FEBRUARY 2025

Supplement to the 2024 COPLFR Practice Note—LA Wildfires

On January 7, 2025, a historic windstorm event took place in Los Angeles County California and spread wildfires, including the Palisades and Eaton fires that resulted in the loss of lives and impacted a significant number of structures. The L.A. wildfires have resulted in significant insured losses. The magnitude of the events and timing just after year-end present unique circumstances for P&C Statements of Actuarial Opinion (SAOs) that will be issued based on an accounting date of December 31, 2024.

This document provides a list of Frequently Asked Questions (FAQs) and associated responses for Appointed Actuaries' consideration when providing an SAO for a Company materially impacted by these events, whether directly or indirectly. The document was developed by the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries to assist Appointed Actuaries as they contend with uncertainties and challenges pertaining to disclosures in light of these events.

This document is focused on SAOs issued in connection with Property/Casualty Annual Statements as required by the NAIC. Therefore, references to accounting principles are in the context of Statutory Accounting Principles (SSAPs). Readers of this document who are working under other accounting frameworks are encouraged to refer to accounting principles relevant to those frameworks. It is noted that the term "the Company" as utilized throughout this document is intended to mean the statutory entity for which the SAO is being issued.

COPLFR appreciates the opportunity to respond to questions that Appointed Actuaries may have on this topic. However, as of the publication of this document, the ultimate impact of the January 7 windstorm and subsequent fires on the insurance industry is unknown. This document is intended to provoke thought amongst Appointed Actuaries by referencing and discussing the SSAPs and SAO Instructions related to the treatment of subsequent events, along with providing other considerations for the Appointed Actuary.

This document is not a promulgation of the Actuarial Standards Board, is not an Actuarial Standard of Practice, is not binding upon any actuary, and is not a definitive statement as to what constitutes generally accepted practice. Further, we stress that these questions and responses should not be considered alone in making decisions with respect to the impacts of these events. Consultations with Company management, Board of Directors, regulators, and independent auditors should be considered as deemed necessary by the Appointed Actuary.

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Any references to current laws, regulations, or practice guidelines are correct as of the date of publication.

It may be helpful for readers of this document to refer to the Practice Note on Statements of Actuarial Opinion on Property and Casualty Loss Reserves ("COPLFR Practice Note") published by COPLFR in December 2024. The purpose of the COPLFR Practice Note "...is to provide information to actuaries on current practices in which their peers are engaged related to signing a P&C SAO...." The Appendix of the COPLFR Practice Note also contains the *NAIC Annual Statement Instructions – Property/Casualty, Actuarial Opinion* (NAIC SAO Instructions), Regulatory Guidance issued by the NAIC *Actuarial Opinion Working Group*, and relevant SSAPs.

Please write to casualty@actuary.org with any comments on this document.

1. How might a subsequent event be considered with respect to statutory accounting?

The COPLFR Practice Note provides the SSAPs deemed particularly applicable to actuaries signing SAOs. Included is *SSAP No. 9 Subsequent Events*, which "defines subsequent events and establishes the criteria for recording such events in the financial statements and/or disclosing them in the notes to the financial statements." Readers are encouraged to review SSAP No. 9 in its entirety.

COPLFR notes that the SSAPs, including SSAP No. 9, are obligations of the Company. While the Appointed Actuary may be consulted, it is ultimately up to the Company to determine the financial statement items recorded and disclosures it will provide in a given situation.

SSAP No. 9 defines subsequent events and distinguishes between a Type I and a Type II material subsequent event. The definitions from SSAP No. 9 are reproduced below.

> "3. Material subsequent events shall be considered either:
>
> a. Type I – Recognized Subsequent Events: Events or transactions that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements;
>
> b. Type II – Nonrecognized Subsequent Events: Events or transactions that provide evidence with respect to conditions that did not exist at the balance sheet date but arose after that date."

