It is recommended that the appointed actuary consider Company experience when selecting parameters for the analysis of unearned premium reserves associated with not-yet-issued death, disability, and retirement policies.”</li><li>• “It is recommended that the Company maintain documentation of its selected DD&amp;R UEPR.”</li></ul> |

# Sample interview questions

| In SAO  | Sample interview question for appointed actuary  |
|---|--|
| “The use of industry benchmark factors increases the variability in my estimates.” Report doesn’t describe the industry source.                               | “How did you select your industry benchmark?”  |
| “In 2015, the Company implemented an initiative to reserve claims to ultimate sooner in the life of the claim.” Report provides little additional commentary. | “Have you noticed an increase in average case reserves? If so, how did that affect your analysis?” |
| “I have identified the significant company-specific risk factors as X, Y, and Z.”   | “Do you have any additional comments on the risk factors mentioned in your SAO and report?”        |

# Regulatory users of the SAO

- What challenges have you encountered when working with regulators?
- Have you ever gotten questions on your SAO, AOS, or report from regulators?
- What are your experiences with risk-focused exams?

# How a regulatory actuary might review the SAO

# Sample SAO review process for regulatory actuary

1. Compare the text of this year's SAO to last year's. Are there any significant changes?
  - i. Did the type of opinion (reasonable, excessive, inadequate, etc.) change?
  - ii. Have any company-specific risk factors been added or removed?
  - iii. Has the materiality standard or RMAD conclusion changed?

# Sample SAO review process for regulatory actuary

2. Compare the numbers in this year's Exhibits A and B to last year's. Were there any big changes?
3. Do the SAO and AOS comply with the *Annual Statement Instructions*?
4. Is there consistency between the numbers in the SAO, AOS, and report?

# Sample SAO review process for regulatory actuary

5. Does the information in the SAO, AOS, and report align with the information in other filings, e.g., the balance sheet, Notes to Financial Statements, Schedule F, Schedule P, and Management's Discussion and Analysis?
6. Does anything in the Relevant Comment paragraphs (A&E, IRIS ratios, etc.) merit further attention?

# Sample SAO review process for regulatory actuary

7. Did the company experience adverse reserve development during the calendar year? If so, review the materiality standard and RMAD conclusion in last year's SAO.
8. Where are the company's carried reserves in relation to the appointed actuary's range or point estimate? Has this relationship changed since last year? Has the range width changed significantly?



# Sample SAO review process for regulatory actuary

- What should regulatory actuaries focus on when reviewing SAOs?
- Have you ever discussed your SAO, AOS, or report with a regulatory actuary?

# Common issues with SAOs, AOSs, and reports

# Common issues and possible fixes

Most appointed actuaries are doing a great job with their SAOs, AOSs, and reports. Keep up the good work.

Nonetheless, a few issues arise fairly regularly.

# Common issues and possible fixes

| Common issue  | Possible fixes   |
|---|--|
| <p>Reconciliation issues between the SAO, AOS, report, and other filings e.g.,</p> <ul style="list-style-type: none"><li>• Carried reserves in SAO that don't match those in AOS</li><li>• Indicated reserves in AOS that don't match those in report</li><li>• Values on Exhibits A and B of SAO that don't match those in the Annual Statement<ul style="list-style-type: none"><li>• Reserves</li><li>• Salvage and subrogation</li><li>• Discount</li></ul></li></ul> | <ul style="list-style-type: none"><li>• Implement a technical review process to catch possible errors</li><li>• Develop a spreadsheet that can be used to cross-check documents</li><li>• Explain any legitimate discrepancies in the appropriate document (SAO, AOS, or report)</li></ul> |

# Common issues and possible fixes

| Common issue  | Possible fixes  |
|---|---|
| <p>Inconsistency between the information in the SAO/AOS/report and other filings, e.g.,</p> <ul style="list-style-type: none"><li>• Reinsurance disclosures in the SAO that don't align with the information in Schedule F</li><li>• Retentions listed in the report that don't match the information in the Management's Discussion and Analysis</li></ul> | <ul style="list-style-type: none"><li>• Review the Notes to Financial Statements, Schedule P Interrogatories, and other schedules of the Annual Statement</li><li>• Review the information every year for changes; consider developing an annual questionnaire for management</li><li>• Clarify information with management</li></ul> |

