

**STATEMENT OF ACTUARIAL OPINION—
ANNUAL STATEMENT INSTRUCTIONS
(INCLUDING A LETTER BY
R. MICHAEL LAMB, AND
SUGGESTED REVISIONS BY THE
NAIC CASUALTY ACTUARIAL TASK FORCE)**

*National Association of
Insurance Commissioners*

Statement of Actuarial Opinion
Annual Statement Instructions

The National Association of Insurance Commissioners (NAIC) adopted a revision to the instructions for the 1992 annual statement Blank due March 1, 1993 regarding the scope and content of the statement of actuarial opinion on casualty loss reserves. A final copy of those 1992 instructions follow. The changes from the 1991 instructions are noted with sidebars. Some of those changes were adopted in June 1992.

In addition, please find a letter and attachment from R. Michael Lamb, Chairman of the NAIC Casualty Actuarial (Technical) Task Force to the Chairman of the NAIC Blanks Task Force dated June 17, 1992. That material contains suggested additional revisions for the 1993 instructions (the opinion due March 1, 1994).

Due to the significance and the scope of these changes, we thought this material would be useful to you.

ACTUARIAL OPINION

1. There is to be included or attached to Page 1 of the Annual Statement, the statement of a qualified actuary, entitled "Statement of Actuarial Opinion," setting forth his or her opinion relating to loss and loss adjustment expense reserves. The qualified actuary must be appointed by the Board of Directors, or its equivalent, or by a committee of the Board, by December 31 of the calendar year for which the opinion is rendered. Whenever the appointed actuary is replaced by the Board of Directors, the company must notify the domiciliary commissioner within 30 days of the date of the Board action and give the reasons for the replacement. The appointed actuary must present a report to the Board of Directors each year on the items within the scope of the opinion.

2. Definitions

"Qualified actuary" is a person who is either:

- A. A member in good standing of the Casualty Actuarial Society, or
- B. A member in good standing of the American Academy of Actuaries who has been approved as qualified for signing casualty loss reserve opinions by the Casualty Practice Council of the American Academy of Actuaries, or
- C. A person who otherwise has competency in loss reserve evaluation as demonstrated to the satisfaction of the insurance regulatory official of the domiciliary state. In such case, at least 90 days prior to the filing of its annual statement, the insurer must request approval that the person be deemed qualified and that request must be approved or denied. The request must include the NAIC Biographical form and a list of all loss reserve opinions issued in the last 3 years by this person.

Notwithstanding the above, a domiciliary commissioner may, by bulletin or regulation, specify who may sign an opinion. Also, a domiciliary commissioner may require particular qualifications, including independence, for specific insurers.

"Insurer" means an insurer authorized to write property and/or casualty insurance under the laws of any state and includes but is not limited to fire and marine companies, general casualty companies, local mutual aid societies, statewide mutual assessment companies, mutual insurance companies other than farm mutual insurance companies and county mutual insurance companies, Lloyd's plans, reciprocal and interinsurance exchanges, captive insurance companies, risk retention groups, stipulated premium insurance companies, and non-profit legal services corporations.

"Actuarial report" means a document or other presentation, prepared as a formal means of conveying the actuary's professional conclusions and recommendations, of recording and communicating the methods and procedures, and of insuring that the parties addressed are aware of the significance of the actuary's opinion or findings and which documents the analysis underlying the opinion.

"Annual Statement" means the annual financial statement required to be filed by insurers with the commissioner.

Revised

3. Content

The opinion shall be in the format of and contain the information required by this Section 13 of the Annual Statement Instructions: Property and Casualty.

4. Exemptions

An insurer who intends to file for one of the exemptions under this section must submit a letter of intent to its domiciliary commissioner no later than December 1 of the calendar year for which the exemption is to be claimed. The commissioner may deny the exemption prior to December 31 of the same year if he deems the exemption inappropriate.

A certified copy of the approved exemption must be filed with the annual statement in all jurisdictions in which the company is authorized.