COPLFR believes it is clear the conditions of the January 7, 2025, windstorm and start of the fires did not exist as of December 31, 2024, making direct insurance claims from the events a Type II subsequent event when material to a given company. However, as discussed in Question 7, there may be ancillary impacts of a Type II subsequent event that could be considered a Type I subsequent event.

Per SSAP No. 9, a Type II subsequent event is not reflected in the financial statement recorded amounts, but certain disclosures will be required if the event is deemed material by the Company. This means the loss reserves, premium deficiency reserve, surplus, etc. as of a December 31, 2024, financial statement date should not be impacted by the Type II weather and fire events in Los Angeles County in early January 2025.

> *"8. Material Type II subsequent events shall not be recorded in the financial statements, but shall be disclosed in the notes to the financial statements. For such events, an entity shall disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made."*

SSAP No. 9 goes on to state that an entity "...shall consider supplementing the historical financial statements with pro forma financial data..." and provides situations where this may be appropriate. It is unclear what the obligations of an Appointed Actuary would be regarding this supplemental pro forma financial data. COPLFR encourages the Appointed Actuary to discuss with the Company and/or the domiciliary regulator expectations related to the SAO if the Company elects to publish supplemental pro-forma financial data.

Per SSAP No. 9, a Type I subsequent event shall be recognized in the financial statements. For example, this means items such as the loss reserves may need to be adjusted for material Type I subsequent event impacts from the January 2025 events to the extent that they impact claims that were incurred as of December 31, 2024.

> "6. *An entity shall recognize in the financial statements the effects of all material Type I subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements.*"

2. Where can the Appointed Actuary obtain information from the Company on the impact of a Type II subsequent event?

If a Type II material subsequent event impacts a Company, the disclosures referenced in SSAP No. 9 paragraph 8 cited above should be disclosed by the Company in *Note 22 Events Subsequent*. We note that any amounts disclosed by the Company for a Type II material subsequent event would not ordinarily be within the scope of an SAO. (See Question 4 for further discussion.)

There are various new requirements for Company RBC filings as of December 31, 2024, for wildfire catastrophe risk that may be of interest for the Appointed Actuary to review. In particular, PR027C reflects various informational items on a Company's wildfire risk, and PR027INTA is a new interrogatory on a Company's catastrophe risk reinsurance program.

Section 3.5.3 of the COPLFR Practice Note discusses a letter of representation that an Appointed Actuary may request from Company management. Such a letter may be a good resource for the Appointed Actuary to collect additional information from the Company regarding its exposure to a Type II Material Subsequent Event.

3. What guidance do the Actuarial Standards of Practice (ASOP) provide on subsequent events?

We note that *ASOP No. 36 Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves* and *ASOP No. 43 Property/Casualty Unpaid Claim Estimates* are silent with regard to subsequent events. However, section 3.4.6 of *ASOP No. 41 Actuarial Communications* discusses subsequent events and is repeated below.

"3.4.6 Subsequent Events

The actuary should disclose any relevant event that meets the following conditions:

a. it becomes known to the actuary after the latest information date described in section 3.4.5;

b. it becomes known to the actuary before the report is issued;

c. it may have a material effect on the actuarial findings if it were reflected in the actuarial findings; and

d. it is impractical to revise the report before it is issued.

If the actuary learns of changes to data or other information (on or before the information date) after some findings have been communicated, but before the report is completed, the actuary should communicate those changes, and their implications, to any intended user to whom the actuary has communicated findings."

We also refer to section 3.4.5 of ASOP No. 41:

"3.4.5 Information Date of Report—The actuary should communicate to the intended user the date(s) through which data or other information has been considered in developing the findings included in the report."

Reviewing the citations above from ASOP No. 41 in conjunction with ASOP No. 36, COPLFR notes the following definition in ASOP No. 36:

"*2.10 Review Date—The date (on or after the valuation date) through which material information known to the actuary is included in forming the statement of actuarial opinion. This date is sometimes known as the "information date*"

There are distinctions between the term "subsequent event" as used in ASOP No. 41 and the definition of "subsequent event" in SSAP No. 9.