# Common issues and possible fixes

| Common issue                         | Possible fixes   |
|--------------------------------------|--|
| Difficult-to-navigate reports        | <ul style="list-style-type: none"><li>• Use footnotes on all numerical exhibits</li><li>• Consider using one analysis segment as an example, providing more extensive documentation of how the exhibits fit together</li></ul>   |
| Lack of documentation for parameters | <ul style="list-style-type: none"><li>• In the report (which is a confidential document), explain the source of the industry benchmark information</li><li>• Provide more justification than “actuarial judgment” for initial expected loss ratios or loss costs</li></ul> |

# Common issues and possible fixes

## Sample summary exhibit in report

### Workers' Compensation

Net of reinsurance

Net of subrogation

In \$000s

Carried

Indicated

Redundancy/  
(Deficiency)

Case loss reserves

18,600

18,600

0

IBNR loss reserves

7,000

9,900

(2,900)

**Total loss**

25,600

28,500

(2,900)

ALAE

3,000

2,400

600

ULAE

2,000

3,600

(1,600)

**Total loss and LAE**

30,600

34,500

(3,900)

= Gross of subrogation IBNR reserves from Exhibit III, Sheet 4, Col. 5  
- Subrogation IBNR reserves from Exhibit III, Sheet 10, Col. 3  
+ IBNR reserves for discontinued segment from Exhibit V, Sheet 1, Col. 7

# Common issues and possible fixes

## Sample summary exhibit in report

### Workers' Compensation

Net of reinsurance

Net of sub

In \$000s

Case loss r

IBNR loss r

**Total loss**

ALAE

ULAE

**Total loss and LAE**

**Suggestion: Add footnotes to document the source of the numbers in the exhibit**

ndancy/  
iciency)

0

(2,900)

(2,900)

600

(1,600)

(3,900)

= Gross of subrogation IBNR reserves from Exhibit III, Sheet 4, Col. 5

- Subrogation IBNR reserves from Exhibit III, Sheet 10, Col. 3

+ IBNR reserves for discontinued segment from Exhibit V, Sheet 1, Col. 7



# Common issues and possible fixes

| Common issue   | Possible fixes   |
|--|--|
| <p>Incomplete or difficult-to-follow Schedule P reconciliations, e.g.,</p> <ul style="list-style-type: none"><li>• No reconciliation of gross data</li><li>• No reconciliation of earned premium</li><li>• Lack of clear connection between the “actuarial data” in the analysis and the “actuarial data” in the reconciliation exhibits</li><li>• Poorly-documented reconciliation performed by the company and inserted into the report with little explanatory information and no footnotes</li></ul> | <ul style="list-style-type: none"><li>• Reconcile all data material to the opinion and analysis, including gross amounts, earned premium, and claim counts, as warranted</li><li>• Show the mapping between the data used in the analysis and the data labeled as “actuarial data” in the reconciliation exhibits</li><li>• If the company performs the reconciliation, ensure that the exhibits are clear to a third party reader of the report</li></ul> |

# Common issues and possible fixes

“In the actuarial report, the actuary should state the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work as presented in the actuarial report.”

ASOP No. 41, Section 3.2

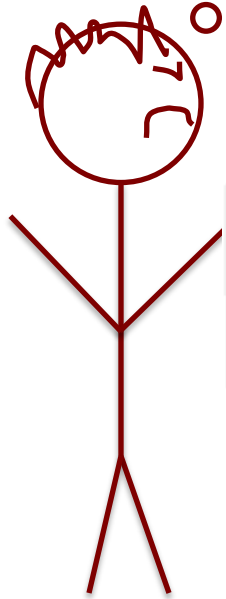
# Common issues and possible fixes

| Common issue  | Possible fixes  |
|---|---|
| Attribution of an unusual IRIS #11 or #12 ratio to “reserve strengthening” or “low surplus,” with no additional information | Provide information about the segments and accident years experiencing adverse development, possible causes, mitigation strategies, etc. The AOS and report (confidential documents) may include more information than the SAO (public document). |
| Incorrect dates, e.g., a signature date in February 2016 for a 2016 SAO   | Be vigilant when using last year’s SAO as a template for this year’s  |
| Information for a different company in the text of the SAO  | Be vigilant when using the SAO you prepared for a different company as a template   |

# Why do little things matter?

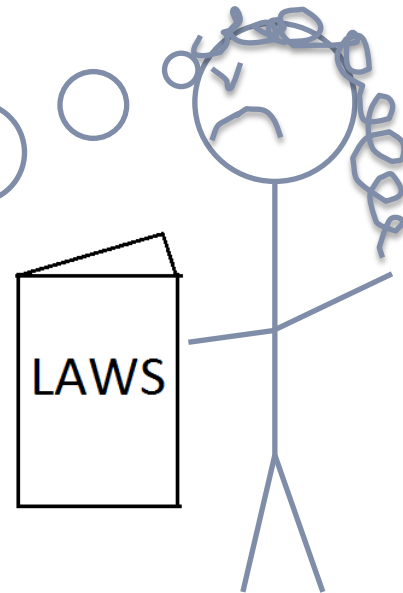
Her again?! This is the third year in a row that she's brought up some immaterial differences between the amounts on Exhibit A of my SAO and the amounts in Schedule P.

