A. ACTUARIAL OPINION

GENERAL

1. Was a Statement of Actuarial Opinion filed with the Annual Financial Statement? (Note that the Annual Financial Statement is also referred to as the Annual Statement within these procedures.)

2. Determine whether any exemptions for filing the Statement of Actuarial Opinion were granted.
   a. Did the insurer receive an exemption from the requirement to file a Statement of Actuarial Opinion?
   b. If the answer to 2a is “yes,” was the exemption attached to the Annual Financial Statement?
   c. Reason for exemption:
      □ Small company
      □ Under supervision or conservatorship
      □ Nature of business
      □ Financial hardship
      □ Other (_______________________)

IDENTIFICATION

3. Name of appointed actuary (Exhibit B, Item #1):

4. Relationship of appointed actuary to insurer (Exhibit B, Item #2):
   □ Officer/employee of insurer or group (E)
   □ Consultant (C)

5. The appointed actuary is a qualified actuary based upon what qualification? Check the same qualifying actuarial designation shown on Exhibit B, Item #3:
   □ is a Fellow of the Casualty Actuarial Society (F)
   □ is an Associate of the Casualty Actuarial Society (A)
   □ is not a member of the Casualty Actuarial Society, but a Member of the American Academy of Actuaries approved by the Casualty Practice Council, as documented with the approval level attached to the Opinion (M)
   □ Other (O)

6. Was the actuary appointed by the board of directors (or its equivalent) or by a committee of the board by December 31, of the calendar year for which the Opinion was rendered?

7. Is this the same actuary who was appointed for the previous Statement of Actuarial Opinion?
   a. If “no,” did the insurer notify the domiciliary state insurance regulator within 5 days of the replacement?
   b. Within 10 business days of the above notification, did the insurer also provide an additional letter stating whether or not there were any disagreements with the former actuary and also in writing request the former actuary for a letter of agreement?
   c. Did the Company furnish the former actuary’s letter of agreement?

8. Is the Company a member of an intercompany pooling arrangement? (This can be verified by Reviewing Note #26 of the Notes to the Financial Statements.)
   a. If “yes,” did the actuary include a description of the pool and identify the lead company?
   b. Is a list of all pool members, their states of domicile and their respective pooling percentages disclosed?
   c. Do Exhibits A and B represent the company’s share of the pool and reconcile to the company’s respective financial statement?

9. If the Company is a member of a pool and has a 0% share, does the Opinion adhere to the following:
   a. Does it read similar to that provided for the lead company?
   b. Are responses to Exhibit B, Items #5 and #6, $0 and “not applicable,” respectively?
   c. Are Exhibits A and B of the lead company attached?

SCOPE

810. Is Exhibit A attached to or made part of the Opinion? Exhibit A should list those items and amounts with respect to which the Appointed Actuary is expressing an opinion.

119. Does the Scope paragraph contain a sentence such as one of the following?
   □ “I have examined the actuarial assumptions and methods used in determining reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 20xx, and reviewed information provided to me through xxx date.”
   □ “I have examined the reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 20xx and reviewed information provided to me through xxx date.”
   □ Other or none (provide comments).

1012. Exhibit A lists amounts for specific items; these amounts should match the corresponding Annual Financial Statement references. The analyst should document whether the items in Exhibit A match, do not match, are not listed, or any other concerns or unusual findings.

1113. Exhibit A may also list premium or other items on which the Appointed Actuary is expressing an Opinion. The analyst should document any concerns with these items and in particular for any of the following items that contain premium amounts.
   a. Reserve for direct and assumed unearned premiums for long duration contracts.
   b. Reserve for net unearned premiums for long duration contracts.
   c. Other premium reserve items such as premium deficiency reserves (list and discuss).

1214. Does the Scope paragraph contain statements regarding the formation of the actuary’s opinion on the loss and LAE reserves that includes the following:
   a. The individual(s) (company officer(s)) that was relied upon for data preparation.
   b. The actuary evaluated that data for reasonableness and consistency.
   c. The actuary reconciled or reviewed the reconciliation of that data to Schedule P, Part 1 of the company’s current Annual Financial Statement. If the data was not reconciled, the
analyst should document any reasons provided by the actuary as to why the reconciliation was not performed. Further, if the reconciliation was performed but the data did not reconcile, the analyst should document any reasons provided by the actuary as to why the data did not reconcile.

d. The actuary’s examination included a review of the actuarial assumptions and methods used and tests of the calculations as considered necessary.

OPINION

1315. Does the Opinion state that the amounts shown in Exhibit A meet the requirements of the insurance laws of the state of domicile? The analyst should document any reasons provided by the actuary as to why the amounts did not meet the requirements.

