Casualty Actuarial and Statistical (C) Task Force

August 6, 2017
Philadelphia, Pennsylvania
ROLL CALL

Teresa D. Miller, Chair  Pennsylvania  Patrick M. McPharlin  Michigan
James J. Donelon  Louisiana  Mike Rothman  Minnesota
Jim L. Ridling  Alabama  Chlora Lindley-Myers  Missouri
Lori K. Wing-Heier  Alaska  Richard J. Badolato  New Jersey
Dave Jones  California  Maria T. Vullo  New York
Marguerite Salazar  Colorado  Mike Causey  North Carolina
Katharine L. Wade  Connecticut  Jillian Froment  Ohio
Stephen C. Taylor  District of Columbia  John D. Doak  Oklahoma
David Altmaier  Florida  Laura Cali Robison  Oregon
Gordon I. Ito  Hawaii  Raymond G. Farmer  South Carolina
Jennifer Hammer  Illinois  Kevin Brady  Texas
Ken Selzer  Kansas

AGENDA

1. Consider Adoption of its Aug. 1, July 25, July 11 and June 13 Minutes—Michael McKenney (PA)  Attachment One

2. Consider Adoption of the Actuarial Opinion (C) Working Group Report, Including its July 20, July 18 and 27, July 11, June 27, June 13, and April 25 Minutes—Julie Lederer (MO)  Attachment Two

3. Consider Adoption of the Statistical Data (C) Working Group Report—Carl Sornson (NJ)

4. Discuss Regulatory Training on Predictive Modeling and Regulatory Review of Rate Filings Based on Generalized Linear Models (GLMs)—Michael McKenney (PA)

5. Hear a Presentation on International Capital Issues—Ned Tyrrell (NAIC)

6. Hear a Presentation on the NAIC’s Actuarial Credential/Qualification Study—Kris DeFrain (NAIC)

7. Hear Reports from the American Academy of Actuaries (Academy)
   - Committee of Property and Liability Financial Reporting (COPLFR)—Lisa Slotznick (Academy)
   - Council on Professionalism—Mary Miller (Academy), Maryellen Coggins (Actuarial Standards Board) and Jan Carstens (Actuarial Board for Counseling and Discipline)
   - Casualty Practice Council—Jim MacGinnitie (Academy)


10. Discuss NAIC Activities Relating to Casualty Actuarial Issues—Michael McKenney (PA)

11. Discuss Any Other Matters Brought Before the Task Force—Michael McKenney (PA)

12. Adjournment
Attachment One
Consider Adoption of its Aug. 1, July 25, July 11 and June 13 Minutes
The Casualty Actuarial and Statistical (C) Task Force met via conference call Aug. 1, 2017. The following Task Force members participated: Teresa D. Miller, Chair, represented by Michael McKenney (PA); James J. Donelon, Vice Chair, represented by Rich Piazza and Wei Chuang (LA); Jim L. Ridling represented by Charles Angell (AL); Dave Jones represented by Rachel Hemphill and Khanh Nguyen (CA); Marguerite Salazar represented by Marika Maniatis (CO); Katharine L. Wade represented by Wanchin Chou, and Susan Gozzo Andrews (CT); Stephen C. Taylor represented by David Christhilf (DC); Jennifer Hammer represented by Anthony Bredel (IL); Ken Selzer represented by Nicole Boyd (KS); Mike Rothman represented by Phillip Vigliaturo (MN); Chlora Lindley-Myers represented by Rebecca Helton and Julie Lederer (MO); Richard J. Badolato represented by Mark McGill (NJ); Jillian Froment represented by Laura Miller (OH); Laura Cali Robison represented by David Dahl (OR); Raymond G. Farmer represented by Will Davis (SC); and TBD represented by Ken Burton, Brock Childs, Nicole Elliott and Eric Hintikka (TX). Also participating were: Ramona Lee (IA); Richard Beverage (IN); Hannah Partin (KY); Ronald Coleman and Walter Dabrowski (MD); Gordon Hay (NE); Christian Citarella (NH); Anna Krylova (NM); Gennady Stolyarov (NV); and Will Davis (SC).

