(Property/Casualty and Title Insurers)

Overview

A. Actuarial Opinion

The Statement of Actuarial Opinion (Opinion) can be a valuable piece of information in determining whether the insurer requires further regulatory attention.

While the Annual Statement Instructions (Instructions) as a whole are directed to the insurer, Section 1 identifies the specific responsibilities of the insurer regarding appointment of a qualified actuary, the definition of a qualified actuary, required notification to regulators and exemptions from the requirement. Most of this is straightforward. The Casualty Actuarial and Statistical (C) Task Force has defined a qualified actuary with consideration of Actuarial Standards of Practice and a Code of Conduct that bind members of identified professional organizations. With respect to filing exemptions, it should be noted that a commissioner is not obligated to grant an exemption merely due to the presence of one or more conditions. Consideration of an exemption request should include the size and uncertainty in the reserves, both the direct and as well as the net.

Another thing to keep in mind is that the Actuarial Opinion is not independent from the Annual Financial Statement itself. Everything that follows in describing the Opinion should be expected to be consistent with all other elements of the Annual Financial Statement, including but not limited to the General Interrogatories, Notes to Financial Statements, MD&A, and Independent Auditors’ Report. (Note that the Annual Financial Statement is also referred to as the Annual Statement within this reference guide.)

The remainder of the Instructions provides guidance to the company and its appointed actuary regarding expectations around the reported information that is expected. Section 2 provides that the Opinion should contain four clearly designated sections: Identification, Scope, Opinion, and Relevant Comments. While illustrative language is provided in the Instructions, specific language is not required, provided the information is clearly conveyed.

Section 3 (Identification) is self-explanatory. No appointed actuary should have difficulty providing clarity. The actuary is rendering his or her opinion as an individual, not the firm the actuary represents.

Section 4 (Scope) is similarly self-explanatory. Required reserve amounts upon which the Opinion is based are consolidated into Exhibit A. Required disclosure amounts are consolidated into Exhibit B. The exhibit structure lends itself to easier identification of zero and non-zero amounts and comparison to amounts in the Annual Financial Statement.

Section 4 also calls for the actuary to identify disclose the name and affiliation of the person(s) upon whom the actuary relied upon for the data used in the reserve analysis. This reliance is expected to be based on an a single individual(s) from the company that has authority and responsibility for relevant data and data systems of the company. A company appointed actuary may choose to accept responsibility for the data without identifying reliance on another company person. If someone from the regulated insurance entity is not named here, Deviation from this requirement should be called to the attention of the insurer, and the analyst should request the insurer to provide an amendment should be provided.

Section 5 (Opinion) presents the first opportunity for the regulator to see a need for immediate attention. The illustrative language is not required. The actuary is required to explicitly identify his or her opinion within one of five categories. The illustrative language is based on the most commonly rendered opinion—that the carried reserves make a reasonable provision. Should any other category of opinion be
presented, the opinion calls for immediate further attention and determination of the need for follow-up action.

Section 6 (Relevant Comments) identifies specific areas in which the actuary is required to comment. The purpose of this requirement is to provide the regulator with information that numbers alone cannot convey. The most important relevant comment relates to the Risks of Material Adverse Deviation (RMAD). The appointed actuary should provide explanation of the major risk factors affecting the company. The actuary must explicitly state whether or not he or she reasonably believes there are significant risks and uncertainties that could result in material adverse deviation. Note that on average nearly 70 percent of companies have reported “No” for RMAD as chosen by the appointed actuary in Exhibit B. The actuary must also identify the materiality standard and the basis for establishing it.

Actuaries often choose a materiality standard that will be a percentage of surplus or reserves, but other standards may also be appropriate. The standard chosen helps to quantify the degree of risk the appointed actuary believes to be present in the company’s reserves. The standard may vary based on the solvency position of the insurer. The materiality section of the Preamble to the Accounting Practices and Procedures Manual contains excellent guidance regarding the selection of a materiality threshold. Using this guidance, an actuary for two companies with comparable business and comparable reserves could have different RMAD statements. For example, an insurer with an RBC ratio of 205 percent could possibly need only a small change in reserves to put it in Company Action Level, whereas a similar insurer with an RBC of 600 percent may be viewed as having little or no RMAD.