1416. Does the Opinion state that the amounts shown in Exhibit A are computed in accordance with accepted actuarial standards and principles or similar language, such as “consistent with reserves computed in accordance with...”? Or if the Appointed Actuary performs an independent analysis of the reserves, does the Opinion state that the amounts are “consistent with reserves computed in accordance with...”? The analyst should document any alternate standards and principles that were possibly applied to the Opinion and whether or not those standards and principles are appropriate.

1517. Does the Opinion state that the amounts shown in Exhibit A make a reasonable provision (stated carried reserve is within the actuary’s range of reasonable reserve estimates) for all unpaid loss and LAE obligations of the insurer under the terms of its contracts and agreements? (see also Exhibit B, Item #4)

a. If “no,” does the appointed actuary state that the amounts in Exhibit A are:

☐ Deficient or Inadequate (stated-carried reserve is less than the minimum amount needed to be considered reasonable).

☐ Redundant or Excessive (stated-carried reserve is greater than the maximum amount needed to be considered reasonable).

☐ Qualified (stated-carried reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, except for the item, or items in question and cannot be reasonably estimated or the actuary is unable to render an opinion on those items).

☐ No Opinion (the actuary cannot reach a conclusion due to deficiencies or limitations in the data, analysis, assumptions, or related information).

If applicable, comment on the reasons why the Opinion states the reserves do not make a reasonable provision for unpaid loss and LAE obligations. Include a discussion of (1) the differences between the actuary’s indicated reserves (or range of reasonable reserves) and those carried by the insurer, (2) the impact of the differences on the insurer’s policyholders’ surplus and/or, (3) the reasons why a Qualified Opinion or No Opinion was given. Consider the impact of the differences on the conclusions reached as a result of the analysis of the Annual Financial Statement and consider the need to perform additional analysis on the Annual Financial Statement, such as additional supplemental procedures for the item impacted.

b. If the appointed actuary issues a Qualified Opinion, does the actuary disclose the item(s) to which the qualification relates and the amounts of such items. Does the actuary also
state whether the reserves make a reasonable provision for the liabilities, except for the item(s) to which the qualification relates? The analyst should provide comments on the reserves, e.g., what amount of reserves could not be estimated and why? Are these reserves material?

4618. If the Scope section includes material unearned premium reserves for long duration contracts, does the Opinion state that the amount shown in Exhibit A makes a reasonable provision for the unearned premium reserves for long duration contracts? The analyst should comment on the reasons why the Opinion states the reserves do not make a reasonable provision for material long duration contracts (See Procedure #175b for types of appropriate comments). (Note that this procedure is not applicable to Title insurers.)

4719. Does the appointed actuary make use of the Actuarial Opinion of another actuary?
   a. If “yes,” for what segment of the reserves?
      □ Pools
      □ Subsidiary
      □ Special line of business
      □ Other
   b. If stated in the Opinion, what percentage of the total reserves are the segmented reserves?
   c. If for a material portion of the reserves, are the name(s) and affiliations of actuary(ies) disclosed?
   d. Affiliation(s) of actuary(ies)
   e. Does the actuary disclose: 1. Whether he/she reviewed the other actuary’s analysis, and 2. if a review was performed, the extent of the review?

RELEVANT COMMENTS AND EXHIBIT B: DISCLOSURES

4820. Risk of Material Adverse Deviation:
   a) Does the Opinion list the Materiality Standard in Exhibit B (Item #5)?
   b. If “no,” inquire why; otherwise, describe the standard (e.g., “X” percent of surplus).
   c. What is the actuary’s basis for establishing this standard?
   d. Does the actuary believe that there are significant risks or uncertainties that could result in material adverse deviation (Exhibit B, Item #6)?
   e. Note any major risk factors or explanations discussed by the actuary. Note that regardless of whether the answer to Exhibit B, Item #6 is “Yes” or “No,” explanation of major risk factors is required should be disclosed.

Bright Line Indicator Test: This test is only applicable if the Company is subject to Risk-Based Capital. This indicator is triggered if 10 percent of the insurer’s net reserves (Liabilities, Surplus and Other Funds page, sum of Losses and Loss adjustment expenses) are greater than the difference between the Total Adjusted Capital (Five-Year Historical
Data page) and Company Action Level RBC (twice the authorized control level risk-based capital amount in the Five-Year Historical Data page). Is the Bright Line Indicator triggered? If “yes,” comments from the actuary should be pursued if the actuary does not address material adverse deviation in his/her opinion.

A special report is located on StateNet under the Financial Analysis link.

