

CASUALTY · LOSS · RESERVE · SEMINAR

CLRS

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Coffee Klatch for Opinion Writers

September 20, 2022

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Outline of concurrent session

- Introduction of panelists
- Changes to NAIC Statement of Actuarial Opinion (SAO) requirements
- Ground rules for concurrent session
- Possible issues to discuss
- Resources

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Panelists

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| <ul style="list-style-type: none"> • Kathleen ("Kathy") C. Odomirok <ul style="list-style-type: none"> • Principal at EY • Immediate past chair of COPLFR • Lead author of the main textbook for CAS Exam 6 • Member of the CAS Board of Directors | <ul style="list-style-type: none"> • Julie Lederer <ul style="list-style-type: none"> • P&C actuary at Missouri Department of Commerce and Insurance • Member and past chair of NAIC Actuarial Opinion Working Group • Member and past chair of CAS Reserves Working Group |
| <ul style="list-style-type: none"> • Derek W. Freihaut <ul style="list-style-type: none"> • Principal at Pinnacle Actuarial Resources • Chair of COPLFR | <ul style="list-style-type: none"> • Margaret Tiller Sherwood <ul style="list-style-type: none"> • President of Tiller Consulting Group, Inc. • Chair, ASOP 36 Task Force • Member, ASB Casualty Committee |

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Changes to NAIC SAO requirements in 2022

- Section 1:
 - Guidance on CE logs was removed because CASTF's CE log project will not be reoccurring.
 - Additional guidance was added on documentation of the board review of qualification documentation for companies that are part of a group whose parent board reviews qualification documentation on behalf of all subsidiaries.
- Section 3: In the IDENTIFICATION paragraph, Appointed Actuaries are now asked to confirm that qualification documentation was provided to the Board of Directors.
- Section 8: Modified language notes that the signature block requirements apply to the Statement of Actuarial Opinion only. The Actuarial Report should reproduce the same information, though not necessarily in the exact same format.

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Overall, Missouri’s 2021 opinions were great

Observations from certain opinions and opinion summaries:

- The CAS website does not indicate that the appointed actuary has self-certified compliance with the continuing education requirements for signing an NAIC statement of actuarial opinion.
- “I also reconciled that data to Schedule P, Part 1 Summary of the Company’s current Annual Statement.”
 - My question: Part 1 Summary shows all lines of business combined. Paragraph 7.C of the NAIC SAO instructions says that the report should include an “exhibit that reconciles and maps the data used by the Appointed Actuary, consistent with the segmentation of exposure or liability groupings used in the Appointed Actuary’s analysis, to the Annual Statement Schedule P line of business reporting.”
- “Reliance on” the work of another with no information on whether that individual’s work was reviewed.
 - ASOP No. 36, Section 4.2.f: “If the actuary makes use of an analysis or opinion of another not within the actuary’s control for a material portion of the reserves, the actuary should disclose whether the actuary reviewed the others’ underlying analysis. If a review was conducted, the actuary should disclose the extent of the review in such terms as the methods and assumptions used and the underlying arithmetic calculations.” (Note that this language does not appear in the exposure draft of ASOP No. 36.)

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Observations from certain opinions and opinion summaries:

- Errors in:
 - Company action level RBC (used in materiality standard determination)
 - Statutory surplus on Exhibit B, line 7
 - Reconciliation between opinion, opinion summary, and annual statement
- “Management has estimated the amount of reinsurance they believe to be uncollectible at \$XYZ, which is included in the loss and loss adjustment expense amounts reported on Page 3, Lines 1 and 3 of the annual statement.”
 - My question: What does “is included in” mean? Are the reserves on the balance sheet gross or net of the uncollectible amount?

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Observations from certain opinions and opinion summaries:

- The opinion says that the company does not participate in voluntary or involuntary pools, but Schedule F Part 1 lists several mandatory pools with positive assumed premium and reserves.
- Reserve discount is material and the discount rate is not provided in the opinion.
 - ASOP No. 36, Section 4.2.g: “If the statement of actuarial opinion relies on present values and if the actuary believes that such reliance is likely to have a material effect on the results of the actuary’s reserve evaluation, the actuary should disclose that present values were used in forming the opinion, the interest rate(s) used by the actuary, and the monetary amount of discount that was reflected in the reserve amount.”
- Exceptional IRIS ratio 11 and 12 results explained by “low surplus” or “adverse development.”
 - Paragraph 6.E of the NAIC SAO instructions asks for “RELEVANT COMMENT on the factors that led to the unusual value(s)” if there are failures in IRIS ratios 11, 12, or 13.
 - Paragraph 5.E of the NAIC AOS instructions says that an “explicit description of the reserve elements or management decisions that were the major contributors” should be provided if reserve development is greater than 5% of surplus in three or more of the past five years.

