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July 7, 2016

James J. Donelon, Chair
Surplus Lines (C) Task Force
National Association of Insurance Commissioners

Teresa D. Miller, Chair
Casualty Actuarial and Statistical (C) Task Force
National Association of Insurance Commissioners

Via email

RE: Loss Reserve Instructions for International Insurers

Dear Commissioners Donelon and Miller:

The Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries¹ has noticed inconsistencies in the current International Insurers Department (IID) certification of loss reserves instructions posted on the NAIC website, as well as inconsistencies between the IID instructions and NAIC instructions. We wish to point out these inconsistencies and offer suggested revisions.

Located on the NAIC's Surplus Lines Working Group [webpage](#) are several documents relating to annual filings for companies or Lloyd's syndicates subject to regulation as alien insurers. There are two sets of instructions for certification of loss reserves intended to provide instructions for an addendum to the standard IID reporting form relating to the loss and loss adjustment expenses within the associated financial statement filing. One set of instructions is titled "Company Annual Filings" and the other "Lloyd's Syndicate Annual Filings."

We offer the following observations and suggestions:

- The NAIC instructions for preparing Statements of Actuarial Opinion (SAO) relating to property and casualty loss reserves are promulgated as part of Statutory Annual Statement Instructions and are updated annually through a process that includes recommendations from the CASTF. These instructions define five specific types of

¹ The American Academy of Actuaries is an 18,500+ 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 policy makers 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.

opinions that can be contained within a statement of actuarial opinion: “reasonable,” “deficient,” “excessive,” “qualified,” or “no opinion.”

Actuarial Standard of Practice (ASOP) No. 36, [*Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*](#), sets forth professional standards related to preparing SAOs. This ASOP, similar to the NAIC instructions, provides for the same five types of opinions. (See Section 3.12)

However, the IID instructions for “Company Annual Filings” request that opinions be “good and sufficient.” The term “good and sufficient” is a different standard for the opinion than the standard in the NAIC P&C instructions and the standard in ASOP No. 36. We are drawing attention to this inconsistency in order to make sure that it is intentional. The instructions for “Lloyd’s Annual Filings” refers to a “reasonable” opinion, which is consistent with NAIC and U.S. actuarial standards of practice. We recommend that you consider changing the Company Annual Filing wording to be consistent with the “Lloyd’s Annual Filing” and the NAIC instructions.

- Both of the IID opinion forms use the phrase “are computed in accordance with accepted loss reserving standards and are fairly stated in accordance with sound loss reserving principles” rather than the phrasing in the NAIC instructions (“Are computed in accordance with accepted actuarial standards and principles”). We recommend that you consider updating the wording to be consistent with the NAIC SAO instructions. We also note that an alternative wording that actuaries use in practice is “are consistent with reserves computed in accordance with accepted actuarial standards and principles.”
- There may be additional areas of the NAIC SAO instructions that the IID may consider when updating its certification instructions, including considerations of whether the scope of the opinion should continue to be limited to U.S. business only.

COPLFR appreciates this opportunity to provide input to CASTF and the IID. We hope these observations are useful, and we welcome any further discussion or review that may be helpful to this process. If you have any questions about our comments, please contact Marc Rosenberg, senior casualty policy analyst (rosenberg@actuary.org; 202-223-8196).

Sincerely,

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

Cc: Bob Schump, NAIC staff
Kris DeFrain, NAIC staff