

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: <u>06/25/2019</u> CONTACT PERSON: <u>Kris DeFrain</u> TELEPHONE: <u>816-783-8229</u> EMAIL ADDRESS: <u>kdefrain@naic.org</u> ON BEHALF OF: <u>Executive (EX) Committee and Casualty Actuarial and Statistical (C) Task Force</u> TITLE: _____ AFFILIATION: _____ ADDRESS: _____	FOR NAIC USE ONLY	
	Agenda Item # <u>2019-20BWG MOD</u> Year <u>2019</u> Changes to Existing Reporting [X] New Reporting Requirement []	
	REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT	
	No Impact [X] Modifies Required Disclosure []	
	DISPOSITION	

- [] Rejected For Public Comment
- [] Referred To Another NAIC Group
- [] Received For Public Comment
- [X] Adopted Date 08/20/2019
- [] Rejected Date _____
- [] Deferred Date _____
- [] Other (Specify) _____

BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|--|---|--------------------------------------|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input checked="" type="checkbox"/> INSTRUCTIONS | <input type="checkbox"/> CROSSCHECKS |
| <input type="checkbox"/> QUARTERLY STATEMENT | <input type="checkbox"/> BLANK | |
| <input type="checkbox"/> Life, Accident & Health/Fraternal | <input type="checkbox"/> Separate Accounts | <input type="checkbox"/> Title |
| <input checked="" type="checkbox"/> Property/Casualty | <input type="checkbox"/> Protected Cell | <input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Health | <input type="checkbox"/> Health (Life Supplement) | |

Anticipated Effective Date: Annual 2019

IDENTIFICATION OF ITEM(S) TO CHANGE

The Casualty Actuarial and Statistical (C) Task Force proposes addition of “Qualification Documentation” so the Appointed Actuary would be required to maintain workpapers explaining how the actuary meets the definition of “Qualified Actuary.” These proposed changes were adopted by the Task Force on June 11, 2019.

The Executive (EX) Committee proposes the remainder of the changes, including a new objective definition of “qualified actuary” and the results of an assessment of actuarial educational syllabi in a “~~NAIC~~ Accepted Actuarial Designation” section. These proposed changes were adopted by the Committee on June 25, 2019.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

There are now competing property/casualty (P/C) actuarial educational organizations and no specific standards around the minimum level of education expected for an Appointed Actuary. The proposed change is designed to avoid any potential development of lower educational standards in a competitive environment, to ensure Appointed Actuaries can be expected to have a minimum level of basic education to perform the duties of an Appointed Actuary, and to provide regulatory expectations of a profession that provides a vital service for regulators and the public by issuance of the financial statement actuarial opinion. Regulators deemed it was important, especially in the absence of any licensure of Appointed Actuaries, to develop and maintain the definition of Qualified Actuary for the purpose of being an Appointed Actuary. (Note: professional actuarial associations are still allowed to implement stricter standards or modify the referenced documents/policies.)

Background on the Qualified Actuary Project

Historically in the U.S., the Casualty Actuarial Society (CAS) provided actuarial education for property and casualty (P/C) actuaries. The NAIC's definition of a qualified actuary to be eligible to be an Appointed Actuary currently includes membership in the CAS as a core requirement. When the Society of Actuaries (SOA) introduced a general insurance (GI--aka P/C) actuarial educational track, the SOA asked the NAIC to also include a Fellow of the Society of Actuaries (SOA) who had successfully completed the SOA GI track in the qualified actuary definition.

The Casualty Actuarial and Statistical (C) Task Force was first asked to evaluate the SOA's GI track to determine if it was acceptable to be included in that definition. In 2015 the Task Force informed its parent committee, the Property and Casualty Insurance (C) Committee, of its preference to conduct an independent review of the SOA's GI track. At the request of the Property and Casualty Insurance (C) Committee, the Executive (EX) Committee decided it would ask the NAIC to hire a consultant to conduct such a review and would assign an EX Ad Hoc Group of commissioners to oversee the project. The NAIC released the results of the consultant's work in July 2017. The SOA's GI track was found to lack necessary breadth and depth to meet minimum educational standards. The CAS membership was found acceptable, with some question about the associateship level and whether the advanced reserving on Exam 7 should be required in addition to the ACAS designation.

Upon receiving advice from a consultant on the NAIC's definition of a "Qualified Actuary," the NAIC began a project to re-define a Qualified Actuary using objective criteria. At the 2017 Summer National Meeting, the Executive (EX) Committee adopted a fiscal to hire a consultant to conduct a P/C Appointed Actuary Job Analysis. The NAIC then worked with the CAS, SOA, and the Academy of Actuaries (Academy) to develop an aggressive timeline to complete the job analysis, draft educational standards, conduct assessments of the CAS and SOA syllabi, and expose/implement revised actuarial opinion instructions. All parties agreed with the timeline and plan.

