

A Review of RMAD Disclosures

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RMAD Disclosures Research

- How is actuarial profession actually reporting on RMADs?
- Methodology
 - Review Statements of Actuarial Opinion (SAOs) from 2013-2017
 - Target companies with \$20 million of earned premium (approx. 1,000 insurers per year)
- Initial focus on (objective) disclosures
 - #5: Materiality standard in \$US (and basis)
 - #6: Are there significant risks that could result in material adverse deviation?: Yes / No / NA

NAIC Instructions

Exhibit B: DISCLOSURES

1. Name of the Appointed Actuary Last _____ First _____ Mid _____
2. The Appointed Actuary's Relationship to the entity
Enter E or C based upon the following:
E if an Employee
C if a Consultant
3. The Appointed Actuary is a Qualified Actuary based upon what qualification?
Enter F, A, M, or O based upon the following:
F if a Fellow of the Casualty Actuarial Society (FCAS)
A if an Associate of the Casualty Actuarial Society (ACAS)
M if not a member of the Casualty Actuarial Society, but a Member of the American Academy of Actuaries (MAAA) approved by the Casualty Practice Council, as documented with the attached approval letter.
O for Other
4. Type of Opinion, as identified in the OPINION paragraph.
Enter R, I, E, Q, or N based upon the following:
R if Reasonable
I if Inadequate or Deficient Provision
E if Excessive or Redundant Provision
Q if Qualified. Use Q when part of the OPINION is Qualified.
~~N if No Opinion~~
5. Materiality Standard expressed in US dollars (Used to Answer Question #6)
\$ _____
6. Is there a Significant Risk of Material Adverse Deviation? Yes [] No [] Not Applicable []

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Item #5: Choosing the Materiality Basis

- Relevant comments should indicate basis for materiality threshold
- Examples include
 - Percentage of surplus (e.g., 10%)
 - Percentage of reserves
 - RBC triggers (% to CAL / ACL)
 - Drop in financial strength ratings
 - (Others are mentioned in COPLFR practice note)

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What is “Material”?

- American Academy of Actuaries Task Force on Materiality (2006):

“An omission, understatement or overstatement in a work product is material if it is likely to affect either the intended principal user’s decision-making or the intended principal user’s reasonable expectations.”

- Also Herbers (2002)

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Discussion Question

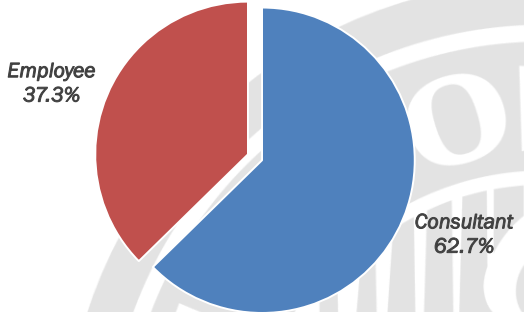
- How would you view two similar companies that use two significantly different RMAD thresholds in their SAOs? For example 5% of surplus versus 20% of surplus.

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Who is the Appointed Actuary?



Consultant Percentage

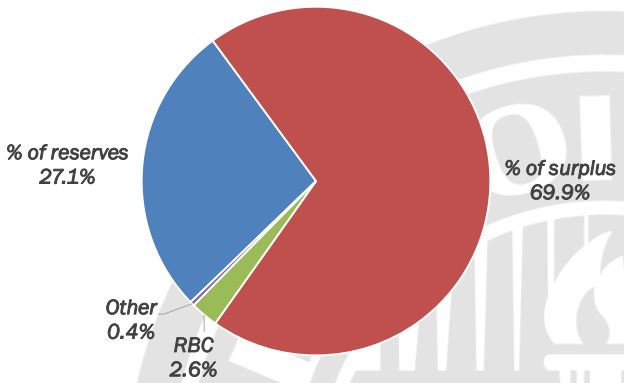
<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
62.7%	62.4%	62.1%	62.2%	62.7%

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SAO Review: Basis for Threshold