If the Company is subject to Risk-Based Capital (RBC) reporting requirements, the following calculation is suggested for use as a Bright Line Indicator regarding the need for an RMAD statement:

\[
\text{If 10 percent of the insurer’s net loss and loss adjustment expense (LAE) reserves is greater than the difference between the Total Adjusted capital and Company Action Level capital, the appointed actuary should be asked to explain why they do not feel there is an RMAD.}
\]

A similar comparison could be made between 10 percent of the insurer’s net reserves and the size of their underwriting or operating income. It should be noted that the RMAD might increase with more volatile exposures such as asbestos and environmental, excess casualty, and/or other commercial lines.

Collectively the relevant comments should reveal exposures, transactions, historical developments, processes, and uncertainty that contribute to the appointed actuary’s opinion. Some of the comments call for judgment on the part of the actuary. The disclosures in Exhibit B are required to ensure that the actuary acknowledges consideration of certain items in reaching his or her opinion.

Section 7 (the Actuarial Report) provides guidance for both the actuary (regarding required content of the report) and for the regulator (regarding what to expect from the report if more information is desired). The NAIC places a high level of trust in the work of a qualified actuary. The presumption is that professional qualifications and adherence to the Actuarial Standards of Practice and Code of Conduct promulgated by the American Academy of Actuaries result in a work product that assists the regulator in understanding a balance sheet entry that is management’s best estimate, but an estimate that can have considerable uncertainty. That trust is only justified if the actuary can readily provide support for the opinion provided. That support should be available in the Actuarial Report.

Section 8 (Signature) is self-explanatory.

Section 9 (Error Correction) addresses infrequent events or corrections that occur at a later date. No action is necessary as part of Opinion review. Should an appointed actuary provide such notification, the
(Property/Casualty and Title Insurers)

**Special Requirements for Pooled Companies**

These requirements are also identified in Section 1C of the Annual Statement Instructions and
These instructions apply only to insurers who are participants in intercompany pooling agreements in which the lead company retains 100 percent of the pooled reserves and the other members of the pool retain zero percent. In this situation, the Schedule P of the zero percent companies is blank, and rendering an opinion on non-existent values is virtually useless to the regulator. For these situations only, the actuary is directed to prepare an opinion on the pool, which is to be filed with the Annual Statement of each of the pooled companies.

Exhibits A and B for each company in the pool should reflect values specific to the individual company’s share of the pool and should reconcile to values filed with the Annual Statement. For companies whose pool participation is 0%, (i.e. no reported Schedule P data), the actuary is directed to write an opinion that reads similar to that of the lead company. This will allow for proper data submission for each company in the pool while accommodating the greatest distribution of the relevant values for the pool, providing additional meaningful data to the analyst.

Note the distinction between pooling with a 100 percent lead company with no retrocession and ceding 100 percent via a quota share agreement. These affiliate agreements must be approved by the regulator as either an intercompany pooling arrangement or a quota-share reinsurance agreement. The proper financial reporting is dependent on the approved filings, regardless of how company management regards their operating platform.

**B. Actuarial Opinion Summary**

The Actuarial Opinion Summary (Summary) is a confidential document which provides valuable insight to an appointed actuary’s conclusion regarding the reasonableness of the carried reserves. Nearly all Opinions submitted provide a qualitative statement that the carried reserves are “reasonable.” The Summary provides quantitative information to more clearly show the analyst what/how the appointed actuary means in reaching that conclusion. With that added information provided in the Summary, the analyst can make a judgment regarding the need for further regulatory attention.

As with the Opinion, the Annual Statement Instructions for the Actuarial Opinion Summary are directed to the insurer.

Section 1 of Supplemental Instructions 23-1 (Actuarial Opinion Summary Supplement) identifies the specific responsibilities of the insurer regarding this document. The analyst should first determine if the domiciliary state requires the Summary. If so, the Summary should be completed/reviewed in tandem with the Opinion and factored into recommendations for the decision for further action/regulatory attention regarding the Statement of Actuarial Opinion.

Sections 2 restates regulatory expectations that the Summary be consistent with professional standards that guide a “qualified actuary” as defined in the Opinion Instructions.

Section 3 restates exemption considerations.
Section 4 addresses confidentiality. As noted above, the analyst should have advanced knowledge of the state’s requirements for submission of the Summary.