Exemption For Small Companies

An insurer otherwise subject to the requirement that has less than \$1,000,000 total direct plus assumed written premiums during a calendar year in lieu of the opinion required for the calendar year, may submit an affidavit under oath of an officer of the insurer that specifies that amount of direct plus assumed premiums written.

Exemption for Insurers under Supervision or Conservatorship

Unless ordered by the domiciliary commissioner, an insurer that is under supervision or conservatorship pursuant to statutory provision is exempt from the filing requirements contained herein.

Exemption for Nature of Business

An insurer otherwise subject to the requirement and not eligible for an exemption as enumerated above may apply to its domiciliary commissioner for an exemption based on the nature of business written. This exemption is available to those companies writing property lines only.

Financial Hardship Exemption

- A. An insurer otherwise subject to this requirement and not eligible for an exemption as enumerated above may apply to the commissioner for a financial hardship exemption.
 - B. Financial hardship is presumed to exist if the projected reasonable cost of the opinion would exceed the lesser of:
 - (i) One percent of the insurer's capital and surplus reflected in the insurer's latest quarterly statement for the calendar year for which the exemption is sought; or
 - (ii) Three percent of the insurer's projected net direct plus assumed premiums written during the calendar year for which the exemption is sought as reflected in the insurer's latest quarterly statement filed with its domiciliary commissioner.
5. Such a statement of opinion must consist of a paragraph identifying the actuary; a scope paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the actuary's work (see sections 8-10 below); and an opinion paragraph expressing his or her opinion with respect to such subjects (see sections 11-13 below). One or more additional paragraphs may be needed in individual cases if the actuary considers it necessary to state a qualification of his or her opinion or to explain some aspect of the annual statement which is not already sufficiently explained in the annual statement.

6. The opening paragraph should generally indicate the actuary's relationship to the company. For a company actuary the opening paragraph of the actuarial opinion should contain the sentence:

"I, (name and title of actuary), am an officer (employee) of (named insurer) and a member of the American Academy of Actuaries and meet its qualification standards. (and/or) I am a Fellow/Associate of the Casualty Actuarial Society. I was appointed by the Board of Directors (or equivalent authority) on (insert date) to render this opinion."

For a consulting actuary, the opening paragraph of the actuarial opinion should contain the sentence:

"I, (name and title of actuary), am associated with the firm of (name of firm). I am a member of the American Academy of Actuaries and meet its qualification standards. (and/or) I am a Fellow/Associate of the Casualty Actuarial Society. I was appointed by the Board of Directors (or equivalent authority) on (insert date) to render this opinion."

A member of the American Academy of Actuaries qualifying under paragraph 2(B) must attach the approval letter from the Academy.

For a person other than a member of the American Academy of Actuaries or a member of the Casualty Actuarial Society, the opening paragraph of the opinion should contain the sentence:

"I, (name and title), am an officer (employee) of (name of insurer), and I have demonstrated competency in loss reserving to the satisfaction of (regulatory official of domiciliary state). I was appointed by the Board of Directors (or equivalent authority) on (insert date) to render this opinion."

or

"I, (name and title of consultant), am associated with the firm of (name of firm). I have demonstrated competency in loss reserving to the satisfaction of (regulatory official of domiciliary state). I was appointed by the Board of Directors (or equivalent authority) on (insert date) to render this opinion."

7. The following are examples, for illustrative purposes, of language which in typical circumstances would be included in the remainder of the statement of actuarial opinion. The illustrative language should be modified as needed to meet the circumstances of a particular case, and the actuary should in any case use language which clearly expresses his or her professional judgment.
8. The scope paragraph should contain a sentence such as the following:

"I have examined the actuarial assumptions and methods used in determining reserves listed below, as shown in the Annual Statement of the company as prepared for filing with state regulatory officials, as of December 31, 19__."