1. Discussed Regulatory Training on Predictive Modeling

Mr. McKenney said the purpose of the call is to continue discussion on the Casualty Actuarial Society (CAS) Monograph Number 5, *Generalized Linear Models for Insurance Rating*. One of the authors, Mark Goldburd (Milliman), was on the call to answer state insurance regulators’ questions. Ms. Hemphill led discussion of the paper.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.
The Casualty Actuarial and Statistical (C) Task Force met via conference call July 25, 2017. The following Task Force members participated: Teresa D. Miller, Chair, represented by Michael McKenney and Eric Zhou (PA); James J. Donelon, Vice Chair, represented by Wei Chuang and Rich Piazza (LA); Jim L. Ridling represented by Charles Angell and Dan Davis (AL); Dave Jones represented by Rachel Hemphill and Jasveet Uppal (CA); Marguerite Salazar represented by Marika Maniatis (CO); Katharine L. Wade represented by George Bradner, Susan Gozzo Andrews and Wanchin Chou (CT); Stephen C. Taylor represented by Monica Dyson (DC); Jennifer Hammer represented by Anthony Bredel (IL); Ken Selzer represented by Nicole Boyd (KS); Mike Rothman represented by Connor Meyer and Phillip Vigliaturo (MN); Chlora Lindley-Myers represented by Gina Clark, Rebecca Helton and Julie Lederer (MO); Mike Causey represented by Kevin Conley (NC); Richard J. BadoIato represented by Mark McGill (NJ); Maria T. Vullo represented by Gloria Huberman and Anthony Yoder (NY); Jillian Froment represented by Tom Botsko and Laura Miller (OH); John D. Doak represented by Daniel Figueroa and Frank Stone (OK); Laura Cali Robison represented by David Dahl (OR); Raymond G. Farmer represented by Michael Wise (SC); and TBD represented by Brock Childs, Eric Hintikka, Brian Ryder, Ken Burton, J’ne Byckovski, Nicole Elliott and Riley Hoover (TX). Also participating were: Hannah Partin (KY); Walter Dabrowski (MD); Ramona Lee (IA); Richard Beverage (IN); Gordon Hay (NE); Christian Citarella (NH); Anna Krylova (NM); Gennady Stolyarov (NV); Jaakob Sundberg and Tomasz Serbinowski (UT); and Katie Johnson (VA).

1. **Discussed Regulatory Training on Predictive Modeling**

Mr. McKenney said the call is the first “Predictive Modeling Book Club” meeting, an option for predictive analytics training for regulatory actuaries. Ms. Hemphill led a discussion of Casualty Actuarial Society (CAS) Monograph No. 5, Generalized Linear Models for Insurance Rating. One of the authors, Mark Goldburd (Milliman), was on the call to answer regulators’ questions.

Regulators identified possible future discussion topics for the Task Force. Mr. Davis suggested the Task Force read *Pitfalls of Predictive Analytics* by Ira Robbin. He said the discussion of nonsensical rating variables is valuable. Mr. Hay said there should be some thought about how to communicate with non-actuaries who review rate models and to understand questions to ask and what files to refer to the actuary. Mr. McKenney said the Task Force conducted the generalized linear model (GLM) survey, noting that state questionnaires are posted on the Task Force’s website. Mr. Hoover suggested the Task Force review an exceptional model filing contrasted with a problematic filing. Ms. Hemphill said case studies would be helpful, but they would need to be discussed in regulator-to-regulator session.

Mr. McKenney said he would schedule another call to finish discussion on CAS Monograph No. 5. He said he is also investigating options for future training.

2. **Discussed Regulator-to-Regulator Call Regarding Rate Filing Issues of Common Interest**

Mr. McKenney said the Task Force met July 18 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals), to discuss rate filing issues.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.
The Casualty Actuarial and Statistical (C) Task Force met via conference call July 11, 2017. The following Task Force members participated: Teresa D. Miller, Chair, represented by Michael McKenney (PA); James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Charles Angell and Dan Davis (AL); Dave Jones represented by Rachel Hemphill (CA); Marguerite Salazar represented by Michael Muldoon (CO); Katharine L. Wade represented by George Bradner, Wanchin Chou and Qing He (CT); Stephen C. Taylor represented by David Christhilf (DC); David Altmaier represented by Robert Lee (FL); Gordon I. Ito represented by Randy Jacobson (HI); Jennifer Hammer represented by Judy Mottar (IL); Ken Selzer represented by Nicole Boyd (KS); Mike Rothman represented by Phillip Vigliaturo (MN); Chlora Lindley-Myers represented by Julie Lederer (MO); Richard J. Badolato represented by Mark McGill and Carl Sornson (NJ); Jillian Froment represented by Thomas Botsko (OH); Raymond G. Farmer represented by Will Davis (SC); and TBD represented by J’ne Byckovski, Nicole Elliott, Miriam Fisk and Jennifer Wu (TX). Also participating were: Ronald Coleman and Walter Dabrowski (MD); Chris Aufenthie (ND); Christian Citarella (NH); Anna Krylova (NM); Gennady Stolyarov (NV); Katie Johnson (VA); and Eric Slavich (WA).

1. **Received an Update from the Actuarial Opinion (C) Working Group**

   Ms. Lederer said the Actuarial Opinion (C) Working Group will consider adoption of three P/C Financial Analysis Handbook documents for the 2017 annual and 2018 quarterly statements to send to the Financial Analysis Handbook (E) Working Group for consideration. She said the next activities will be drafting the annual regulatory guidance and hearing a presentation from John Pedrick, chair of the Casualty Actuarial Society’s (CAS) Continuing Education Compliance Committee, on the work CAS does to review continuing education documentation of a selected group of CAS members.