Section 5 provides guidance to the company and its appointed actuary regarding the specific content that is expected in the Summary. This is the quantitative information that the analyst should focus on reviewing in order to develop a recommendation for further regulatory action.

Regardless of how the information is presented, the intention is to translate for the regulator the qualitative/subjective opinion regarding “reasonableness” into a quantitative/objective financial comparison.

Subsections A and B require the actuary to show in the comparison their point estimate and/or range of estimates (whatever is calculated), or both, in accordance with what they have calculated. The comparison is always made to the carried loss and loss adjustment expense reserves. The actuary must compare these estimates on both a net and gross of reinsurance basis. These carried amounts should agree with the amounts presented in Exhibit A of the Opinion and the Annual Financial Statement. The analyst should note that these amounts provided in the Summary will likely be commonly presented as combined Loss & Loss Adjustment Expense amounts (Exhibit A Lines 1 & 2 for Net; Lines 3 & 4 for Direct & Assumed). If the amounts do not agree, that may be a first sign of weak controls within the reserving or financial reporting process of the company. Regardless of the source of the error, it is an indication of a lapse in communication between the appointed actuary and the company and requires follow up.

The comparisons will likely result in one of the following situations. Note that the tables in these illustrations show both point and range estimates by the actuary. The actuary is not required to calculate both, but regulators expect actuaries to report both when whatever is calculated. Note that it has been observed that approximately 50 percent of the time, the actuary has calculated a point estimate only, whereas the remaining appointed actuaries have calculated both the point estimate and a range. A small percentage of appointed actuaries have calculated a range only.

**Situation 1: Actuary’s Point Estimate or Range Midpoint = Carried Reserves**

<table>
<thead>
<tr>
<th></th>
<th>Net Loss + LAE Reserves</th>
<th>Direct &amp; Assumed Loss + LAE Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Point</td>
</tr>
<tr>
<td>B: Actuary’s Estimates</td>
<td>21,000</td>
<td>25,000</td>
</tr>
<tr>
<td>C: Company Carried Reserves</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>D: Difference</td>
<td>3,000</td>
<td>0</td>
</tr>
</tbody>
</table>

This example above is the simplest, but not the most common (approximately one in five cases for non-zero reserves), and it can represent a situation in which the company relies completely on the appointed actuary and carries carrying his or her estimate. In that case there is no difference between the actuary’s estimate and the carried amount. There may be small variations on this case in which the actuary’s estimate is “close to” the company carried reserves. The question facing the analyst needs to determine “How close is close enough?” With the regulatory emphasis is on financial solvency, an initial consideration might be the impact on surplus of management’s decision to carry an amount different from the actuary’s estimate. If the carried reserves are higher than the actuary’s estimate, then surplus is more conservatively stated. Further action is generally not necessary.

**Situation 2: Actuary’s Point Estimate or Range Midpoint < Carried Reserves**


<table>
<thead>
<tr>
<th></th>
<th>Net Loss + LAE Reserves</th>
<th>Direct &amp; Assumed Loss + LAE Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Point</td>
</tr>
<tr>
<td>B. Actuary’s Point Estimates</td>
<td>17,000</td>
<td>20,000</td>
</tr>
<tr>
<td>C. Company Carried Reserves</td>
<td>21,000</td>
<td></td>
</tr>
<tr>
<td>D. Difference</td>
<td>4,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

In this case, (approximately half of all cases), if a “Reasonable” opinion is issued, the company is carrying a reserve amount greater than the actuary’s recommended point estimate or is carrying reserves in the high end of the actuary’s range. From a solvency perspective, surplus is more conservatively stated, and the analyst should apply judgment about whether to follow up with the company and no further action is generally not necessary.

**Situation 3: Actuary’s Point Estimate or Range Midpoint > Carried Reserves**

<table>
<thead>
<tr>
<th></th>
<th>Net Loss + LAE Reserves</th>
<th>Direct &amp; Assumed Loss + LAE Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Point</td>
</tr>
<tr>
<td>B. Actuary’s Point Estimates</td>
<td>17,000</td>
<td>20,000</td>
</tr>
<tr>
<td>C. Company Carried Reserves</td>
<td>17,100</td>
<td></td>
</tr>
<tr>
<td>D. Difference</td>
<td>100</td>
<td>(3,000)</td>
</tr>
</tbody>
</table>

