

Reserving War Stories: Statement of Actuarial Opinion Edition

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Miriam Fisk
Tina Gwilliam
Josh Merck

Learning Objectives

- ▶ During this session, we will
 - ▶ Wrestle with some of the unique challenges and potential issues you may encounter as an Appointed Actuary
 - ▶ Learn how to think about Statements of Actuarial Opinion like a regulator and identify avoidable red flags in SAOs, AOSs, and Actuarial Reports
- ▶ These objectives will come to life through hypothetical but realistic examples

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Speakers



Tina Gwilliam, FCAS, MAAA

- ▶ Willis Towers Watson's Global Product Leader for Reserving
- ▶ Personally signing and peer reviewing opinions for a number of entities in the US, Bermuda and UK
- ▶ Leading Willis Towers Watson's reserve community which signs over 200 SAOs annually




Miriam Fisk, FCAS, ASA, MAAA

- ▶ P&C Actuarial Team Leader in the Texas Department of Insurance's Financial Regulation Division
- ▶ The P&C Actuarial Team reviews 250+ SAOs annually and participates in financial examinations of 20-25 P&C companies in a typical year

SAO: Identification

- ▶ Not a difficult section for the appointed actuary to write

-  Regulators pay attention to appointed actuary changes

- ▶ Appointing the actuary and notifying the domiciliary state are the responsibility of the insurer, but do the former or newly appointed actuaries have any responsibility here?

SAO: Scope

- ▶ Generally not a difficult section due to fairly prescriptive illustrative language
- ▶ Reconciliation to Schedule P can be a challenge

SAO: Opinion

▶ Regulators pay attention to this section

▶ What is “reasonable”?

▶ What is “excessive” vs. a reasonable level of conservatism?

▶ What if net opinion differs from gross opinion?

▶ What if company accounting practice regarding ULAE or fronting arrangements isn't consistent with the actuary's view of requirements?



Ask the Audience

- ▶ You calculated a point estimate of reserves.
- ▶ Carried reserves are higher than your point estimate.
- ▶ The company has consistently had one-year favorable development on reserves for the past several years.



You need to decide whether carried reserves are “excessive” or “reasonable.”

What do you look at?

- A. Difference as % of your estimate
- B. Difference as % of surplus
- C. Combination of A. and B.
- D. Estimate confidence level implicit in carried reserves
- E. Actuarial judgment, no set rule of thumb

SAO: Relevant Comment Challenges

- ▶ Permitted practices where little or no relevant guidance exists
- ▶ Reinsurance collectability, retroactive reinsurance and financial reinsurance
- ▶ Materiality standard
- ▶ Company-specific risk factors
- ▶ RMAD
- ▶ Unusual IRIS ratios

Ask the Audience

Ask the
audience



If a company triggers the
Bright Line Indicator,
does that mean there is
definitely RMAD?

Ask the Audience

Ask the
audience



Do you believe it's
possible for an active
insurance company to
have no company-specific
risk factors?

Actuarial Opinion Summary

 Regulators notice:

- ▶ Carried reserves relative to actuary's estimates
 - ▶ Consistent with opinion?
 - ▶ Change from prior?
- ▶ Persistent adverse development? Are comments consistent with relevant comments in SAO?
- ▶ What types of ranges are used by actuaries, and should all of them be reflected in the AOS?