Appointed  
Actuary

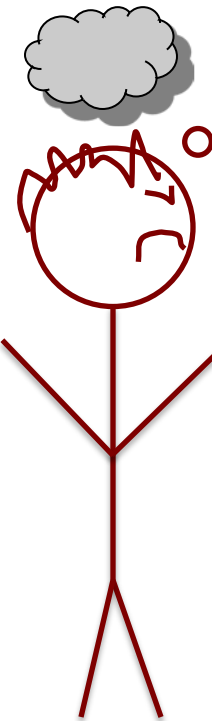


Him again?! This is the third year in a row that we've mentioned discrepancies between his SAO and Schedule P.

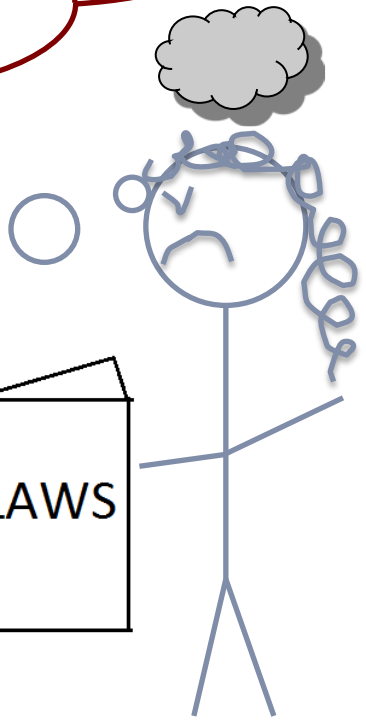
Regulatory  
Actuary



# Why do little things matter?



I'm a highly-respected actuary, my analysis is always great, and the company has had favorable reserve development for years. What's the big deal? Why's she bugging me again on petty things?



His analyses are usually great. But we don't review the report unless it's an exam year or there's an issue. If he doesn't take time to get the numbers in the SAO correct, is he taking time to get his analysis right?

LAWS

# Why do little things matter?



Does she care about materiality?

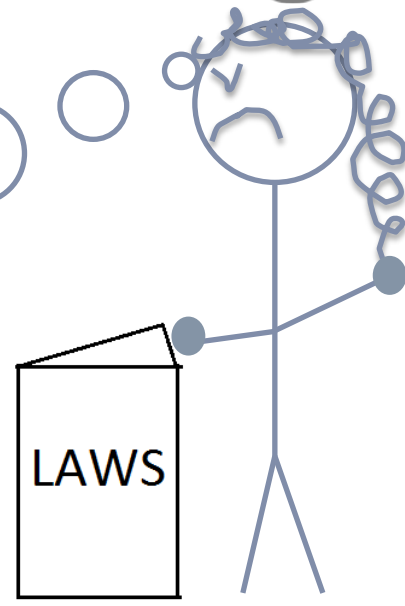
Does he realize how important the SAO is?

LAWS

# Why do little things matter?



I don't have time for this.



I don't have time for this.

LAWS

# Why do little things matter?

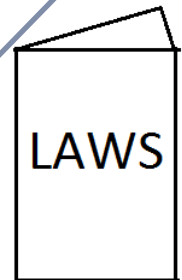
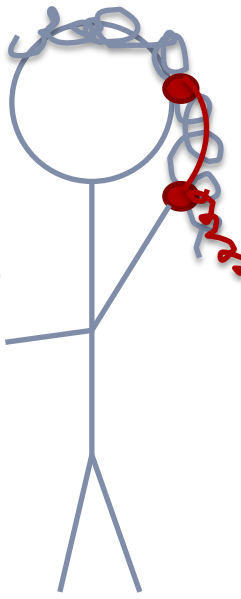
I'm confident in my analysis. My methodologies and parameters are appropriate. The company has experienced favorable reserve development for the past five years. It seems immaterial to worry about a few minor discrepancies between the SAO and Schedule P. I hope you're giving me enough credit for the work that I do.

