



# **Overview of Statements of Actuarial Opinion**

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# Three Required Documents

- Statement of Actuarial Opinion
- Supporting Report
- Actuarial Opinion Summary

# Who is the intended User?

- Board of Directors
- Company Management
- Regulators
- SEC and potential investors?
- A.M. Best?
- Others?

# Sections of the Statement of Actuarial Opinion

- Identification
- Scope
- Opinion
- Relevant Comments
- Exhibit A
- Exhibit B

# Identification Paragraph

- Appointed Actuary's relationship to the Company
  - employee or consultant
  - role in reserve setting
- Date of appointment
  - Specify that the appointment was made by the Board of Directors, or its equivalent, or by a committee of the Board
- Appointed Actuary's qualifications
  - basic education
  - experience
  - continuing education

# Scope Paragraph

- The Reserves on which the Appointed Actuary is opining should be listed in Exhibit A
- The items in the SCOPE on which the Appointed Actuary is expressing an opinion reflect the Loss Reserve Disclosure items (8 through 13) in Exhibit B
- Identify the Provider of data relied upon by the Appointed Actuary
- Evaluation of data for reasonableness and consistency (ASOP 23)
- Reconcile the data to Schedule P
- Data Testing Requirements – need letter or memo to CFO or auditor
- Review the methods and assumptions
- Perform any tests and calculations that the Appointed Actuary considers necessary

# Opinion Paragraph

- In my opinion, the amounts carried in Exhibit A on account of the items identified
- A. Meet the requirements of the insurance laws of the State of Domicile,
- B. Are computed in accordance with accepted actuarial standards and practice
- C. Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.
- D . Insert Other Reserve items on which the Appointed Actuary is expressing an Opinion
- Unearned premium on Long duration contracts

# Possible Opinions

- **Reasonable:** carried reserve is within the Appointed Actuary's range of reasonable reserve estimates
- **Deficient or Inadequate:** the carried reserve is less than the minimum that the Appointed Actuary believes is reasonable.
- **Redundant or Excessive:** the carried reserve amount is greater than the maximum that the Appointed Actuary believes is reasonable.
- **Qualified Opinion:** reserves for a certain item or items cannot be reasonably estimated.
- **No Opinion:** cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information.



# Risk of Material Adverse Deviation (RMAD)

- Required by Two Authorities
  - AAA ASOP 36, ¶4.2(e) *“If the actuary reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation, an explanatory paragraph should be included in that statement of actuarial opinion.”*
  - **NAIC SAO Instructions** *“The Appointed Actuary must provide specific RELEVANT COMMENT paragraphs to address the risk of material adverse deviation. The actuary must identify the materiality standard and the basis for establishing the standard...”*
  - **Exhibit B** must disclose both
    - **the materiality standard** in US Dollars, and,
    - whether or not the Appointed Actuary believes there are **significant risks and uncertainties** that could result in **material adverse deviation**.

# Materiality: the 'M' in RMAD

- How much adverse deviation would matter, regardless of whether there are risks that are significantly likely to produce that much adverse deviation
- **ASOP 36, ¶3.6** *“MATERTIALITY The actuary should evaluate materiality based on the actuary’s professional judgment, any applicable materiality guidelines or standards, and the intended purpose for which the actuary is preparing the statement of actuarial opinion. The actuary should understand which financial values are usually important to the intended users of the statement of actuarial opinion and how those financial values are likely to be affected by changes in the reserves and future payments for losses and loss adjustment expenses. For example, for a statement of actuarial opinion for an insurance company to be used for financial reporting to insurance regulators, materiality might be evaluated in terms of the company’s reported reserves or statutory surplus.”*
- **ASOP I ¶2.6** *“Materiality is a consideration in many aspects of the actuary’s work. An item or a combination of related items is material if its omission or misstatement could influence a decision of an intended user. When evaluating materiality, the actuary should consider the purposes of the actuary’s work and how the actuary anticipates it will be used by intended users. The actuary should evaluate materiality of the various aspects of the task using professional judgment and any applicable law (statutes, regulations, and other legally binding authority), standard, or guideline.*
- The Academy’s Council on Professionalism Task Force on Materiality produced a discussion paper, *Materiality: Concepts on Professionalism*, in 2006. Generalized definition of the concept of materiality: *“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”*
- NAIC Accounting Practices and Procedures Manual, Preamble, P¶VI *“Is the Item large enough for users of the information to be influenced by it?”*
- SEC Staff Accounting Bulletin No 99 is similar to SEC manual

# Materiality (continued)

- There is no definitive measure of what is material
- Most Statements of Actuarial Opinion seem to base the Materiality Standard on a percent of statutory surplus
- A study of 1,000 Statements of Actuarial Opinion showed 10% of statutory surplus to be the most common basis (2016 CLRS)
- Also consider percent of reserves
- Also consider effect on RBC level
- Also consider effect on IRIS ratios

# Significant Risks and Uncertainties

- ASOP I ¶ 2.12 SIGNIFICANCE/SIGNIFICANT  
Significance can have different meanings. A result may be deemed to be statistically significant if it is determined that the probability that the result was produced by random chance is small. An event may be described as significant if the likelihood of its occurrence is more than remote. In addition, a result may be significant because it is of consequence. Other uses may be encountered in actuarial practice. The actuary should exercise care in interpreting or using these words.



# Significant Risks and Uncertainties (cont)

- **NAIC SAO Instructions**
  - The explanatory paragraph should not include general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc.,
  - Nor is the actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

# Significant Risks and Uncertainties(cont.)

- Consider factors separately and in combination
- Common Risk Factors to Evaluate:
  - Position of held reserve within range
  - Reserve “leverage”
  - Reinsurance collectability concerns
  - “Difficult” exposures
  - Other risk factors
    - new company
    - additional lines of business
    - expansion into additional states
    - changes in company operations (e.g., claim handling, underwriting)
    - others?

# Relevant Comments (continued)

- Reinsurance
  - financial, retroactive, collectability, reinsurer ratings
- IRIS Ratios
- methods & assumptions
- anticipated salvage & subrogation
- discount for time value of money
- pools & Associations
- terrorist, asbestos, environmental

## Also, consider the following comments

- Actual claims should be expected to vary, perhaps materially, from any estimate made prior to the settling of all claims
- No provision has been made for the extraordinary future emergence of new losses or types of losses not sufficiently represented in the Company's historical database or which are not yet quantifiable.
- My review was limited to the loss and loss expense reserves, and did not include an analysis of any income statement or other balance sheet items. My opinion on the reserves is based on the assumption that all reserves are backed by valid assets, which have suitably scheduled maturities and/or adequate liquidity to meet cash flow requirements.





Review NAIC Instructions and COPLFR Practice Note for more thorough information.

- State Law takes precedence over all other sources
- check the State web site
  - consider getting the Law Manual
- “Disclosure Will Set You Free”
  - - Dale Ogden