



# Effective P&C Statements of Actuarial Opinion

## Regulator's Point of View

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## Topics

- ◀ Regulatory review of Opinions
- ◀ Resources available to Appointed Actuaries
- ◀ Opinion/Opinion Summary statistics
- ◀ Upcoming changes to the Opinion Instructions

Note: In these slides, unless otherwise stated, Opinion also refers to the supporting documents (Opinion Summary and Actuarial Report).

# Regulatory Review of Opinions & Supporting Documents





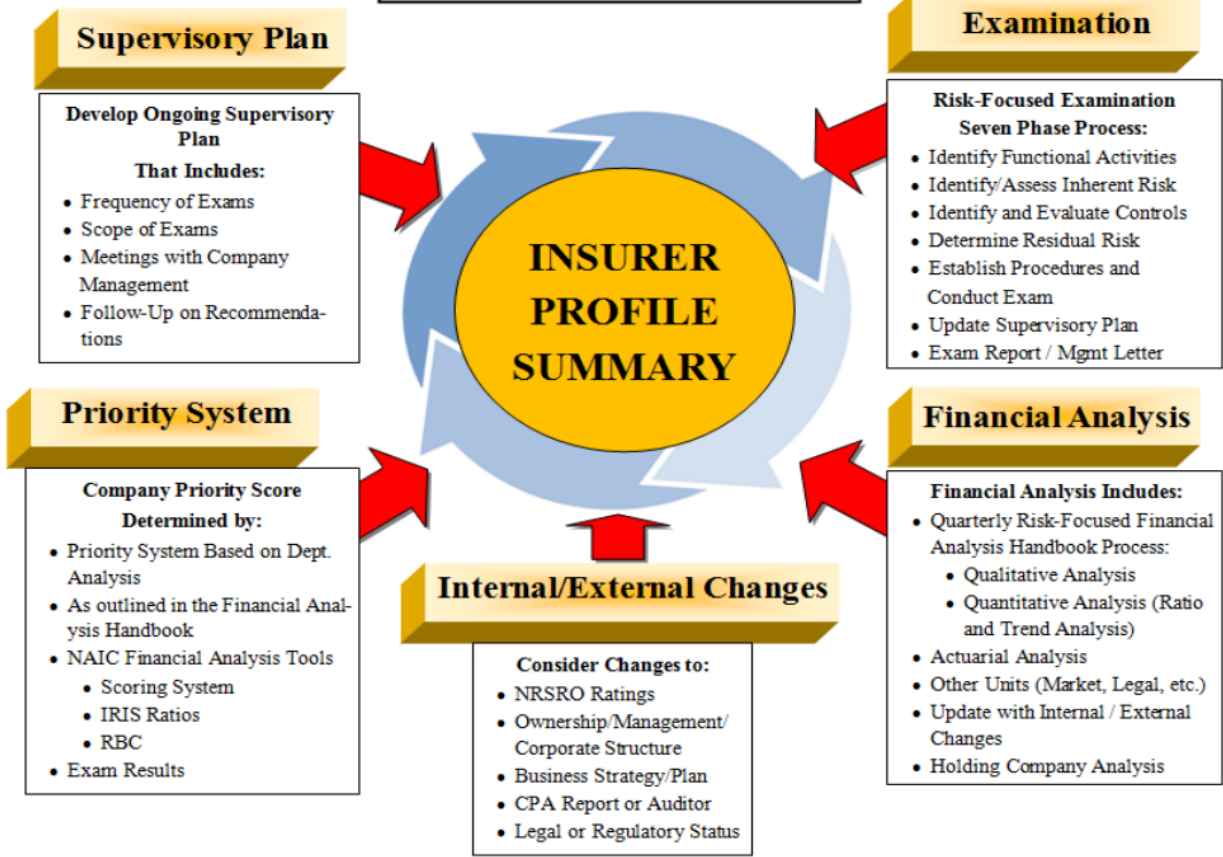
# Why do regulators review Opinions?