Appointed  
Actuary



We appreciate the quality and depth of your analysis, and documented such in the department's last examination of the company. We don't always request the report, but we have a regulatory responsibility to review the SAO and AOS every year. When numbers are incorrect in the SAO, we worry that the appropriate level of detail was not given to this document – and, perhaps, to the analysis underlying the SAO.

Regulatory  
Actuary





# Common issues and possible fixes

- What's the most challenging part of preparing the SAO, AOS, and report?
- Does your organization have an established peer review or technical review process?
- Have you ever gotten questions or feedback from regulators that you thought were inappropriate or unwarranted?

# Opinion statistics

# Opinion statistics

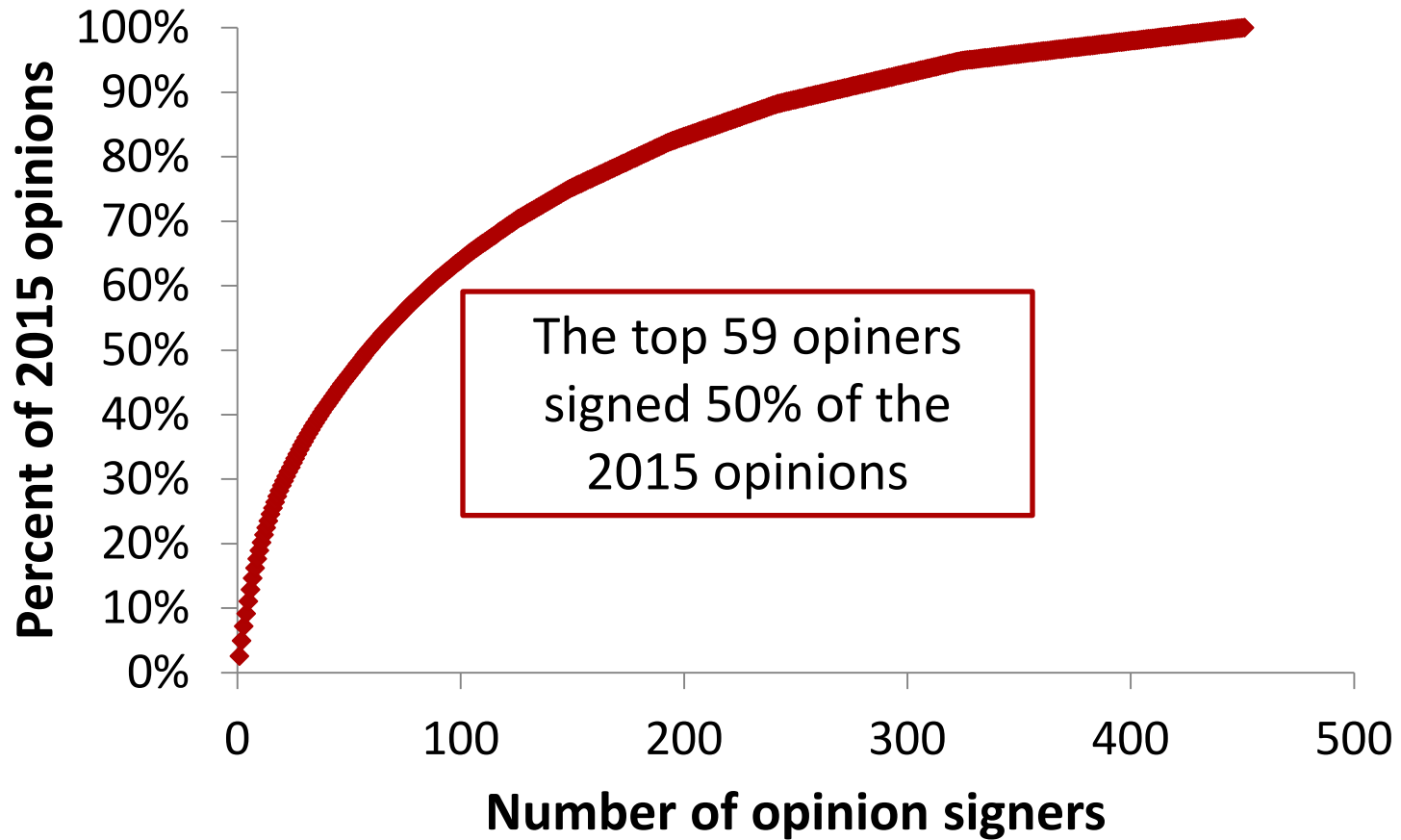
How many sign opinions?

| Year | # of opinions in NAIC database | # of opinion signers |
|------|--------------------------------|----------------------|
| 2016 | 2,454                          | 469                  |
| 2015 | 2,479                          | 466                  |
| 2014 | 2,556                          | 451                  |
| 2013 | 2,526                          | 469                  |

469 opinion signers in 2016 represents 6% of the CAS's 7,343 members (per CAS's 2016 annual report).