- The definition in ASOP No. 41 is concentrated on the actuary's awareness of the event, their findings, and the ability for the actuary to reflect the event in their report. Of particular note, the cutoff date for a subsequent event per ASOP No. 41 is the information date that data or information that was considered by the actuary in developing their findings. The information date or review date cited in SAOs varies and is typically sometime between the valuation date and the date the SAO is issued.

- The definition in SSAP No. 9 is concentrated on the timing of the event itself. The timing of a subsequent event per SSAP No. 9 is "...subsequent to the balance sheet date, but before the issuance of the statutory financial statements...."

Due to these distinctions COPLFR notes that a Venn diagram of "subsequent events" per SSAP No. 9 and ASOP No. 41 would not entirely overlap. Therefore, COPLFR believes the Appointed Actuary should consider their obligations within the context of ASOP No. 41 and ASOP No. 36. The Appointed Actuary should also adhere to the Code of Professional Conduct and in particular Precepts 1, 4, and 8.

4. How might a material Type II subsequent event be treated in the SAO with respect to the scope of the Appointed Actuary's opinion in Exhibit A?

The NAIC Annual Statement Instructions do not include specific guidance on treatment of Type II subsequent events in Exhibit A.

Absent specific direction from the NAIC on how to treat Type II subsequent events in Exhibit A, COPLFR believes it is reasonable to apply the guidance from SSAP No. 9 which indicates that the financial statements should not be adjusted for a Type II subsequent event. Therefore, COPLFR believes that entries on Exhibit A, which reflect values from the financial statements, would likewise not be adjusted for Type II subsequent events.

5. How might a material Type II subsequent event be treated in the SAO with respect to the disclosures in Exhibit B?

The NAIC Annual Statement Instructions do not include specific guidance on treatment of Type II subsequent events in Exhibit B.

Absent specific direction from the NAIC on how to treat Type II subsequent events in Exhibit B, COPLFR believes it is reasonable to apply the guidance from SSAP No. 9 when preparing Exhibit B.

SSAP No. 9 indicates that the financial statements should not be adjusted for a Type II subsequent event. Therefore, COPLFR believes that entries on Exhibit B, which reflect values from the financial statements, would likewise not be adjusted for Type II subsequent events.

However, SSAP No. 9 indicates that a material Type II subsequent event shall be disclosed in the notes to the financial statements. Therefore, COPLFR believes that a material Type II subsequent event may be appropriate to include on Exhibit B, row 14, as an "other item on which the Appointed Actuary is providing relevant comment" and include discussion in a Relevant Comment in the SAO. In assessing if disclosure of a Type II subsequent event is appropriate in the SAO, the Appointed Actuary may consider if the Company has included a disclosure in Note 22 of the Annual Statement and may wish to consider referencing the Note 22 disclosure in the Relevant Comment.

COPLFR acknowledges that some companies may have assessed that the L.A. wildfires are a material subsequent event and included a qualitative disclosure in Note 22, but that a quantitative estimate may not be available at the time the SAO is issued. In this case, the Appointed Actuary may elect to include a Relevant Comment in the SAO, but not enter a value on Exhibit B.

Finally, COPLFR acknowledges that some companies may assess that the L.A. wildfires do not constitute a material Type II subsequent event based on their exposure. In this case, COPLFR believes that a Relevant Comment on the event may not be needed in the SAO.

6. How might a material Type II subsequent event be treated in the SAO with respect to selection of the materiality standard and consideration of the risk of material adverse deviation?

The NAIC Annual Statement Instructions do not include specific guidance on treatment of Type II subsequent events in selecting the materiality standard or the determination of the risk of material adverse deviation.

Absent specific direction from the NAIC regarding Type II subsequent events when selecting the materiality standard, COPLFR believes it is reasonable to apply the guidance from SSAP No. 9 which indicates "...Type II subsequent events shall not be recorded in the financial statements." Therefore, COPLFR believes that it would be reasonable for the Appointed Actuary's selection of the materiality standard, which generally considers values from the financial statements, to not consider Type II subsequent events.