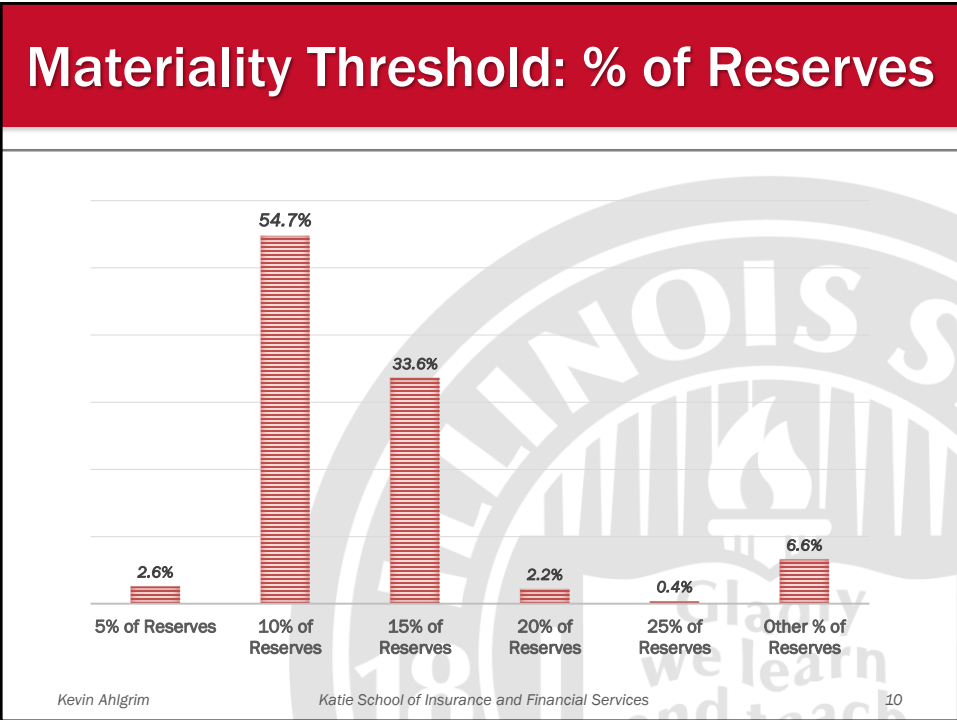
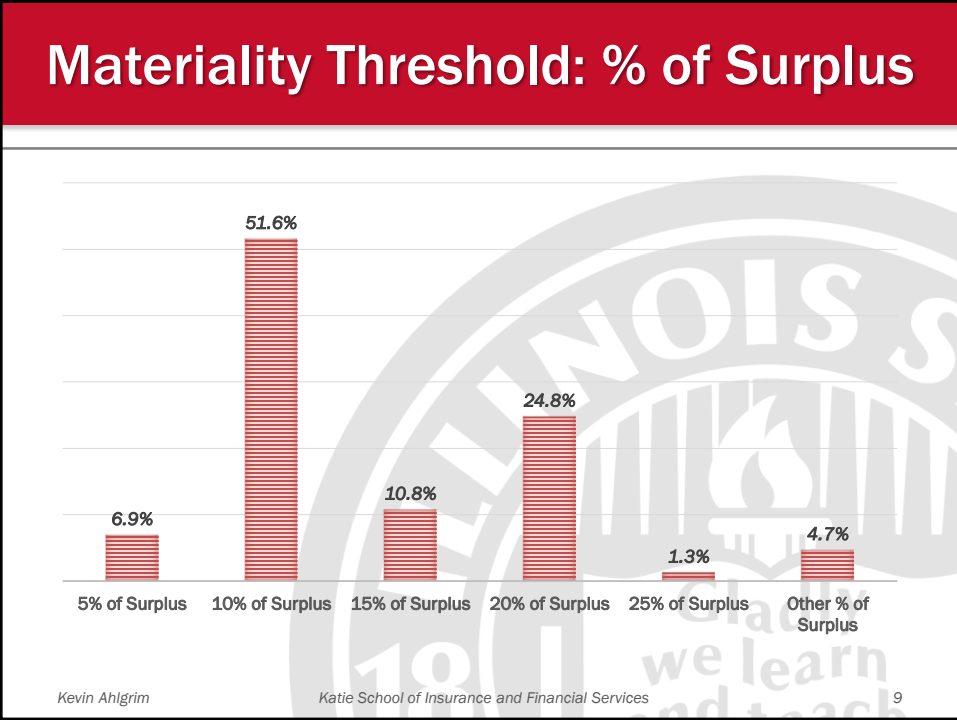


<u>Threshold Basis</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
% of Reserves	26.9%	28.0%	27.5%	27.5%	27.1%
% of Surplus	69.1%	68.5%	68.5%	67.5%	69.9%

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Discussion Question

- How does an actuary choose materiality threshold?
- Are there insurer specific factors should actuaries consider when selecting a materiality threshold?

