



**REGULATORY GUIDANCE
on Property and Casualty Statutory Statements of Actuarial Opinion
for the Year 2016**

**Prepared by the
NAIC Actuarial Opinion (C) Working Group
of the Casualty Actuarial and Statistical (C) Task Force**

The NAIC Actuarial Opinion (C) Working Group (AOWG) of the Casualty Actuarial and Statistical (C) Task Force believes that the Statement of Actuarial Opinion (Actuarial Opinion) is a valuable tool in serving the regulatory mission of protecting consumers. This Regulatory Guidance document supplements the NAIC *Annual Statement Instructions – Property/Casualty (Instructions)* in an effort to provide clarity and timely guidance to companies and Appointed Actuaries regarding regulatory expectations on the Actuarial Opinion.

An Appointed Actuary has a responsibility to know and understand both the *Instructions* and the expectations of state insurance regulators. One expectation of regulators clearly presented in the *Instructions* is that the Actuarial Opinion and the supporting Actuarial Report and workpapers be consistent with appropriate Actuarial Standards of Practice (ASOPs), including, but not limited to, ASOP No. 23, *Data Quality*; ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*; ASOP No. 41, *Actuarial Communications*; and ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*.

If any of the values reported in the Actuarial Opinion or Actuarial Opinion Exhibits do not reconcile to the values reported in the Annual Statement, Actuarial Opinion Summary or Actuarial Report, regulators expect that Appointed Actuaries include an explanation in the respective document that justifies these differences. A robust peer-review process utilized by the Appointed Actuary should reduce reporting errors and non-reconciling items.

While the AOWG provides some illustrative language in the *Instructions*, the Working Group encourages Appointed Actuaries to use whatever language they believe is appropriate to clearly convey their opinion and the basis for that opinion. In forming their opinion, Appointed Actuaries should consider company-specific characteristics such as intercompany pooling arrangements, recent mergers or acquisitions, and significant changes in operations, product mix or reinsurance arrangements.

Several changes were made to the 2016 *Instructions*.

Paragraph 1: Appointment, Definitions, Exemptions and Reporting Requirements for Pooled Companies

Paragraph 1 is directed to company management. There were three changes to this section in 2016:

- The notification requirements concerning the appointment of a Qualified Actuary were clarified. When a Qualified Actuary is initially appointed, the company shall notify the domiciliary commissioner. No further notice is required with respect to this person unless the Board of Directors (Board) takes action to no longer appoint or retain the actuary or the actuary no longer meets the requirements of a Qualified Actuary.
- The timeline of required actions were clarified when an actuary who was the Appointed Actuary for the immediately preceding filed Actuarial Opinion is replaced by an action of the Board.
- The *Instructions* now require the Board's meeting minutes to identify the manner (e.g., webinar, in-person presentation, written document) in which Appointed Actuary reported to the Board on the items within the scope of the Actuarial Opinion.

The *Instructions* require the insurer to provide a letter to the domiciliary commissioner upon the appointment of a new actuary that describes certain disagreements between the former Appointed Actuary and the insurer. Regulators understand that there may be disagreements between an Appointed Actuary and the insurer during the course of the Appointed Actuary's analysis that are resolved by the time the Appointed Actuary concludes the analysis. For instance, the Appointed Actuary's analysis may go through several iterations, and an insurer's comments on the Appointed Actuary's draft report may prompt the Appointed Actuary to make changes to the report. While regulators are interested in material disagreements between the

former Appointed Actuary's final estimates and the insurer's selection of its carried reserves, they do not expect notification on routine discussions that occur during the course of the Appointed Actuary's work.