The Job Analysis was completed by the NAIC and numerous subject matter experts (nominated by the CAS, SOA, and Academy). The NAIC's P/C Appointed Actuary Job Analysis Project resulted in documentation of knowledge statements, or what an Appointed Actuary needs to know and do for the P/C Appointed Actuary job. Following the job analysis, the NAIC's P/C Educational Standards and Assessment Project resulted in documentation of which elements in each knowledge statement should be included in basic education as a minimum standard, with the remaining elements achievable through experience or continuing education. Using the minimum educational standards, the NAIC and subject matter experts assessed the CAS and SOA syllabi and reading materials. The CAS and SOA have made or agreed to make specific changes to their syllabi and/or reading materials to meet these minimum standards. The revised syllabi and reference materials are required to be in place by Jan. 1, 2021.

On May 31, 2019, the NAIC finalized the assessments of the CAS and SOA. With mutual agreement to make a few additional changes to syllabi, the following designations with particular exam requirements were recommended to be accepted by the NAIC:

- FCAS with successful completion of Exam 6-US
- ACAS with successful completion of Exam 6-US and Exam 7
- FSA with successful completion of the general insurance track, including the Financial and Regulatory Environment-U.S. Exam and the Advanced Topics in General Insurance Exam.

The exam requirements were added to meet the minimum educational standards when there are choices of examination. For example, both organizations have or will offer non-US regulatory and statutory accounting exams. The new definition requires the Appointed Actuary to have successfully completed the U.S. regulatory exam. In response to comments made, allowable substitutions for specific exams were added (e.g., having passed a U.S. regulatory exam under an old syllabi) and the Grandfathering clause was replaced with allowable substitutions. The desired impact is that the NAIC would not retroactively change requirements for Appointed Actuaries. However, the instructions include additional documentation that is required if an actuary previously met the 2018 qualified actuary definition but lacks the specific exams and/or tracks under the new definition. The table of substitutions was discussed with both the CAS and SOA and agreed upon prior to adoption.

Concurrently, the EX Ad Hoc Group drafted a revised definition of Qualified Actuary to be eligible to become a P/C Appointed Actuary in instructions for the P/C Statement of Actuarial Opinion. Instructions were exposed Dec. 2017, September 2018, December 2018, and May 2019 for public comment. A public hearing was conducted on March 22, 2019.

As a result of these NAIC projects, the definition of “Qualified Actuary” was crafted to include education requirements, experience requirements, and professionalism requirements (e.g. application of U.S. Qualification Standards, Code of Conduct, and Actuarial Board of Counseling and Discipline—ABCD). The definition of Qualified Actuary replaces the requirement to be “a member in good standing of the Casualty Actuarial Society” with a requirement to obtain and maintain an “NAIC-Accepted Actuarial Designation.” An NAIC-Accepted Actuarial Organization is one that was assessed by the NAIC to meet the NAIC’s minimum educational standards for an Appointed Actuary. Continued membership in either the CAS or SOA would be required for two reasons: 1) professionalism requirements, counseling, and discipline would be applied by these actuarial organizations and 2) the CAS and SOA have an audit process to evaluate actuarial qualifications regarding Continuing Education (CE) (which the Academy does not).

The 2018 definition of qualified actuary does not require a P/C Appointed Actuary to be a member of the Academy and there has not been such a requirement since the P/C actuarial opinion was first established. (There is mention of Academy membership in current instructions, but that is limited to a rare exception whereby the Appointed Actuary does not meet the definition of Qualified Actuary in the instructions and has been evaluated by the Academy.)

Through comment letters and oral testimony, the Academy suggested that the (iii) in the definition of Qualified Actuary could be modified to require Academy membership. The Executive (EX) Committee at its June 25th meeting, on the recommendation of the EX Ad Hoc Group, agreed that the Academy’s new proposal for mandatory membership is not necessary for the P/C Appointed Actuary.

The following describes the professionalism requirements for U.S. P/C Appointed Actuaries today:

- 1) All professionalism standards established by the Actuarial Standards Board (ASB) are required and the Actuarial Board of Counseling and Discipline (ABCD) is applicable for all CAS and SOA members;
- 2) The ASB and ABCD are included in the Academy’s corporate structure but one does not have to be an Academy member for professionalism requirements to apply; and
- 3) All U.S. P/C Appointed Actuaries pay dues to support the ASB and the ABCD, whether or not a member of the Academy.

The EX Ad Hoc Group sent a May 10, 2019, letter to the Academy explaining its reasoning for the proposal to not add an Academy membership requirement:

Regulators recognize the value in Academy membership, as well as the Academy’s contributions to the NAIC and the entire actuarial profession. However, we are not adding Academy membership to the Statement of Actuarial Opinion instructions as a requirement. Membership in the Academy does not guaranty that an Appointed Actuary receives any license, has participated in the Appointed Actuary opinion writing seminar, has participated in any particular Academy training, nor has been certified as being qualified. If the actuary chooses not to participate in Academy activities, such abstention does not compromise the qualification of that actuary. Our conclusion is that regulators cannot derive any significant additional information about an Appointed Actuary’s qualifications, experience, or knowledge from Academy membership beyond what they already know about the actuary that holds one of the new NAIC-Accepted Actuarial Designations.