2. **Received an Update from the Statistical Data (C) Working Group**

   Mr. Sornson said the Statistical Data (C) Working Group will meet toward the end of the month to review drafts of the Auto Insurance Database report and the Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owners Insurance report.

3. **Discussed Regulatory Training on Predictive Modeling**

   Mr. McKenney said the 16 CAS-recorded presentations on predictive analytics and data science are available for regulators to view free of charge through July 15. On July 25, the Task Force will have its first “Predictive Modeling Book Club” meeting. Ms. Hemphill will lead a discussion of CAS Monograph No. 5, Generalized Linear Models for Insurance Rating. One of the authors, Mark Goldburr, has volunteered to participate on the call. Mr. McKenney said predictive modeling checklists from five states have been posted on the Task Force’s web page, and he encouraged other states to share their checklists. He said he is also investigating options for additional training.

4. **Discussed Regulator-to-Regulator Call Regarding Rate Filing Issues of Common Interest**

   Mr. McKenney said the Task Force met May 16 and June 20 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals), to discuss rate filing issues.

5. **Discussed NAIC Activities Relating to Casualty Actuarial Issues**

   Mr. McKenney said the Big Data (EX) Working Group exposed a proposal for shared resources to perform a technical review of personal auto and homeowners complex predictive models upon state request. He said any review would not include any approval process, but would rather provide information to the state to allow state review. He said the Working Group’s proposal is exposed for a public comment period ending July 28. He said the proposal would impact the Task Force, so he encouraged Task Force members to actively participate at the Big Data (EX) Working Group.
The Auto Insurance (C/D) Working Group will discuss its draft multistate auto insurance ZIP-code-based study on July 17. Mr. McKenney said he believes actuaries might be impacted.

With the National Flood Insurance Program expiring Sept. 30, Mr. McKenney said legislation is being introduced. Mr. McKenney said he will ask Brooke Stringer to provide information to the Task Force about activities at the federal level.

Mr. Botsko asked about the status of the NAIC’s actuarial credential/qualification study. Kris DeFrain (NAIC) said the Executive (EX) Committee is considering adoption of some letters to send to the actuarial professional organizations. She said the letters would summarize the NAIC consultant’s findings of their analysis of the Society of Actuaries (SOA) and CAS property/casualty actuarial educational programs. One item that came to light in the study is a need for additional clarification around the definition of “qualified actuary.” She said a report of this activity is on the Task Force’s agenda for the Summer National Meeting. She said the Task Force should expect a charge to be considered by the Property and Casualty Insurance (C) Committee at the Summer National Meeting.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.
The Casualty Actuarial and Statistical (C) Task Force met via conference call June 13, 2017. The following Task Force members participated: Teresa D. Miller, Chair, represented by Michael McKenney (PA); James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Charles Angell (AL); Dave Jones represented by Rachel Hemphill (CA); Marguerite Salazar represented by Marika Maniatis (CO); Katharine L. Wade represented by Susan Gozzo Andrews and Qing He (CT); David Almetaer represented by Robert H. Lee (FL); Jennifer Hammer represented by Judy Mottar and Anthony Bredel (IL); Ken Selzer represented by Nicole Boyd (KS); Mike Rothman represented by Phillip Vigliaturo (MN); Chlora Lindley-Myers represented by Julie Lederer (MO); Richard J. Badolato represented by Mark McGill and Carl Sornson (NJ); Mike Causey represented by Arthur Schwartz (NC); Jillian Froment represented by Thomas Botsko (OH); Raymond G. Farmer represented by Will Davis (SC); and TBD represented by J’ne Byckovski, Nicole Elliott, Eric Hintikka, Brian Ryder and Jennifer Wu (TX). Also participating were: Ronald Coleman and Linas Glemza (MD); Mari Kindberg (MT); Anna Krylova and Alan Seeley (NM); Gennady Stolyarov (NV); Tomasz Serbinowski (UT); Katie Johnson (VA); Pat Murray (VT); and Eric Slavich (WA).

1. **Adopted its Spring National Meeting Minutes**

Mr. Piazza made a motion, seconded by Mr. Davis, to adopt the Task Force’s April 9 minutes (*see NAIC Proceedings – Spring 2017, Casualty Actuarial and Statistical (C) Task Force*). The motion passed unanimously.

2. **Received an Update from the Actuarial Opinion (C) Working Group**

Ms. Lederer said the Blanks (E) Working Group will consider adopting the Actuarial Opinion (C) Working Group’s proposed changes to the property/casualty (P/C) and title actuarial opinion instructions on June 14. She said the Actuarial Opinion (C) Working Group met June 6 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals), to discuss 2016 actuarial opinion issues. Ms. Lederer said the Financial Analysis Handbook (E) Working Group asked for a review of three P/C Financial Analysis Handbook documents for the 2017 annual and 2018 quarterly statements and requested any changes by the end of July. Ms. Lederer said the three documents cover the procedures for Annual Reserving Risk, Quarterly Reserving Risk and the Statement of Actuarial Opinion.