Both company management and the Appointed Actuary should be mindful of the following:

- **Timely feedback** — The AOWG encourages management to seek feedback from a Qualified Actuary prior to establishing carried reserves. This allows management to make an informed decision with the benefit of actuarial analysis. It also helps prevent the difficult situation in which management is committed to a decision that results in pressure on the Appointed Actuary to “stretch” the range of reasonable reserve estimates.
- **Reporting to the Board of Directors** — The Appointed Actuary is required to report to the insurer's Board. This may be done in a form of the Appointed Actuary's choosing, including, but not limited to, an executive summary or PowerPoint presentation. As mentioned previously, the 2016 *Instructions* require the Board's minutes to specify the manner in which the Appointed Actuary presented the required information to the Board. The AOWG strongly encourages the Appointed Actuary to present his or her analysis in person so that the risks and uncertainties that underlie the exposures and the significance of the Appointed Actuary's findings can be adequately conveyed and discussed. Regardless of how the Appointed Actuary presents his or her conclusions, the Actuarial Report must be made available to the Board.

Management is limited to reporting single values on line 1 and line 3 of the Liabilities, Surplus, and Other Funds page of the balance sheet. However, actuarial estimates are uncertain by nature, and point estimates do not convey the variability in the projections. Therefore, the Board should be made aware of the Appointed Actuary's opinion regarding the risk of material adverse deviation, the sources of risk and what amount of adverse deviation the Appointed Actuary judges to be material.

Paragraph 1A: Definitions

The AOWG added definitions of “Appointed Actuary” and “Board of Directors” to the 2016 *Instructions*.

Paragraph 1B: Exemptions

Paragraph 1B is directed to company management, describes exemption requirements and does not generally apply to the work of the Appointed Actuary.

Paragraph 1C: Requirements for Pooled Companies

This section was modified in 2014 to expand the *Instructions* to apply to all companies that operate in an intercompany pooling agreement. The *Instructions* are no longer restricted only to the 100% lead insurer and 0% pooling member situations. Regulators expanded the pooling disclosure language to provide additional clarity for readers of the Actuarial Opinion, as many pooled company Actuarial Opinions were silent on pooling arrangements.

For each company in the pool, the Appointed Actuary shall provide in the Actuarial Opinion a brief description of the pool, identify the lead insurer and list all pool members. The *Instructions* also require that the Appointed Actuary provide the state of domicile and the respective pooling percentage of each pool member. The Appointed Actuary may choose to provide this information in table or paragraph form; however, regulators would like to see this disclosure at the beginning of the Actuarial Opinion to ensure that the reader has a proper understanding of the contents within the Actuarial Opinion and how they relate to the subject company. Regulators recognize that the same information is required in the Notes to Financial Statements, which company management prepares.

For 0% pool members (that is, members that retain 0% of the pooled reserves), the Appointed Actuary is directed to prepare an Actuarial Opinion that reads similar to that of the lead company. This Actuarial Opinion should be filed with the Annual Statement of each of the 0% pooled companies.

Exhibit A and Exhibit B should reflect values specific to the individual company. For companies with 0% pool participation, the Appointed Actuary should prepare Exhibit A and Exhibit B of the lead company to be filed as an addendum to the 0% pooled companies' Actuarial Opinions. This will ensure proper data submission for each company in the pool, while allowing the greatest distribution of the relevant values for the pool. The *Instructions* include specific answers for the Exhibit B questions regarding the materiality standard and the risk of material adverse deviation.

Note the distinction between pooling with a 100% lead company with no retrocession and ceding 100% via a quota share reinsurance agreement. The regulator must approve these affiliate agreements as either an intercompany pooling arrangement or a quota share reinsurance agreement. The proper financial reporting is dependent on the approved filings, regardless of how company management regards its operating platform.

Paragraph 2: Structure of the Actuarial Opinion

Paragraph 2 includes no significant changes for 2016. It succinctly presents the four primary sections of the Actuarial Opinion.

Paragraph 3: Identification

Paragraph 3 includes no significant changes for 2016.

Paragraph 4: Scope

The suggested language for the Scope paragraph includes "... and reviewed information provided to me through XXX date." This is intended to capture the ASOP No. 36 requirement to disclose the date through which material information known to the Appointed Actuary is included in forming the reserve opinion (the review date), if it differs from the date the Actuarial Opinion is signed. When the Appointed Actuary is silent regarding the review date, this can indicate either that the review date is the same as the date the Actuarial Opinion is signed or that the Appointed Actuary overlooked this disclosure requirement. When the Appointed Actuary's review date is the same as the date the Actuarial Opinion is signed, regulators suggest that actuaries clarify such in the Actuarial Opinion. Suggested language may include "... and reviewed information provided to me through the date of this opinion."