We also did not add the membership in the Academy as a requirement for review by the Academy’s Casualty Practice Council. The Academy may establish that as a requirement, just as they may charge a fee or require particular documentation even if it is not in the instructions.

The NAIC process requires a recurring assessment every 5-10 years. The process to develop standards and assess the CAS and SOA has not impacted state regulators who did not volunteer to undertake the development and assessment. Regulators may continue to employ similar processes in future years without impact to non-volunteer states.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

The Accounting Practices and Procedures (E) Task Force on 08/22/2019 adopted the highlighted modifications to the proposal adopted by Blanks (E) Working Group.

**** This section must be completed on all forms.**

Revised 7/18/2018

ACTUARIAL OPINION

1. There is to be included with or attached to Page 1 of the Annual Statement the statement of a ~~Qualified~~ the Appointed Actuary, entitled "Statement of Actuarial Opinion" (Actuarial Opinion), setting forth his or her opinion relating to reserves specified in the SCOPE paragraph. The Actuarial Opinion, both the narrative and required Exhibits, shall be in the format of and contain the information required by this section of the *Annual Statement Instructions – Property and Casualty*.

Upon initial engagement, the ~~Qualified~~ Appointed Actuary must be appointed by the Board of Directors by Dec. 31 of the calendar year for which the opinion is rendered. The Company shall notify the domiciliary commissioner within five business days of the initial appointment with the following information:

- a. Name and title (and, in the case of a consulting actuary, the name of the firm).
- b. Manner of appointment of the Appointed Actuary (e.g., who made the appointment and when).
- c. A statement that the person meets the requirements of a Qualified Actuary (or was approved by the domiciliary commissioner) and that documentation was provided to the Board of Directors.

Once this notification is furnished, no further notice is required with respect to this person unless the Board of Directors takes action to no longer appoint or retain the actuary or the actuary no longer meets the requirements of a Qualified Actuary.

The Appointed Actuary shall provide to the Board of Directors qualification documentation on occasion of their appointment, and on an annual basis thereafter, directly or through company management. The documentation should include brief biographical information and a description of how the definition of "Qualified Actuary" is met or expected to be met (in the case of continuing education) for that year. The documentation should describe the Appointed Actuary's responsible experience relevant to the subject of the Actuarial Opinion. The Board of Directors shall document the company's review of those materials and any other information they may deem relevant, including information that may be requested directly from the Appointed Actuary. The qualification documentation shall be considered workpapers and be available for inspection upon regulator request or during a financial examination.

If an actuary who was the Appointed Actuary for the immediately preceding filed Actuarial Opinion is replaced by an action of the Board of Directors, the Insurer shall within five (5) business days notify the Insurance Department of the state of domicile of this event. The Insurer shall also furnish the domiciliary commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former Appointed Actuary regarding the content of the opinion on matters of the risk of material adverse deviation, required disclosures, scope, procedures, type of opinion issued, substantive wording of the opinion or data quality. The disagreements required to be reported in response to this paragraph include both those resolved to the former Appointed Actuary's satisfaction and those not resolved to the former Appointed Actuary's satisfaction. The letter should include a description of the disagreement and the nature of its resolution (or that it was not resolved). Within this same ten (10) business days, the Insurer shall in writing also request such former Appointed Actuary to furnish a letter addressed to the Insurer stating whether the Appointed Actuary agrees with the statements contained in the Insurer's letter and, if not, stating the reasons for which he or she does not agree. The former Appointed Actuary shall provide a written response to the insurer within ten (10) business days of such request, and the Insurer shall furnish such responsive letter from the former Appointed Actuary to the domiciliary commissioner together with its own responses.

The Appointed Actuary must report to the Board of Directors each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors and identify the manner of presentation (e.g., webinar, in-person presentation, written). A separate Actuarial Opinion is required for each company filing an Annual Statement. When there is an affiliated company pooling arrangement, one Actuarial Report for the aggregate pool is sufficient, but there must be addendums to the Actuarial Report to cover non-pooled reserves for individual companies.

The Actuarial Opinion and the supporting Actuarial Report and workpapers should be consistent with the appropriate Actuarial Standards of Practice (ASOPs), including, but not limited to, ASOP No. 23, ASOP No. 36, ASOP No. 41 and ASOP No. 43, as promulgated by the Actuarial Standards Board, and Statements of Principles adopted by the Casualty Actuarial Society.

1A. Definitions

~~“Appointed Actuary” for purposes of these instructions is a Qualified Actuary (or individual otherwise approved by the domiciliary commissioner) appointed by the Board of Directors in accordance with Section 1 of these instructions.~~

~~“Board of Directors” for purposes of these instructions can include the designated Board of Directors, its equivalent or an appropriate committee directly reporting to the Board of Directors.~~

~~“Qualified Actuary” is a person who:~~

- ~~(i) meets the basic education, experience and continuing education requirements of the Specific Qualification Standard for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statement, as set forth in the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (U.S. Qualification Standards)*, promulgated by the American Academy of Actuaries (*Academy*), and is either:~~
- ~~(ii) has obtained and maintains an NAIC-Accepted Actuarial Designation; and~~
- ~~(iii) is a member of a professional actuarial association that requires adherence to the same *Code of Professional Conduct* promulgated by the Academy, requires adherence to the *U.S. Qualification Standards*, and participates in the Actuarial Board for Counseling and Discipline when its members are practicing in the U.S.~~