# Risk-Focused Surveillance Framework

- ▶ Understand current and prospective risks
- ▶ Review commensurate with nature and extent of risk
- ▶ Improve early identification of emerging risks
- ▶ Focus use of regulatory resources on high risk areas

# Risk Assessment Cycle



Source: *Financial Analysis Handbook*





## Risk-Focused Financial Analysis

- ▶ Continuous off-site monitoring of the state's domestic insurers' statutory compliance and solvency
  - ▶ Summarized in regularly-updated Insurer Profile Summary (IPS) for each company
- ▶ Process defined in *Financial Analysis Handbook*
  - ▶ Includes Actuarial Opinion Assessment



# Risk-Focused Financial Examinations

- ◀ In depth, on-site examinations, similar to audits
  - ◀ As often as the state deems necessary, but generally at least every 5 years
- ◀ Organized by key functional activity





# Risk-Focused Financial Examinations

- ◀ 7 phase process defined in *Financial Condition Examiner's Handbook*



Assess  
inherent  
risk

Consider  
mitigation  
activities

Determine  
residual risk

Perform  
testing as  
warranted



# Actuarial Involvement in Financial Examinations

- ▶ *Financial Condition Examiner's Handbook* requires involvement of an “Actuarial Specialist” in certain situations
  - ▶ When an insurer has a “**substantial amount of long-tail lines of business**”
- ▶ Actuarial Specialists can be DOI employees or consultants
- ▶ Level of involvement varies by state
- ▶ For more information, see *The Actuary's Role in a Risk-Focused Examination* by Alan M. Hines:  
<http://www.casact.org/pubs/forum/15fforum/Hines.pdf>

# How Regulators Use SAOs

- ◀ Understand company-specific risk factors from the appointed actuary's point of view
- ◀ Understand changes from prior years
- ◀ Identify information relevant to financial results
- ◀ Recommend additional information to be requested by Financial Analyst
- ◀ Determine whether prior issues have been resolved
- ◀ Recommend areas of focus during examination
- ◀ Prepare exam interview questions for appointed actuary
- ◀ Confirm compliance with requirements



## What Regulators Expect from SAOs

- ◀ Compliance with *Annual Statement Instructions*, ASOPs, and CAS Statements of Principles
- ◀ Consistency between SAO, AOS, Annual Statement, and Actuarial Report
  - ◀ Opinion type (reasonable, excessive, etc.)
  - ◀ Dollar amounts
- ◀ Well-documented Actuarial Report



## Common Issues

- ▶ Difficult-to-navigate report
- ▶ Lack of documentation for assumptions and/or selections
- ▶ Incomplete or difficult-to-follow Schedule P reconciliation
- ▶ Comments too general
  - ▶ Attribution of an unusual IRIS #11 or #12 value to “reserve strengthening” or “low surplus” with no additional information
  - ▶ Risk factors that aren’t truly company-specific

# Avoidable Red Flags

## Inconsistencies

- Amounts in:
  - SAO
  - AOS
  - Actuarial Report
  - Annual Statement
- SAO text compared to SAO Exhibit B

## Errors/Typos

- Copy/paste errors
- Dates or amounts not changed from prior

## Missing Items

- Specific required statements in SAO or AOS
- Required portions of Actuarial Report
- Disclosures required by ASOPs



## Avoid the Avoidable Red Flags

- ▶ Follow the correct version of the Instructions
- ▶ Cross-check amounts between documents
- ▶ Carefully proof-read and have everything peer reviewed



Why does this matter?