This situation has occurred approximately 25 percent of the time. When the carried reserves are less than the actuary’s point estimate or range midpoint, calculate the analyst should focus on the difference between the carried reserves and the point estimate or range midpoint. If the actuary has issued a “Reasonable” opinion, the analyst should consider the following factors in making a judgment:

- The difference as a percent of surplus
- The difference as a percent of carried loss + loss adjustment expense reserves
- The company’s risk-based capital position

At this point, the analyst might consider an alternate question: “If the company had carried the actuary’s higher estimate and surplus was comparably reduced, would my evaluation of the company’s financial condition change to a less favorable one?” If the answer to that question is “yes,” then the analyst should consider requesting management’s rationale and documentation to support the lower carried reserve amount(s). In addition, the analyst might require the company to have their appointed actuary provide more detailed additional information regarding the range of estimates, if calculated. This information, the actuary’s description and derivation of the range, should also be available documented in the Actuarial Report supporting the opinion.
As a rule of thumb, carrying reserves more than 5 percent (of surplus) below the actuary’s point estimate or range midpoint is concerning, even if the reserves still lie within the actuary’s range. The 5 percent (of surplus) is a common examiner materiality starting selection.

Next, consider the Summary in the context of RMAD as addressed in the Opinion. If a range is provided, is the material adverse deviation standard less than the difference between the carried reserves and the high end of the actuary’s range? This implies that the actuary’s range of reasonable reserve estimates encompasses the amount the actuary considers to be a material adverse deviation. Does the actuary conclude “yes” in Exhibit B that there are significant risks for material adverse deviation and provide extensive discussion of risks and uncertainties? The analyst should document any comments or concerns.

Over 99 percent of Most Actuarial Opinions issued are “Reasonable,” which means that the carried reserve amounts are within the actuary’s range of reasonable reserve estimates. Thus, only a handful of Opinions fall into the other categories as defined in the Instructions (Deficient or Inadequate, Redundant or Excessive, Qualified, or No Opinion). These types of opinions likely require further action by the analyst. The Considerations section below identifies several actions that could be taken, particularly with regard to a Qualified Opinion or a No Opinion.

A Deficient or Inadequate Opinion, while very rare, presents a challenge for the analyst. This type of Opinion means that the carried reserves are less than the minimum amount the appointed actuary needed to be considered reasonable. As with Situation #3 above, the analyst should evaluate the materiality of the deficiency in light of surplus, the company’s Risk-Based Capital position, net income, and other factors. The analyst should review all options as listed in the Considerations section below should be considered. In this situation, more than likely it will be necessary for the regulator to initiate a target examination or engage another independent actuary to evaluate the reasonability of the carried reserves, so the perceived implied deficiency can be cured, as needed.

Regardless of the analyst’s concerns, it is important to remember that the carried reserves are the responsibility of management. The appointed actuary may or may not be part of management. In nearly all cases, the analyst initial questions should be directed to company management for rationale and documentation of decisions regarding carried amounts.

Subsection E addresses what the Casualty Actuarial and Statistical (C) Task Force calls “persistent adverse development.” When the company experiences one-year adverse development in excess of 5 percent of surplus as measured by Schedule P, Part 2 in at least three of the past five calendar years, the appointed actuary must provide it calls for explicit discussion of the causes or actions that contributed to having a one-year adverse development in excess of 5 percent of surplus as measured by Schedule P, Part 2 in at least three of the past five calendar years. The calculation of the one-year adverse development ratio can be found in the Five-Year Historical Data exhibit of the Annual Statement.

In the discussion of persistent adverse development, the appointed actuary is encouraged to Comment on reflect-address common questions that regulators have, such as:

- Is the development concentrated in one or two exposure segments, or is it broad across all segments?
- How does the development in the carried reserve compare to the change in the actuary’s estimates?
- Is the development related to specific and identifiable situations that are unique to the company?
- Is the development judged to be random fluctuation attributable to loss emergence?
Does either the development or the reasons for development differ depending on the individual calendar or accident years?

The analyst should also consider the following situations:

Situation A: Prior summaries indicate that the company relies on the actuary’s estimates. If persistent adverse development occurs, one might infer that the actuary’s methods and assumptions have a bias toward underestimation.