~~An exception to parts (i) and (ii) of this definition would be an actuary evaluated by the Academy’s Casualty Practice Council and determined to be a Qualified Actuary for particular lines of business and business activities.~~

~~(i) A member in good standing of the Casualty Actuarial Society; or~~

~~(ii) 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.~~

~~“NAIC-Accepted Actuarial Designation” in item (ii) of the definition of a Qualified Actuary, is an actuarial designation accepted by the NAIC as meeting or exceeding the NAIC’s Minimum Property/Casualty (P/C) Actuarial Educational Standards for a P/C Appointed Actuary (published on the NAIC website). The following actuarial designations, with any noted conditions, are accepted by the NAIC as meeting or exceeding basic education minimum standards:~~

- ~~(i) Fellow of the CAS (FCAS) – Condition: basic education must include Exam 6 – Regulation and Financial Reporting (United States);~~
- ~~(ii) Associate of the CAS (ACAS) – Conditions: basic education must include Exam 6 – Regulation and Financial Reporting (United States) and Exam 7 – Estimation of Policy Liabilities, Insurance Company Valuation, and Enterprise Risk Management;~~
- ~~(iii) Fellow of the SOA (FSA) – Conditions: basic education must include completion of the general insurance track, including the following optional exams: the United States’ version of the Financial and Regulatory Environment Exam and the Advanced Topics in General Insurance Exam.~~

The table below provides some allowable exam substitutions for (i), (ii) and (iii) in the definition of “NAIC Accepted Actuarial Designation:” Noting that CAS exams have changed over time, exceptions for (i) and (ii) provide for FCAS/ACAS designations achieved before an exam was created (e.g. CAS Exam 6-US) or with an earlier version of an exam or exam topic (e.g., 2010 CAS Exam 6 instead of the current CAS Exam 7 Section A). FCAS/ACAS qualified under the 2018 and prior Statement of Actuarial Opinion instructions can use the noted substitution rules to achieve qualification under the new instructions by demonstrating basic and/or continuing education of the required topics including material in CAS Exam 6 (US) and section A of CAS Exam 7 (in the May 2019 CAS syllabus). Exceptions for (iii) for an FSA are also included in the table. The SOA exams completed in the general insurance track in 2019 and prior should be supplemented with continuing education and experience to meet basic education requirements in the *U.S. Qualification Standards*. For purpose of these instructions only, the table also includes specific exams from other organizations that are accepted by the NAIC as substitutes.

<u>Exception for (i), (ii), or (iii)</u>	<u>Exam:</u>	<u>Exam Substitution Allowed*</u>
<u>(i) and (ii)</u>	<u>CAS Exam 6 (US)</u>	<ol style="list-style-type: none"> 1. Any CAS version of a U.S. P/C statutory accounting and regulation exam administered prior to creation of the CAS Exam 6 (US) in 2011. 2. An FCAS or ACAS earned prior to 2021 who did not pass CAS Exam 6 (US) or an allowable exam substitution, may substitute experience and/or continuing education for CAS Exam 6 (US) provided the Appointed Actuary explains in his/her qualification documentation how knowledge of U.S. financial reporting and regulation was obtained. 3. SOA FREU (US) Exam
<u>(ii)</u>	<u>CAS Exam 7</u>	<ol style="list-style-type: none"> 1. Any CAS version of an exam including advanced P/C reserving administered prior to creation of Exam 7 in 2011. 2. An ACAS earned prior to 2021 who did not pass CAS Exam 7 or an allowable exam substitution, may substitute experience and/or continuing education for CAS Exam 7 provided the Appointed Actuary explains in his/her qualification documentation how knowledge of the additional reserving topics in CAS Exam 7 (Section A) in the May 2019 syllabus was obtained. 3. SOA Advanced Topics Exam (Note: The ERM portion of Exam 7 is not needed to meet NAIC educational standards, therefore SOA ERM Exam is not needed for the substitution for this purpose.)
<u>(iii)</u>	<u>SOA FREU (US) Exam</u>	<ol style="list-style-type: none"> 1. CAS Exam 6 (US) 2. Any CAS version of a U.S. statutory accounting and regulation exam administered prior to creation of the CAS Exam 6 in 2011.
<u>(iii)</u>	<u>SOA Advanced Topics Exam</u>	<ol style="list-style-type: none"> 1. CAS Exam 7 2. Any CAS version of an exam containing the advanced techniques to estimate policy liabilities (i.e., advanced reserving).
*Note: These exam substitutions only apply to these instructions and are not applicable for CAS or SOA exam waivers.		

“Insurer” or “Company” means an insurer or reinsurer authorized to write property and/or casualty insurance under the laws of any state and who files on the Property and Casualty Blank.