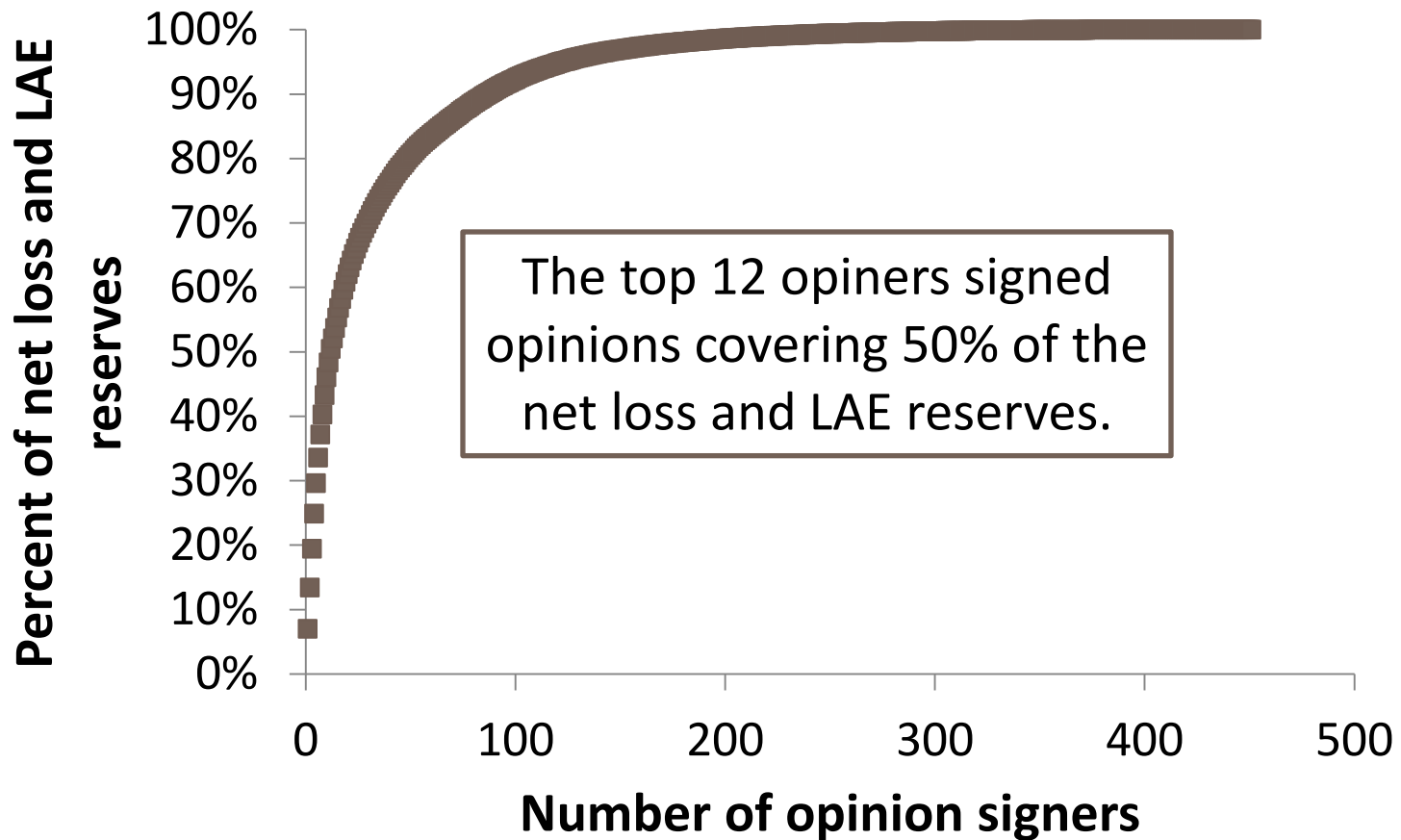
# Opinion statistics

How are the 2,400+ opinions distributed amongst the 450+ signers?