The paragraph should list those items and amounts with respect to which the actuary is expressing an opinion. The list should include but not necessarily be limited to:

- A. Reserve for unpaid losses (Page 3, Item 1);

Anticipated salvage and subrogation included as a reduction to loss reserves as reported in Schedule P - Analysis of Losses and Loss Expenses, Underwriting and Investment Exhibit - Part 3A and on Page 3 - Liabilities, Surplus and Other Funds, Line 1 and disclosed in Note #17 to the Financial Statements \$ _____; and discount for time value of money included as a reduction to loss reserves and loss expense reserves as reported in Schedule P - Analysis of Losses and Loss Expenses, Part 3A - Underwriting and Investment Exhibit, and on Page 3 - Liabilities, Surplus and Other Funds, Lines 1 and 2 \$

- B. Reserve for unpaid loss adjustment expenses (Page 3, Item 2).
- C. Reserve for unpaid losses - Direct and Assumed (Schedule P, Part 1, Cols. 13 and 15).
- D. Reserve for unpaid loss adjustment expenses - Direct and Assumed (Schedule P, Part 1, Cols. 17, 19 and 21).

9. The scope paragraph should include a paragraph such as the following regarding the data used by the actuary in forming the opinion:

"In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by the responsible officers or employees of the company or group to which it belongs. I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P-Part 1 of the company's current annual statement. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.

10. The actuary should comment in the scope section, as appropriate, on relevant topics such as the following to the extent they affect, or could affect, the loss reserves; discounting, salvage/subrogation, loss portfolio transfers, financial reinsurance, and reinsurance collectibility. If the company reserves will create exceptional values using the NAIC IRIS tests, the actuary should include an explanation.

11. The opinion paragraph should include a sentence which covers at least the points listed in the following illustration:

"In my opinion, the amounts carried in the balance sheet on account of the items identified above

- A. meet the requirements of the insurance laws of (state of domicile).
- B. are computed in accordance with accepted loss reserving standards and principles.
- C. make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements."

Insurance laws and regulations shall at all times take precedence over the actuarial standards and principles.

12. If there has been any material change in the actuarial assumptions and/or methods from those previously employed, that change should be described in the statement of actuarial opinion by inserting a phrase such as:

"A material change in actuarial assumptions (and/or methods) was made during the past year, but such change accords with accepted loss reserving standards."

A brief description of the change should follow.

The adoption of new issues or coverages requiring underlying actuarial assumptions which differ from actuarial assumptions used for prior issues or coverages is not a change in actuarial assumption within the meaning of this paragraph.

13. If the actuary is unable to form an opinion, he or she should refuse to issue a statement of opinion. If the actuary's opinion is adverse or qualified, the actuary should issue an adverse or qualified actuarial opinion explicitly stating the reason(s) for such opinion.
14. The statement must include assurance that an actuarial report and underlying workpapers supporting the actuarial opinion will be maintained at the company and available for examination for seven years. The wording for an actuary employed by the company should be similar to the following:

"An actuarial report and underlying workpapers supporting the findings expressed in this statement of actuarial opinion will be retained for a period of seven years in the administrative offices of the company and available for regulatory examination."

The wording for a consulting actuary retained by the company should be similar to the following:

"An actuarial report and underlying workpapers supporting the findings expressed in this statement of actuarial opinion have been provided to the company to be retained for a period of seven years at its administrative offices and available for regulatory examination."

15. The statement should conclude with the signature of the actuary responsible for providing the opinion. The signature should appear in the following format:

Signature of actuary
Printed name of actuary
Address of actuary
Telephone number of actuary

ANNUAL AUDITED FINANCIAL REPORTS

The purpose of this Annual Statement instruction is to improve the surveillance of the financial condition of insurers by requiring an annual examination by independent certified public accountants of the financial statements reporting the financial position and the results of operations of insurers.

1. Audited Financial Report

All insurers shall have an annual audit by an independent certified public accountant and shall file an audited financial report as a supplement to the Annual Statement on or before June 1 for the year ended December 31 immediately preceding. The domiciliary Commissioner may require an insurer to file an audited financial report earlier than June 1 with ninety (90) days advance notice to the insurer.

