



# Professionalism Considerations and the Reserving Actuary

*Casualty Loss Reserve Seminar*

*September 2020*



# Welcome our Livestreaming Audience

- Don't forget to ask questions, we will try to answer them
- Everyone should be able to test your knowledge of the ASOP's
- While all are welcome to join, this session will focus primarily on US Actuarial Standards of Practice for reserving actuaries

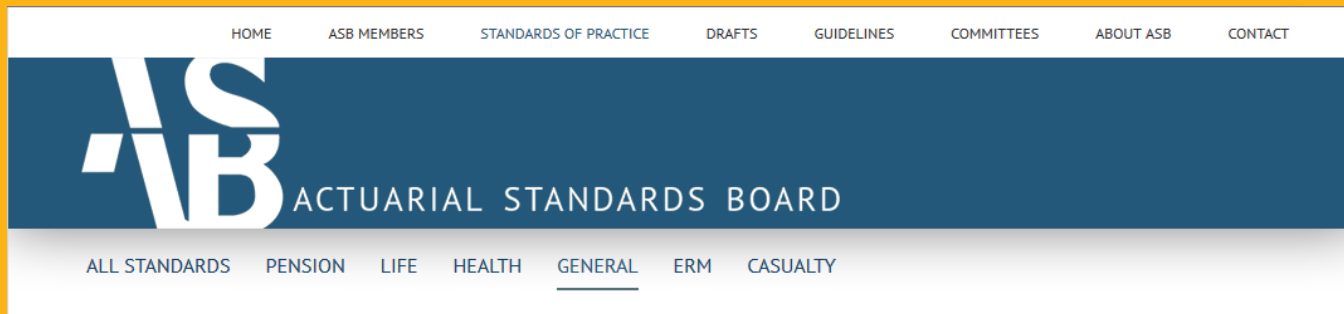


# Professional Guidance

Where to start?

- The ASB website


<http://www.actuarialstandardsboard.org/standards-of-practice/>



- Applicability guidelines
  - Non-binding, like practice notes
  - It is each actuary's responsibility to determine which ASOPs apply to the work at hand



# Applicability Guidelines

 <p>AMERICAN ACADEMY of ACTUARIES <i>Objective. Independent. Effective.™</i></p>	<p><b>Applicability Guidelines for Actuarial Standards of Practice – Casualty</b></p>	<p>Please note that the following ASOPs apply to all assignments in all practice areas:</p> <ul style="list-style-type: none"> <li><a href="#">1. Introductory Actuarial Standard of Practice</a></li> <li><a href="#">23. Data Quality</a></li> <li><a href="#">41. Actuarial Communications</a></li> </ul> <p style="text-align: right;">© 2020 American Academy of Actuaries. Last updated July 2020.</p>																
<p style="text-align: center;"><b>Description of Assignment</b></p>		<p><b>Actuarial Standard of Practice (ASOP)</b></p>																
		<a href="#">7</a>	<a href="#">12</a>	<a href="#">13</a>	<a href="#">17</a>	<a href="#">19</a>	<a href="#">20</a>	<a href="#">21</a>	<a href="#">25</a>	<a href="#">29</a>	<a href="#">30</a>	<a href="#">36</a>	<a href="#">38</a>	<a href="#">39</a>	<a href="#">43</a>	<a href="#">46</a>	<a href="#">47</a>	<a href="#">53</a>
<p><b>7.0 Reserving</b></p>																		
<p>7.1</p>	<p>Reserve-related NAIC filings or portions of the annual</p>	<p style="text-align: right;">20 21 43 56</p>																
<p>7.2</p>	<p>Statements of actuarial opinion relating to unpaid loss and loss adjustment expenses/other reserve analyses</p>	<p>7 13 20 21 36 38 43 56</p>																
<p>7.3</p>	<p>Statements of actuarial opinion relating to premium reserves such as unearned premium and premium deficiency</p>	<p>7 12 13 20 25 29 30 36 38 39 53 56</p>																

<https://www.actuary.org/content/applicability-guidelines-actuarial-standards-practice-0>

For the Appointed Actuary, additional rules and standards apply and sometimes supersede the ASOPs.