Exhibit A provides a clear picture of what items are to be opined on by the Appointed Actuary. Guidance for Exhibit B disclosure items is discussed in paragraph 6.

The AOWG calls attention to two items of interest to regulators that pertain to the Scope of the Actuarial Opinion:

- **Exposure** – An Actuarial Opinion on the reasonability of the carried reserves should reflect consideration and evaluation of more than just loss history. The AOWG expects the Appointed Actuary to probe and understand the exposure associated with the company for which the Actuarial Opinion is issued.

One area of particular interest to regulators is coverage for service contracts. Due to variation in state laws, this type of product may or may not be regulated or treated as insurance. Insurance may only come into play as excess coverage for contractual liability.

- **Prepaid Loss Adjustment Expenses** – According to *Statement of Statutory Accounting Principles (SSAP) No. 55—Unpaid Claims, Losses and Loss Adjustment Expenses*, paragraph 5 of the NAIC *Accounting Practices and Procedures Manual*, the liability for unpaid loss adjustment expenses shall be established regardless of any payments made to third-party administrators (TPAs), management companies or other entities. The values should be recorded as loss adjustment expense reserves throughout the Annual Statement and not recorded as a write-in. Appointed Actuaries should be aware of any such arrangements, incorporate this consideration into their analysis, and include appropriate disclosures in the Actuarial Opinion and the Actuarial Report.

The Scope paragraph also requires disclosure of the individual upon whom the Appointed Actuary relied for preparation of the data. The 2016 *Instructions* require the Appointed Actuary to include this individual's title. The individual should be an employee of the company on which the Appointed Actuary is issuing an opinion. In some cases, the Appointed Actuary, if a senior officer of the company, may be the individual who holds this responsibility. In these cases, it is acceptable for the Appointed Actuary to identify himself or herself in this section.

The Appointed Actuary may receive data from a TPA, accounting firm or similar organization that provides service to the regulated entity. If such a relationship exists, it is informative to identify it in this section. However, any third party or firm is not the regulated entity, and regulators expect that a company official will always be identified.

Paragraph 5: Opinion

Paragraph 5 is meant to be consistent with ASOP No. 36 as it relates to making use of the work of another not within the Appointed Actuary's control. Regulators expect full compliance with additional disclosure requirements pursuant to ASOP No. 36. Per ASOP No. 36, the Appointed Actuary should disclose whether he or she reviewed the other's underlying analysis and the extent of the review, including items such as the methods and assumptions used and the underlying arithmetic calculations. In most cases, this disclosure will result from the use of the work of another actuary for underwriting pools and associations.

The 2016 *Instructions* now require specific disclosures when the Appointed Actuary has made use of the work of a non-actuary for a material portion of the reserves. The Appointed Actuary must identify the non-actuary by name and affiliation, and a description of the type of analysis performed must be provided.

The AOWG expects point C (unpaid loss and loss adjustment expense reserves) and point D (unearned premium reserves for long duration contracts and/or other loss reserve items on which the Appointed Actuary is expressing an opinion) of the Opinion paragraph to be the full and complete expression of the Appointed Actuary's conclusion on the type of opinion rendered. Regulators will presume that the conclusion applies to both the net and the direct and assumed reserves. If the Appointed Actuary reaches different conclusions, the Appointed Actuary should use whatever language is appropriate to clearly convey a complete opinion. The response to Exhibit B, Item 4, should reflect the Appointed Actuary's opinion on the net reserves. The AOWG encourages the Appointed Actuary to include narrative comments to describe any differences with respect to the direct and assumed reserves.

Regulators strongly encourage Appointed Actuaries to think about their responses to point A (meet the requirements of the insurance laws of the state) and point B (computed in accordance with accepted actuarial standards and principles) of the Opinion paragraph when they issue an Actuarial Opinion of a type other than "Reasonable."