# Opinion statistics

How are the \$619b net reserves distributed amongst the 450+ signers?



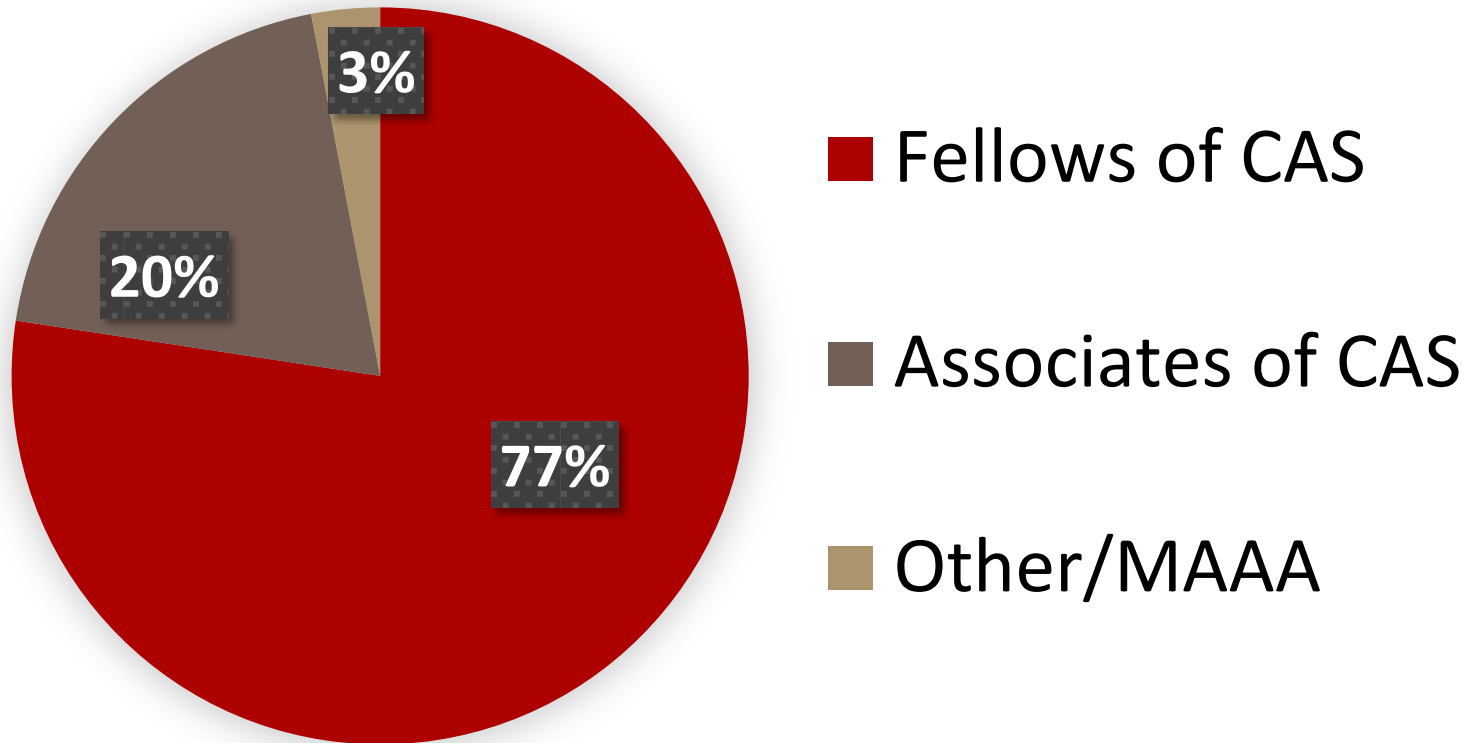
# Opinion statistics

How many opinions did each opiner sign for year-end 2016?

|   | # opinions<br>Issued | Percent of<br>total |
|---|----------------------|---------------------|
| <b>Top 20 opiners</b><br>(20 to 62 opinions each)   | <b>708</b>           | <b>29%</b>          |
| <b>Top 59 opiners</b><br>(10 or more opinions each) | <b>1,231</b>         | <b>50%</b>          |
| <b>One-opinion-only<br/>opiners</b>                 | <b>142</b>           | <b>6%</b>           |
| <b>Total</b>  | <b>2,454</b>         |                     |

