

## ACTUARIAL OPINION

1. There is to be included or attached to Page 1 of the annual statement, the statement of a qualified actuary, entitled “Statement of Actuarial Opinion,” setting forth his or her opinion relating to reserves specified in the SCOPE paragraph. The Actuarial Opinion, both the narrative and **required** exhibits, shall be in the format of and contain the information required by this Section.

The qualified actuary must be 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 is rendered. Upon initial appointment (or “retention”), the company shall notify the domiciliary commissioner within five business days of the appointment with the following information:

- a. name and title (and, in the case of a consulting actuary, the name of the firm).
- b. manner of appointment of the Appointed Actuary (i.e., who made the appointment and when).
- c. a statement that the person meets the requirements of a qualified actuary.

Once this notification is furnished, no further notice is required with respect to this person unless the actuary ceases to be appointed or retained or ceases to meet the requirements of a qualified actuary.

If an actuary who was the appointed actuary for the immediately preceding filed Actuarial Opinion is replaced by an action of the Board of Directors, the reporting entity shall within five (5) business days notify the insurance department of the state of domicile of this event. 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. The disagreements required to be reported in response to this paragraph include both those resolved to the former actuary’s satisfaction and those not resolved to the former actuary’s satisfaction. The reporting entity shall also request in writing such former actuary to furnish a letter addressed to the entity stating whether the actuary agrees with the statements contained in the entity’s letter and, if not, stating the reasons for which he does not agree; and the reporting entity shall furnish such responsive letter from the former actuary to the domiciliary commissioner together with its own.

The appointed actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the appointed actuary has presented such information to the Board of Directors or the Audit Committee and that the Actuarial Opinion and the Actuarial Report were made available. A separate Actuarial Opinion is required for each company filing an Annual Statement. When there is an affiliated company pooling arrangement, one Actuarial Report for the aggregate pool is sufficient, but there must be addendums to the Actuarial Report to cover non-pooled reserves for individual companies.

The Statement of Actuarial Opinion and the supporting Actuarial Report and workpapers, should be consistent with the appropriate Actuarial Standards of Practice (ASOPs), including but not limited to ASOPs 23, 36, 41, and 43, as promulgated by the Actuarial Standards Board, and Statements of Principals adopted by the Casualty Actuarial Society.

## 1A. Definitions

“Qualified Actuary” is a person who is either:

- (i) A member in good standing of the Casualty Actuarial Society, or
- (ii) A member in good standing of the American Academy of Actuaries who has been approved as qualified for signing casualty loss reserve opinions by the Casualty Practice Council of the American Academy of Actuaries

Insurer means a reporting entity authorized to write title insurance under the laws of any state and who files on the Title blank.

“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.

## 1B. Exemptions

A reporting entity who intends to file for one of the exemptions under this section must submit a letter of intent to its domiciliary commissioner no later than December 1 of the calendar year for which the exemption is to be claimed. The commissioner may deny the exemption prior to December 31 of the same year if the exemption is deemed inappropriate.

A copy of the approved exemption must be filed with the annual statement in all jurisdictions in which the company is authorized.

### Exemption For Small Companies

An insurer that has less than \$1,000,000 total direct plus assumed written premiums during a calendar year, and less than \$1,000,000 total direct plus assumed loss and loss adjustment expense reserves at year-end, in lieu of the Actuarial Opinion required for the calendar year, may submit an affidavit under oath of an officer of the insurer that specifies the amounts of direct plus assumed written premiums and direct plus assumed loss and loss adjustment reserves.

### Exemption for Insurers under Supervision or Conservatorship

Unless ordered by the domiciliary commissioner, an insurer that is under supervision or conservatorship pursuant to statutory provision is exempt from the filing requirements contained herein.

### Exemption for Nature of Business

An insurer otherwise subject to the requirement and not eligible for an exemption as enumerated above may apply to its domiciliary commissioner for an exemption based on the nature of business written.

