



AMERICAN ACADEMY *of* ACTUARIES

June 12, 1998

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

Dear Dick:

Re: **NAIC Annual Statement Instructions: Property and Casualty Actuarial Opinion**

Thank you for the opportunity to comment on potential enhancements to the current NAIC *Annual Statement Instructions: Property and Casualty* ("Instructions") for Actuarial Opinion. The American Academy of Actuaries Committee on Property and Liability Financial Reporting has reviewed the current Instructions and provides the following comments for your consideration.

Board of Directors

The current Instructions require that the qualified actuary be appointed by the Board of Directors, or its equivalent, or by a committee of the Board. The instructions further require that the actuary must present a report to the Board of Directors each year on the items within the scope of the opinion.

Is it the intent of the NAIC to require that a report be made only to the Board of Directors or is it sufficient that the actuary's report be made to a committee of the Board, if that committee is duly charged by the Board with this responsibility?

In practice, the actuary often makes his/her report to the Audit Committee of the Board, since that committee of the Board has appointed the actuary and is charged with financial reporting responsibilities. If this practice is acceptable, consideration should be given to clarifying your intent, either 1) by defining "Board" to include Board of Directors, or its equivalent, or a duly appointed committee of the Board; or 2) by repeating this clarifying language throughout the Instruction at each mention of the term Board.

Henceforth in this letter, "Board" or "Board of Directors " shall be understood to be the broad definition including a duly appointed committee or equivalent authority.

Is the actuary required to make individual presentations to the respective Boards of each statutory company within an Insurance Group or does a presentation to the Board of the holding company satisfy the requirements of the Instructions?

Often, the Board of Directors of the statutory insurance company is comprised solely of company management while the Board of the holding company has both company management and outside directors. Meetings of the statutory insurance company Board are often relatively informal. It is preferable, in our opinion, for the ' actuary to present his/her findings with respect to loss and loss expense reserves, in the aggregate and for each statutory company, to the holding company Board. Some appointed actuaries (particularly company actuaries) have had difficulty gaining access at the holding company Board level, however.

Consideration should be given to requiring that the Board accept a report from the appointed actuary each year on the items within the scope of the opinion.

Gaining direct access to the Board is often not within the control of the appointed actuary. As noted above, the appointed actuary may make him/herself available for an oral presentation to the Board, but may be precluded from giving such a presentation because of processes for setting and controlling the Board agenda. Many companies have interpreted that the form of the actuary's report to the Board is at the discretion of company management.

Actuarial Report

The current NAIC Instructions define Actuarial report to mean "a document or other presentation, prepared as a formal means of conveying the actuary's professional conclusions and recommendations, of recording and communicating the methods and procedures, of showing the analysis from the basic data, e.g., loss triangles, to the conclusions, and of assuring that the parties addressed are aware of the significance of the actuary's opinion or findings and which documents the analysis underlying the opinion."

Paragraph I of the current Instruction requires the actuary to present a report to the Board of Directors. Paragraph 15 requires that "an actuarial report and any underlying actuarial workpapers supporting the findings ... be retained for a period of seven years in the administrative offices of the company and available for regulatory examination."

Is it the intent of the current Instruction that the report provided to the Board of Directors be identical to the actuarial report retained at the administrative offices of the company?

Consideration should be given to modifying the reference in paragraph I to read "actuarial report" if it is the intent of the NAIC that these reports be identical.

In our opinion, however, the actuarial report is generally more complex and more detailed than is appropriate for discharging obligation of the actuary to inform the Board of his/her findings and conclusions. Wherever possible, we strongly encourage that the actuary personally present his/her findings to the Board and be available to answer any questions/comments which might arise regarding the reserve position or processes. Alternatively, a written report could serve to meet the actuary's reporting requirement; at the discretion of the actuary, the report presented to the Board may be in a format different from and more abbreviated than the actuarial report. The actuarial report should be available to any interested Board members.

What specifically is the responsibility of the actuary to ensure that the report is received by the Board?

It is common practice for the actuary to provide copies of the actuary's report to company management, who in turn then distribute the report to the Board, when the actuary is not personally reporting on his/her findings and conclusions to the Board. **In our opinion, the** actuary will have discharged his/her responsibilities to the Board following this practice.

Thank you again for the opportunity to comment on the NAIC Instructions - Actuarial Opinion. If you have any questions or comments, please feel free to give me a call.

Sincerely,

Jan Lommele, FCAS, MAAA, FCA Chair Committee on Property and Liability Financial Reporting

cc: COPLFR Members
Michael Toothman
Greg Vass