# Sample of Actual Issues Noted in 2018 – Part 1

- ◀ Opinion not in 2018 format (missing Exh B items 13.1 through 13.4)
- ◀ AOS did not include gross amounts
- ◀ List of intercompany pool members missing the domicile of each company
- ◀ 0% participant in intercompany pool did not show lead company's data in AOS
- ◀ State not notified about the appointment of new actuary
- ◀ “Appointed actuary” not actually appointed by the BOD



# Sample of Actual Issues Noted in 2018 – Part 2

- ◀ Relevant comments did not change from 2017 (or 2016)
- ◀ IRIS #13 failed, but actuary commented that all 3 ratio results were acceptable
- ◀ Response to item E on the AOS is inconsistent with adverse development in 2016-2018
- ◀ Gross carried amount in AOS differs from amount in the SAO with no explanation
- ◀ Difference between net high end estimate and carried reserve is greater than the materiality standard, and actuary believes MAD is not possible

# Sample of Actual Issues Noted in 2018 – Part 3

- ▶ Company began writing business in 2016 and has experienced significant premium growth each year. Actuary did not note ANY company-specific risk factors.
- ▶ Conflicting information about whether MAD was possible (text of opinion missing “not”)
- ▶ Change in actuary, but current SAO does not comment on changes in actuarial assumptions or methods or whether the prior actuary’s work was reviewed
- ▶ Actuary states, "the material adverse deviation is zero"
- ▶ Materiality standard larger than surplus



- ▶ Have you ever been contacted by a regulator regarding a Statement of Actuarial Opinion you signed?
- ▶ Have you been involved in any risk-focused financial examinations?
- ▶ What have your experiences working with regulators been like?

# Resources Available to Appointed Actuaries





## NAIC Resources

- ▶ *Annual Statement Instructions – Property/Casualty*
- ▶ 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, available at [https://naic-cms.org/cmte\\_c\\_act\\_opin\\_wg.htm](https://naic-cms.org/cmte_c_act_opin_wg.htm)
- ▶ *Financial Analysis Handbook* (especially SAO worksheet on pages 444-455), available at [https://naic.org/prod\\_serv\\_alpha\\_listing.htm#fah](https://naic.org/prod_serv_alpha_listing.htm#fah)

# Actuarial Standards of Practice

- ▶ ASOP 21: Responding to or Assisting Auditors or Examiners in Connection with Financial Audits, Financial Reviews, and Financial Examinations
- ▶ ASOP 23: Data Quality
- ▶ ASOP 36: Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves
- ▶ ASOP 41: Actuarial Communications
- ▶ ASOP 43: Property/Casualty Unpaid Claim Estimates

Note: not an exhaustive list of all ASOPs that may apply



# American Academy of Actuaries Resources

- ▶ P/C Loss Reserve Law Manual
- ▶ Seminar on Effective P/C Loss Reserve Opinions
- ▶ COPLFR Practice Note



## Other Resources

- ◀ U.S. Qualification Standard:  
<https://www.actuary.org/content/us-qualification-standards>
- ◀ Code of Professional Conduct:  
<https://www.actuary.org/content/code-professional-conduct>
- ◀ CAS Statements of Principles:  
<https://www.casact.org/professionalism/standards/princip/>





- ◀ What resources have you found most useful?
- ◀ Are you familiar with the Regulatory Guidance document?

# Appointed Actuary and Opinion Statistics

through 2018





## Limitations on Opinion & Actuary Information

- ▶ Opinion and Appointed Actuary information based on data submitted by companies in electronic format to NAIC
- ▶ Incorrectly entered data makes compiling this information challenging
- ▶ We made some manual corrections to actuary names, credentials, and relationship to company