### Financial Hardship Exemption

An insurer otherwise subject to this requirement and not eligible for an exemption as enumerated above may apply to the commissioner for a financial hardship exemption.

Financial hardship is presumed to exist if the projected reasonable cost of the opinion would exceed the lesser of:

- (i) One percent of the insurer's capital and surplus reflected in the insurer's latest quarterly statement for the calendar year for which the exemption is sought; or
  - (ii) Three percent of the insurer's direct plus assumed premiums written during the calendar year for which the exemption is sought as projected from the insurer's latest quarterly statements filed with its domiciliary commissioner.
2. The Statement of Actuarial Opinion must consist of an IDENTIFICATION paragraph identifying the appointed actuary; a SCOPE paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the actuary's work; an OPINION paragraph expressing his or her opinion with respect to such subjects and one or more additional RELEVANT COMMENTS paragraphs. These four sections must be clearly designated.
  3. The identification paragraph should specifically indicate the appointed actuary's relationship to the company, qualifications for acting as appointed actuary, date of appointment, and specify that the appointment was made by the Board of Directors, or its equivalent, or by a committee of the Board.

A member of the American Academy of Actuaries qualifying under paragraph 1A(ii) must attach, each year, a copy of the approval letter from the Academy.

These instructions require that a qualified actuary prepare the Opinion. If a person who does not meet the definition of a qualified actuary has been approved by the insurance regulatory official of the domiciliary state, the company must attach, each year, a letter from that official stating that the individual meets the state's requirements for rendering the Opinion.

4. The SCOPE paragraph should contain a sentence such as 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, 20\_\_, and reviewed information provided to me through XXX date."

Exhibit A should list those items and amounts with respect to which the appointed actuary is expressing an opinion.

The appointed actuary should state that the items in the scope paragraph, on which he or she is expressing an opinion, reflect the disclosure items (3 through 8) in Exhibit B.

The SCOPE paragraph should include a paragraph such as the following regarding the data used by the appointed actuary in forming the opinion:

"In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by (name, affiliation and relation to Company). I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P, Parts 1 and 2 of the company's current annual statement. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary."

5. The OPINION paragraph should include a sentence that at least covers the points listed in the following illustration:

“In my opinion, the amounts carried in Exhibit A on account of the items identified:

- A. Meet the requirements of the insurance laws of (state of domicile).
- B. Are computed in accordance with accepted actuarial standards and principles.
- C. Make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.”

If there is any aggregation or combination of items in Exhibit A, the opinion language should clearly identify the combined items.

Insurance laws and regulations shall at all times take precedence over the actuarial standards and principles.

If the actuary has made use of the work of another actuary (such as for pools and associations, for a subsidiary, or for special lines of business), the other actuary must be identified by name and affiliation within the opinion paragraph.

A Statement of Actuarial Opinion should be made in accordance with one of the following sections (a-e). The actuary must explicitly identify in Exhibit B which category applies.

- a. Determination of Reasonable Provision. When the stated reserve amount is within the actuary’s range of reasonable reserve estimates, the actuary should issue a statement of actuarial opinion that the stated reserve amount makes a reasonable provision for the liabilities associated with the specified reserves.
- b. Determination of Deficient or Inadequate Provision. When the stated reserve amount is less than the minimum amount that the actuary believes is reasonable, the actuary should issue a statement of actuarial opinion that the stated reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves.
- c. Determination of Redundant or Excessive Provision. When the stated reserve amount is greater than the maximum amount that the actuary believes is reasonable, the actuary should issue a statement of actuarial opinion that the stated reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves.
- d. Qualified Opinion. When, in the actuary’s opinion, the reserves for a certain item or items are in question because they cannot be reasonably estimated or the actuary is unable to render an opinion on those items, the actuary should issue a qualified statement of actuarial opinion. Such a qualified opinion should state whether the stated reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, *except for* the item, or items, to which the qualification relates. The actuary is not required to issue a qualified opinion if the actuary reasonably believes that the item or items in question are not likely to be material.
- e. No Opinion. The actuary’s ability to give an opinion is dependent upon data, analyses, assumptions, and related information that are sufficient to support a conclusion. If the actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information, then the actuary may issue a statement of no opinion. A statement of no opinion should include a description of the reasons why no opinion could be given.