Situation B: Prior summaries indicate that the company regularly carries amounts lower than the actuarial point estimate or low in the actuary’s range. If persistent adverse development occurs, one might infer that management sets the actuary’s indications aside and takes a more optimistic view of its liabilities, regardless of what the appointed actuary calculates.

Considerations

The Statement of Actuarial Opinion and/or the Actuarial Opinion Summary may contain broad general caveats. These include generalizations about the unpredictability of future jury awards, coverage expansions, etc. They are not to be confused with disclosures about specific sources of uncertainty, such as new lines of business or territories, new claims/underwriting/marketing/systems initiatives, etc. These specific disclosures should be viewed as areas for formal investigation through an examination or informal investigation through correspondence or conversation.

Initial Steps

The Statement of Actuarial Opinion Supplemental Procedures and the Actuarial Opinion Summary Supplemental Procedures provide guidance for a reviewing analyst. The procedures should be supplemented with comments and questions as needed. Both the Opinion and the Summary should be reviewed and considered together before any action is taken. At the completion of the review procedures, the analyst should be able to conclude what, if any, further action is needed.

Consult with the regulatory property/casualty actuary, if available

If the insurance department has a regulatory property/casualty actuary on staff, the analyst may consult him or her with any questions or concerns. They may be consulted about any questions or concerns the analyst may have.

Contact the insurer

The analyst may need to contact the insurer for additional information, particularly if the RMAD is large relative to surplus or if the insurer’s RBC is likely to fall below the Company Action Level. Some of the items that may need clarification are a concern over reinsurance collectibility, a change in method for determining the carried loss and LAE reserves, or other risk items noted in the Relevant Comments section as having the potential to result in material adverse deviation. Typically, items of a general nature, such as the risk from a change in the legal or regulatory environment, would not require further investigation.

Collectibility of reinsurance can be a concern when noted in the Relevant Comments section. Contracts with reinsurers who are not financially strong, reinsurance coverage obtained under a program that is no longer offered, or reinsurance coverage on unusual risks the company was writing as a primary insurer could increase the uncertainty regarding reinsurance collectibility. Also, a change in reinsurance contract language, a change in reinsurers, or writing a new program in a new line of business or a new class...
of business may affect the uncertainty concerning reinsurance collectibility if the insurer does not have a good understanding of the primary coverage written and the reinsurance coverage obtained.

A change in the method for determining the loss and LAE reserves could also be identified in the Relevant Comments section. If an insurer has recently implemented loss reserve discounting or if the discount rate used to determine the reserves has changed, then the impact on the reserve estimate arising from these changes should be ascertained by the examiner or analyst. The impact of any changes in the reserving methodology should be investigated, particularly with regard to its effect on the provision for material adverse deviation and its potential impact on RBC levels.

For property/casualty companies, the appointed actuary must include comments on the factors that led to exceptional values for IRIS ratios #11, #12, and #13 should be explained in the Statement of Actuarial Opinion. An explanation that identifies risk elements that are part of the insurer’s operations rather than a one-time occurrence would merit further investigation by the analyst. It is generally not sufficient to explain an IRIS ratio, outside the usual range Exceptional value, by simply stating the insurer has strengthened reserves. Specific detail regarding lines of business, accident years, or changes in operations should be requested if the actuary has not been provided in the explanation for the specific IRIS ratio. Similarly for title insurers, exceptional reserve development as defined by Instructions 6D should be explained in the Statement of Actuarial Opinion.

Obtain a copy of the Actuarial Report

If there are particular items identified as significant in the Relevant Comments section or there is significant risk of the insurer falling below the RBC Company Action Level, reviewing the Actuarial Report supporting the Statement of Actuarial Opinion can give the analyst insights about the nature and severity of the risks identified. If one or more portions of the carried reserves are excluded from the Opinion, the Actuarial Report may give the analyst insight as to the relative amount of any excluded items and the reasons why any of those items were excluded from the Opinion.

If the analyst believes requests the Actuarial Report needs to be requested, the analyst might start reviewing perhaps only the narrative component first. The narrative should contain the summary exhibits and the appointed actuary’s point estimate and/or range, and is often referred to as the Executive Summary. The technical component will likely contain the loss development triangles and factors, support for ultimate loss selections, and required data reconciliations. Normally, the technical component would be requested for a full-scope examination or limited-scope examination that includes an evaluation of the carried reserves by an actuary.