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Observations from certain opinions and opinion summaries:

- Signature block doesn’t include an email address.
 - Paragraph 8 of the NAIC SAO instructions requires that the email address of the appointed actuary be provided.

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Overall, Missouri’s 2021 opinions were great

Observations from certain opinions and opinion summaries:

- Extra line item (“retroactive reinsurance reserves ceded”) added to Exhibit A.
 - This impacts the accuracy of the NAIC’s electronic database. Suggestion: Put this on line 6 (“Other Loss Reserve items”) instead.
- Exhibit A, line 5 changed from “Retroactive Reinsurance Reserve Assumed” to “Net Retroactive Reinsurance Reserve.”
 - This impacts the accuracy of the NAIC’s electronic database.
- Exhibit B, line 12 and the associated discussion only includes extended reporting endorsements associated with medical professional liability.
 - This line should contemplate extended reporting endorsements from all lines of business.
- Exhibit B, line 13.4 shows overall premium deficiency reserves.
 - This line item should only show amounts associated with accident and health long duration contracts.

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Overall, Missouri’s 2021 opinions were great

Observations from certain opinions and opinion summaries:

- The actuarial opinion summary shows a range of reasonable estimates, but the report does not; nor does the report mention a range.
 - My question: How was the range determined?

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Ground rules

- Open forum on SAO issues
 - Focus on U.S. domiciled P/C carriers and Risk Retention Groups
- Panelists provide perspectives
- COPLFR perspectives
- Your perspectives

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Possible issues for discussion

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| <ul style="list-style-type: none"> • Type of opinion (Reasonable, Inadequate, Excessive, Qualified, No Opinion) • Gross/net • RMAD/materiality threshold • Recoveries (deductibles, salvage/subrogation, reinsurance, other) • UPR for long duration contracts • Discounting • Pools/associations • Qualified actuary documentation | <ul style="list-style-type: none"> • Death, disability and retirement (DD&R) • Schedule P reconciliation/roll forward • Catastrophes, pandemic, special issues • Unusual IRIS test results • Making use of another • Changes in methods/assumptions • Regulatory Guidance Memo • Actuarial Opinion Summary • Actuarial Report • Presentation to Board of Directors |
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More issues

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| <ul style="list-style-type: none"> • Board appointment • Evaluation date/accounting date/ review date • Name of company representative providing data • Nature of LAE reserves being opined upon • Accounting standard (SAP, GAAP, IFRS) • Intended users of SAO • Material assumptions prescribed by law/regulation | <ul style="list-style-type: none"> • California Workers' Compensation Schedule P • Risk transfer in reinsurance contracts • Premium deficiency reserves • Asbestos & environmental • Reinsurance recoverables/AM Best ratings • Claims-made extended loss and expense reserves <ul style="list-style-type: none"> • Recorded as loss & LAE • Recorded as UPR |
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Resources

- NAIC Annual Statement Instructions
- Domiciliary regulator
- Department of insurance websites
- COPLFR Practice Note
- AAA Law Manual
- Financial Analysis Handbook – P/C SAO worksheet
 - <https://content.naic.org/sites/default/files/publication-fah-zu-financial-analysis-handbook.pdf>
- COPLFR's Opinion Seminar
- Statements of Statutory Accounting Principles (SSAPs)
- ASOPs
- Sessions at CLRS, other professional meetings
- CAS & AAA publications
- Publicly-available SAOs (AM Best, S&P Global, internet search)
- COPLFR members
- ABCD

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Thank You!

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| <p>Derek W. Freihaut
 (309) 807-2313
 dfr Freihaut@pinnacleactuaries.com</p> | <p>Julie Lederer
 (573) 526-4877
 julie.lederer@insurance.mo.gov</p> |
| <p>Kathleen C. Odomirok
 (617) 585-0903
 kathy.odomirok@ey.com</p> | <p>Margaret Tiller Sherwood
 (314) 567-7480
 msherwood@tillerconsultinggroup.com</p> |

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