Exhibit A, Item 7 and Item 8 require disclosure of the amount of the reserve for unearned premium for long duration contracts, and the *Instructions* require the Appointed Actuary to include a paragraph (D) regarding the reasonableness of the unearned premium reserve in the Opinion paragraph when these reserves are *material*. However, regulators have noted that some Actuarial Opinions include paragraph (D) regardless of materiality. The AOWG expects that Appointed Actuaries will either add paragraph (D) if they can and are indeed expressing an opinion on the reasonableness of this reserve and/or add an explanatory paragraph about these unearned premium reserves in "Relevant Comments" and state whether the amounts are material or immaterial.

With regard to "Other Premium Reserve Items" in Exhibit A, Item 9, the Appointed Actuary should also include an explanatory paragraph about these premium reserves in Relevant Comments and state whether the amounts are material or immaterial.

Paragraph 6: Relevant Comments

The AOWG considers the Relevant Comments paragraphs to be the most valuable information in the Actuarial Opinion. Relevant Comments help the regulator interpret the Actuarial Opinion and understand the Appointed Actuary's reasoning and judgment. In addition to the required Relevant Comments, the Appointed Actuary should consider providing information on other material items such as reinsurance with affiliates, mergers or acquisitions, other premium reserves and catastrophe risk.

Risk of Material Adverse Deviation (MAD or RMAD)

Regulators continue to improve upon risk-focused procedures in both the financial analysis and financial examination areas. In accordance with this approach, regulators expect company management and the actuarial specialists employed by management to identify and discuss company-specific risk factors. The Appointed Actuary's discussion in the Actuarial Opinion is an increasingly important source of information in this regard.

Therefore, the *Instructions* were enhanced in 2014 to require the Appointed Actuary to disclose and discuss risks in the body of the Actuarial Opinion before making a conclusion on RMAD.

The *Instructions* were modified in 2014 to require the Appointed Actuary to:

- Describe the major factors, combination of factors or particular conditions underlying the risks and uncertainties that the Appointed Actuary considers relevant to the statutory entity. Examples of possible company-specific risk factors are uncertainty in the tail factors or the need to use industry benchmarks.
- Identify the materiality standard in U.S. dollars, ensuring that such is consistent with the amount shown in Exhibit B: Disclosures.
- Identify the basis for establishing this standard.
- **Explicitly** state whether he or she believes that there are significant risks and uncertainties that could result in MAD.

Note that the Appointed Actuary is asked to discuss risks whether he or she believes the company is exposed to RMAD. If the Appointed Actuary does not believe that there are ANY company-specific risk factors, the Appointed Actuary should state that.

Regulators generally expect Appointed Actuaries to comment on significant company-specific risk factors that exist prior to the company's application of controls or use of mitigation techniques. The company's risk management behaviors may, however, affect the Appointed Actuary's conclusion on whether there is a significant risk of MAD.

When deciding whether RMAD exists, the Appointed Actuary should consider the materiality standard in relation to the range of reasonable estimates and the carried reserves. For example, RMAD should likely exist when the sum of the materiality standard plus the carried reserves is within the range of reasonable estimates. Regardless, the Appointed Actuary should support the conclusion.

The type of opinion in Exhibit B, Item 4, the materiality standard in Exhibit B, Item 5, and the RMAD conclusion in Exhibit B, Item 6 should pertain to the net reserves. If the Appointed Actuary reaches different conclusions on the net versus the direct and assumed reserves with regard to the reasonableness of the carried amounts, the materiality standard or the risk of material adverse deviation, the Appointed Actuary should include a Relevant Comments paragraph to address the differences.

With the exception of intercompany pooling members that retain a 0% share, each statutory entity is required to have a separate Actuarial Opinion with its own materiality standard. Where there are no unusual circumstances to consider, it may be acceptable to determine a standard for the entire pool and assign each member its proportionate share of the total. It is **not** appropriate to use the entire amount of the materiality threshold for the pool as the standard for each individual pool member. For pooled companies with a 0% share of the pooled reserves, the materiality standard should be \$0, and the RMAD conclusion should be "Not Applicable."