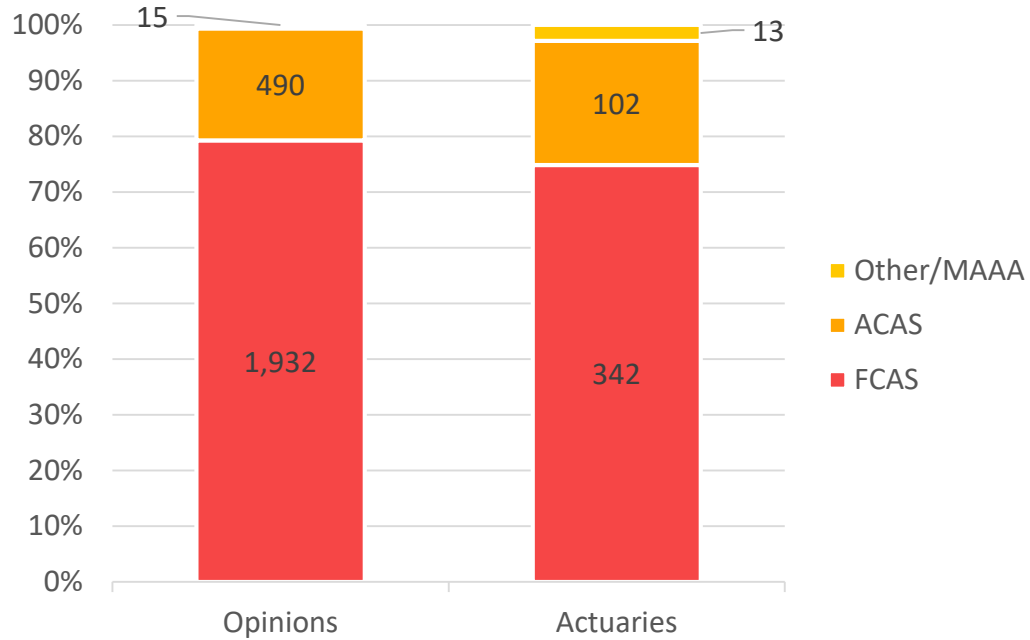
# Number of Opinions and Appointed Actuaries

Year	Opinions	Opinion Signers
2018	2,437	457
2017	2,459	457
2016	2,454	469
2015	2,479	466
2014	2,489	451

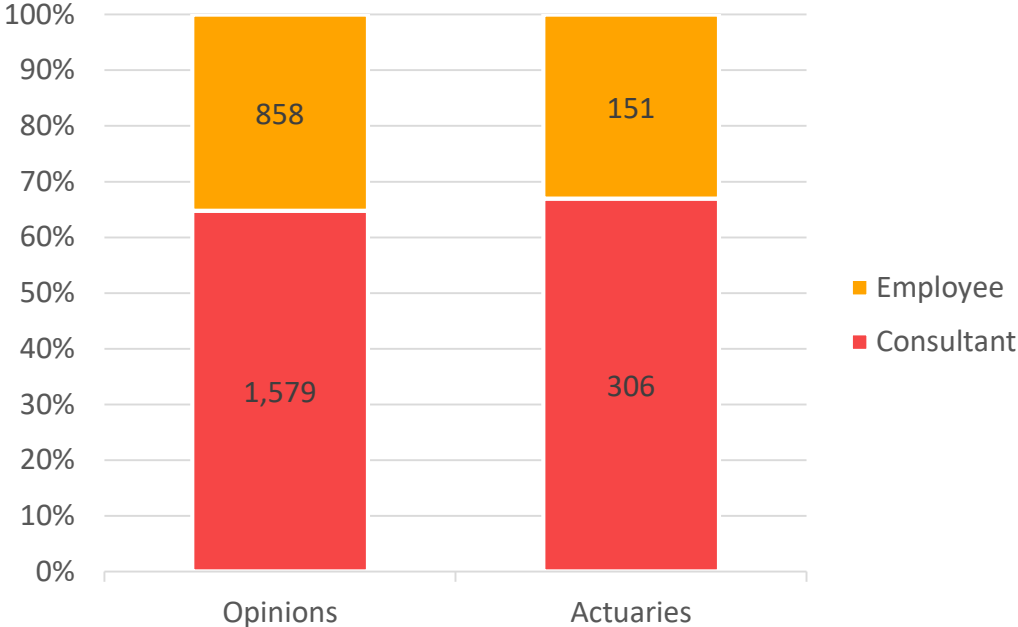
# Number of 2018 Opinions by Actuary

	# of Actuaries	% of Actuaries	Individual # of Opinions	Total # of Opinions	Average # of Opinions	% of Total Opinion Count
20 Actuaries w/ most SAOs	20	4.4%	21 to 60	708	35.4	29.1%
Actuaries w/ 10 to 20 SAOs	43	9.4%	10 to 20	578	13.4	23.7%
Actuaries w/ 2 to 9 SAOs	250	54.7%	2 to 9	1,007	4.0	41.3%
Single SAO Signers	144	31.5%	1	144	1.0	5.9%
<b>Total</b>	<b>457</b>	<b>100.0%</b>	<b>1 to 60</b>	<b>2,437</b>	<b>5.3</b>	<b>100.0%</b>