“Actuarial Report” means a document or other presentation prepared as a formal means of conveying to the state regulatory authority and the Board of Directors the Appointed Actuary’s professional conclusions and recommendations of recording and communicating the methods and procedures, of assuring that the parties addressed are aware of the significance of the Appointed Actuary’s opinion or findings, and of documenting the analysis underlying the opinion. The required content of the Actuarial Report is further described in paragraph 7. (Note that the inclusion of the Board of Directors as part of the intended audience for the Actuarial Report does not change the content of the Actuarial Report as described in paragraph 7. The Appointed Actuary should present findings to the Board of Directors in a manner deemed suitable for such audience.)

“Property and Casualty (P&C) Long Duration Contracts” refers to contracts (excluding financial guaranty contracts, mortgage guaranty contracts and surety contracts) that fulfill both of the following conditions: (1) the contract term is greater than or equal to 13 months; and (2) the insurer can neither cancel the contract nor increase the premium during the contract term. These contracts are subject to the three tests of *SSAP No. 65—Property and Casualty Contracts* of the *NAIC Accounting Practices and Procedures Manual*.

“Accident and Health (A&H) Long Duration Contracts” refers to A&H contracts in which the contract term is greater than or equal to 13 months and contract reserves are required. See Schedule H instructions for a description of categories of contract reserves, as well as policy features that give rise to contract reserves. Two specific examples of contracts that typically require contract reserves are long-term care and disability income insurance.

1B. 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 or she deems the exemption inappropriate.

A 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 that has less than \$1,000,000 total direct plus assumed written premiums during a calendar year, and less than \$1,000,000 total direct plus assumed loss and loss adjustment expense reserves at year-end, in lieu of the Actuarial Opinion required for the calendar year, may submit an affidavit under oath of an officer of the insurer that specifies the amounts of direct plus assumed written premiums and direct plus assumed loss and loss adjustment reserves.

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.

Financial Hardship Exemption

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. Financial hardship is presumed to exist if the projected reasonable cost of the Actuarial Opinion would exceed the lesser of:

- (i) One percent (1%) 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 (3%) of the insurer's direct plus assumed premiums written during the calendar year for which the exemption is sought as projected from the insurer's latest quarterly statements filed with its domiciliary commissioner.

1C. Reporting Requirements for Pooled Companies

For each company in the pool, the Appointed Actuary shall include a description of the pool, identification of the lead company and a listing of all companies in the pool, their state of domicile and their respective pooling percentages.

Exhibits A and B for each company in the pool should represent the company's share of the pool and should reconcile to the financial statement for that company.

The following paragraph applies to companies that have a 0% share of the pool (no reported Schedule P data). The company shall submit an Actuarial Opinion that reads similar to that provided for the lead company. For example, the IRIS ratio and risk of material adverse deviation discussions, and other relevant comments shall relate to the risks of the lead company in the pool. The Exhibit B responses to question 5 should be \$0 and to question 6 should be "not applicable." Exhibits A and B of the lead company should be attached as an addendum to the PDF file and/or hard copy being filed (but would not be reported by the 0% companies in their data capture).

2. The Actuarial Opinion must consist of an IDENTIFICATION paragraph identifying the Appointed Actuary; a SCOPE paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the Appointed Actuary's work; an OPINION paragraph expressing his or her opinion with respect to such subjects; and one or more additional RELEVANT COMMENTS paragraphs. These four sections must be clearly designated.
3. The IDENTIFICATION paragraph should indicate the Appointed Actuary's relationship to the Company, qualifications for acting as Appointed Actuary, and date of appointment, and specify that the appointment was made by the Board of Directors.

If the Appointed Actuary was approved by the Academy to be a "Qualified Actuary," with or without limitation, or if the Appointed Actuary is not a Qualified Actuary but was approved by the domiciliary commissioner, the company must attach, each year, the approval letter and reference such in the identification paragraph.

A member of the American Academy of Actuaries qualifying under paragraph 1A(ii) must attach, each year, a copy of the approval letter from the Academy.

~~These Instructions require that a Qualified Actuary prepare the Actuarial Opinion. Nevertheless, if a person who does not meet the definition of a Qualified Actuary has been approved by the insurance regulatory official of the domiciliary state, the Company must attach, each year, a letter from that official stating that the individual meets the state's requirements for rendering the Actuarial Opinion.~~

4. The SCOPE paragraph should contain a sentence such as the following:

“I have examined the actuarial assumptions and methods used in determining reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 20__, and reviewed information provided to me through XXX date.”

Exhibit A should list those items and amounts with respect to which the Appointed Actuary is expressing an opinion.

The Appointed Actuary should state that the items in the SCOPE, on which he or she is expressing an opinion, reflect Disclosure items 8 through 13.2 in Exhibit B.

The SCOPE paragraph should include a paragraph such as the following regarding the data used by the Appointed Actuary in forming the opinion:

“In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by _____ (officer name and title at the Company). 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.”

5. The OPINION paragraph should include a sentence that at least covers the points listed in the following illustration:

“In my opinion, the amounts carried in Exhibit A on account of the items identified:

- A. Meet the requirements of the insurance laws of (state of domicile).
- B. Are computed in accordance with accepted actuarial standards and principles.
- 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.”