If the relevant comments or provision for material adverse deviation RMAD paragraphs mention the use of loss portfolio transfers or financial reinsurance as a potential source for subsequent adverse impact, then the analyst needs to understand how these agreements may affect the insurer’s financial position. The Actuarial Report may include information about the impact of these contracts under various scenarios or consider the possible range of outcomes under different circumstances.

Any items in the insurer’s carried reserves that were identified in the Statement of Actuarial Opinion as not quantifiable require further investigation. The particular reasons or circumstances given can provide guidance on how to proceed. The analyst should consult with the appointed actuary who prepared the report to find out why there was not an opinion rendered on a portion of the reserves.

Consult with the in-house actuary

If the appointed actuary is an employee of the insurer, the analyst should consider contacting that actuary regarding any issues noted in the Opinion or the Summary.
The classes of business for which the insurer has provided coverage can greatly affect the type of liabilities that arise. Pollution liabilities are particularly difficult to estimate and are often determined by models that look examine at the risk profile of the company’s insureds/policyholders, particularly when insurer loss history has limited predictability. The results from these models can often have a wide range in estimates for loss and LAE reserves. Construction defect claims have a 10-year reporting period in some states, making their liabilities particularly difficult to estimate. Other uncertainties can arise over asbestos or other types of mass tort claims. The analyst should consider submitting a request for additional information from the insurer, a company’s in-house actuary should be considered if an RMAD from these types of claims is identified.

Next Steps

Engage an independent actuary to review the insurer’s reserves

For items that were not quantified in the Statement of Actuarial Opinion or any liability items for which there is significant concern, the analyst may recommend engaging an independent actuary to provide a review of the carried reserves in question. This independent review can also be valuable if there is a significant difference between management’s view and the appointed actuary’s view concerning a material item identified in the Actuarial Report.

Meet with the insurer’s management

The analyst may recommend meeting with the insurer’s management when there are items in the Actuarial Report that need clarification or require the insurer to take further action. This could include developing a business plan, setting up interim reporting, developing a corrective action plan, or providing additional information about the underlying factors contributing to the risk in the insurer’s financial report. Any concerns with company financial data or reconciling various data sources should be investigated with the insurer’s management. Concerns about a company’s exposure due to policy coverage terms or lack of available data should be investigated as warranted.

Refer the insurer to the examination section for a target examination

The analyst may recommend a target examination if, after obtaining further information, there is still concern about the financial risk of the insurer. The target examination should determine if the insurer is taking proper steps to mitigate the adverse impact arising from the risks identified in the Statement of Actuarial Opinion.

Discussion of the Supplemental Procedures

A. Actuarial Opinion

The analysis of the Statement of Actuarial Opinion, although filed with the Annual Financial Statement, is documented separately from the Annual Procedures because of its significance.
GENERAL and IDENTIFICATION
Procedures #1 through #97 assist the analyst in determining whether, (1) a Statement of Actuarial Opinion was filed and prepared by a qualified actuary who was appointed by the insurer’s board of directors prior to December 31 of the year for which the opinion pertains, or (2) the insurer has an exemption from filing the Statement of Actuarial Opinion that was approved by the domiciliary state insurance department and (3) the insurer is a member of an intercompany pooling arrangement. Pool members’ financial results may need to be evaluated differently than insurers who operate independently.

SCOPE
Procedures #10 through #11 assist the analyst in determining whether the Scope paragraph of the Statement of Actuarial Opinion contains verbiage that covers the reserves and premium amounts required to be reviewed (as shown in Exhibit A) according to the Annual Statement Instructions Property/Casualty, and whether the reserve amounts included in the Statement of Actuarial Opinion agree with the amounts per the Annual Financial Statement. If the reserve amounts included in the Statement of Actuarial Opinion do not agree with the amounts per the Annual Financial Statement, the analyst should (1) comment on the reasons for the differences, (2) consider the impact of the differences on the conclusions reached as a result of the analysis of the Annual Financial Statement, and (3) consider the need to perform additional analysis on the Annual Financial Statement.

Procedure #14 assists the analyst in determining whether the actuary indicated that the data used in forming his or her opinion on the loss and LAE reserves were reconciled to Schedule P, Part 1 of the insurer’s Annual Financial Statement. Schedule P, Part 1 is then required to be tested by the independent CPA as a part of the audit of the insurer. These procedures were designed to prevent the problem of the actuary relying on unaudited data in analyzing the insurer’s reserves. For title insurers, data is reconciled to Schedule P, Parts 1 and 2.

