REGULATORY GUIDANCE
On the Property and Casualty Actuarial Opinion Summary
For the Year 2007

Prepared by the NAIC's
Casualty Actuarial Task Force

The Casualty Actuarial Task Force (CATF) of the NAIC believes that the Actuarial Opinion Summary (Summary) is an additional valuable tool in serving the regulatory mission of protecting consumers through oversight of company solvency. This Regulatory Guidance document supplements the NAIC's *Annual Statement Instructions Property and Casualty* (the *Instructions*) in an effort to provide clarity and timely guidance to Appointed Actuaries regarding regulatory expectations with respect to the Summary.

Form

The Summary is a **confidential** document separate from the Actuarial Opinion that should be submitted by companies separate from their Annual Statement submission. It is required for all companies for which a formal Statement of Actuarial Opinion is prepared. In most states, it is due by March 15th. The CATF advises that the Appointed Actuary provide the Summary to their company later than and separately from their Opinion. The Summary should be clearly labeled and identified prominently as a confidential document. The CATF suggests that the Appointed Actuary **not** attach the related Actuarial Opinion to the Summary in order to avoid confusion. Instead, the *Instructions* suggest that the Summary can contain a statement that refers to the Opinion.

Not all states have adopted the Summary model law. Nevertheless, the CATF recommends that the Summary be prepared regardless of the domiciliary state's requirements. This is so that the Summary will be ready for submission should a foreign state having the appropriate confidentiality safeguards request it. Most states have filing checklists that address if a Summary is required, in what format to submit it, and instructions for submission. In general, it may be advisable to follow the same protocol as the Actuarial Opinion for bar coding, original signatures, electronic submissions, and pdf files. However, the CATF advises that the Appointed Actuary work with the client in determining what is needed logistically for each state. The Summary is **not** submitted to the NAIC.

Substance

The Instructions for the Summary have no substantive changes for year-end 2007.

Paragraphs 1 - 4 of the *Instructions* are self-explanatory. The entire substance of the Summary rests in the minimum requirements presented in paragraph 5. The required information for Parts A – D of Paragraph 5 is highlighted by the straightforward examples provided in the Summary section of the American Academy of Actuary's Property/Casualty Practice Note *Statements of Actuarial Opinion on P&C Loss Reserves*. Per the *Instructions*, only the loss and loss adjustment expense reserves should be presented in the Summary. The Appointed Actuary is certainly welcome to present or discuss other items ***separately*** from the required loss and loss adjustment expense section of the Summary.

The content of the Summary should reflect the analysis performed by the Appointed Actuary because the Summary is a synopsis of the conclusions drawn in the Actuarial Report. In other words, if both a range and a point estimate were determined, then the Summary should present both the range and the point estimate *even if the carried reserves are the same as the actuary's point estimate*. Likewise, if only a range or only a point estimate was developed, then only this amount should be presented. This applies for each statutory entity for which a Statement of Actuarial Opinion is issued regardless of that entity's involvement in a pool or group of companies. For example, if a range is determined for the pool while only point estimates are established for the member companies, then the Summary for each statutory entity should reflect its corresponding point estimate.

Regulators expect that point or range estimates reported in the Summary are supported with clear documentation in the Appointed Actuary's Actuarial Report. The documentation should provide the regulator with the specific assumptions, selected development factors, expected loss ratios, clear formulas and precise calculations. Without such clarity of presentation in the Report the documentation can be interpreted as failing to meet Actuarial Standards of Practice and the expectation that another actuary can evaluate the work. For the most part, the supporting documentation in the Reports has been thorough and clear. However, there are a number of supporting reports that regulators have found to be lacking in providing sufficient documentation to show their rationale and to justify their selections. As a profession, all actuaries should be able to offer a clear roadmap to and rationale for their indications.

Part E of paragraph 5 of the Instructions calls for explicit description of the causes or actions that contributed to having a one-year adverse development in excess of 5% of surplus, as measured by Schedule P, Part 2. Discussion is only necessary when there has been persistent adverse development, defined as occurrence in at least three of the past five calendar years. Based on historical data, fewer than 14% of property/casualty companies are expected to encounter this condition. The actuary is in a unique position to be able to comment on the nature of this development. This section requires the actuary to do so. Comment can reflect 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 estimate?
- 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?

If the company has not been in business for at least three years, the Appointed Actuary may use his or her judgment regarding any relevant comments on initial adverse development. Part E may present a problem for a newly Appointed Actuary. In this case, the CATF suggests that the new actuary disclose this fact in the Summary and present whatever findings were made as a result of the actuary's due diligence regarding the adverse development. The company should have seven years of Actuarial Reports on-site and company management should be available for in-depth inquiry and discussion. Presumably, this type of research will be done as part of the preparation for the current reserve estimation.