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Which Company Specific Factors Matter?

- For each pair of the following insurers, is there a difference in the materiality of adverse loss development? Would this affect threshold?
- Assume all other factors are equal
 - Premiums written
 - Use of reinsurance
 - Lines of business
 - Asset distribution
 - Etc.

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Materiality of Loss Development (1)

Reserves = \$20 million

- A. \$10 million of PHS
- B. \$80 million of PHS

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Materiality of Loss Development (2)

Reserves = \$50 million

PHS = \$100 million

- C. Personal auto focus
- D. Medical malpractice focus

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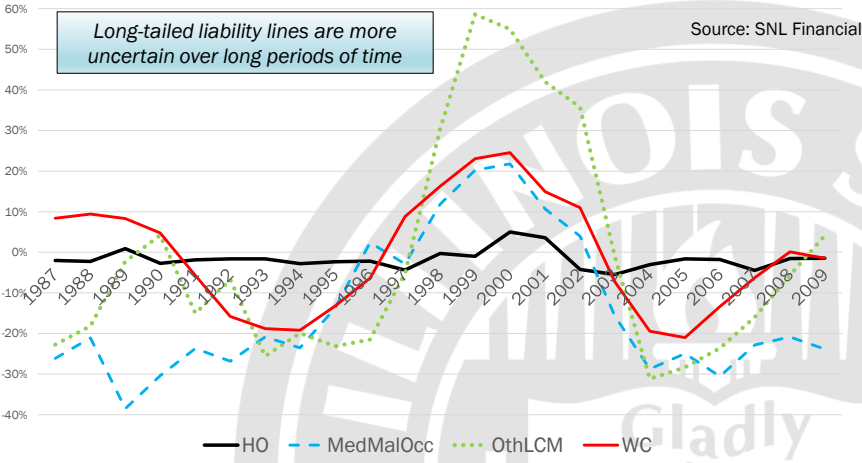
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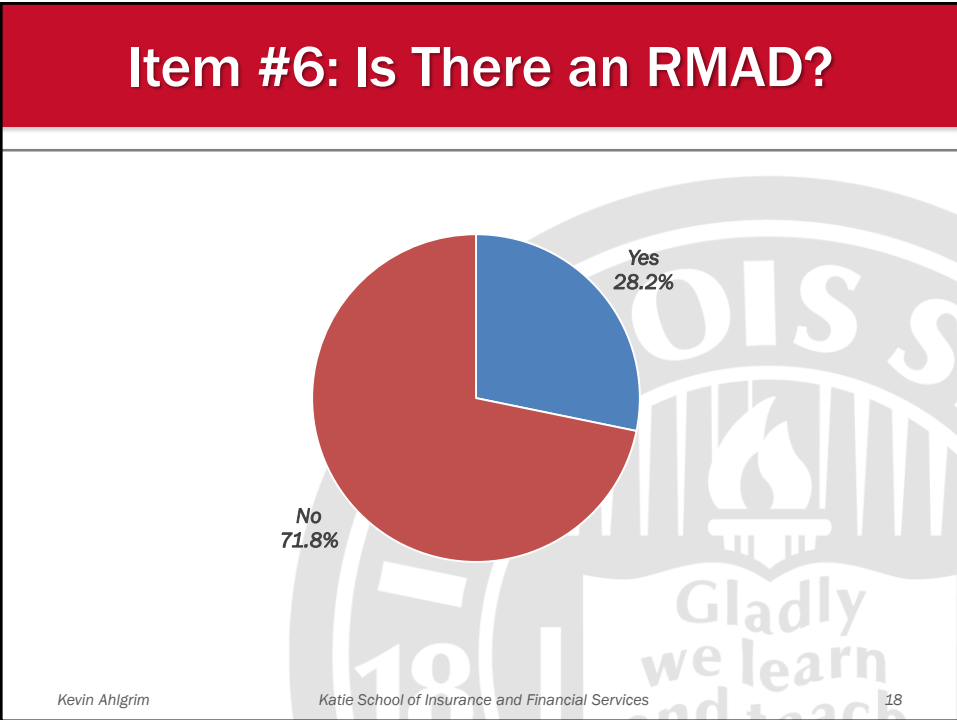
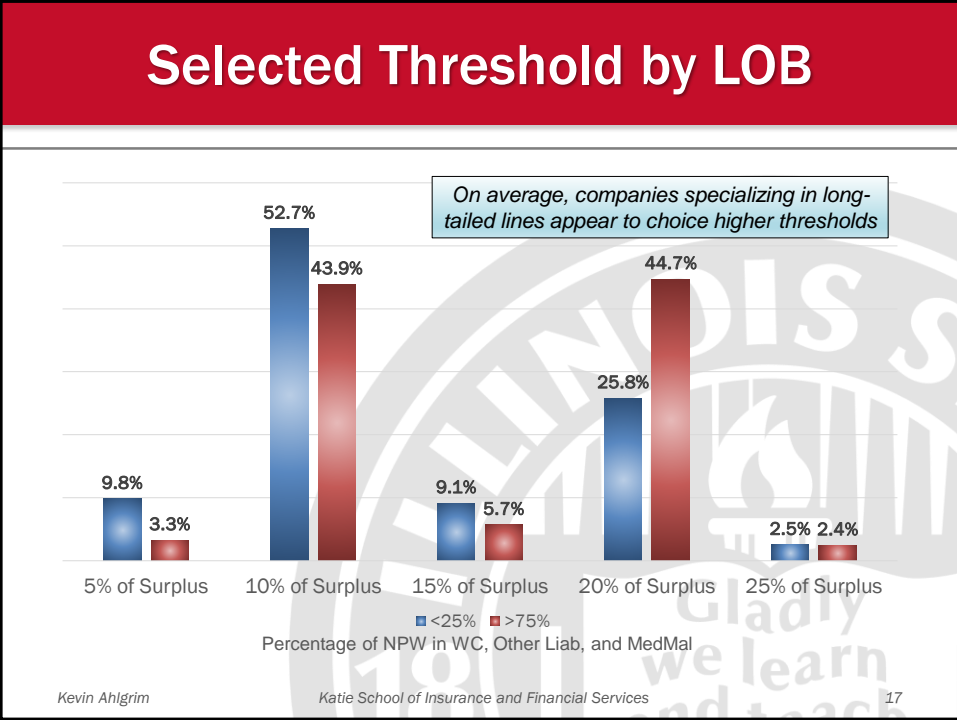
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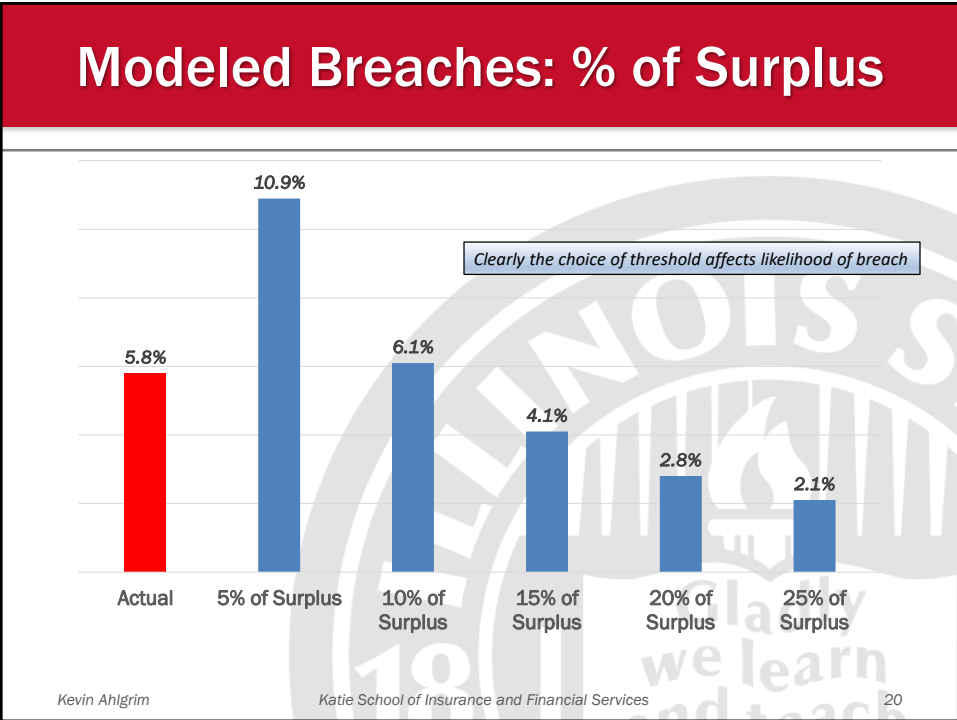
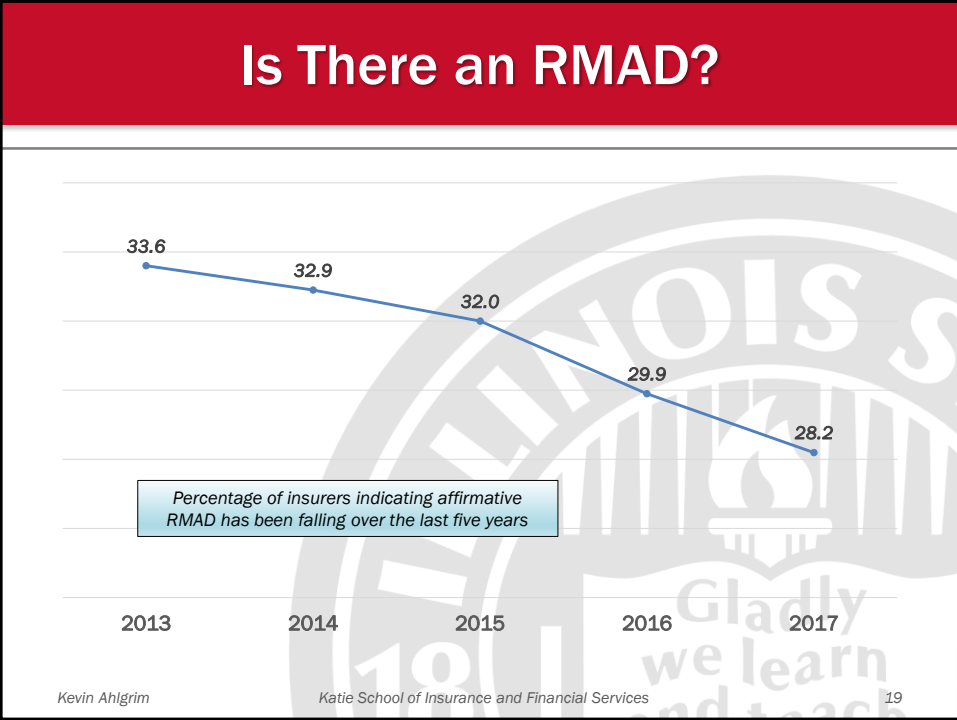
Materiality of Loss Development (3)

