



AMERICAN ACADEMY *of* ACTUARIES

October 10, 2011

VIA EMAIL TO SROBBEN@NAIC.ORG

Mr. Richard Piazza
Chair, Casualty Actuarial & Statistical Task Force
c/o Sara Robben, Statistical Analyst
National Association of Insurance Commissioners
2310 McGee Street, Suite 800
Kansas City, Missouri 64108

Re: Proposed 2012 Actuarial Opinion Instructions

Dear Mr. Piazza:

On behalf of the Casualty Practice Council of the American Academy of Actuaries,¹ I am pleased to submit the following comments regarding the proposed 2012 Actuarial Opinion Instructions.

The portions of the proposed 2012 Actuarial Opinion Instructions on which we are offering comments are presented below in the sequence in which they appear in the Instructions, with our comments following each cited section.

Section 1. The paragraph beginning with the words, “If an actuary who was...,” includes a sentence which reads as follows:

“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, scopes, procedure, or data quality.”

We suggest including references to disagreements with the former Appointed Actuary with respect to the category or type of opinion issued or the wording of the opinion within this requirement. Language consistent with our suggestion would read as follows:

“The insurer shall also furnish the domiciliary Commissioner with a separate letter within ten (10) business days of the above notification stating whether in

¹ The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists 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.

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, scopes, procedure, category of opinion issued, wording of the opinion, or data quality.”

Section 1A. Definition of “Actuarial Report,” reads as follows:

“‘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, or its equivalent, the 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 actuary’s opinion or findings and that documents the analysis underlying the opinion. The required content of the report is further described in paragraph 7.”

The 2011 Actuarial Opinion Instructions made a change, retained in the 2012 exposure draft, in the definition of the Actuarial Report. Rather than being defined as the source of documentation for the Actuarial Opinion findings, the Actuarial Report can now be interpreted as a *single document* that communicates findings to management, regulators, and the Board.

Several years ago, it was decided that, in the context of these Instructions, a document suitable for the Board might need to be different from a document intended for another actuary. It is impractical for the same document to be used for three different audiences (company management, the Board of Directors, and the regulator) who have three different backgrounds and three different responsibilities.

For the above reasons, we urge a return to the definition of “Actuarial Report” in effect before 2011. If, however, the reference to the Board of Directors in the definition of Actuarial Report is retained, we would then suggest that clarifying language be added to the definition, similar to that which was inserted into the 2011 regulatory guidance. The desired language would read:

“The inclusion of the Board of Directors as part of the intended audience for the Actuarial Report is not intended to change the content of the Actuarial Report as described in paragraph 7. The Appointed Actuary may still choose to present findings to the Board of Directors in any manner deemed suitable for such audience.”

Section 7. The first of the six specified required inclusions in the Actuarial Report, which is new language, reads as follows:

“A description of the Appointed Actuary’s relationship to the Company with clear presentation of the Actuary’s role in advising the Board and/or management regarding the carried reserves. The report shall identify how and when the analysis is presented to the Board; and how and when the analysis is

presented to any officer of the company responsible for determining the carried reserves.”

The Appointed Actuary does not control, or necessarily know about, the distribution of the Actuarial Report, which will typically occur after the Appointed Actuary has sent the Actuarial Report to company management. To the extent that the Appointed Actuary does have knowledge of these subjects, disclosure of that information may be helpful to regulators, but including this as required information in the Actuarial Report will be problematic when the method of distribution is convoluted or unknown.

If the draft language is retained as the basis for a requirement to disclose information about the distribution of the Actuarial Report, we suggest the second sentence be appended with, “if and to the extent that the Appointed Actuary knows about it when preparing the Actuarial Report.”

We also suggest changing the words “any officer” in the second sentence of the draft language to “the officer(s).” This change would reflect the possibility that more than one officer of the company may determine the carried reserves. As revised, the requirement would be satisfied by identifying how and when the analysis is presented to any one of those officers.

Finally, the second sentence also does not identify who is doing the presentation of the analysis to the Board.

Incorporating these suggestions, the second sentence could read: “The report shall identify how and when the Appointed Actuary presented the analysis to the Board and to the officer(s) of the company responsible for determining the carried reserves, if and to the extent that the Appointed Actuary made such presentations.”

Section 7. The second of the six specified required inclusions in the Actuarial Report, which includes some revised language and precedes the proposed deletion of an existing required inclusion, reads (together with the deleted language, shown to provide the context of our comments) as follows:

“An exhibit which ties to the Annual Statement and compares the Actuary’s conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis and that maps to Schedule P line of business reporting;

~~“Summary exhibit(s) of either the actuary’s best estimate, range of reasonable estimates, or both, that led to the conclusion in the OPINION paragraph regarding the reasonableness of the provision for all unpaid loss and loss adjustment expense obligations”~~

This requirement would be problematic in many common real-life instances. For example, for a company writing program business spanning multiple lines of coverage, the actuary may choose to perform his or her analysis based on splits of exposures by program, and compute estimated unpaid claims in bulk across multiple lines of coverage. The mapping of such estimates to

Schedule P lines of business would require an artificial and perhaps arbitrary approach. Furthermore, detailed information supporting the mapping of carried amounts at the company to Schedule P lines may not be readily available from the company. We recommend that this new proposed requirement be eliminated.

We further propose the sentence, “The actuary’s conclusions will include the actuary’s point estimate, range of reasonable estimates, or both.” as the second required inclusion in the Actuarial Report. We believe that the information pertaining to both the actuary’s point estimate and his or her range of reasonable estimates are intended to be disclosed.

Our above comments would also be applicable to the third of the six specified required inclusions in the Actuarial Report.

Section 7. *The fourth of the six specified required inclusions in the Actuarial Report*, which is new language, reads as follows:

“An exhibit showing the change in the actuary’s estimates from the prior report, including extended discussion of factors underlying any material changes;”

We believe that this wording is overly broad in that it would require identification and discussion of even small changes in estimates, and we expect that it will be subject to a wide variety of interpretations by the Appointed Actuary. In addition, where the Appointed Actuary can provide the information specified here, it may span numerous pages and/or be an appendix to the report itself. We propose the revised sentence, “An exhibit or appendix showing the change in the estimates from the prior Actuarial Report, including extended discussion of factors underlying any material changes;” as the fourth required inclusion in the Actuarial Report.

We appreciate the opportunity to comment on the proposed 2012 Actuarial Opinion Instructions. If you have any questions about our comments, please feel free to contact Lauren Pachman, the Academy’s casualty policy analyst, at pachman@actuary.org.

Sincerely,

Tim Wisecarver, FCAS, MAAA, FCA
Vice President, Casualty Practice Council
American Academy of Actuaries