# US Qualification Standards for a Statement of Actuarial Opinion

The Appointed Actuary for an Insurance Company renders a Statement of Opinion; for that opinion you must qualify under specific standards set forth by the NAIC and monitored by the American Academy of Actuaries (AAA).

- There are General Qualification Standards
  - Basic Education
  - Continuing Education
- Specific Qualifications Standards
  - 3.1.1.2 Statement of Actuarial Opinion, NAIC Property and Casualty Annual Statement for P&C practice actuaries.

The full USQS can be found at

[https://www.actuary.org/sites/default/files/files/qualification\\_standards.pdf](https://www.actuary.org/sites/default/files/files/qualification_standards.pdf)



# US Qualification Standards for a Statement of Actuarial Opinion

- General Basic Education
  - Academy Member, Fellow or Associate or qualified member of the
    - CAS
    - SOA
    - CCA
    - ASPPA or
    - IAA
  - Having 3 years of responsible actuarial experience
  - Be knowledgeable, through examination of documented professional development, of the Law applicable the Statement of Actuarial Opinion
- General Continuing Education Requirement
  - 30 hours of **relevant** education each calendar year
    - 3 on professional topics
    - 6 in organized activities
  - Hours are met before the signing of the opinion!!!
- Specific Continuing Education Requirement
  - Continuing Education must contain 15 hours directly relevant to the work being opined
  - 6 hours must be through interaction with outside actuaries/professionals
  - Hours here also must satisfy General Requirement



# Additional Appointed Actuary Materials

- Property/Casualty Loss Reserve Law Manual
  - Compilation of Requirements by State
  - Produced annually by the AAA
  - Specific Format for the Opinion
  - The Actuarial Opinion Summary
  - <https://www.actuary.org/2019-PC-Loss-Reserve-Law-Manual-Order-Form>
- Statements of Actuarial Opinion on Property and Casualty Loss Reserves
  - Produced Annually by COPFLR within AAA
  - Best Practices Public Policy Note
  - [https://www.actuary.org/sites/default/files/2020-01/PC\\_Practice\\_Note\\_2019.pdf](https://www.actuary.org/sites/default/files/2020-01/PC_Practice_Note_2019.pdf)



# Keeping up: ASB's Boxscore

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## ASB Projects

SUBJECT AREA	2019 QUARTER				COMMENTS
	1	2	3	4	
<b>CASUALTY COMMITTEE</b>					
Rate Filings ASOP	PD	PD	RI	RI	The ASB issued a Request for Input in October 2019. The comment deadline is Feb. 28, 2020.
<b>ENTERPRISE RISK MANAGEMENT COMMITTEE</b>					
<i>Capital Adequacy Assessment</i>	R	F	F	F	The ASB adopted the standard as ASOP No. 55 at its June 2019 meeting. The effective date is Nov. 1, 2019..
<b>GENERAL COMMITTEE</b>					
ASOP No. 32, <i>Social Insurance</i>	R	R	R	SE	The ASB approved a second exposure draft in November 2019. The comment deadline is Feb. 14, 2020.
ASOP No. 38, now titled <i>Catastrophe Modeling (for All Practice Areas)</i>	F	F	F	R	The ASB adopted a final revision at its March 2014 meeting subject to ASB approval of changes necessitated by ASOP No. 56. The task force will review the ASOP for consistency with ASOP No. 56.
ASOP No. 56, <i>Modeling</i>	FE	R	R	F	The ASB adopted ASOP No. 56 at its December 2019 meeting. The effective date will be in late 2020.
<i>Setting Assumptions</i>	SE	SE	R	R	The ASB approved a second exposure draft at its March 2019 meeting, with a comment deadline of July 31, 2019. A task force is drafting a proposed revision and plans to present a third exposure draft to the ASB at its March 2020 meeting.