2. Definitions

- A. "Audited financial report" means and includes those items specified in Section 3 below.
- B. "Accountant" and "Independent Certified Public Accountant" means an independent certified public accountant or accounting firm in good standing with the American Institute of Certified Public Accountants and in all states in which they are licensed to practice; for Canadian and British companies, it means a Canadian-chartered or British-chartered accountant."

June 17, 1992



Mr. Robert M. Solitro
Director of Examinations
New Hampshire Insurance Department
169 Manchester Street
Concord, NH 03301

Re: Statement of Actuarial Opinion: General Instruction 13
Annual Statement for Property/Casualty Companies
Proposals from the Casualty Actuarial Task Force for 1993

Dear Bob:

The NAIC Casualty Actuarial Task Force recommends some further changes to the Instructions relating to the Actuarial Opinion for property-casualty companies. I wish to describe the substantive changes for review by your Blanks Task Force members.

The revision concerning reliance on underlying data was already adopted by your Blanks Task Force for 1992 with a recommendation from the Casualty Actuarial Task Force. This change was a deletion of 1991 sections 9 and 10 and substituting a new section, which appears in the attached version as a new Section 10. Since this proposal has not been acted upon by either the NAIC Plenary Session or its Executive Committee, it appears as a new revision in this proposal document. It does not require further discussion or action.

We are proposing several substantive changes in Section 11 instructing the actuary to comment on several items affecting loss or loss expense reserves. Prior instructions listed six specific items and advised the actuary to comment on any, when appropriate. Many or most actuaries chose not to comment on several items, which left us with questions about the completeness of their reviews of reserves. We now want to require comment on each of the listed items. A new sentence is added near the end of the first paragraph to preserve the original intent of allowing the actuary to direct attention to any other contingencies or uncertainties deserving continuing attention without having to give a "qualified" opinion.

We have seen several 1991 opinions stating that the actuary could not review reserves for the company share of losses or expenses from underwriting pools and associations since underlying data is not available. We propose to add this matter to the list of items for which comment is required and to require disclosure of reserve amounts in a new Section 9. The NAIC should consider regulatory strategies for requiring pools to provide reserving information and actuarial opinions.

Mr. Robert M. Solitro
June 17, 1992
Page 2

This paragraph has required actuaries to give an explanation of the change in reserves if that change has caused exceptional values on IRIS tests. Actuaries have been asking us which tests we want them to look at, claiming that their opinions often must be given to the companies before all statement items used in IRIS tests are finalized. We wish to specify tests 9, 10, and 11, which deal with reserve development. Reserve changes which do not affect these tests are unlikely to be the primary reason for exceptional values on other tests.

Actuaries have been asking us what we mean by "loss portfolio transfers" and "financial reinsurance." These terms apparently have varieties of meanings. To give some guidance, to an extent we consider prudent, we are introducing definition of these two terms. The phrases in these definitions come from Chapter 22 of the Accounting Practices Manual.

Probably the greatest amount of inquiries have come to us about what we want the actuary to do regarding reinsurance collectibility. We do not believe the actuary should be the principal expert on this matter, but we do think the actuary should not naively assume all reinsurance claims will be honored and should know how much attention company management has given the matter. The final new paragraph in Section 11 lists some things the actuary should do before commenting.

The treatment given by the actuary to each item listed in Section 11 will be described in the actuarial report which will be available for regulators to examine on request (see new language in Section 15). Hence, a casual statement that each item was considered will not be sufficient.

We propose that the disclosure instructions for amounts of anticipated salvage and subrogation and reserve discounting, which were added as a subparagraph to Section 8.A. for 1991, be moved to a new Section 9. Disclosure of pool reserves is also required by this new section. The purpose of this change is better organization and also to clarify the scope of the opinion. Separate opinion on these disclosed amounts is not required, but is implicit in the net and gross reserves listed in Section 8. Comment on each of these specific items is required by Section 11.