# Credentials of Appointed Actuaries



# Appointed Actuaries: Consultants vs. Employees



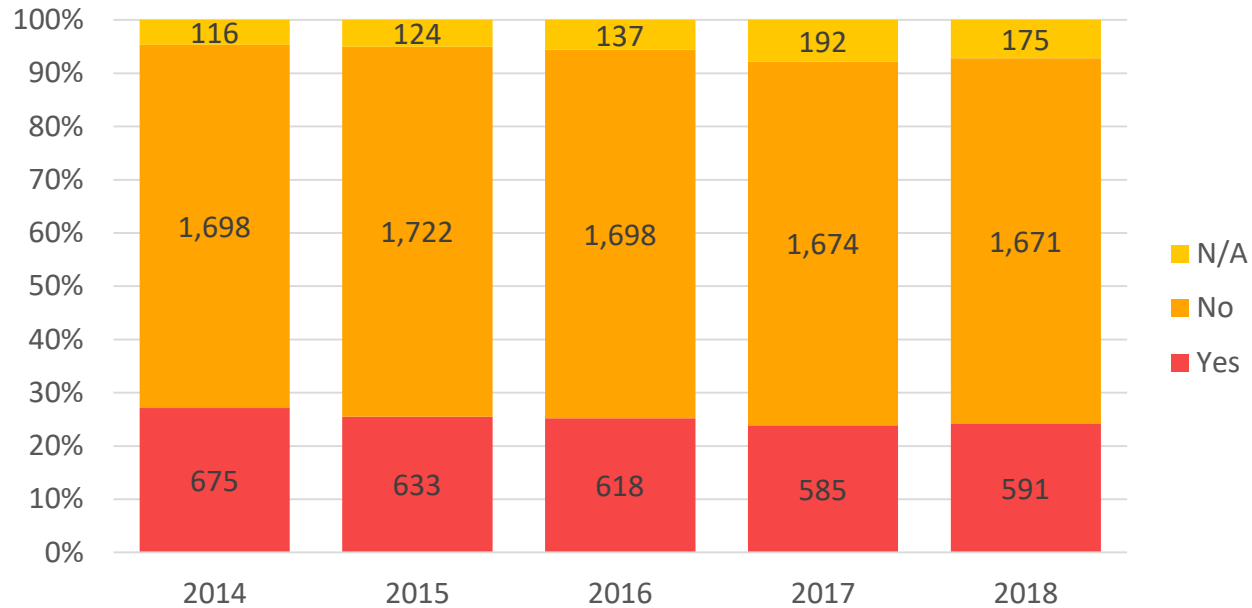
Source: 2018 NAIC Database

< 1% of the total number  
of Opinions each year  
are not “Reasonable”