However, COPLFR also acknowledges that the materiality standard itself may be considered a disclosure item in Exhibit B. As discussed above, SSAP No. 9 indicates that a material Type II subsequent event shall be disclosed. Therefore, COPLFR believes it would also be reasonable for the Appointed Actuary to consider the company-specific risk factors associated with a Type II subsequent event in the selection of the materiality standard. This may be particularly relevant if considering whether a Type II subsequent event would change the Appointed Actuary's selection of the materiality standard which then results in a change to the Appointed Actuary's conclusion on risk of material adverse deviation.

Regardless of the approach chosen by the Appointed Actuary to select the materiality standard, both ASOP No. 36 and the NAIC SAO Instructions require the actuary to identify the basis for establishing the materiality standard.

Once the materiality standard is selected, the Appointed Actuary should gauge whether there is a risk of material adverse deviation in the reserves within scope of the SAO relative to that materiality standard. COPLFR notes that a Type II subsequent event does not have reserves as of the balance sheet date and cannot contribute to adverse deviation in the reserves in the subsequent year-end financial statement. However, as discussed above, the Appointed Actuary may choose to consider a material Type II subsequent event in their selection of the materiality standard that the risk of adverse deviation is measured against.

Further discussion on the selection of the materiality standard and the risk of material adverse deviation can be found in section 5.2 of the COPLFR Practice Note.

7. When a subsequent event is clearly a Type II subsequent event, are there any indirect impacts the Appointed Actuary should consider related to reserves on the balance sheet as of December 31, 2024?

If information becomes known to the Company or Appointed Actuary prior to the publication of the Annual Statement and SAO that could have an impact on claims incurred prior to December 31, 2024, such information may be a Type I subsequent event that should be considered in the reserves included within the scope of the SAO. Examples of Type I subsequent events triggered by a Type II subsequent event may include:

- Reinsurance collectability and the impact on net of reinsurance reserves if the solvency of reinsurers is threatened (see Question 8 for further discussion).
- Potential demand surge or increases in labor costs that would impact non-wildfire claims.
- Settlement rate slowdowns due to availability issues and/or rebuilding delays.

8. Both Type I and Type II subsequent events could create solvency issues for reinsurers that are not known at the time the Appointed Actuary needs to issue the SAO. What should the Appointed Actuary consider with respect to reinsurance collectability?

According to NAIC SAO Instructions, the Appointed Actuary should address reinsurance collectability in the relevant comments section. Due to the size of the L.A. wildfires event, there may be public information available regarding the financial condition of certain reinsurers by the time an SAO is issued.

The impacts of an event of this magnitude may pose potential collectability issues for companies directly exposed to the L.A. wildfires. Additionally, companies with limited or no exposure to the L.A. wildfires may cede to reinsurers that assume significant losses from the L.A. wildfires. This may present reinsurance collectability issues even for companies who do not have direct exposure to the L.A. wildfires.

Further, the size of this event may increase the uncertainty and risk surrounding reinsurance collectability for claims incurred prior to December 31, 2024. A review of the Company's reinsurers and ceded reserves (found in Schedule F) should lead to disclosure of any known reinsurance collectability issues in this comment. According to NAIC SAO Instructions, "The comment should also reflect any other information the actuary has received from management or that is publicly available about the capability or willingness of reinsurers to pay claims...."

If reinsurance collectability poses a risk to the Company, the Appointed Actuary may consider this when listing the company-specific risk factors within the SAO.

Further discussion on reinsurance collectability can be found in section 5.4.1 of the COPLFR Practice Note.

9. The Company has asked the Appointed Actuary to participate in estimating the potential impact of a Type II subsequent event beyond direct insurance claims. What factors could be considered in this estimation?