The remaining proposals are less substantial. For instance, in the nature of business exemptions of Section 4, we wish to delete the final sentence which restricts the exemption to property insurers only. Some state(s) have approved exemptions for ocean marine insurers or mortgage guaranty companies. We do not wish to restrict commissioners ability to act. The intention was to exempt companies which write only fast-developing lines where the uncertainty of loss reserves is not a substantial issue.

Mr. Robert M. Solitro
June 17, 1992
Page 3

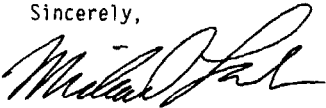
Paragraph 2.C. allows an insurer to request approval to provide an opinion from someone who does not have credentials from the Casualty Actuarial Society or the American Academy of Actuaries. In such cases, states other than the state of domicile have no evidence of this approval. We propose to require a copy of the domiciliary state approval letter, just as we currently require a copy of the Academy letter from any of its members who are not CAS members (Section 6).

Last year, for 1992 opinions, we proposed changing the workpapers requirement in Section 15 to an "actuarial report" requirement. The Blanks Task Force and the EX4 Subcommittee added a phrase "and underlying workpapers" following "actuarial report" where it appears in three places. Our intent was to avoid requesting "workpapers" and getting a boxful of scratchpaper scribbles. Instead, we would be getting an organized presentation of how reserves were established. These reports will be subject to standards and guidelines adopted by the Actuarial Standards Board (ASB) and discipline imposed on CAS and Academy members. To make sure we got what we wanted, we added a crucial phrase to the ASB definition of actuarial report: "...and which documents the analysis underlying the opinion." The reports will show the development triangles and other quantitative mechanics of computing the reserves. We are proposing to delete the phrase "and underlying workpapers" for two reasons:

1. "Actuarial report" is the precise definition of what we want to see.
2. A requirement of "workpapers" may be troublesome to some auditors or actuaries employed by auditing firms.

Thank you for the opportunity to present the recommendations from our task force. We believe the Actuarial Opinion requirement for property-casualty companies has become a major tool for our efforts to promote sound insurer management for solvency.

Sincerely,



R. Michael Lamb, FCAS, MAAA
Casualty Actuary
Insurance Division
(503) 378-4271

RML:rm1
IN55989

Enclosure
cc: Jean Olson, NAIC

ACTUARIAL OPINION

1. There is to be included or attached to Page 1 of the Annual Statement, the statement of a qualified actuary, entitled "Statement of Actuarial Opinion," setting forth his or her opinion relating to loss and loss adjustment expense reserves. The qualified actuary must be appointed by the Board of Directors, or its equivalent, or by a committee of the Board, by December 31 of the calendar year for which the opinion is rendered. Whenever the appointed actuary is replaced by the Board of Directors, the company must notify the domiciliary commissioner within 30 days of the date of the Board action and give the reasons for the replacement. The appointed actuary must present a report to the Board of Directors each year on the items within the scope of the opinion.

2. Definitions

"Qualified actuary" is a person who is either:

- A. A member in good standing of the Casualty Actuarial Society, or
- B. A member in good standing of the American Academy of Actuaries who has been approved as qualified for signing casualty loss reserve opinions by the Casualty Practice Council of the American Academy of Actuaries, or
- C. A person who otherwise has competency in loss reserve evaluation as demonstrated to the satisfaction of the insurance regulatory official of the domiciliary state. In such case, at least 90 days prior to the filing of its annual statement, the insurer must request approval that the person be deemed qualified and that request must be approved or denied. The request must include the NAIC Biographical form and a list of all loss reserve opinions issued in the last 3 years by this person.

Notwithstanding the above, a domiciliary commissioner may, by bulletin or regulation, specify who may sign an opinion. Also, a domiciliary commissioner may require particular qualifications, including independence, for specific insurers.

"Insurer" means an insurer authorized to write property and/or casualty insurance under the laws of any state and includes but is not limited to fire and marine companies, general casualty companies, local mutual aid societies, statewide mutual assessment companies, mutual insurance companies other than farm mutual insurance companies and county mutual insurance companies, Lloyd's plans, reciprocal and interinsurance exchanges, captive insurance companies, risk retention groups, stipulated premium insurance companies, and non-profit legal services corporations.