- Reserves = \$50 million
- PHS = \$100 million
- E. No A&E exposure
- F. Significant A&E exposure

10 Year Industry Loss Development



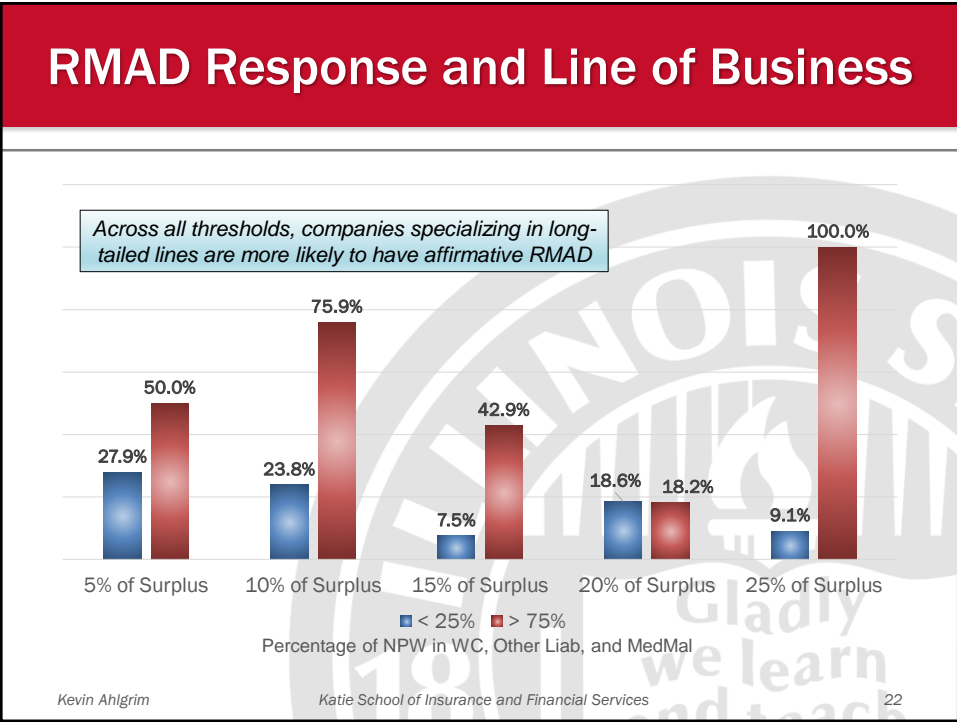


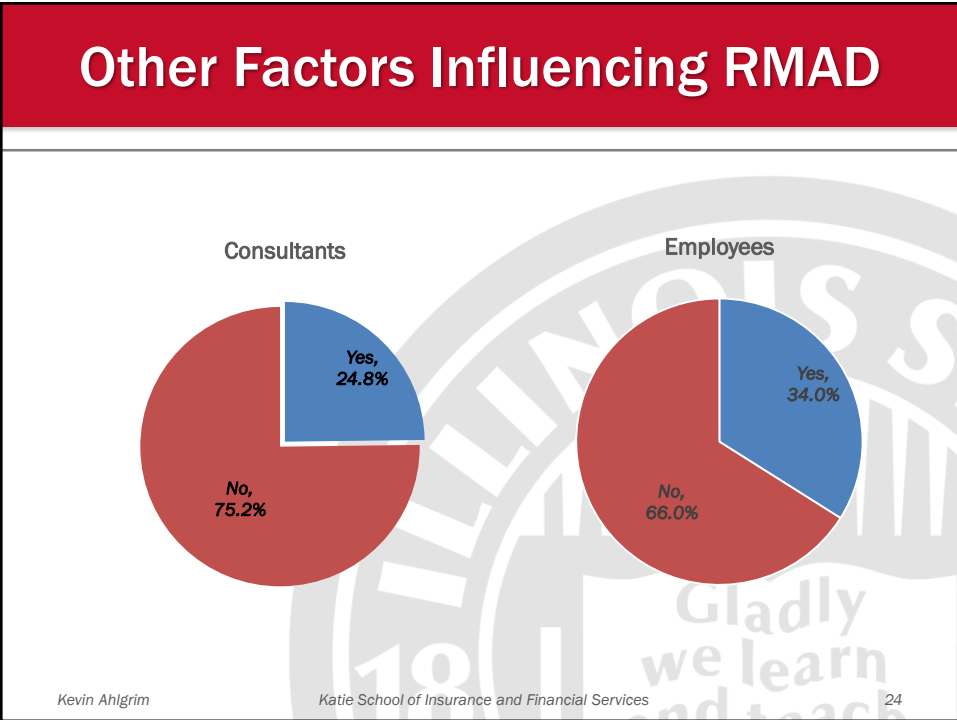
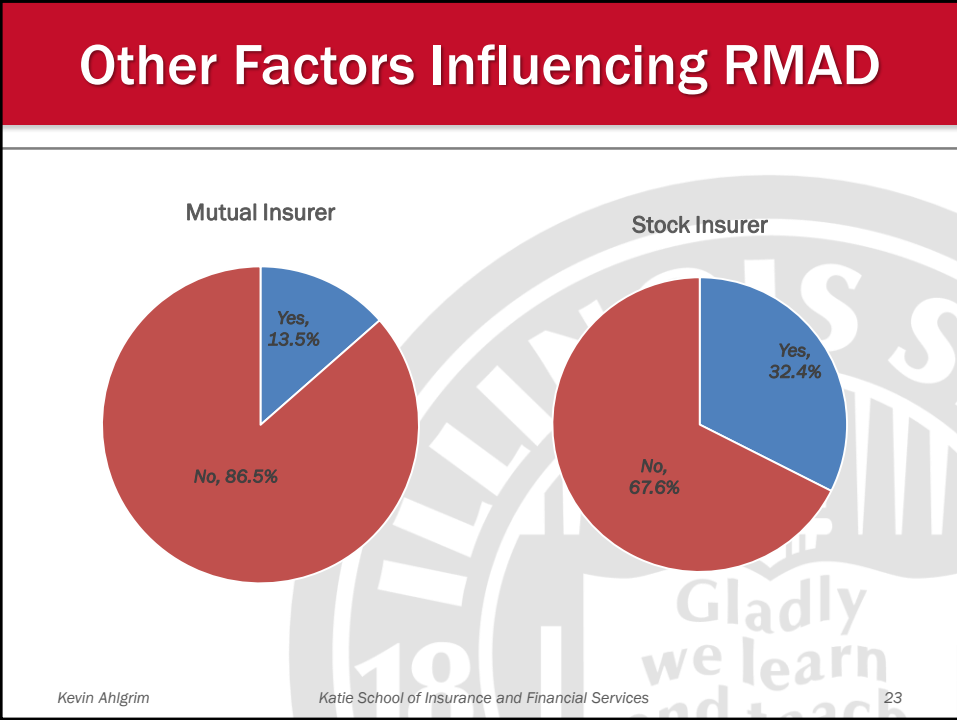