The purpose of these FAQs is to aid the Appointed Actuary. The considerations listed below are not meant to be an exhaustive list of the potential impacts of the L.A. wildfires but rather possible considerations that may help estimate the cost of a Type II subsequent event for a company:

- Exposure information including policy coverages such as power outage and mandatory evacuation—deductibles, dollar and/or limits
- Perils covered—wind, fire, mudslides
- Reinsurance (including any catastrophe bonds)
    - How reinsurance is triggered (e.g. based on PCS definition or contractually defined)
    - Are the windstorm and fires considered one or more separate events?
    - Time limit clauses
    - Reinstatement premium(s)
- Reinsurance collectability and the impact on net of reinsurance reserves if the solvency of reinsurers is threatened
- Claims input on status of reported claims, known case reserves, and payment philosophy
- FAIR plan assessment
- Guaranty Fund assessment(s)
- Potential regulatory actions that change a company's intended obligations from the policy terms
- Subrogation potential
- Potential demand surge or increases in labor costs that would impact non-wildfire claims
- Settlement rate slowdowns due to availability issues and/or rebuilding delays.

10. The Company has disclosed an estimate or range of estimates pertaining to the impact of a Type II subsequent event in Note 22—Events Subsequent in the Annual Statement. Does the Appointed Actuary need to opine on this estimate?

According to NAIC SAO Instructions, "*Exhibit A should list those items and amounts with respect to which the Appointed Actuary is expressing an opinion.*"

Per SSAP No. 9, Type II subsequent events are not recorded in the financial statements. Amounts disclosed in Note 22 for Type II subsequent events would not be expected to impact the items and amounts displayed in Exhibit A of the SAO. Therefore, COPLFR believes that the Appointed Actuary would not be expected to opine on estimates disclosed in Note 22.

Further discussion on the scope of the SAO can be found in section 3.1 of the COPLFR Practice Note.

11. The Company's recorded reserves for loss and loss adjustment expense are above the high end of the Appointed Actuary's range because the Company has included a provision for a Type II subsequent event, while the Appointed Actuary has not. Should the Appointed Actuary issue a "redundant" or "excessive" opinion?

According to SSAP No. 9, Type II subsequent events shall not be recorded in the financial statements. According to NAIC SAO Instructions, if the Company's recorded reserves are greater than the maximum amount that the Appointed Actuary believes is reasonable, then a redundant/excessive opinion should be issued.

Further discussion on redundant/excessive opinions can be found in section 4.4 of the COPLFR Practice Note as well as ASOP No. 36.

12. The Appointed Actuary issues the SAO prior to March 1. After this date, the Appointed Actuary is made aware that the Company has materially changed its view on the impact of a Type II subsequent event. Does the SAO need to be reissued?

According to NAIC SAO Instructions, "*The Actuarial Opinion shall not be considered to be in error if it would have been materially altered or not issued solely because of data or information concerning events subsequent to the balance sheet date or because actual results differ from those projected.*"

Given this instruction, COPLFR believes that the Appointed Actuary would not need to reissue the SAO in the situation described above.

Further discussion on errors in the SAO can be found in section 6.2 of the COPLFR Practice Note.

13. The Appointed Actuary issues the SAO prior to March 1. After this date but prior to issuance of the Actuarial Report, the Appointed Actuary is made aware that the Company has materially changed its view on the impact of a Type II subsequent event. Should the Appointed Actuary address this in the Actuarial Report?

ASOP No. 41 provides guidance on disclosure related to subsequent events, as discussed previously in this document. If new information becomes known to the Appointed Actuary prior to the issuance of the Actuarial Report, the Appointed Actuary should first evaluate if the new information meets the conditions of subsequent events as laid out in ASOP No. 41 (see Question 3). If the information does meet these conditions, ASOP No. 41 then states that "t*he actuary should communicate those changes, and their implications, to any intended user to whom the actuary has communicated findings*."

Further discussion on the preparation of the Actuarial Report can be found in section 8 of the COPLFR Practice Note.

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