

Company-specific risk factors and other RMAD disclosures

Casualty Loss Reserve Seminar

Dawn Fowle, FCAS, MAAA
Senior Actuarial Consultant
Ernst & Young LLP

September 18, 2019



Disclaimer

- The views expressed by the presenters are not necessarily those of Ernst & Young LLP or other members of the global EY organization.
- These slides are for educational purposes only and are not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

Agenda

- 1 Purpose of RMAD disclosure
- 2 Regulators and RMAD
- 3 Materiality vs. significant risk
- 4 Determination of relevant risk factors
- 5 Net vs. gross RMAD
- 6 Hypothetical example

Purpose of RMAD disclosure

- The Appointed Actuary's opinion on reserves needs to provide relevant context
- There should also be discussion of specific risks and uncertainties in the company's book of business, including, explicitly stating if there are no specific risks and uncertainties that could result in material adverse deviation
- ASOP 36 and the NAIC Annual Statement Instructions both require RMAD discussion
 - ASOP 36 requires disclose "If the actuary reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation ..."
 - NAIC Instructions require a statement whether or not the actuary believes these risks are present

Regulators and RMAD

- Details specific to the company
 - Does not need to be exhaustive and not intended to include every conceivable risk
 - Regulators are looking for your insights and knowledge of the company to provide the necessary context to the RMAD disclosure
- Particular conditions underlying the risks and uncertainties
- Discussion of major risk factors or combination of factors

Materiality vs. significant risk

- The RMAD paragraph discusses whether or not there are significant risks that could result in material adverse deviation
 - The company-specific risk factors discussion should include significant risks that have been considered in making that determination
 - The combination of these identified risks and the selected materiality standard lead to the RMAD conclusion
- What are the company's significant risks and uncertainties?
 - These should be considered and discussed regardless of whether they are expected to produce material adverse deviation
- How much adverse deviation would matter?
 - Similarly, this should be considered and determined regardless of whether there are risks significantly likely to lead to that much adverse deviation

Determination of relevant risk factors

- There are no rules
 - Actuarial judgment is required
- How likely is the risk factor to cause adverse development?
 - Is the likelihood “greater than remote”?
 - Are there risk factors that could be significant when combined, even if they are not significant alone?
- The risk factor discussion in the RMAD disclosure should give insight into this thought process

Net vs. gross RMAD

- Actuarial Opinion Exhibit B disclosures don't allow for entry of different conclusions
- Both the NAIC Instructions and ASOPs are silent on the distinction between net and gross RMAD
- However, discussion paragraph is open-ended and allows Appointed Actuary to discuss both if relevant
- Consider whether the conclusion changes on a gross of reinsurance basis

Hypothetical example

- Hypothetical data

Surplus	\$500,000,000	
Materiality standard	\$50,000,000	=10% of reserves
	Gross	Net
Held reserves	\$600,000,000	\$500,000,000
Indicated liabilities		
ACE	\$615,000,000	\$510,000,000
Range	\$600,000,000-\$645,000,000	\$500,000,000-\$545,000,000

Hypothetical example

- Hypothetical risk factor considerations

Factor	Value	% of net reserves	% of surplus	Individual RMAD?
Net held vs. top of range	\$45M	9%	9%	??
Cessions to reinsurers rated B or lower	\$25M	5%	5%	No
“Difficult” exposure	\$10M	2%	2%	No

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2019 Ernst & Young LLP.

All Rights Reserved.

US SCORE no. 06923-191US_4

1908-3261604 BDFSO

ey.com