1921. Exhibit B lists the amounts for the following items; these amounts should match the corresponding Annual Financial Statement references. Also, the actuary should include paragraphs describing the significance of these disclosure items in the Opinion narrative if necessary. Provide comments below each item, including a summary of the actuary’s comments if necessary.

a. For Property/Casualty insurers, items in Exhibit B are:
   a.i. Statutory Surplus (Exhibit B, Item #7)
   b.ii. Anticipated Net salvage and subrogation (Exhibit B, Item #8)
   c.iii. Non-tabular discount (Exhibit B, Item #9.1)
   d.iv. Tabular discount (Exhibit B, Item #9.2)
   e.v. Voluntary and involuntary pools and associations (Exhibit B, Item #10)
   f.vi. Net asbestos (Exhibit B, Item #11.1) and environmental (Exhibit B, Item #11.2) reserves
   g.vii. Extended loss and expense reserves (Exhibit B, Item #12.1 and #12.2), Schedule P Interrogatories. Exhibit B, Item 12 disclosure includes the extended loss and expense reserves for all lines of business whereas the related Schedule P Interrogatory only captures the extended loss and expense reserve for Medical Professional Liability.
   h.viii. Other items on which actuary is providing relevant cComment on other items (Exhibit B, Item #13).

b. For Title insurers, items in Exhibit B are:

i. Statutory Surplus (Exhibit B, Item #7)
ii. Known Claims Reserve (Exhibit B, Item #8)
iii. Statutory Premium Reserve (Exhibit B, Item #9)
iv. Aggregate of Other Reserves as Required by Law (Exhibit B, Item #10)
v. Supplemental Reserve (Exhibit B, Item #11)
vi. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (Exhibit B, Item #12). There is no Annual Statement reference for this; however, this item may be discussed in the Opinion.
vii. Discount included as a reduction to the loss reserves and loss expense reserves as reported in Schedule P (Exhibit B, Item #13)
viii. Other items on which the Appointed Actuary is providing Relevant Comment (Exhibit B, Item #14)

2022. Reinsurance

a. Does the insurer have retroactive reinsurance? (Review Liabilities, Surplus and Other Funds page for write-in items and Notes to Financial Statements.)
   i. Does the actuary discuss retroactive reinsurance? The analyst should document any concerns.

b. Does the insurer have financial reinsurance? (Review the Management’s Discussion and Analysis, Reinsurance Attestation Supplement, Notes to Financial Statements, and the General Interrogatories for any possible information).
   i. Does the actuary discuss financial reinsurance? The analyst should document any concerns.

c. Does the insurer have reinsurance collectibility issues? (Review Schedule F and Notes to Financial Statements).
   i. Does the actuary discuss reinsurance collectibility? Check all that apply.
      - No
      - Yes, with little comment
      - Actuary solicited information from management
      - Actuary reviewed ratings of reinsurers
      - Actuary reviewed Schedule F

222. The insurer failed the following IRIS ratios (check all that apply):
   - None.
   - One-year development (Schedule P, Part 2) divided by prior year’s Surplus (Five-Year Historical Data).
   - Two-year development (Schedule P, Part 2) divided by two-prior year’s Surplus (Five-Year Historical Data).
   - Estimated current reserve deficiency to policyholders’ surplus cannot be easily calculated but can be found on I-SITE along with the other IRIS ratios.

a. Did the actuary discuss any exceptional values? The analyst should document any concerns.

b. Note that for Title insurers, IRIS ratios do not apply; however, the actuary is required to discuss exceptional reserve development, where exceptional reserve development is calculated the same as the one-year and two-year development for property & casualty insurers. The same 20 percent threshold applies.

222. Does the actuary indicate that there has been a material change in the actuarial assumptions and/or methods from those previously employed in determining the amounts of the insurer’s reserves, if applicable? The analyst should document any comments or concerns.

232. Does the actuary comment on any other topics (e.g., lack of historical data for a line of business) if applicable? The analyst should document any comments or concerns.

CONCLUSIONS/RECOMMENDATIONS
(Property/Casualty and Title)

2426. Does the Opinion conclude with the signature, the printed name, the employer’s name, the address, the telephone number, and the email address of the appointed actuary, and the date the Opinion was rendered?

2527. Does the actuary indicate that an Actuarial Report has been prepared, which supports the findings expressed in the Statement of Actuarial Opinion and that this report will be maintained at the company and available for regulatory examination for seven years?

2628. For a small number of cases, the analyst may consider requesting a copy of the Actuarial Report (particularly if the Opinion is unusual in some way). The Actuarial Report should be consistent with the documentation and disclosure requirements of Actuarial Standards of Practice #41.