The full Boxscore can be found at

<http://www.actuarialstandardsboard.org/boxscore/>





# Reserving ASOPs

- ASOP 7: Analysis of Life, Health, or Property/Casualty Insurer Cash Flows
- ASOP 12: Risk Classification (for All Practice Areas)
- ASOP 13: Trending Procedures in Property/Casualty Insurance
- ASOP 20: Discounting of Property/Casualty Unpaid Claims Estimates
- ASOP 21: Responding to or assisting Auditors or Examiners in connection with Financial Audits, Financial Reviews and Financial Examinations
- ASOP 25: Credibility Procedures
- ASOP 29: Expense Provisions in Property/Casualty Insurance Ratemaking
- ASOP 30: Treatment of Profit & Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking
- **ASOP 36: Statements of Actuarial Opinion regarding Property/Casualty Loss & Loss Adjustment Expense Reserves**
- ASOP 38: Using Models Outside the Actuary's Area of Expertise (Property & Casualty)
- ASOP 39: Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking
- **ASOP 43: Property/Casualty Unpaid Claims Estimates**
- ASOP 53: Estimating Future Costs for Prospective Property/Casualty Risk Transfer and Risk Retention
- ASOP 56: Modeling



# Reserving ASOP 36

Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves

## 1.1 PURPOSE

- The purpose of this actuarial standard of practice (ASOP) is **to provide guidance to the actuary in issuing a written statement of actuarial opinion** regarding property/casualty loss and loss adjustment expense reserves.



# Reserving ASOP 36

## Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves

### 1.2 SCOPE

- This standard applies to actuaries when providing written statements of actuarial opinion **with respect to property/casualty loss and loss adjustment expense reserves of insurance or reinsurance companies and other property/casualty risk financing systems, such as self-insurance**, that provide similar coverages, under one of the following circumstances:
  - the statement of actuarial opinion is prepared to comply with NAIC Property and Casualty Annual Statement Instructions, or
  - the statement of actuarial opinion is otherwise prescribed by law or regulation, or
  - the statement of actuarial opinion is represented by the actuary as being in compliance with this standard.
- References in the standard to "insurance," "reinsurance," or "self-insurance" should be interpreted to include risk financing systems that provide for risk retention in lieu of risk transfer. This standard does not apply to statements of actuarial opinion subject to ASOP No. 22, *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers*; ASOP No. 28, *Compliance with Statutory Statement of Actuarial Opinion Requirements for Hospital, Medical, and Dental Service or Indemnity Corporations, and for Health Maintenance Organizations*; or Actuarial Compliance Guideline No. 4, *Statutory Statements of Opinion Not Including an Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers*.



# Reserving ASOP 43

Property/Casualty Unpaid Claim Estimates

## 1.1 PURPOSE

- This actuarial standard of practice (ASOP) **provides guidance to actuaries when performing professional services relating to the estimation of loss and loss adjustment expense for unpaid claims for property/casualty coverages.** Any reference to “unpaid claims” in this standard includes (unless explicitly stated otherwise) the associated unpaid claim adjustment expense even when not accompanied by the estimation of unpaid claims.



# Reserving ASOP 43

## Property/Casualty Unpaid Claim Estimates

### 1.2 SCOPE

- This standard applies to actuaries when performing professional services related to developing unpaid claim estimates only for events that have already occurred or will have occurred, as of an accounting date, exclusive of estimates developed solely for ratemaking purposes. This standard applies to the actuary when estimating unpaid claims for all classes of entities, including self-insureds, insurance companies, reinsurers, and governmental entities. This standard applies to estimates of gross amounts before recoverables (such as deductibles, ceded reinsurance, and salvage and subrogation), estimates of amounts after such recoverables, and estimates of amounts of such recoverables.
- This standard applies to the actuary only with respect to unpaid claim estimates that are communicated as an actuarial finding (as described in ASOP No. 41, Actuarial Communications) in written or electronic form. Actions taken by the actuary's principal regarding such estimates are beyond the scope of this standard.
- An actuary may develop an unpaid claim estimate in the context of issuing a written statement of actuarial opinion regarding property/casualty loss and loss adjustment expense reserves. This standard addresses the determination of the unpaid claim estimate. The actuary should be guided by ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*, to address additional considerations associated with the issuance of such a statement.
- If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason the actuary deems appropriate, the actuary should refer to section 4.