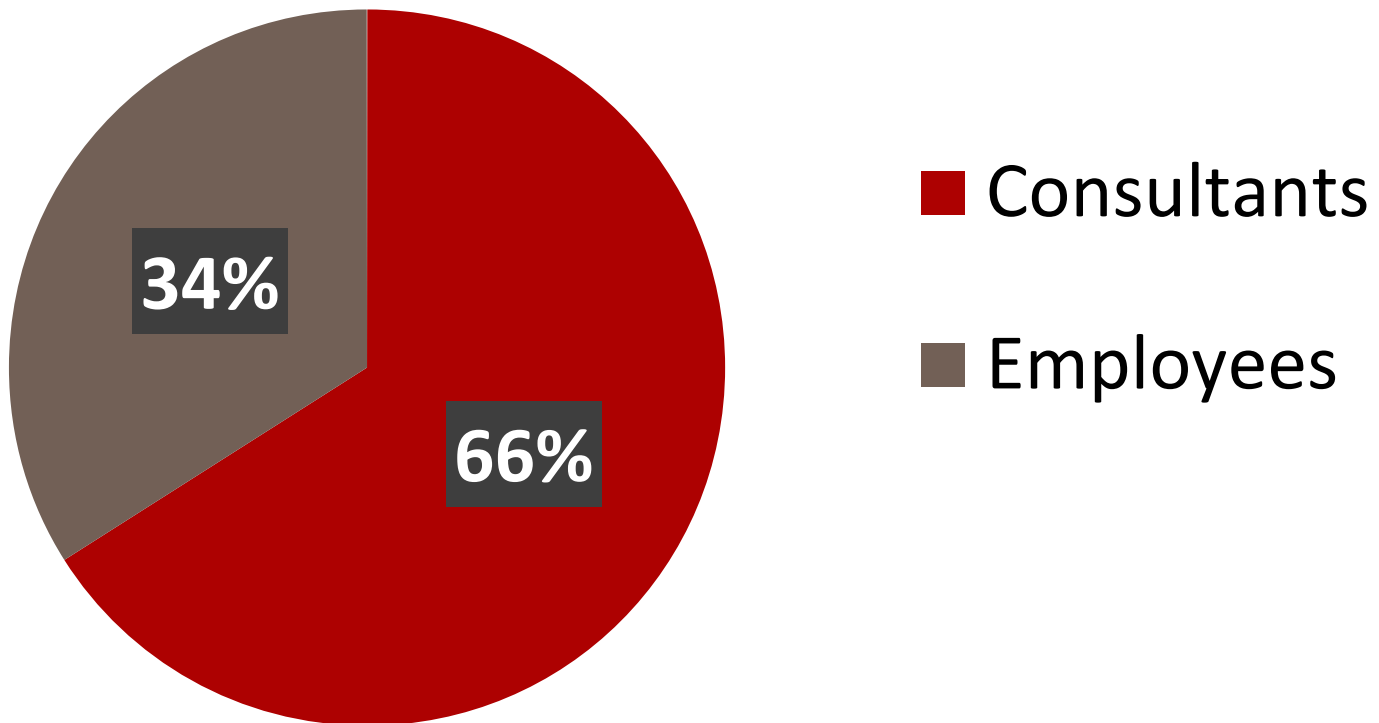
# Opinion statistics

What are the credentials of the 2016 signers?



# Opinion statistics

What percent of signers are consultants versus employees?





# Opinion statistics

What percent of 2016 opinions were reasonable?

| Type of Opinion | # Opinions Issued | Percent of Total |
|-----------------|-------------------|------------------|
| Reasonable      | 2,446             | 99.7%            |
| Excessive       | 4                 |                  |
| Deficient       | 1                 |                  |
| Qualified       | 2                 |                  |
| No Opinion      | 1                 |                  |
| Total           | 2,454             |                  |

# Opinion statistics

What percent of 2016 opinions were reasonable?

| Type of Opinion | # Opinions Issued | Percent of Total |
|-----------------|-------------------|------------------|
| Reasonable      | 2,446             | 99.7%            |
| Excessive       | 4                 |                  |
| Deficient       | 1                 |                  |
| Qualified       | 2                 |                  |
| No Opinion      | 1                 |                  |
| Total           | 2,454             |                  |

# Opinion statistics

What explains the “qualified” and “no opinion” SAOs in 2016?