"Actuarial report" means a document or other presentation, prepared as a formal means of conveying the actuary's professional conclusions and recommendations, of recording and communicating the methods and procedures, and of insuring that the parties addressed are aware of the significance of the actuary's opinion or findings and which documents the analysis underlying the opinion.

"Annual Statement" means the annual financial statement required to be filed by insurers with the commissioner.

3. Content

The opinion shall be in the format of and contain the information required by this Section 13 of the Annual Statement Instructions: Property and Casualty.

4. Exemptions

An insurer who intends to file for one of the exemptions under this section must submit a letter of intent to its domiciliary commissioner no later than December 1 of the calendar year for which the exemptions is to be claimed. The commissioner may deny the exemption prior to December 31 of the same year if he deems the exception inappropriate.

A certified copy of the approved exemption must be filed with the annual statement in all jurisdictions in which the company is authorized.

Exemption For Small Companies

An insurer otherwise subject to the requirement that has less than \$1,000,000 total direct plus assumed written premiums during a calendar year in lieu of the opinion required for the calendar year, may submit an affidavit under oath of an officer of the insurer that specifies that amount of direct plus assumed premiums written.

Exemption for Insurers under Supervision or Conservatorship

Unless ordered by the domiciliary commissioner, an insurer that is under supervision or conservatorship pursuant to statutory provision is exempt from the filing requirements contained herein.

Exemption for Nature of Business

An insurer otherwise subject to the requirement and not eligible for an exemption as enumerated above may apply to its domiciliary commissioner for an exemption based on the nature of business written. [~~This exemption is available to these companies writing property lines only.~~]

Financial Hardship Exemption

A. An insurer otherwise subject to this requirement and not eligible for an exemption as enumerated above may apply to the commissioner for a financial hardship exemption.

- B. Financial hardship is presumed to exist if the projected reasonable cost of the opinion would exceed the lesser of:
- (i) One percent of the insurer's capital and surplus reflected in the insurer's latest quarterly statement for the calendar year for which the exemption is sought; or
 - (ii) Three percent of the insurer's [~~projected-net~~] direct plus assumed premiums written during the calendar year for which the exemption is sought as projected from [~~reflected-in~~] the insurer's latest quarterly statements filed with its domiciliary commissioner.
5. Such a statement of opinion must consist of a paragraph identifying the actuary; a scope paragraph identifying the subjects on which an opinion is to be expressed in describing the scope of the actuary's work (see sections 8-11 below); and an opinion paragraph expressing his or her opinion with respect to such subjects (see sections 12-14 below). One or more additional paragraphs may be needed in individual cases if the actuary considers it necessary to state a qualification of his or her opinion or to explain some aspect of the annual statement which is not already sufficiently explained in the annual statement.
6. The opening paragraph should generally indicate the actuary's relationship to the company. For a company actuary the opening paragraph of the actuarial opinion should contain the sentence:

"I, (name and title of actuary), am an officer (employee) of (named insurer) and a member of the American Academy of Actuaries and meet its qualification standards. (and/or) I am a Fellow/Associate of the Casualty Actuarial Society. I was appointed by the Board of Directors (or equivalent authority) on (insert date) to render this opinion."

For a consulting actuary, the opening paragraph of the actuarial opinion should contain the sentence:

"I, (name and title of actuary), am associated with the firm of (name of firm). I am a member of the American Academy of Actuaries and meet its qualification standards. (and/or) I am a Fellow/Associate of the Casualty Actuarial Society. I was appointed by the Board of Directors (or equivalent authority) on (insert date) to render this opinion."

A member of the American Academy of Actuaries qualifying under paragraph 2.B. must attach the approval letter from the Academy.