If the Scope includes material Unearned Premium Reserves for P&C Long Duration Contracts or Other Loss Reserve items on which the Appointed Actuary is expressing an opinion, the Actuarial Opinion should contain language such as the following:

- D. Make a reasonable provision for the unearned premium reserves for P&C Long Duration Contracts and/or <insert Other Loss Reserve item on which the Appointed Actuary is expressing an Opinion> of the Company under the terms of its contracts and agreements.

If there is any aggregation or combination of items in Exhibit A, the opinion language should clearly identify the combined items.

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

If the Appointed Actuary has made use of the analysis of another actuary not within the Appointed Actuary’s control (such as for pools and associations, for a subsidiary or for special lines of business) for a material portion of the reserves, the other actuary must be identified by name, credential and affiliation within the OPINION paragraph. If the Appointed Actuary has made use of the work of a non-actuary (such as for modeling) for a material portion of the reserves, that individual must be identified by name and affiliation and a description of the type of analysis performed must be provided.

A Statement of Actuarial Opinion should be made in accordance with one of the following sections (1 through 5). The Appointed Actuary must explicitly identify in Exhibit B which type applies.

1. Determination of Reasonable Provision. When the carried reserve amount is within the Appointed Actuary's range of reasonable reserve estimates, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves.
2. Determination of Deficient or Inadequate Provision. When the carried reserve amount is less than the minimum amount that the Appointed Actuary believes is reasonable, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves. In addition, the Appointed Actuary should disclose the minimum amount that the Appointed Actuary believes is reasonable.
3. Determination of Redundant or Excessive Provision. When the carried reserve amount is greater than the maximum amount that the Appointed Actuary believes is reasonable, the Appointed Actuary should issue a Statement of Actuarial Opinion that the carried reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves. In addition, the Appointed Actuary should disclose the maximum amount that the Appointed Actuary believes is reasonable.
4. Qualified Opinion. When, in the Appointed Actuary's opinion, the reserves for a certain item or items are in question because they cannot be reasonably estimated or the Appointed Actuary is unable to render an opinion on those items, the Appointed Actuary should issue a qualified Statement of Actuarial Opinion. The Appointed Actuary should disclose the item (or items) to which the qualification relates, the reason(s) for the qualification and the amounts for such item(s), if disclosed by the Company. Such a qualified opinion should state whether the carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, *except for* the item (or items) to which the qualification relates. The Appointed Actuary is not required to issue a qualified opinion if the Appointed Actuary reasonably believes that the item (or items) in question are not likely to be material.
5. No Opinion. The Appointed Actuary's ability to give an opinion is dependent upon data, analyses, assumptions, and related information that are sufficient to support a conclusion. If the Appointed Actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information, then the Appointed Actuary may issue a statement of no opinion. A statement of no opinion should include a description of the reasons why no opinion could be given.

6. The Appointed Actuary must provide RELEVANT COMMENT paragraphs to address the following topics of regulatory importance.

A. Company-Specific Risk Factors

The Appointed Actuary should include an explanatory paragraph to describe the major factors, combination of factors or particular conditions underlying the risks and uncertainties the Appointed Actuary considers relevant. 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 Appointed Actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

B. Risk of Material Adverse Deviation

The Appointed Actuary must provide specific RELEVANT COMMENT paragraphs to address the risk of material adverse deviation. The Appointed Actuary must identify the materiality standard and the basis for establishing this standard. The materiality standard must also be disclosed in U.S. dollars in Exhibit B: Disclosures. The Appointed Actuary should explicitly state whether or not he or she reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation. This determination is also to be disclosed in Exhibit B.

C. Other Disclosures in Exhibit B

RELEVANT COMMENT paragraphs should describe the significance of each of the remaining Disclosure items (8 through 14) in Exhibit B. The Appointed Actuary should address the items individually and in combination when commenting on a material impact.

D. Reinsurance

RELEVANT COMMENT paragraphs should address reinsurance collectability, retroactive reinsurance and financial reinsurance.

The Appointed Actuary's comments on reinsurance collectability should address any uncertainty associated with including potentially-uncollectable amounts in the estimate of ceded reserves. Before commenting on reinsurance collectability, the Appointed Actuary should solicit information from management on any actual collectability 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 ninety (90) days past due. The comment should also reflect any other information the Appointed Actuary has received from management or that is publicly available about the capability or willingness of reinsurers to pay claims. The Appointed Actuary's comments do not imply an opinion on the financial condition of any reinsurer.

Retroactive reinsurance refers to agreements referenced in *SSAP No. 62R—Property and Casualty Reinsurance of the NAIC Accounting Practices and Procedures Manual*.

Financial reinsurance refers to contracts referenced in SSAP No. 62R in which credit is not allowed for the ceding insurer because the arrangements do not include a transfer of both timing and underwriting risk that the reinsurer undertakes in fact to indemnify the ceding insurer against loss or liability by reason of the original insurance.