3. **Received an Update from the Statistical Data (C) Working Group**

Mr. Sornson said the Statistical Data (C) Working Group met May 19 to discuss the Report on Profitability by Line by State. He said the Working Group reviewed a number of variances and resolved all except for one inland marine issue. He said Illinois has raised an issue on formulas. The Working Group is going to review the formulas and double-check their accuracy. He said the auto and homeowners reports will be reviewed by the Working Group in mid-July. Mr. Sornson said each year there is usually one issue that requires significant back and forth with statistical agents and/or a company. He said this year there was an expense item that stood out. The company was contacted and is making a correction.

Mr. Schwartz said he identified some errors in the reports and has some questions about methodology. Mr. Sornson said the questions can be sent to him and Kris DeFrain (NAIC).

4. **Discussed Summary of GLM Survey Responses**

Mr. McKenney said a summary of the Part A generalized linear model (GLM) survey results were previously distributed at the Spring National Meeting. A summary of the responses to the remainder of the survey was distributed for this call (Attachment __). He said the survey helped regulators understand what other states are doing to review complex predictive models. Mr. Schwartz said the survey was thorough and detailed. He noticed that there is a lot of interest in regulatory training on predictive modeling. He suggested regulators train as a group rather than disseminating reading materials.
5. **Discussed Regulatory Training on Predictive Modeling**

Mr. McKenney said the predictive modeling track at the NAIC Insurance Summit presented by the American Academy of Actuaries, Ms. Hemphill and Dan Davis (AL) was successful. He said it was a great start to assisting those regulators seeking further training on reviewing filings based on complex predictive models. Mr. Schwartz asked for access to the recordings. Kris DeFrain (NAIC) said those recordings are available, noting that the regulator-to-regulator sessions were not recorded. Ms. Hemphill said some of her and Mr. Davis’ slides from the regulator-to-regulator session will be distributed to the Task Force members.

Mr. McKenney said the Task Force’s efforts appear to have contributed to a proposal that will soon be distributed by the Big Data (EX) Working Group concerning how to share resources to review complex predictive models. He said it might be prudent to wait for that proposal before proceeding to discuss additional training. Ms. Hemphill asked about the time frame, noting that there are some logistical things the group could do now. Mr. McKenney said the discussion will occur soon, but the implementation will likely not occur this year. Birny Birnbaum (Center for Economic Justice) said there is a need for urgency on the shared resource. He said the proposal will likely include a budget item and the NAIC is currently developing its budget.

Ms. Hemphill said, after discussion with other regulators, she suggested NAIC staff gather state questionnaires. She said California has one, as do other states. Mr. McKenney asked the states to submit their questionnaires to be posted on the Task Force’s web page. Mr. Murray said Vermont has a questionnaire and will submit it. Mr. Schwartz said North Carolina has a questionnaire and will submit it.

Ms. Hemphill said California did some training in roundtables, where participants read reference materials and then met for discussion. Ms. Hemphill said she would be happy to help lead a discussion and/or be a resource for other states. Mr. McKenney and Mr. Davis said they liked that idea. Ms. Hemphill said she could meet monthly, but perhaps others might only want to meet every other month. She said there is a need to devote time to the readings. Mr. Schwartz said Ernesto Schirmacher (Liberty Mutual Insurance) did a presentation on GLMs at the Casualty Actuarial Society’s Ratemaking and Product Management Seminar in March. He said he had text and data and can train on GLMs. Mr. Schwartz suggested he be contacted and asked whether he would present to the regulators. Ms. Elliott said she attended that presentation, too, and agreed that Mr. Schirmacher’s presentation would be helpful for the group. Ms. Lederer said the Task Force was given free access to some of the CAS’ recorded sessions, noting that Mr. Schirmacher’s sessions are included. Ralph Blanchard (CAS) said the CAS sessions are available to the Task Force until July 15.

Mr. Schwartz said there are software platforms available that are amazing, can show visuals and are free. He said if help is needed, then there is a fee charged by the platform. He said he is not sure what the fees are for DataRobot’s software, but he viewed DataRobot’s software in March. He said Satadru Sengupta, who manages DataRobot’s Insurance Practice, would be willing to present to the regulatory actuaries.

Peter Kochenburger (University of Connecticut School of Law) said there are a number of actuarial and other programs at universities. He said that would be another resource for the Task Force and could provide another perspective.

6. **Discussed Regulator-to-Regulator Calls Regarding Rate Filing Issues of Common Interest**

Mr. McKenney said the Task Force met May 16 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals), to discuss rate filing issues.