6. The appointed actuary must provide relevant comment paragraphs to address the following topics of regulatory importance.

a. Risk of Material Adverse Deviation.

The appointed actuary must provide specific relevant comment paragraphs to address the risk of material adverse deviation. The actuary must identify the materiality standard and the basis for establishing this standard with respect to the relevant characteristics of the company. The materiality standard must be disclosed in US dollars in Exhibit B: Disclosures. The actuary should explicitly state whether or not he or she reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation. If such risk exists, the actuary should include an explanatory paragraph to describe the major factors, combination of factors, or particular conditions underlying the risks and uncertainties that the actuary reasonably believes could result in material adverse deviation. The explanatory paragraph should not include general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc., nor is the actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

b. Other Disclosures in Exhibit B

Relevant comment paragraphs should describe the significance of each of the remaining disclosure items in Exhibit B. The actuary should address the items individually and in combination when commenting on a material impact.

c. Reinsurance

Relevant comment paragraphs should address retroactive reinsurance, financial reinsurance and reinsurance collectibility. Before commenting on reinsurance collectibility, the actuary should solicit information from management on any actual collectibility problems, review ratings given to reinsurers by a recognized rating service, and examine Schedule F for the current year for indications of regulatory action or reinsurance recoverable on paid losses over 90 days past due. 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. The actuary's comments do not imply an opinion on the financial condition of any reinsurer.

Retroactive reinsurance refers to agreements referenced in SSAP No. 62R, Property and Casualty Reinsurance, of the *Accounting Practices and Procedures Manual*.

Financial reinsurance refers to contracts referenced in SSAP No. 62R, Property and Liability Reinsurance, paragraph 34, of the *Accounting Practices and Procedures Manual* in which credit is not allowed for the ceding insurer because the arrangements do not include a transfer of both timing and underwriting risk that the reinsurer undertakes in fact to indemnify the ceding insurer against loss or liability by reason of the original insurance.

d. Methods and Assumptions

If there has been any significant change in the actuarial assumptions and/or methods from those previously employed, that change should be described in a relevant comment paragraph.

7. The Actuarial Opinion must include assurance that an Actuarial Report and underlying actuarial workpapers supporting the actuarial opinion will be maintained at the company and available for examination for seven years. The Actuarial Report contains significant proprietary information. It is expected that the report be held confidential and not intended for public inspection. The report must be available by May 1 of the year following the year end for which the opinion was rendered or within two weeks after a request from an individual state commissioner.

The Actuarial Report should be consistent with the documentation and disclosure requirements of ASOP #41. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to company management, the Board of Directors, the regulator, or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data, e.g., loss triangles, to the conclusions.

The Report must also include:

- 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.
  - An exhibit which ties to the Annual Statement and compares the Actuary's conclusions to the carried amounts;
  - ~~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;~~
  - Documentation of the required reconciliation from the data used for analysis to the Annual Statement Schedule P;
  - An exhibit showing the change in the actuary's estimates from the prior report, including extended discussion of factors underlying any material changes;
  - Extended comments on trends that indicate the presence or absence of risks and uncertainties that could result in material adverse deviation; and
  - Documentation of interviews, questionnaires, correspondence or other meetings with company management or officers that influenced the actuary's conclusions, reliances or opinion.
8. The statement should conclude with the signature of the appointed actuary responsible for providing the Actuarial Opinion and the date when the opinion was rendered. The signature and date should appear in the following format:

---

Signature of actuary  
Printed name of actuary  
Address of actuary  
Telephone number of actuary  
Email address of actuary  
Date opinion was rendered

9. The insurer required to furnish an actuarial opinion shall require its appointed actuary to notify its Board of Directors or its audit committee in writing within five (5) business days after any determination by the appointed actuary that the opinion submitted to the domiciliary Commissioner was in error as a result of reliance on data or other information (other than assumptions) that, as of the balance sheet date, was factually incorrect. The opinion shall be considered to be in error if the opinion would have not been issued or would have been materially altered had the correct data or other information been used. The 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.