E. IRIS Ratios

If the Company's reserves will create exceptional values under the NAIC IRIS Tests for One-Year Reserve Development to Policyholders' Surplus, Two-Year Reserve Development to Policyholders' Surplus or Estimated Current Reserve Deficiency to Policyholders' Surplus, the Appointed Actuary must include RELEVANT COMMENT on the factors that led to the unusual value(s).

F. Methods and Assumptions

If there has been any significant change in the actuarial assumptions and/or methods from those previously employed, that change should be described in a RELEVANT COMMENT paragraph. If the Appointed Actuary is newly-appointed and does not review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.

7. The Actuarial Opinion must include assurance that an Actuarial Report and underlying actuarial workpapers supporting the Actuarial Opinion will be maintained at the Company and available for regulatory examination for seven (7) years. The Actuarial Report contains significant proprietary information. It is expected that the Actuarial Report be held confidential and not be intended for public inspection. The Actuarial Report must be available by May 1 of the year following the year-end for which the Actuarial Opinion was rendered or within two (2) weeks after a request from an individual state commissioner.

The Actuarial Report should be consistent with the documentation and disclosure requirements of ASOP No. 41, Actuarial Communications. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to Company management, the Board of Directors, the regulator or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data (e.g., loss triangles) to the conclusions.

Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51) in the NAIC *Accounting Practices and Procedures Manual* requires a company with over 10,000 in force lives covered by long-term care (LTC) insurance contracts as of the valuation date to perform a stand-alone asset adequacy analysis for its in force long-term care (LTC) contracts. The Actuarial Report and workpapers summarizing the results, assumptions and testing procedures for the asset adequacy testing of LTC business must be in compliance with AG 51 requirements. When referring to AG 51, the term “Actuarial Memorandum” is synonymous with Actuarial Report and workpapers.

The Actuarial Report should contain disclosure of all reserve amounts associated with A&H Long Duration Contracts reported by the Company; the reserve amounts in the Actuarial Report should tie to the Annual Statement.

The Actuarial Report must also include:

- A. A description of the Appointed Actuary’s relationship to the Company, with clear presentation of the Appointed Actuary’s role in advising the Board of Directors and/or management regarding the carried reserves. The Actuarial Report should identify how and when the Appointed Actuary presents the analysis to the Board of Directors and, where applicable, to the officer(s) of the Company responsible for determining the carried reserves.
 - B. An exhibit that ties to the Annual Statement and compares the Appointed Actuary’s conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis. The Appointed Actuary’s conclusions include the Appointed Actuary’s point estimate(s), range(s) of reasonable estimates or both.
 - C. 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. An explanation should be provided for any material differences.
 - D. An exhibit or appendix showing the change in the Appointed Actuary’s estimates from the prior Actuarial Report, including extended discussion of factors underlying any material changes. The exhibit or appendix should illustrate the changes on a net basis, but should also include the changes on a gross basis, if relevant. If the Appointed Actuary is newly-appointed and does not review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.
 - E. Extended comments on trends that indicate the presence or absence of risks and uncertainties that could result in material adverse deviation.
 - F. Extended comments on factors that led to unusual IRIS ratios for One-Year Reserve Development to Policyholders’ Surplus, Two-Year Reserve Development to Policyholders’ Surplus or Estimated Current Reserve Deficiency to Policyholders’ Surplus, and how these factors were addressed in prior and current analyses.
8. Both the Actuarial Opinion and the Actuarial Report should conclude with the signature of the Appointed Actuary responsible for providing the Actuarial Opinion and the respective dates when the Actuarial Opinion was rendered and the Actuarial Report finalized. The signature and date should appear in the following format:

Signature of Appointed Actuary
Printed name of Appointed Actuary
Employer’s name
Address of Appointed Actuary
Telephone number of Appointed Actuary
Email address of Appointed Actuary
Date opinion was rendered

9. The Insurer required to furnish an Actuarial Opinion shall require its Appointed Actuary to notify its Board of Directors or its audit committee in writing within five (5) business days after any determination by the Appointed Actuary that the Actuarial Opinion submitted to the domiciliary commissioner was in error as a result of reliance on data or other information (other than assumptions) that, as of the balance sheet date, was factually incorrect. The Actuarial Opinion shall be considered to be in error if the Actuarial Opinion would have not been issued or would have been materially altered had the correct data or other information been used. The Actuarial Opinion shall not be considered to be in error if it would have been materially altered or not issued solely because of data or information concerning events subsequent to the balance sheet date or because actual results differ from those projected. Notification is required when discovery is made between the issuance of the Actuarial Opinion and Dec. 31 of that year. Notification should include a summary of such findings.

If the Appointed Actuary learns that the data or other information relied upon was factually incorrect, but cannot immediately determine what, if any, changes are needed in the Actuarial Opinion, the Appointed Actuary and the Company should quickly undertake procedures necessary for the Appointed Actuary to make such determination. If the Insurer does not provide the necessary data corrections and other support (including financial support) within ten (10) business days, the Appointed Actuary should proceed with the notification to the Board of Directors and the domiciliary commissioner.