7. **Discussed NAIC Activities Relating to Casualty Actuarial Issues**

Mr. McKenney said the Big Data (EX) Working Group is working on a proposal for shared resources to review personal auto and homeowner rate filings based on complex predictive models. The Auto Insurance (C/D) Working Group is working on a multistate auto insurance ZIP-code-based study. The NAIC has been reviewing draft National Flood Insurance Program legislation and is preparing comments. He said it seems there is definite interest in growing the private flood insurance market.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.
Attachment Two
Consider Adoption of the Actuarial Opinion (C) Working Group Report, Including its July 20, July 18 and 27, July 11, June 27, June 13, and April 25 Minutes
Date: 8/2/17

Actuarial Opinion (C) Working Group
Conference Call
July 20, 2017

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met via conference call July 20, 2017. The following Working Group members participated: Julie Lederer, Chair (MO); Mitchell Bronson (CO); Susan Gozzo Andrews and Wanchin Chou (CT); David Christhilf (DC); Judy Mottar (IL); Gordon Hay (NE); Tom Botsko (OH); Daniel Figueroa (OK); Kevin Clark and Michael McKenney (PA); and Miriam Fisk, Walt Richards and Jennifer Wu (TX). Also participating were: Howard Eagelfeld (FL); Ramona Lee (IA); Nicole Boyd (KS); Walter Dabrowski and Ronald Coleman (MD); Phillip Vigliaturo (MN); Kevin Conley, Hasije Harris and Rick Kohan (NC); Christian Citarella (NH); Anna Krylova (NM); David Dahl (OR); and Tomasz Serbinowski (UT).

1. Discussed Annual Regulatory Guidance

Ms. Lederer said an interested party submitted a proposal for Appointed Actuaries to document compliance with the U.S. Qualifications Standard in Actuarial Reports. She said compliance with the U.S. Qualifications Standard requires compliance with continuing education requirements. As part of due diligence, she said she wants to know how well Casualty Actuarial Society (CAS) members are complying with the continuing education requirements. She introduced John Pedrick (Pennsylvania Compensation Rating Bureau—PCRB and Delaware Compensation Rating Bureau—DCRB), chair of the CAS Continuing Education Compliance Committee.

Mr. Pedrick provided a summary of the CAS processes to audit continuing education. He said the CAS audits compliance with one of four recognized national continuing education requirements. He said an actuary determines whether the continuing education is relevant to the actuary’s work. He said his committee audits a sample of CAS members. CAS board members and Executive Council members must be audited at least once in three years. Forty members who sign statutory Statements of Actuarial Opinion and 1% of remaining CAS members were selected. The committee members do not know who the actuary is under review. If a member does not respond, the CAS will change his or her status to “not compliant” on the CAS website. He said the continuing education should be relevant and a learning experience. He said when preparing presentations, an actuary should only count the time that involved new learning. He said there is no required method to document; many actuaries use their own or their company’s method. Nancy Braithwaite (Travelers Insurance Company), CAS president, said there would be some benefit to having a more automated approach. Mr. Pedrick said if the audit shows potential noncompliance, the CAS Executive Council will review and determine whether there is compliance.

Mr. Hay asked whether self-regulation is effective and/or whether any NAIC action would be redundant. Mr. Pedrick said there has not been any discussion about redundancy. Mr. Hay said he relies on the CAS website compliance information when he conducts reviews of actuarial opinions. Mr. Hay said he is not inclined to ask the actuary for his or her documentation. Mr. Christhilf asked if anyone claimed compliance and was found to not be in compliance. Mr. Pedrick said they did find one who said he was in compliance, but later said he was not performing actuarial services, so he had selected the wrong choice. His entry was changed to “not in compliance.” Mr. Pedrick said this is the only known case in his two years. He said the process shows the CAS is serious about the obligations to the public and individual actuary’s obligations to its principal.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.

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Actuarial Opinion (C) Working Group  
Conference Call  
July 18 and July 27, 2017

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met via conference call July 18 and July 27, 2017. The following Working Group members participated: Julie Lederer, Chair (MO); Mitchell Bronson (CO); Susan Gozzo Andrews (CT); David Christlif (DC); Judy Mottar (IL); Gordon Hay (NE); Tom Botsko (OH); Daniel Figueroa and Frank Stone (OK); and Jennifer Wu (TX). Also participating were: Michael Ricker (AK); Mike Andring (ND); Will Davis (SC); and Tomasz Serbinowski (UT).

1. Discussed Annual Regulatory Guidance

Ms. Lederer discussed a potential workplan for the Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion (Regulatory Guidance): 1) Create the 2017 Regulatory Guidance in the next month or two. Given 2017 Statement of Actuarial Opinion (SAO) instructions are already adopted, do not change the SAO instructions until 2018. The Working Group can still modify the 2017 Regulatory Guidance by eliminating any unnecessary overlap with the 2017 SAO instructions and adding in new topics (if any). The 2017 Regulatory Guidance document could be redesigned if the Working Group wishes, or a redesign could be applied in 2018. 2) For 2018, evaluate what can be moved from the Regulatory Guidance to the 2018 SAO instructions. Determine what remains and consider what should be communicated in 2018 Regulatory Guidance. Deadlines for this part of the project are February 2018 for SAO instruction revisions and around this time next year for 2018 Regulatory Guidance.