Insurance Regulatory Information System (IRIS) Ratios

The AOWG considers it insufficient to attribute unusual reserve development to "reserve strengthening" or "adverse development" and expects relevant comments to provide reasonable insight into the company-specific factors which caused the unusual value. Detailed documentation should be included in the Actuarial Report to support statements provided in the Actuarial Opinion.

Paragraph 7: The Actuarial Report

The AOWG believes that the *Instructions* provide the best guidance to actuaries regarding the Actuarial Report and supporting documentation.

The AOWG also believes that regulators should be able to rely on the Actuarial Report as an alternative to developing their own independent estimates. A well-prepared and documented Actuarial Report that complies with ASOP No. 41 can provide a foundation for efficient reserve evaluation during a statutory financial examination. This benefits the examination process and may provide cost savings to the company.

The lettered list in paragraph 7 of the *Instructions* describes the required components of the Actuarial Report.

Schedule P Reconciliation

The requirement to provide a Schedule P reconciliation is described in part C of paragraph 7. Regulators are looking for a mapping of the data groupings used in the analysis to Schedule P lines of business, along with detailed reconciliations of the data at the finest level of segmentation that is possible and practical. If the data cannot be reconciled, the reasons should be clearly documented in the Actuarial Report. The Appointed Actuary should reconcile all data material to the analysis, which may include claim counts and earned premium.

The reconciliation to Schedule P should illustrate differences between the data used in the Appointed Actuary's analysis and the amounts presented in Schedule P of the Annual Statement. The Appointed Actuary should address the reasons for any significant differences in order to reduce questions regarding data integrity.

The AOWG recognizes that company line of business definitions are often more meaningful than Annual Statement line of business definitions when completing a reserve analysis. Such differences in data classification should be addressed and clearly documented within the Actuarial Report.

Actuarial Reports display a wide variety of Schedule P reconciliation practices. Myriad circumstances (mergers, acquisitions, changes in claim systems, the use of underwriting year data in the analysis, etc.) may present reconciliation challenges to Appointed Actuaries. In recognition of these challenges, regulators and interested parties are holding ongoing discussions regarding expectations. One item of discussion is the reconciliation of paid losses. Given that development factors are generally applied to cumulative paid losses by accident year, regulators encourage Appointed Actuaries to carefully consider whether a reconciliation of incremental payments during the most recent calendar year for all accident years combined provides sufficient assurance of the integrity of the data used in the analysis.

Another item of discussion is the relationship between the reconciliation in the Actuarial Report and the reconciliations performed by the company's external auditors. Generally, the former is a check to ensure that the data in the Appointed Actuary's analysis ties to the data in Schedule P, while the latter is a check to ensure that Schedule P accurately reflects the data in the company's claims system.

Change in Estimates

Part D of paragraph 7 states that the Actuarial Report must show the change in the Appointed Actuary's estimates from the prior Actuarial Report and describe factors underlying any material changes. The 2016 *Instructions* were modified to state that the exhibit or appendix should at least illustrate the changes on a net basis, but should also include the changes on a gross basis, if relevant. This requirement was previously in the Regulatory Guidance document, but not in the *Instructions*.

The AOWG expects any significant total change to be discussed; however, an explanation should also be included for any significant fluctuations among accident years or segments. The regulator is interested in seeing what the Appointed Actuary judges to have contributed to any significant changes at any level of granularity the Appointed Actuary believes is appropriate to put the current year's results in the context of the prior year's results. Therefore, the Appointed Actuary should judge at what level of aggregation the comparisons are meaningful. Further note that this exhibit or appendix is to show the change in the Appointed Actuary's estimates, not the company's. If the Appointed Actuary has changed from the prior year and no such comparison is practical or meaningful, the Appointed Actuary should disclose this.

Narrative

Exhibits alone rarely convey professional conclusions and recommendations or the significance of the Appointed Actuary's opinion or findings. The Narrative section should provide clearly worded information so that readers are able to appreciate the significance of the Appointed Actuary's findings and conclusions, the uncertainty in the estimates, and any differences between the Appointed Actuary's estimates and the carried reserves. Sources of assumptions should be clearly supported.