OPINION
Procedures #15 through #17 assist the analyst in determining whether the Statement of Actuarial Opinion states that the reserves meet the requirements of the insurance laws of the state of domicile, are computed in accordance with accepted loss reserving standards and principles, makes a reasonable provision for all unpaid loss and LAE obligations of the insurer under the terms of its policies and agreements, and whether all portions of the insurer’s reserves are covered by the Statement of Actuarial Opinion. If the Actuarial Opinion deviates from these statements or if any portion of the insurer’s reserves are excluded from the Statement of Actuarial Opinion (e.g., pools and associations, reserves for asbestos or environmental exposures, etc.), the analyst should (1) comment on the deviations or exclusions, (2) consider their impact on the conclusions reached as a result of the analysis of the Annual Financial Statement, and (3) consider the need to perform additional analysis on the Annual Financial Statement.

Procedure #18 is not applicable for title insurers.

RELEVANT COMMENTS AND EXHIBIT B DISCLOSURES
Procedures #19 through #25 assist the analyst in determining whether the actuary commented on various topics and issues in Exhibit B of the Statement of Actuarial Opinion (including the materiality standard, discounting, salvage and subrogation, asbestos and environmental, reinsurance collectibility, etc.) as required by the Annual Statement Instructions Property/Casualty and Annual Statement Instructions Title. For property/casualty companies, the Statement of Actuarial Opinion should also indicate if the insurer failed the reserving IRIS ratios and discuss any exceptional values.
For Title insurers, do not use IRIS ratios do not apply. However, similarly the Statement of Actuarial Opinion should also indicate if the insurer had exceptional reserve development as defined in the Title Instructions. The analyst should summarize any pertinent comments made by the actuary and consider the impact, if any, of the actuary’s comments on the conclusions reached as a result of the analysis of the Annual Financial Statement and determine the need to perform additional analysis on the Annual Financial Statement.

CONCLUSIONS/RECOMMENDATIONS

Procedures #24 through #26 assist the analyst in determining whether the actuary indicated that an Actuarial Report has been prepared that supports the findings expressed in the Statement of Actuarial Opinion. In some cases, and suggest that the analyst may consider obtaining a copy of the Actuarial Report. The Actuarial Report is a confidential document that describes the sources of data, material assumptions, methods used, and supports the appointed actuary’s opinion. The Actuarial Report generally includes relevant loss and LAE data triangles and discusses significant issues that affected the appointed actuary’s interpretation of the data. Examples of significant issues that may be discussed by the appointed actuary include changes in the following: management of the insurer, claims payment philosophy, the claims reporting process, computer systems, mix of business, contract limits or provisions, and or reinsuranc. While not required to be filed with the Statement of Actuarial Opinion, the Actuarial Report is required to be retained by the insurer for a period of seven years and available for regulatory examination.

B. Actuarial Opinion Summary

The Actuarial Opinion Summary Supplemental Procedures provide a guide for a reviewing analyst. The procedures should be supplemented with comments and questions as needed. The Actuarial Opinion Summary is not applicable to title insurers.

Procedure #1 verifies the regulatory requirements for filing the Summary and the company’s compliance with the requirement.

Procedure #2 verifies if the insurer is a member of an intercompany pooling arrangement and if such applicable pooling percentages are disclosed.

Procedure #3 verifies consistency between the Summary and the Opinion with respect to the carried reserves of the company. Inconsistencies in reported values may indicate weak controls within the company.

Procedure #4 identifies the type of comparison that the actuary presents (carried reserves to the actuary’s point estimate and/or carried reserves to the actuary’s range). The analyst should note concerns regarding carried amounts that appear significantly low relative to the actuary’s estimate(s). See the Analyst’s Reference Guide for guidance on evaluating the comparison.

Procedure #5 verifies consistency between the appointed actuary’s opinion found in the Statement of Actuarial Opinion and the comparison presented in the Summary.

Procedure #6 verifies compliance with the Summary reporting requirement regarding persistent adverse development. The analyst should note concerns regarding the nature of historical adverse development. See the above discussion for guidance on evaluating the comments provided by the appointed actuary.