The Working Group discussed whether to modify the 2017 Regulatory Guidance by eliminating overlap with instructions, adding in new items and eliminating guidance no longer needed. Ms. Lederer said the plan would be to adopt the 2017 Regulatory Guidance prior to the Casualty Actuarial Society’s (CAS) Casualty Loss Reserve Seminar in September. Mr. Botsko wondered if the Working Group should contact Appointed Actuaries to determine if the Regulatory Guidance document is useful to them. Ms. Lederer said Ms. Mottar had made a similar comment on the prior call. Ms. Lederer said the Regulatory Guidance is quoted in the American Academy of Actuaries (Academy) practice note more than 40 times. Ms. Andrews said she prefers to continue to have the Regulatory Guidance or some letter sent to appointed actuaries. Ms. Mottar said she is curious what might be left after moving items to the instructions and eliminating overlap. Ms. Andrews said she is amenable to that approach.

The Working Group began a discussion of each line in the Regulatory Guidance document regarding whether it belongs in the instructions, whether it unnecessarily overlaps with instructions or whether it needs modification.

State insurance regulators continued discussion on its July 27 call. Ms. Lederer said the Working Group may consider arranging the guidance document by subject matter rather than in the paragraph order as presented in the instructions. The Academy’s practice note also could reference older versions of regulatory guidance. Any new guidance only negates the old guidance if there is a new instruction in place or revised guidance on the subject. The Working Group discussed whether the actuary should have to opine on premium and the premium deficiency reserves and/or include each in the Actuarial Report. Ms. Mottar said she believes that there was study about including the premium deficiency reserves as an opinion item and that there were challenges with doing so. She suggested looking through past discussions. Ms. Lederer said some calculations are not actuarial, so it might be difficult to opine on such.

The Working Group will continue discussion on its Aug. 15 call.

2. Discussed Regulator-to-Regulator Call Regarding Statements of Actuarial Opinion

The Working Group met June 6 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals), to discuss Statements of Actuarial Opinion submitted with 2016 annual statements.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.
Actuarial Opinion (C) Working Group  
Conference Call  
July 11, 2017  

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met via conference call July 11, 2017. The following Working Group members participated: Julie Lederer, Chair (MO); Mitchell Bronson (CO); Qing He (CT); David Christhilf (DC); Judy Mottar (IL); Daniel Figueroa (OK); and Miriam Fisk and Jennifer Wu (TX). Also participating were: Michael Ricker (AK); Rich Piazza (LA); Kevin Dyke (MI); Mike Andring (ND); Will Davis (SC); and Tomasz Serbinowski (UT).

1. Discussed Handbook Changes


For the quarterly reserving risk document, Ms. Lederer said no edits are proposed. For the actuarial opinion repository, proposed edits would bring the Handbook procedures into alignment with the revised 2017 annual financial statement instructions adopted by the Blanks (E) Working Group on its June 14 call. For the annual reserving risk document, Ms. Lederer said there are some proposed minor edits to some sections and one significant change to Section 4.e. regarding asbestos and environmental (A&E) exposures. She said the focus of Section 4.e. was rewritten to refer to several resources available to the analyst—the actuarial opinion, Note 33, the survival ratios in the Financial Profile Report and the actuarial report—and provide brief descriptions of the A&E information available in each of these sources. She said the section would end with an acknowledgement that the financial analyst may ultimately recommend a meeting with company management so that the regulatory department can gain a fuller understanding of the A&E exposures.

Ms. Mottar made a motion, seconded by Mr. Christhilf, to adopt the proposed documents and send them to the Financial Analysis Handbook (E) Working Group for consideration (Attachment ___). The motion passed unanimously.

2. Discussed Annual Regulatory Guidance

Ms. Lederer said there might be benefits to rethinking the regulatory guidance, moving directives into instructions that carry regulatory authority. She said if most information can be moved to the instructions and/or the American Academy of Actuaries’ (Academy) practice note, the Working Group could decide whether to continue producing the regulatory guidance. Ms. Miller suggested communications to the company and anything the regulators want done by the appointed actuary should be in the instructions. She said the Academy’s practice note is peer-to-peer guidance. She said the Working Group might not want to put one-off items in the instructions, so there might be some need to continue regulatory positions separate from the instructions and the practice note. Ms. Mottar asked whether there is feedback from appointed actuaries and others on how much they use the regulatory guidance. Lisa Slotznick (Academy) said it is good to rethink things every few years, just as the Academy’s Committee on Property and Liability Financial Reporting (COPLFR) recently reformatted the practice note. She said COPLFR would need a good mechanism to pass along information from the regulators. Derek Freihaut (Academy) said COPLFR cites the regulatory guidance about 40 times in its practice note. Ms. Mottar said the regulatory guidance is an NAIC document, so it is still helpful, even if it does not have the force of law. Plus, she said regulators can control the wording in the regulatory guidance, but they would not have the same control if the Working Group hands it off to the Academy. Ms. Lederer said the type of material that could be in the practice note without regulators putting it into regulatory guidance would be the changes in the instructions each year. Ms. Miller said sometimes the regulatory guidance explains why a change was made.