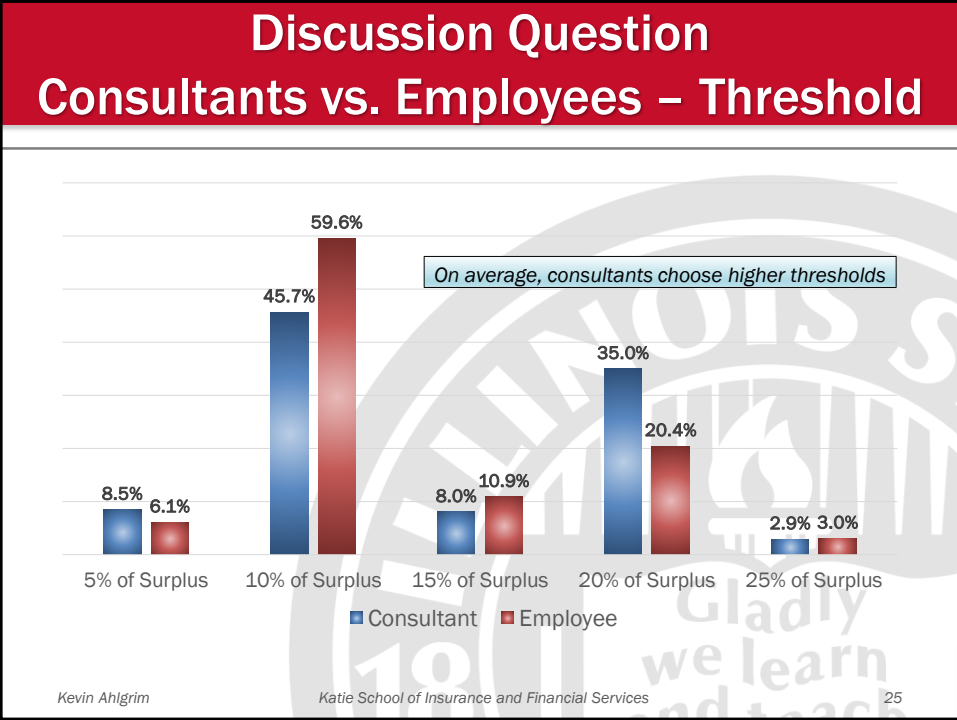
Affirmative RMAD Over Time (Minimum 50 insurers)

<u>Threshold</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Trend</u>
10% of Net Held Reserves	36.3%	37.3%	38.6%	34.0%	31.3%	↓
15% of Net Held Reserves	9.3%	11.0%	10.3%	9.9%	12.0%	↔
5% of Surplus	35.3%	39.2%	27.8%	28.8%	24.5%	↓
10% of Surplus	45.5%	42.4%	39.4%	44.5%	40.9%	↔ or ↓
15% of Surplus	20.0%	10.8%	16.9%	16.1%	11.8%	??
20% of Surplus	18.6%	19.5%	19.2%	17.7%	18.3%	↔

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Discussion Question

- Is an affirmative RMAD a “bad” thing?

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Summary

- Little guidance is provided on choosing a materiality threshold
- Evidence suggests that actuaries are considering
 - Line of business
 - Their employment status
 - Organizational form

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