Answer this question if a Report was provided. Indicate whether the Actuarial Report includes the following required elements:

a. Narrative component (should provide sufficient detail to clearly explain the actuary’s findings and conclusions, as well as their significance).

b. Technical component - actuarial exhibits (should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work; must show the analysis from the basic data, e.g. loss triangles, to the conclusions).

c. 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 should identify how and when the appointed actuary presents the analysis to the board and, where applicable, to the officer(s) of the company responsible for determining the carried reserves.

d. 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. The actuary’s conclusions include the actuary’s point estimate(s), range(s) or reasonable estimates, or both.

e. An exhibit that reconciles and maps the data used by the actuary, consistent with the segmentation of exposure or liability groupings used in their analysis, to the Annual Statement Schedule P line of business reporting.

f. An exhibit or appendix showing the change in the estimates from the prior Actuarial Report, including extended discussion of factors underlying any material changes.

g. Extended comments on trends that indicate the presence or absence of risks and uncertainties that could result in material adverse deviation.

h. Extended comments on factors that led to unusual reserve development and how these factors were addressed in current and prior year analyses.

i. For Title insurers: Documentation of interviews, questionnaires, correspondence or other meetings with company management or officers that influenced the actuary’s conclusions, reliances or opinions.

Additionally, the analyst should review the narrative and indicate any significant issues which affected the actuary’s interpretation of the data and the resulting Opinion issued. Provide any additional comments regarding the Actuarial Report.
(Property/Casualty and Title)

B. ACTUARIAL OPINION SUMMARY (not applicable to Title insurers)

1. Does the domiciliary state insurance regulator require a confidential Statement of Actuarial Opinion Summary?
   If “yes,” was the Actuarial Opinion Summary submitted by March 15 or the date requested by the regulator and signed by the same actuary who provided the Statement of Actuarial Opinion?

2. Is the company a member of an intercompany pooling arrangement?
   If “yes,” is the percentage of company’s share of the pool disclosed? For non-0% companies, the point or range comparison should be after the company’s share of the pool has been applied. For 0% pool participants, the information provided should be that of the lead company.

3. Are the company’s carried loss and loss adjustment expense reserves in the Actuarial Opinion Summary consistent with the corresponding reserves presented in Exhibit A of the Statement of Actuarial Opinion and the Annual Statement?

4. Did the actuary provide a comparison of the carried reserves to a point estimate, a range estimate, or both?
   If the carried reserves are below the actuary’s point estimate or below the midpoint of the actuary’s range, how material is the difference?
   - As a percent of surplus?
   - As a percent of carried reserves?
   - In relation to the company’s risk-based capital position?
   - Is the difference greater or less than the material adverse deviation standard?

   The analyst should judge the relative materiality of the difference and document any concerns. Please refer to P3—the Analyst Reference Guide for more information on how to address this situation.

5. Is the Summary consistent with the Opinion’s conclusion that the amounts shown in Exhibit A are Reasonable, Deficient or Inadequate, Redundant or Excessive, Qualified, or No Opinion?
   Consistency is defined by the following situations:
   - Opinion conclusion is “Reasonable”; booked reserves are at or near the actuary’s point estimate and/or within the actuary’s range
   - Opinion conclusion is “Deficient”; booked reserves are materially below the actuary’s point estimate and/or below the low end of the actuary’s range
   - Opinion conclusion is “Redundant”; booked reserves are materially above the actuary’s point estimate and/or above the high end of the actuary’s range

   If the booked reserves are deficient and/or the Summary is not consistent with the Opinion, document any concerns.

6. Did the company experience one-year development in excess of 5 percent of surplus as measured by Schedule P, Part 2 Summary in at least three of the last five calendar years? (Review 5 Year Historical page.)
   If “yes,” did the actuary provide explicit discussion of reserve elements and/or management decisions that were the reasons for such consistent adverse development? Was the discussion
more detailed than in the Opinion? Note that merely stating that the development was due to “reserve strengthening” is insufficient. The analyst should document any concerns.

Summary and Conclusion
Develop and document an overall summary and conclusion regarding the Statement of Actuarial Opinion. In developing a conclusion, consider the above procedures as well as any other procedures that, in the analyst’s judgment, are relevant to evaluating the actuarial opinion. This includes reviewing the Actuarial Opinion Summary (AOS), a confidential supplemental filing, if required. The AOS supplemental procedures should be performed before taking any further action as recommended below.

Recommendations for further action, if any, based on the overall conclusion above:
- Consult with the regulatory P/C actuary, if available.
- Obtain the insurer’s business plan.
- Require additional interim reporting from the insurer.
- Refer concerns to examination section for targeted examination.
- Consult with the in-house (company) actuary.
- Engage an independent actuary to review insurer’s reserves.
- Meet with the insurer’s management.
- Obtain a corrective plan from the insurer.
- Contact the insurer.
- Obtain the Actuarial Report.
- Develop a corrective plan.
- Other (explain).

Analyst ________________ Date ________

Comments as a result of supervisory review.

Reviewer ________________ Date ________