Areas for Improvement

The AOWG has identified the following notable weaknesses in the documentation of many Actuarial Reports:

1. **Expected Loss Ratios** – When using methodologies that rely on expected loss ratios, the Appointed Actuary's analysis should incorporate rate changes, frequency and severity trends, and other adjustments needed to on-level the

historical information. Historical loss ratio indications have little value if items such as rate actions, tort reform, schedule rating adjustments and/or program revisions have affected premium adequacy or inadequacy.

2. **Actuarial Judgment** – The use of this phrase in an Actuarial Report, in either the Narrative comments or in exhibit footnotes, is not considered to be sufficient explanation. A descriptive rationale is needed.
3. **Schedule P Reconciliations** – The AOWG believes that a summary reconciliation (all years and all lines combined) is an insufficient demonstration of data integrity. The risk of a lack of data integrity increases as companies cut data into finer pieces. A reconciliation should include enough detail to reflect the segmentation of exposures used in the reserve analysis, the accident years of loss activity and the methods used by the Appointed Actuary. See more discussion on this topic above.
4. **Underwriting Pools and Associations** – The AOWG expects the Actuarial Report to include exhibits that support the net of ceded reinsurance amount shown in Exhibit B, Item 10, as well as a list of the pools and associations with the associated reserve amounts. If the Appointed Actuary has made use of the work of another actuary for these pools and associations, and the amounts are material to the total reserves, the Actuarial Report should include extended discussion of what the Appointed Actuary has done to review these reserves.

The AOWG recognizes that the majority of the analysis supporting an Actuarial Opinion may be done with data received prior to year-end and “rolled forward” to 12/31/20xx. By reviewing the Actuarial Report, the regulator should be able to clearly identify why the Appointed Actuary made changes in the ultimate loss selections and how those changes were incorporated into the final estimates. A summary of final selections without supporting documentation is not sufficient.

Paragraph 8: Signature

Paragraph 8 was changed slightly in 2016 to emphasize that the Appointed Actuary must sign and date both the Actuarial Opinion and Actuarial Report.

Paragraph 9: Notice Regarding Errors

Paragraph 9 of the *Instructions* was changed slightly in 2016 to clarify the timeline of required actions when the Actuarial Opinion is found to be in error. When a material error is discovered by the Appointed Actuary, the company, the regulator or any other party, regulators expect to receive a revised Actuarial Opinion. Regardless of the reason for the change or refiling of an Actuarial Opinion, the company should submit the revised Actuarial Opinion document in hard copy to its domiciliary state and electronically to the NAIC. The revised Actuarial Opinion should clearly state that it is an amended filing, should contain or accompany an explanation for the revision, and should include the date of revision.

Exhibit A and Exhibit B

Note that Exhibit B, Item 12 includes extended loss and unearned premium reserves for all property/casualty lines of business, not just medical professional liability, which is addressed in the Schedule P Interrogatories.

The term “data capture format” in the *Instructions* refers to an electronic submission of the data in a format usable for computer queries. This allows for the population of an NAIC database that contains qualitative information and financial data. Appointed Actuaries should refer to the *Instructions* and prepare exhibits to assist the company in accurately completing the electronic submission.

For those companies that participate in an intercompany pooling arrangement and retain a 0% share, Exhibit A and Exhibit B of the lead company should be attached as an addendum to the PDF file and/or hard copy of the Actuarial Opinion of the 0% pool companies.

Adopted by the Actuarial Opinion (C) Working Group – Aug. 18, 2016.
Adopted by the Casualty Actuarial and Statistical (C) Task Force – Aug. 27, 2016.