- **Qualified opinion no. 1:** Sufficient gross loss and LAE data is not available for a block of business assumed by an insurer the Company bought; reserves are reasonable except for this component
- **Qualified opinion no. 2:** Financial guaranty insurer; actuary excluded statutorily-mandated contingency reserve (which is significant in comparison to net loss and LAE reserve) and certain other reserves for “situations near default” from scope; reserves are reasonable except for these components
- **No opinion:** Losses cannot be assigned to accident year, so actuary cannot perform independent analysis

# Opinion statistics

Were there any “qualified” or “no opinion” SAOs in 2015?

- The same three companies had qualified or “no opinion” SAOs in 2015.
- There was one additional qualified SAO in 2015: The appointed actuary was unable to determine the reasonableness of the extraordinary anticipated subrogation the insurer was booking for three claims; reserves excluding the subrogation amount were deemed reasonable.

# Opinion statistics

What percent of opinions have an RMAD?

| RMAD | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|------|------|------|------|------|------|------|------|
| Yes  | 28%  | 29%  | 28%  | 27%  | 27%  | 26%  | 25%  |
| No   | 69%  | 68%  | 69%  | 70%  | 68%  | 69%  | 69%  |
| N/A  | 3%   | 4%   | 3%   | 3%   | 5%   | 5%   | 6%   |

# Opinion statistics

Does materiality standard differ by RMAD conclusion?

|  |                   | RMAD                 | No RMAD                | Total                   |
|--|-------------------|----------------------|------------------------|-------------------------|
| <b>Key:</b><br>Number of opinions<br>Surplus-weighted<br>average materiality<br>standard as % of<br>surplus<br>Surplus | <b>Consultant</b> | 418<br>13%<br>\$49b  | 1,142<br>10%<br>\$435b | 1,560<br>10%<br>\$484b  |
|  | <b>Employee</b>   | 200<br>10%<br>\$191b | 557<br>10%<br>\$218b   | 757<br>10%<br>\$409b    |
|  | <b>Total</b>      | 618<br>11%<br>\$240b | 1,699<br>10%<br>\$653b | 2,317*<br>10%<br>\$893b |

*\*Total doesn't equal 2,454 because N/A RMADs are excluded*

- There were 557 “no RMAD” opinions signed by employee appointed actuaries.
- The weighted average materiality standard was 10% of surplus for these 557 companies.
- These 557 companies had a total of \$218 billion in surplus at 12/31/16.

**Employee**

**No RMAD**

**Total**

557  
10%  
\$218b

**Total**

2,317\*  
10%  
\$893b

# Opinion statistics

Does materiality standard differ by RMAD conclusion?

|  |                   | RMAD                 | No RMAD                | Total                   |
|--|-------------------|----------------------|------------------------|-------------------------|
| <b>Key:</b><br>Number of opinions<br>Surplus-weighted<br>average materiality<br>standard as % of<br>surplus<br>Surplus | <b>Consultant</b> | 418<br>13%<br>\$49b  | 1,142<br>10%<br>\$435b | 1,560<br>10%<br>\$484b  |
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|  | <b>Total</b>      | 618<br>11%<br>\$240b | 1,699<br>10%<br>\$653b | 2,317*<br>10%<br>\$893b |

*\*Total doesn't equal 2,454 because N/A RMADs are excluded*



# Opinion statistics

- What other statistics would you find interesting?
- Why are excessive, inadequate, qualified, and “no opinion” opinions so rare?
- How have you explained the RMAD disclosure to management?
- Is it possible to sign too many opinions?

# Recent changes to *Annual Statement Instructions*

# Recent *Instructions* changes

2014-2015

- 2014 *Instructions*: Several changes
  - Intercompany pooling
  - Company-specific risk factors
  - Reviewing the prior appointed actuary's work
- 2015 *Instructions*: No significant changes

# Recent *Instructions* changes

2016

- 2016 *Instructions*: Several minor revisions
  - Change in appointed actuary
  - Manner of presentation to the board
  - Definitions of “board of directors” and “appointed actuary”
  - Title of data provider
  - Making use of the work of a non-actuary
  - Exhibit showing change in appointed actuary’s estimates
  - Instructions when SAO or AOS found to be in error
  - Data and signature on SAO and report
  - Description of AOS reconciliation issues

# Recent *Instructions* changes

2017

- 2017 *Instructions*: No significant changes
- Regulatory Guidance is being refreshed for 2017, with a goal of removing unnecessary or duplicative information, keeping the document current and useful, and improving readability

# Recent *Instructions* changes

- What parts of the *Instructions* are hard to understand?
- What requirements should be removed?
- Is there enough guidance available:
  - For appointed actuaries on preparing the documents?
  - For company management on interpreting the documents?