For a person other than a member of the American Academy of Actuaries or a member of the Casualty Actuarial Society, the opening paragraph of the opinion should contain the sentence:

"I, (name and title), am an officer (employee) of (name of insurer), and I have demonstrated competency in loss reserving to the satisfaction of (regulatory official of domiciliary state). I was appointed by the Board of Directors (or equivalent authority) on (insert date) to render this opinion."

or

"I, (name and title of consultant), am associated with the firm of (name of firm). I have demonstrated competency in loss reserving to the satisfaction of (regulatory official of domiciliary state). I was appointed by the Board of Directors (or equivalent authority) on (insert date) to render this opinion."

A person who is neither a member of the American Academy of Actuaries nor a member of the Casualty Actuarial Society and who has qualified under paragraph 2.C. must attach the approval letter from the insurance regulatory official of the domiciliary state.

7. The following are examples, for illustrative purposes, of language which in typical circumstances would be included in the remainder of the statement of actuarial opinion. The illustrative language should be modified as needed to meet the circumstances of a particular case, and the actuary should in any case use language which clearly expresses his or her professional judgment.
8. The scope paragraph should contain a sentence such as the following:

"I have examined the actuarial assumptions and methods used in determining reserves listed below, as shown in the Annual Statement of the company as prepared for filing with state regulatory officials, as of December 31, 19__."

The paragraph should list those items and amounts with respect to which the actuary is expressing an opinion. The list should include but not necessarily be limited to:

- A. Reserve for unpaid losses (Page 3, Item 1).

~~[Anticipated salvage and subrogation included as a reduction to loss reserves as reported in Schedule P--Analysis of Losses and Loss Expenses, Underwriting and Investment Exhibit--Part 3A and on Page 3--Liabilities, Surplus and Other Funds, Line 1 and disclosed in Note #17 to the Financial Statements--\$-----; and discount for time value of money included as a reduction to loss reserves and loss expense reserves as reported in Schedule P--Analysis of Losses and Loss Expenses, Part 3A--Underwriting and Investment Exhibit, and on Page 3--Liabilities, Surplus and Other Funds, Lines 1 and 2--\$-----]~~

- B. Reserve for unpaid loss adjustment expenses (Page 3, Item 2).

- C. Reserve for unpaid losses - Direct and Assumed (Schedule P, Part 1, Totals from Cols. 13 and 15).
- D. Reserve for unpaid loss adjustment expenses - Direct and Assumed (Schedule P, Part 1, Totals from Cols. 17, 19 and 21).
- [9. ~~If the actuary has examined the underlying records and/or summaries, the scope paragraph should also include a sentence such as the following:~~
- ~~"My examination included such review of the actuarial assumptions and methods used and of the underlying basic records and/or summaries and such tests of the calculations as I considered necessary."~~
- [10. ~~If the actuary has not examined the underlying records and/or summaries, but has relied upon those prepared by the company, the scope paragraph should include a sentence such as one of the following:~~
- A. ~~"I relied upon data underlying loss and loss adjustment expense reserves prepared by the responsible officers or employees of the company or group to which it belongs. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary."~~
- B. ~~"I relied upon company produced data underlying loss and loss adjustment expense reserves as reported upon by (name of accounting firm) on (date). In other respects, my examination included such review of the underlying actuarial assumptions and methods used and such tests of the calculations as I considered necessary."~~
9. The actuary should state that the items in paragraph 8, on which he or she is expressing an opinion, reflect the following items:
- A. Anticipated salvage and subrogation included as a reduction to loss reserves as reported in Schedule P - Analysis of Losses and Loss Expenses, Underwriting and Investment Exhibit - Part 3A and on Page 3 - Liabilities, Surplus and Other Funds, Line 1, \$ _____ ;
- B. Discount for time value of money included as a reduction to loss reserves and loss expense reserves as reported in Schedule P - Analysis of Losses and Loss Expenses, Part 3A - Underwriting and Investment Exhibit, and on Page 3 - Liabilities, Surplus and Other Funds, Lines 1 and 2, \$ _____ ; and
- C. The net reserves for loss and expense for the company's share of underwriting pools and associations unpaid losses and expenses which are included in reserves shown on Page 3 - Liability, Surplus and Other Funds, Lines 1 and 2, \$ _____ .