Ms. Slotznick described the Academy’s process to restructure the practice note. She explained that the practice note is substantially longer than the regulatory guidance, so it probably took longer to modify than the regulatory guidance document would. Mr. Freihaut said the order was changed to match the order of an opinion rather than the order of the instructions.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.
The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met via conference call June 27, 2017. The following Working Group members participated: Julie Lederer, Chair (MO); Mitchell Bronson (CO); Judy Mottar (IL); Gordon Hay (NE); Daniel Figueroa and Frank Stone (OK); Kevin Clark (PA); and Miriam Fisk and Jennifer Wu (TX). Also participating were: Michael Ricker (AK); Mike Andring (ND); David Dahl (OR); and Tomasz Serbinowski (UT).

1. Discussed Financial Analysis Handbook Changes

Ms. Lederer said the Working Group discussed edits to the property/casualty (P/C) Financial Analysis Handbook documents on Annual Reserving Risk, Quarterly Reserving Risk and the Statement of Actuarial Opinion on its June 13 call. She said no edits are proposed to the quarterly reserving risk document. She said she made changes to the other documents based on the June 13 discussion and said the plan would be to continue discussing edits to the Annual Reserving Risk and the Statement of Actuarial Opinion documents. Ms. Lederer said the Financial Analysis Handbook (E) Working Group asked for a review by the end of July.

The Working Group discussed the Statement of Actuarial Opinion repository. Ms. Lederer said the substantive changes include those in Section 9 on the actuarial report. She said she added wording from the actuarial opinion instructions to the narrative and technical components to provide more context for the analyst. She said some changes were made structurally to match the actuarial opinion instructions and the order of items and to label the items the same as in the instructions (using capital letters rather than bullet points). She said other grammatical changes were made.

The Working Group discussed the annual reserving risk repository. On Page 3, in the asbestos and environment reserves section, Ralph Blanchard (Travelers) said Item 4d on the asbestos and environment (A&E) survival ratio says the result is an automated data entry. He said survival ratios are impacted by large settlements or loss portfolio transfers that are “one-offs.” He said adjustments are needed to the survival ratio to adjust for any such distortions. He suggested adding a warning to look for those one-offs. He suggested the following wording: “Determine if the survival ratio has been distorted by unusual one-off transactions such as large settlements or loss portfolio transfers. If so, manual adjustments to the survival ratio may be advised.” Mr. Hay said it might not be practical for the analyst to determine a revised survival ratio, but it could appropriately lead to discussions with the company. He expressed support for Mr. Blanchard’s proposal. Ms. Lederer suggested putting the wording in a different location. She said instead of putting the wording in the automated data location, she believes the warning would be best put in with the discussion of analyzing the ratio. Mr. Blanchard said it might be appropriate to make it the new Section 4e.iii.1 and then move the other items down on the list. Mr. Blanchard said the solution provided for when the survival ratio is 5 or less, to determine whether additional capital support will be provided to fund future claim payments, assumes a solution that might not be appropriate or even needed. Mr. Hay said it is a huge judgment call. He said an alternative solution could be to determine whether additional research or investigation should be performed. He said the solution ought to be something the analyst could actually do.

Mr. Blanchard asked whether the focus should be on whether the A&E is mentioned as a risk factor or source of the risk of material adverse deviation. He suggested the following wording: “i. Review the discussion of A&E exposures in the Actuarial Opinion. Does the Appointed Actuary mention them as a risk factor or a source of RMAD? Does the Appointed Actuary state that the A&E exposure is material?” Ms. Lederer said the Working Group discussed this significantly on the June 13 call and is willing to consider revised wording. Mr. Hay said he agrees and believes the actuarial opinions do not include a statement of the reasonableness of the A&E reserves. One would have to read the Actuarial Report to get that information.

Regarding the section discussing the split between case reserves and incurred but not reported (IBNR) reserves, Mr. Blanchard said he does not always trust the split. Ms. Lederer said that procedure was recommended by the Financial Analysis Handbook (E) Working Group. She said one concern is that the split might not be available in Note 33 for the prior year-ends. Mr. Blanchard said the Actuarial Report might not even provide useful information; he said one would need to have familiarity with the company practices of setting case reserves vs. IBNR reserves. Mr. Blanchard said the best an analyst could probably do is highlight that further examination is needed.
Ms. Lederer said the new repository items in Section 4e added by the Financial Analysis Handbook (E) Working Group outside of its consultation with the Actuarial Opinion (C) Working Group seem to not be consistent with practice. Some procedures are problematic and others do not seem implementable. The Working Group discussed numerous ideas. Ms. Mottar said the guidance needs to also consider some states do not have actuaries assisting the analysts. She said, for example, if Note 33 is only mentioned at this location and not included elsewhere in analyst guidance, then it should remain to provide guidance. Ms. Lederer said the Working Group should decide what should be in the analyst reference guide versus in the repository. Ms. Lederer said she would try to restructure Section 4e and then distribute it to the Working Group for review. She also recommended explaining the reasons why these changes are proposed, rather than just providing tracked changes to the Financial Analysis Handbook (E) Working Group.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.
Actuarial Opinion (C) Working Group
Conference Call
June 13, 2017