An Insurer who is notified pursuant to the preceding paragraphs shall forward a copy of the amended Actuarial Opinion to the domiciliary commissioner within five (5) business days of receipt of such and shall provide the Appointed Actuary making the notification with a copy of the letter and amended Actuarial Opinion submitted to the domiciliary commissioner. If the Appointed Actuary fails to receive such copy within the five (5) business day period referred to in the previous sentence, the Appointed Actuary shall notify the domiciliary commissioner within the next five (5) business days that an amended Actuarial Opinion has been finalized.

No Appointed Actuary shall be liable in any manner to any person for any statement made in connection with the above paragraphs if such statement is made in a good faith effort to comply with the above paragraphs.

10. Data in Exhibits A and B are to be filed in both print and data capture format.

Exhibit A: SCOPE
DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

<u>Loss and Loss Adjustment Expense Reserves:</u>	<u>Amount</u>
1. Unpaid Losses (Liabilities, Surplus and Other Funds page, Col 1, Line 1)	\$ _____
2. Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3)	\$ _____
3. Unpaid Losses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 13 and 15, Line 12 * 1000)	\$ _____
4. Unpaid Loss Adjustment Expenses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 17, 19 and 21, Line 12 * 1000)	\$ _____
5. The Page 3 write-in item reserve, “Retroactive Reinsurance Reserve Assumed”	\$ _____
6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	\$ _____
 <u>Premium Reserves:</u>	
7. Reserve for Direct and Assumed Unearned Premiums for P&C Long Duration Contracts	\$ _____
8. Reserve for Net Unearned Premiums for P&C Long Duration Contracts	\$ _____
9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	\$ _____

Exhibit B: DISCLOSURES
DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

NOTE: Exhibit B should be completed for Net dollar amounts included in the SCOPE. If an answer would be different for Direct and Assumed amounts, identify and discuss the difference within RELEVANT COMMENTS.

1. Name of the Appointed Actuary Last _____ First _____ Mid _____
2. The Appointed Actuary's relationship to the Company
 Enter E or C based upon the following:
 E if an Employee of the Company or Group
 C if a Consultant _____
3. The Appointed Actuary's ~~NAIC-Accepted Actuarial Designation~~ has the following designation (indicated by the letter code):
 F if a Fellow of the Casualty Actuarial Society (FCAS)
 A if an Associate of the Casualty Actuarial Society (ACAS)
 S if a Fellow of the Society of Actuaries (FSA) through the General Insurance track
 M if the actuary does not have an NAIC-Accepted Actuarial Designation, but is not a member of the Casualty Actuarial Society, but a Member of the American Academy of Actuaries (MAAA)-approved by the Academy's Casualty Practice Council, as documented with the attached approval letter.
 O for Other _____
4. Type of Opinion, as identified in the OPINION paragraph.
 Enter R, I, E, Q, or N based upon the following:
 R if Reasonable
 I if Inadequate or Deficient Provision
 E if Excessive or Redundant Provision
 Q if Qualified. Use Q when part of the OPINION is Qualified.
 N if No Opinion _____
5. Materiality Standard expressed in U.S. dollars (used to Answer Question #6) \$ _____
6. Are there significant risks that could result in Material Adverse Deviation? Yes [] No [] Not Applicable []
7. Statutory Surplus (Liabilities, Surplus and Other Funds page, Col 1, Line 37) \$ _____
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (should equal Part 1 Summary, Col 23, Line 12 * 1000) \$ _____
9. Discount included as a reduction to loss reserves and loss adjustment expense reserves as reported in Schedule P
 - 9.1 Nontabular Discount [Notes, Line 32B23, (Amounts 1, 2, 3 & 4)], Electronic Filing Cols 1, 2, 3, & 4 \$ _____
 - 9.2 Tabular Discount [Notes, Line 32A23, (Amounts 1 & 2)], Electronic Filing Col 1 & 2 \$ _____

10. The net reserves for losses and loss adjustment expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and loss adjustment expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines \$ _____
11. The net reserves for losses and loss adjustment expenses that the Company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines *
- 11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 33A03D, ending net asbestos reserves for current year) Electronic Filing Col 5 \$ _____
- 11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03D, ending net environmental reserves for current year), Electronic Filing Col 5 \$ _____
12. The total claims made extended loss and loss adjustment expense, and unearned premium reserves (Greater than or equal to Schedule P Interrogatories)
- 12.1 Amount reported as loss and loss adjustment expense reserves \$ _____
- 12.2 Amount reported as unearned premium reserves \$ _____
13. The net reserves for the A&H Long Duration Contracts that the Company carries on the following lines on the Liabilities, Surplus and Other Funds page:
- 13.1 Losses \$ _____
- 13.2 Loss Adjustment Expenses \$ _____
- 13.3 Unearned Premium \$ _____
- 13.4 Write-In (list separately, adding additional lines as needed, and identify (e.g., "Premium Deficiency Reserves", "Contract Reserves other than Premium Deficiency Reserves" or "AG 51 Reserves")) \$ _____
14. Other items on which the Appointed Actuary is providing relevant comment (list separately, adding additional lines as needed) \$ _____

* The reserves disclosed in item 11 above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability, and Pollution and Remediation Legal Liability.

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