Notification shall be required for any such determination made between the issuance of the opinion and the balance sheet date for which the next opinion will be issued. The notification should include a summary of such findings and an amended opinion.

A reporting entity who is notified pursuant to the preceding paragraphs shall forward a copy of the summary and the amended opinion to the domiciliary commissioner within five (5) business days of receipt of such and shall provide the appointed actuary making the notification with a copy of the summary and amended opinion being furnished to the domiciliary commissioner. If the appointed actuary fails to receive such copy within the five (5) business day period referred to in the previous sentence, the appointed actuary shall notify the domiciliary commissioner within the next five (5) business days that the submitted opinion should no longer be relied upon or such other notification recommended by the actuary's attorney.

If the appointed actuary learns that the data or other information relied upon was factually incorrect, but cannot immediately determine what, if any, changes are needed in the Actuarial Opinion, the actuary and the company should undertake as quickly as is reasonably practical those procedures necessary for the actuary to make the determination discussed above. If the insurer does not provide the necessary data corrections and other support (including financial support) within ten (10) business days, the actuary should proceed with the notification discussed above.

- 10. Data in Exhibits A and B are to be filed in both print and data capture format.

No appointed actuary shall be liable in any manner to any person for any statement made in connection with the above paragraphs if such statement is made in a good faith effort to comply with the above paragraphs.

STATEMENT OF ACTUARIAL OPINION

Exhibit A: SCOPE

DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMAT

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES:	<u>Amount</u>
1. Reserve for Unpaid Losses and Loss Adjustment Expenses (Schedule P, Part 1, Total Column 24 or 34 if discounting is allowable under state law)	\$ _____
2. Reserve for Unpaid Losses and Loss Adjustment Expenses - Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Columns 17, 18, 20, 21, and 23, Line 12 x 1000)	\$ _____
3. Other items on which the Appointed Actuary is expressing an Opinion (list separately)	\$ _____

**Exhibit B: DISCLOSURES**  
**DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMAT**

NOTE: Exhibit B should be completed for Net dollar amounts included in the SCOPE. If an answer would be different for Direct and Assumed amounts, identify and discuss the difference within RELEVANT COMMENTS.

	Last	First	Middle
1. Name of Appointed Actuary	_____	_____	_____
2. The Appointed Actuary's Relationship to the Company. Enter E or C based upon the following: E - If an Employee of the Company or Group C - If a Consultant			_____
3. The Appointed Actuary has the following designation: F - If a Fellow of the Casualty Actuarial Society (FCAS) A - If an Associate of the Casualty Actuarial Society (ACAS) M - If not a member of the Casualty Actuarial Society, but a Member of the American Academy of Actuaries (MAAA) approved by the Casualty Practice Council, as documented with the attached approval letter. O - For Other			_____
4. Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N based upon the following: R - If Reasonable I - If Inadequate or Deficient Provision E - If Excessive or Redundant Provision Q - If Qualified. Use Q when part of the OPINION is Qualified. N - If No Opinion			_____
5. Materiality Standard expressed in US dollars (Used to answer question #6)	\$ _____		_____
6. Are there significant risks that could result in Material Adverse Deviation?			_____
7. Statutory Surplus	\$ _____		
8. Known claims reserve (Liability Page, Line 1)	\$ _____		
9. Statutory premium reserve (Liability Page, Line 2)	\$ _____		
10. Aggregate of other reserves required by law (Liability Page, Line 3)	\$ _____		
11. Supplemental reserve (Liability Page, Line 4)	\$ _____		
12. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	\$ _____		
13. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P	\$ _____		
14. Other items on which the Appointed Actuary is providing Relevant Comment (list separately)	\$ _____		

DRAFT