# Case Study 1: The New Appointed Actuary

John D. Fellow recently became the appointed actuary for the Dewey, Cheatum & Howe Insurance Company (DCHIC). John recently joined from an insurer whose main product was auto warranty business. John has 15 years experience in the insurance industry and has been a Fellow of the Casualty Actuarial Society for 5 years.

Prior to last year DCHIC wrote solely Personal Automobile Insurance; but added Recreational Vehicle Insurance (RVI) as a new product which was 2% of premiums by year end.

The Expected Loss Ratio (ELR) used to book IBNR by the Finance group was based on the Product Management Group's product filings.

Results for the RVI at 12/31, which will be covered in John's opinion, are running a 500% loss ratio due to several large liability claims that have paid & closed.



# Case Study 1 Questions

1. What are John's first steps in preparing for the Statement of Opinion?
2. How should John handle the issue with the poor performing RVI insurance?
  1. Does it impact the Opinion?
  2. What ASOPS should John consider for this review?
3. If John does not feel he meets the (experience) standards for RVI what are his options?
  1. Can he place reliance on the Product Manager's work?
  2. Does he need an outside expert?
  3. Does he even need to worry about the RVI line?
4. What is the most important thing John can do in supporting his opinion?



# Case Study 1 Questions

5. Part of the RVI product strategy was to market to RV clubs. Over 50% of the DCHIC book was comprised of members of two clubs. The Florida panhandle was hit by a Category 4 hurricane that swept through where many of the RVs DCHIC insured were attending an RV convention. Due to a last minute change of the storm's direction, the RVers did not have time to evacuate. How should John address this CAT risk? Was it anticipated in the pricing and the ELR?
6. Should John make any adjustment to IBNR due to the effect of COVID-19 on driving habits? How would he go about doing that? What sources should he consider?





# Case Study 2: The subordinate

You are an actuarial manager with 15 years of experience in pricing and modeling workers' compensation and most liability lines of coverage.

You have been assigned to the reserving area through your rotation program to manage the existing business owners reserving unit. The unit is comprised of three staff with varying experience in the subject matter. Two have extensive experience but neither are credentialed actuaries and one is newer to insurance but is an ACAS.

This team performs the reserving work for business owners line, the second largest within your organization. The procedures and methods used were developed in-house by an actuary who retired three years ago.

There has been significant growth in the line through the use of its new all-risk Pandemic endorsement (***when we thought the risk was small***). This was seen by Marketing as a great way to attract new business as well as retain current customers.

Your supervisor, the Appointed Actuary, has concerns about the procedures to account for loss development appropriately.

As the manager of this unit, you are expected to review results, assumptions and inputs to the process, providing feedback on the approaches (e.g., stochastic, sensitivity, stress), and opine on the adequacy of the reserves to the Appointed Actuary.



# Case Study 2 Questions

1. What are potential problems that might arise and how would you handle those problems utilizing the ASOPs?
2. You are not proficient in the line of business. What additional requirements does this create in order for you to be able to review work? Are you able to validate what you need?
3. Can you place reliance on the other team members' work, and how do you establish if they are "experts"?
4. How do you get comfortable with the impact of the all-risk Pandemic endorsement?
5. Who on the team can and should be involved in issuing opinions on the work, or should you engage outside experts to validate the model?
6. You are relying on techniques you have not used in the past and opining on the results. What risks does this present? Where should you look for help to get you comfortable with your ability to opine?
7. What are your responsibilities to the Appointed Actuary incorporating the results of this analysis to the overall Company?



# Thank You

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