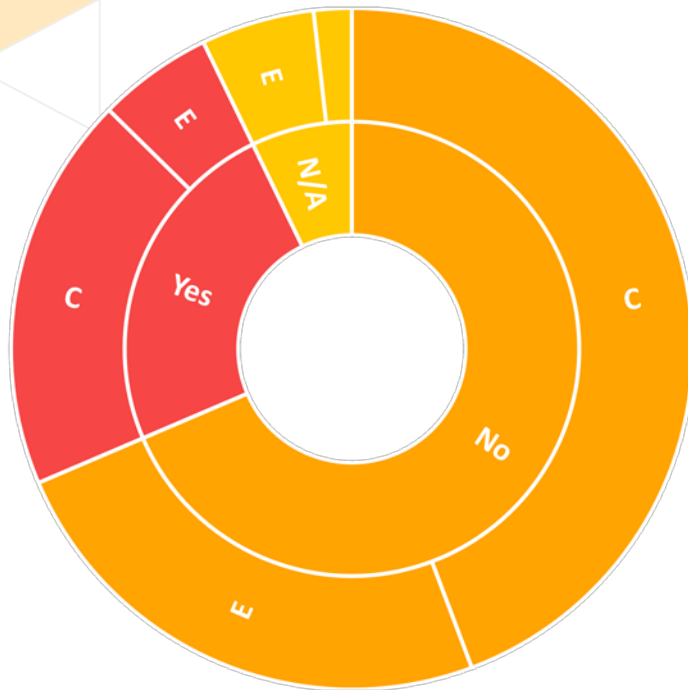




# Is there a Risk of Material Adverse Deviation?



## RMAD by Actuary's Relationship to Company



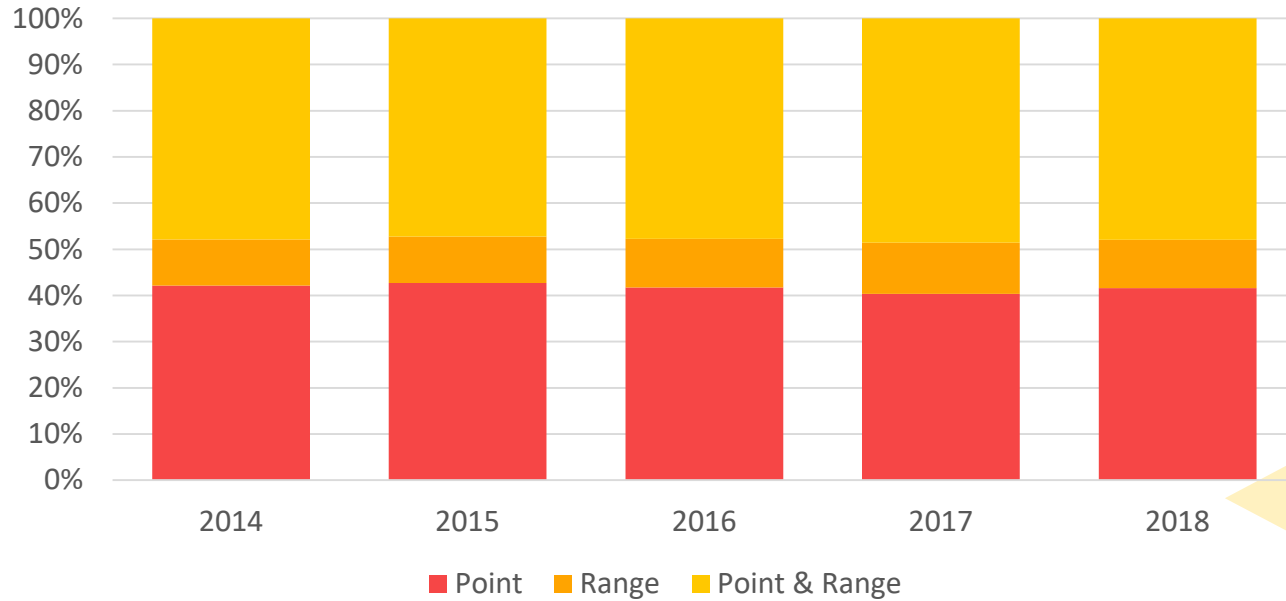
- ▶ Inner ring: RMAD – Yes, No, or N/A
- ▶ Outer ring: Consultant or Employee