REGULATORY GUIDANCE
on the Property and Casualty Actuarial Opinion Summary
for the Year 2016
Prepared by the NAIC Actuarial Opinion (C) Working Group
of the Casualty Actuarial and Statistical (C) Task Force

The NAIC Actuarial Opinion (C) Working Group (AOWG) of the Casualty Actuarial and Statistical (C) Task Force believes that the Actuarial Opinion Summary (AOS) is a valuable tool in serving the regulatory mission of protecting consumers. This Regulatory Guidance document supplements the NAIC *Annual Statement Instructions – Property/Casualty (Instructions)* in an effort to provide clarity and timely guidance to Appointed Actuaries regarding regulatory expectations on the AOS.

There are two key additions to the AOS requirements in the 2016 *Instructions*:

- Paragraph 7 requires the Appointed Actuary to explain the discrepancies if any of the values reported in the AOS do not reconcile to the values reported in the Statement of Actuarial Opinion (Actuarial Opinion) Exhibits or the Annual Statement. One situation in which a difference between the Actuarial Opinion and the AOS might arise is in the case of non-tabular discounting: The direct and assumed loss reserves on line 3 of Exhibit A come from Schedule P, Part 1, which is gross of non-tabular discounting, while the AOS might present the direct and assumed loss reserves on a net of discounting basis.
- The *Instructions* were previously silent on required actions when the AOS is determined to be in error. Paragraph 8 of the 2016 *Instructions* states that similar requirements apply to the AOS as to the Actuarial Opinion in such a situation.

Form

The AOS is intended to be a **confidential** document separate from the Actuarial Opinion. The AOWG advises the Appointed Actuary to provide the AOS to company personnel separately from the Actuarial Opinion. The AOS should be clearly labeled and identified prominently as a confidential document.

The AOWG advises that, in order to avoid confusion, the Appointed Actuary not attach the related Actuarial Opinion to the AOS.

Not all states have enacted the NAIC *Property and Casualty Actuarial Opinion Model Law* (#745), which requires the AOS to be filed. Nevertheless, the AOWG recommends that the Appointed Actuary prepare the AOS regardless of the domiciliary state's requirements, so that the AOS will be ready for submission should a foreign state—having the appropriate confidentiality safeguards—request it. Most states provide the Annual Statement contact person with a checklist that addresses filing requirements. The AOWG advises the Appointed Actuary to work with the company in determining the requirements for each state.

The AOS is **not** submitted to the NAIC.

Substance

The entire substance of the AOS rests in paragraph 5. The American Academy of Actuaries' Property and Casualty Practice Note, *Statements of Actuarial Opinion on Property and Casualty Loss Reserves*, provides straightforward examples that show how the Appointed Actuary might choose to display the information required in Parts A–D of this paragraph.

Because the AOS is a synopsis of the conclusions drawn in the Actuarial Report, the content of the AOS should reflect the analysis performed by the Appointed Actuary. Therefore, all of the Appointed Actuary's calculated estimates, including actuarial central estimates and ranges, are to be presented in the AOS consistent with estimates presented in the Actuarial Report.

Regulators expect that point or range estimates reported in the AOS be clearly supported and documented in the Actuarial Report. Without clarity, the documentation fails to meet Actuarial Standards of Practice and the expectation that another actuary can evaluate the work.

Part E of paragraph 5 of the *Instructions* addresses persistent adverse development. The Appointed Actuary is in a unique position to be able to comment on the nature of this development. This section requires the Appointed Actuary to do so. Comments can reflect common questions that regulators have, such as:

- Is development concentrated in one or two exposure segments, or is it broad across all segments?
- How does development in the carried reserve compare to the change in the Appointed Actuary's estimate?
- Is development related to specific and identifiable situations that are unique to the company?
- Does the development or the reasons for development differ depending on the individual calendar or accident years?

Paragraph 6 is relevant to all pooling situations as defined in paragraph 1C of the *Instructions* for the Actuarial Opinion. For non-0% companies, regulators expect that carried values reported in the AOS can be reconciled to values reported in the Annual Statement and the Actuarial Opinion, and that actuarial estimates can be reconciled to the Actuarial Report. For 0% pooled companies, the information in the AOS should be that of the lead company.

Regulators encourage the Appointed Actuary to display values on the pooled (or consolidated) basis in addition to the statutory entity basis. This can be accomplished by displaying two tables of information.

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