October 18, 2017

Julie Lederer, Chair
Actuarial Opinion Working Group
of the Casualty Actuarial and Statistical (C) Task Force
National Association of Insurance Commissioners
1100 Walnut St.
Kansas City, MO 64016

Sent via email to Kris DeFrain

Dear Julie,

On behalf of the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries,[1] I appreciate this opportunity to provide questions and comments on the potential changes to Property/Casualty (P/C) Statements of Actuarial Opinion (SAO) due to the updates to the NAIC's Valuation Manual (VM) for use with Life/Health products. These updates to the Valuation Manual change certain requirements when accident and health (A&H) insurance is written by a P/C insurance company that reports through a P/C Annual Statement Blank. We note that A&H insurance includes long-term care insurance (LTC).

We understand that you may be addressing certain aspects of the matters referenced in this letter on an expedited basis either through the 2017 Regulatory Guidance Note or through amendments to the Annual Statement instructions. Our comments are related to clarifications that your working group may make either in Annual Statement Instructions or the Regulatory Guidance.

The updated wording within the VM appears to require the inclusion of a single opinion per company made by an Appointed Actuary. This single opinion on the active life reserves and an asset adequacy test of the A&H reserves as worded in the VM are to be included within SAOs. Currently a single opinion is required for P/C SAOs. The emphasis later in this letter is on the consideration that the work stream for the asset adequacy test may involve a different actuary than the one providing the work stream for the core SAO.

A&H exposures written within a P/C company can include group major medical insurance, travel accident insurance, individual disability, and long-term care insurance to name only a few

[1] The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

examples. The requirements and comments we note in the remainder of this letter may apply differently for this wide range of A&H coverages. We have several questions and comments related to our interpretation of the updated requirement as well as questions and comments on how to incorporate the updated requirement within existing SAOs.

1. Loss Reserve component of SAOs. The requirement for this part of an SAO appears to be unchanged. Currently, the loss and loss expense reserves (occasionally referred to as claims reserves) associated with A&H written in a P/C company are to be incorporated within the existing SAOs that actuaries prepare for these companies.

2. Active Life Reserves. Some A&H coverages generate active life reserves that are part of a P/C company's unearned premium reserve. There is no change to the need to calculate and recognize these reserves in the financial statements of the company. Currently, we understand that some actuaries include the active life reserves within the long duration unearned premium disclosures and an SAO for P/C companies, but not all actuaries do.
    a. Should these active life reserves be included within the long duration unearned premium disclosures and the P/C SAO?
    b. If included, should they be segregated from other long duration contract unearned premium reserves that may be written by a company? For example, if a company provided both long-term care insurance and warranty coverages, would the long duration unearned premium for both coverages be shown on a combined basis within the SAO exhibits or be shown on separate lines? This question also has implications related to the offsetting of these reserve components in deriving an opinion on the long duration unearned premium reserves.
    c. If segregated, where in Exhibits A and B should this be disclosed?
    d. Are these A&H related premium reserves subject to the three-pronged test of the other long duration reserves?

3. Asset Adequacy Test. Newly added wording in the VM calls for an asset adequacy test. As P/C actuaries, we are not particularly familiar with this requirement and have several questions associated with the approach both as to the results of the calculation as well as the disclosures within the SAO.
    a. Is the calculation involved in the asset adequacy test expected to result in an increase in the company's entire unearned premium reserve?
    b. If so, would the resulting increase to the unearned premium reserve be disclosed in Exhibits A or B separately or combined with the active life reserves and other long duration unearned premium reserves?
    c. Some writers may have a separate premium deficiency reserve related to the coverages subject to the asset adequacy test. The interaction of the premium deficiency reserve and the results of the asset adequacy test may become important in any disclosures. Is there a view on how to handle this within the SAO?
    d. Are there specific types of comments that regulators are looking for associated with this asset adequacy test? Is there a specific place within the SAO where this commentary is to go? Would the comments be in a separate paragraph or topic area in the Relevant Comments section of the SAO?

    e. The wording associated with the asset adequacy test describes an actuarial memorandum and includes the preparation of some specific schedules. How do those schedules and the memorandum map to or interact with what the SAO on loss reserves and the supporting Actuarial Report?

4. Making use of others. For some insurers, the actuary performing the work related to the active life reserves and the asset adequacy test may be different than the actuary appointed by their boards to prepare the SAO. The level of materiality of these reserves compared with the loss reserves will vary by company.
    a. Is the opinion on the reasonability of the active life reserves and the asset adequacy test not to be aggregated with the opinion on the reasonability of the loss reserves? Or said another way, can one assume that the opinion provided on the loss reserves is not aggregated with the opinion on the long duration reserves? Is that a correct interpretation?
    b. Depending on the materiality of these reserves relative to the totals for a P/C company as a whole, an Appointed Actuary may be making use of another actuary. We see at least two potential situations here:
        i. The Appointed Actuary may make use of another following ASOP No. 36 (specifically paragraph 3.7.2) and disclose such in the OPINION paragraph, as currently required in the P/C SAO Instructions.
        ii. The Appointed Actuary may determine that he/she is unable to issue an opinion on the reserves for those items and therefore qualify the opinion in accordance with ASOP No. 36 paragraph 3.11.d. In this case, would the regulator prefer or accept a separate opinion and disclosure from the actuary who performed the work on the active life reserves and asset adequacy test? If a separate opinion, the mechanics of the separate opinion would need to be described further including the need for separate board appointment.

5. Is this requirement in effect for December 31, 2017 statements? Based on the discussion at the Actuarial Opinion Working Group (AOWG) call on September 5, 2017, we understand that this is not a requirement for 2017 SAOs for P/C companies, but may be encouraged for long-term care insurance with more than 10,000 lives. We also understand that there may be some expedited amendments to the Annual Statement instructions. We note that the Actuarial Guideline LTC adopted by the Health Actuarial (B) Task Force, June 2, 2017 does not differentiate between P/C and other companies and which leads to an interpretation of a December 31, 2017 effective date.[2]

6. Are there exemptions to these requirements for a) small companies or b) companies with small amounts of A&H reserves?

7. What is the intended impact of the changes to the SAO relative to the Actuarial Opinion Summary and Schedule P reconciliation?

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[2] National Association of Insurance Commissioners, "The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves," adopted by the Health Actuarial (B) Task Force, June 2, 2017.

We appreciate your consideration of these concerns and questions and hope that the AOWG consider answering these questions when preparing guidance for opining actuaries and also when updating Annual Statement instructions related to SAOs.

Sincerely,

Lisa Slotznick, MAAA, FCAS
Chairperson, COPLFR
American Academy of Actuaries