Actuarial Report

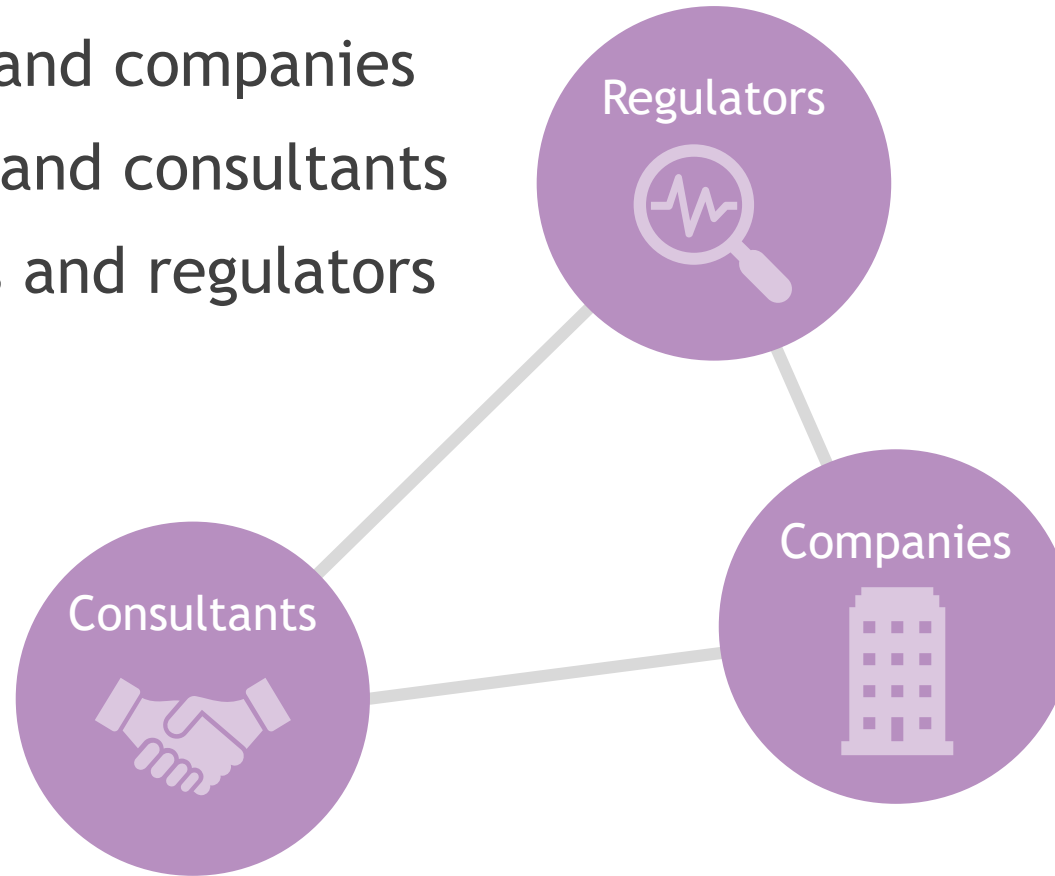
- ▶ Not always requested/reviewed by regulators

 Regulators look for:

- ▶ Consistency with SAO, AOS, and Annual Statement
- ▶ Whether all required elements are included
- ▶ Extended comments on RMAD and/or unusual IRIS ratios
- ▶ Quality of documentation

Other Communications

- ▶ Communications between
 - ▶ Regulators and companies
 - ▶ Companies and consultants
 - ▶ Consultants and regulators



Continuing the Conversation

- ▶ What areas do you [audience] have the most trouble with?
 - ▶ Value of information in the SAO vs. the report?
 - ▶ How closely do regulators look at current year vs. prior year?
 - ▶ What will you do differently at year-end 2019?
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- ▶ NAIC Changes for the Appointed Actuary – 3:30 PM today
 - ▶ Data, Documentation, and Report Writing – 8:00 AM tomorrow
 - ▶ Opinion Writers Coffee Klatch – 9:45 AM tomorrow
 - ▶ Company-Specific Risk Factors and Other RMAD Disclosures – 9:45 AM tomorrow

Resources

- ▶ Committee on Property and Liability Financial Reporting (COPLFR) Practice Note

https://www.actuary.org/sites/default/files/files/publications/PC_Loss_Reserve_Practice_Note_2018.pdf

including Appendices on:

- ▶ NAIC Instructions for the SAO and AOS



- ▶ NAIC Actuarial Opinion Working Group (AOWG) Regulatory Guidance

- ▶ SSAPs

- ▶ American Academy of Actuaries (AAA) P/C Loss Reserve Law Manual which is a summary of state by state laws and regulations

<https://www.actuary.org/content/2018-pc-loss-reserve-law-manual>

- ▶ Actuarial Standards of Practice (ASOPs) issued by the Actuarial Standards Board (ASB) <http://www.actuarialstandardsboard.org/standards-of-practice/>



Statement of Actuarial Opinion Worksheet - P/C Annual in the NAIC's Financial Analysis Handbook (available at

https://naic.org/prod_serv_alpha_listing.htm#fah) – actual worksheet used by regulators!