10. The scope paragraph should include a paragraph such as the following regarding the data used by the actuary in forming the opinion:

"In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by the responsible officers or employees of the company or group to which it belongs. I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P - Part 1 of the company's current annual statement. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary."

11. The actuary should comment in the scope section on each of the following topics, describing the effect of each on loss or loss expense reserves: [~~as appropriate, on relevant topics such as the following to the extent they affect, or could affect, the loss reserves;~~] discounting, salvage/subrogation, underwriting pools or associations, loss portfolio transfers, financial reinsurance, and reinsurance collectibility. The actuary should also comment on and describe the effects of any additional relevant topics which in the actuary's judgment materially affect loss or loss expense reserves. If the company reserves will create exceptional values using the NAIC IRIS tests 9, 10, and 11, the actuary should include an explanation.

For the purpose of this instruction, "loss portfolio transfer" refers to any agreement which increases the transferring insurer's Surplus To Policyholders as a result of the transferee undertaking any loss obligation already incurred and for which the consideration paid by the transferring insurer is derived from present value or discounting concepts.

"Financial reinsurance" refers to contractual arrangements for which credit is not allowed by the NAIC Accounting Practices and Procedures Manual for the ceding insurer because the arrangements do not include a transfer of both timing and underwriting risk by which the reinsurer undertakes in fact to indemnify the ceding insurer against loss or liability by reason of the original insurance.

Before commenting on reinsurance collectibility, the actuary should solicit information from management on any actual collectibility problems, review ratings given to reinsurers by a recognized rating service, and examine Schedule F for the current year for indications of regulatory action or reinsurance recoverable on paid losses over 90 days past due. The comment should also reflect any other information the actuary has received from management or which is publicly available about the capability or willingness of reinsurers to pay claims. The actuary's comments do not imply an opinion on the financial condition of any reinsurer.

12. The opinion paragraph should include a sentence which covers at least the points listed in the following illustration:

"In my opinion, the amounts carried [~~in the balance sheet~~] on account of the items identified [~~above~~] in the scope paragraph

- A. meet the requirements of the insurance laws of (state of domicile).
- B. are computed in accordance with accepted loss reserving standards and principles.
- C. make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements."

Insurance laws and regulations shall at all times take precedence over the actuarial standards and principles.

13. If there has been any material change in the actuarial assumptions and/or methods from those previously employed, that change should be described in the statement of actuarial opinion by inserting a phrase such as:

"A material change in actuarial assumptions (and/or methods) was made during the past year, but such change accords with accepted loss reserving standards."

A brief description of the change should follow.

The adoption of new issues or coverages requiring underlying actuarial assumptions which differ from actuarial assumptions used for prior issues or coverages is not a change in actuarial assumption within the meaning of this paragraph.

14. If the actuary is unable to form an opinion, he or she should refuse to issue a statement of opinion. If the actuary's opinion is adverse or qualified, the actuary should issue an adverse or qualified actuarial opinion explicitly stating the reason(s) for such opinion.
15. The statement must include assurance that an actuarial report [~~and underlying workpapers~~] supporting the actuarial opinion and describing how the actuary treated each of the topics listed in paragraph 11 will be maintained at the company and available for examination for seven years. The wording for an actuary employed by the company should be similar to the following:

"An actuarial report [~~and underlying workpapers~~] supporting the findings expressed in this statement of actuarial opinion will be retained for a period of seven years in the administrative offices of the company and available for regulatory examination."

The wording for a consulting actuary retained by the company should be similar to the following:

"An actuarial report [~~and underlying workpapers~~] supporting the findings expressed in this statement of actuarial opinion have been provided to the company to be retained for a period of seven years at its administrative offices and available for regulatory examination."

16. The statement should conclude with the signature of the actuary responsible for providing the opinion. The signature should appear in the following format:

Signature of actuary
Printed name of actuary
Address of actuary
Telephone number of actuary

INSPA693/698