# Limitations on Opinion Summary Information

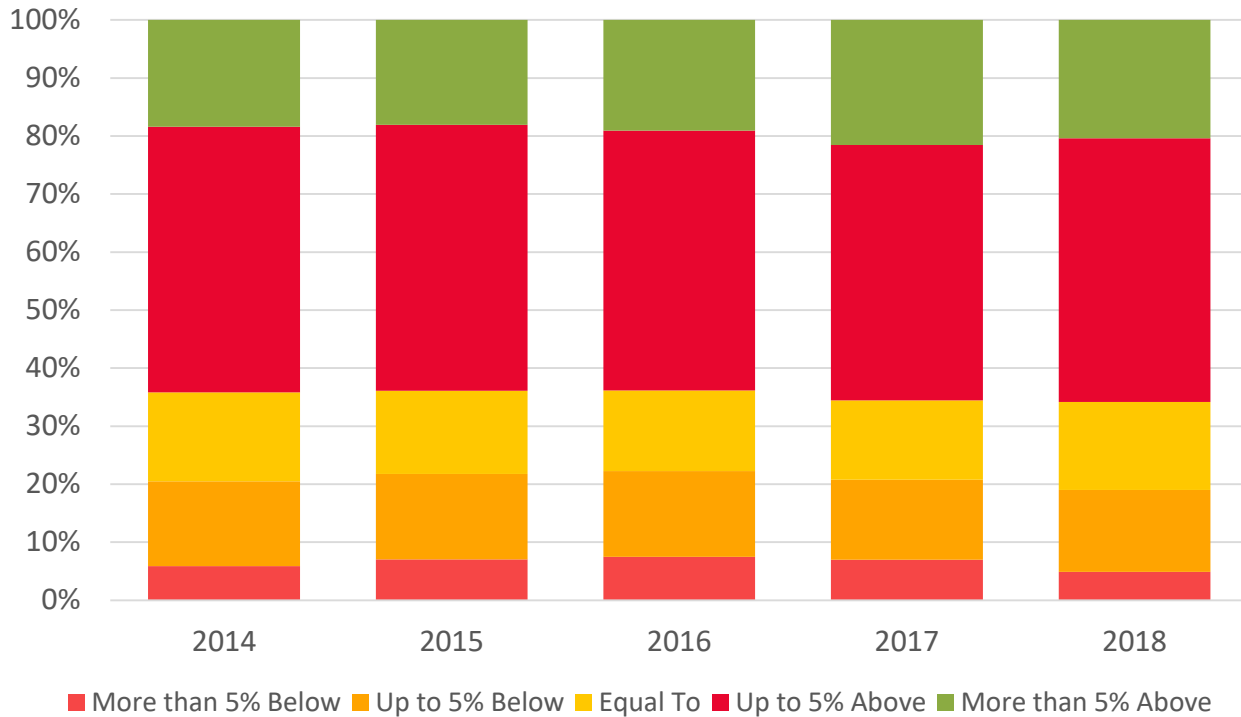
- ▶ Opinion Summary data is not submitted electronically to the NAIC
- ▶ A few states have compiled at least 5 years of aggregate data from their domestic insurers' Opinion Summaries
- ▶ Excludes companies carrying zero reserves

# Type of Actuarial Estimate (Net)



Source: AOS data collected for companies domiciled in NY, PA, TX, IL, OH, CT, and MN.  
Excludes companies that carry zero reserves. (678 companies out of 2,437, or approximately 28% of SAOs in 2018.)

# Carried Reserves vs. Actuarial Estimate\* (Net)



Source: AOS data collected for companies domiciled in NY, PA, TX, IL, OH, CT, and MN.

Excludes companies that carry zero reserves. (678 companies out of 2,437, or approximately 28% of SAOs in 2018.)

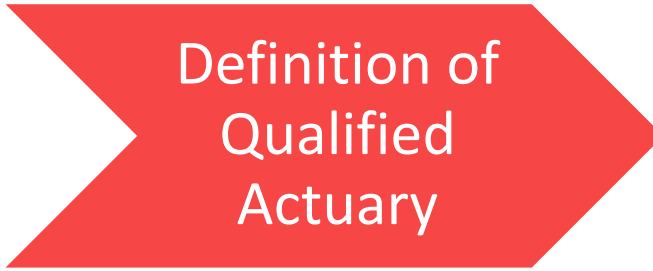
\* Midpoint of range if no point estimate provided. Point estimate if provided.

# Recent/Upcoming Changes to Opinion Instructions





# Changes to Opinion Instructions



Definition of  
Qualified  
Actuary



Qualification  
Documents



Questions?