



# AMERICAN ACADEMY *of* ACTUARIES

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June 5, 2000

Mr. Richard Roth  
Chief Property/Casualty Actuary  
California Department of Insurance  
300 South Spring Street  
Los Angeles, California 90013

Dear Mr. Roth:

This letter sets forth suggestions of the American Academy of Actuaries<sup>1</sup> Committee on Property and Liability Financial Reporting for clarifying the Annual Statement Instructions as regards Statements of Actuarial Opinion. We ask that Casualty Actuarial Task Force consider these suggestions at its June meeting. Our comments fall in two categories:

- **Clarification** (Modification of items where the current Instructions are unclear or may not reflect the intended purpose); and
- **Editorial** (Correction of typographical errors and implementation of consistent grammar and punctuation conventions).

Numbers refer to the paragraph numbers in the Instructions.

## **Clarification**

### Paragraph 1

There can be situations where the actuary cannot reasonably be appointed during the year (e.g., death of a predecessor in January). The Casualty Actuarial Task

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<sup>1</sup> The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

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Force may wish to consider amending the Instruction as follows, in recognition of such special circumstances: "The qualified actuary must be appointed by the Board of Directors, or

its equivalent, or by a committee of the Board. Generally, the appointment should be made by December 31 of the calendar year for which the opinion is rendered."

#### Paragraph 4

The test in 4B(ii) is based on "...*net direct plus assumed premiums*". It is not clear what *net* refers to.

#### Paragraphs 8 and 9

Both paragraphs make reference to the extended loss and expense reserve. Components of this reserve may be recorded either as loss reserve or unearned premium. It is not clear what is intended by the two items. Because the SCOPE paragraphs 8A and 8B include that portion of the extended reserve that is included in the loss reserve, it may be appropriate to have (8)E include only that portion of the extended reserve not in the loss reserve. The disclosure in (9)E could then be modified to reflect either the entire extended reserve, or only that portion contained in the loss reserve.

The lists in paragraphs (8) and (9) both use capital letters. The use of different styles (roman numerals for example) might facilitate clearer references in some circumstances.

#### Paragraph 9

The Annual Statement references in (9) seem unnecessary. In the interest of shortening the Statement of Actuarial Opinion, the Casualty Actuarial Task Force may wish to consider eliminating these references.

It would be helpful to clarify that (9)A refers to anticipated salvage and subrogation on a net of reinsurance basis.

#### Paragraph 12

Disclosure is required for ceded, direct and net unearned premium. Assumed is not required. Disclosure of direct plus assumed and net would be consistent with other parts of the Statement of Actuarial Opinion.

#### Paragraph 13

In the unlikely event that law or regulation was adopted that conflicted with actuarial standards and principles, the Statement of Actuarial Opinion likely would

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disclose the specific nature of the conflict. Certainly, law and/or regulation must govern the amounts carried by the Company. In these circumstances, however, the actuary could not conclude that the reserves "are computed in accordance with accepted loss reserving standards and practices". The actuary likely would not use the language recommended in Paragraph 13.

#### Paragraph 18

The Instructions recognize the risks to the actuary in the required notification to the Commissioner by allowing "...such other notification recommended by the actuary's attorney." For a company actuary, the attorney may be the same attorney who advised management in their decision not to forward the actuary's revised Statement of Actuarial Opinion. Does a consulting actuary need his or her own attorney, or can they rely on the company's? Although this provision is probably used very infrequently, we believe that it is of great importance and we believe proper protections should be established for the actuary who "does the right thing". To that end, we believe that the whistleblower provisions in the third paragraph of (18) could benefit from additional legal review.

#### General

Use of Annual Statement references in the Annual Statement Instructions aids in providing clear guidance to actuaries rendering Statements of Actuarial Opinion. We acknowledge, however, that use of such references would force periodic updating of the Instructions.

#### **Editorial**

##### Paragraph 1

The capitalization of "Annual Statement" should be consistent. Because it is a defined term [paragraph (2)], capitals are preferred.

##### Paragraph 5

The reference to paragraphs referring to SCOPE should be 8-12, rather than 8-11. Paragraph (12) provides direction for the both the SCOPE and OPINION sections of the Statement of Actuarial Opinion. As noted above, both references to Annual Statement should be capitalized.

##### Paragraph 6

The phrase "...meet its qualification standards." should be revised. The American Academy of Actuaries' Qualification Standards for Prescribed Statements of Actuarial Opinion, adopted by the Board of Directors on October 1, 1998, suggests acknowledgment language as follows: "...meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein."

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#### Paragraph 9

Punctuation should be consistent with other lists in the Instructions: delete the last *and* in (9)B, change the end of (9)C from (.) to (:), and change the end of (9)D from (.) to (; and). The phrase "*Page 3--Liability, Surplus and Other Funds*" in 9C should read *Liabilities*.

#### Paragraph 11

The words *and* in "...*financial reinsurance, **and** reinsurance collectibility...*" as well as *will* in "...*company reserves **will** create exceptional values...*" are both unnecessary. The definition of retroactive reinsurance uses the term *Surplus to Policyholders*. The proper term is Surplus as regards policyholders.

#### Paragraph 12

The last paragraph of (12) 2 should have a (,) after e.g.

#### Paragraph 13

The punctuation of the list should be consistent with that used in other lists in the Instructions.

#### Paragraph 15

The phrase *adverse or qualified actuarial opinion* might better be expressed "adverse or qualified Statement of Actuarial Opinion". *Annual Statement* should be capitalized.

Note: Actuarial Standard of Practice 36, which becomes effective October 15, 2000, defines the types of statements of actuarial opinion that an actuary may issue, including adverse or qualified opinions. The Casualty Actuarial Task Force may wish to confirm that its intended usage here is consistent with the definitions provided in ASOP 36.

The Committee on Property and Liability Financial Reporting appreciates the opportunity to provide these suggested revisions to the Annual Statement Instructions for Statements of Actuarial Opinion. We look forward to working with the Casualty Actuarial Task Force to ensure that the Instructions clearly communicate the requirements for actuaries rendering Statements of Actuarial Opinion.

Sincerely,

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Patricia A. Teufel, FCAS, MAAA  
Chairperson, Committee on Property and Liability Financial Reporting

cc: E. Nordman, NAIC Staff