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met via conference call June 13, 2017. The following Working Group members participated: Julie Lederer, Chair (MO); Susan Gozzo Andrews and Qing He (CT); Judy Mottar (IL); Gordon Hay (NE); Frank Stone (OK); and Jennifer Wu (TX). Also participating was: Michael Ricker (AK).

1. **Discussed Financial Analysis Handbook Changes**

Ms. Lederer said the Financial Analysis Handbook (E) Working Group made significant changes in the Financial Analysis Handbook in 2016 to make it more risk-focused. That Working Group largely adopted the proposed changes submitted by the Actuarial Opinion (C) Working Group. The Financial Analysis Handbook (E) Working Group also made several additional changes to the documents. The annual reserve risk document includes a new procedure in Section 3.j; additional procedures concerning asbestos and environmental reserves in Section 4; and a new section after Section 5 titled “Additional Analysis and Follow-up Procedures if concerns exist regarding Reserving Risk.” She said the individual “Prospective Risks” sections were moved to a separate section called “Prospective Risk Considerations” at the end of the document. In the quarterly reserve risk document, the individual “Prospective Risks” sections were removed.

Ms. Lederer said the Financial Analysis Handbook (E) Working Group asked for a review of three property/casualty (P/C) Financial Analysis Handbook documents for the 2017 annual and 2018 quarterly statements and requested any changes by the end of July. Ms. Lederer said the three documents cover the procedures for Annual Reserving Risk, Quarterly Reserving Risk and the Statement of Actuarial Opinion. She said that with only minor changes in the 2017 Statement of Actuarial Opinion instructions, she suspects there will not be need to propose many changes. She said she reviewed the documents and proposed making three substantive and a few other changes. She proposed no changes to the quarterly reserve risk document.

Ms. Andrews reminded the Working Group of the new lingo to use the term “repository” instead of “checklist.” The Working Group discussed the substantive items, changes to match those proposed to the 2017 Statement of Actuarial Opinion instructions, and grammatical corrections.

Ms. Lederer said the section on asbestos and environmental (A&E) expenses in the annual actuarial opinion repository. Ms. Lederer said the section on asbestos and environmental expenses only mentions two sources of information: 1) the actuarial report; and 2) the A&E Survival Ratio report on iSite. She said that can be a problem if the analyst does not request the actuarial report every year. Plus, she said there are two other easily accessible places to find information on A&E exposures: the Statement of Actuarial Opinion; and 2) Note #33 to the financial statements. She suggested adding a procedure recommending the analyst review the Appointed Actuary’s discussion of A&E reserves in the Statement of Actuarial Opinion and putting the procedures about considering case reserves versus incurred but not reported (IBNR) reserves under a new heading called “Review Note #33 for changes in reserves over time.”

Ms. Lederer said she would revise the proposal based on the discussion, noting that the Working Group will meet June 27 via conference to discuss the revised proposal.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.
The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met via conference call April 25, 2017. The following Working Group members participated: Julie Lederer, Chair (MO); Mitchell Bronson (CO); Wanchin Chou and Susan Gozzo Andrews (CT); David Christhilf (DC); Judy Mottar (IL); Gloria Huberman (NY); Tom Botsko (OH); Daniel Figueroa and Cuc Nguyen (OK); Kevin Clark (PA); and Miriam Fisk and Jennifer Wu (TX). Also participating were: Brian Sewell (FL); David Dahl and Ying Liu (OR); Will Davis (SC); and Tomasz Serbinowski (UT).

1. **Discussed Working Group Activities**

Ms. Lederer discussed numerous activities for the Working Group to monitor or conduct. She said the Working Group will meet June 6 via conference call in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss 2017 Statements of Actuarial Opinion. She said the Blanks (E) Working Group has exposed the Working Group’s proposal to modify 2017 actuarial opinion instructions and will solicit written comments until May 15. She said the Working Group will review the actuarial opinion chapters in the *Financial Analysis Handbook* to determine if changes should be proposed, especially to modify those chapters to correspond with changes proposed to actuarial opinion instructions. She said the Working Group also will review the 2016 Regulatory Guidance document to determine whether any non-authoritative guidance should be moved to the instructions and become requirements. She suggested that the Working Group should move crucial parts of the Regulatory Guidance into instructions.

2. **Discussed the 2018 P/C Statement of Actuarial Opinion Instructions**

Ms. Lederer said the following proposal to add to the 2018 Property/Casualty (P/C) Statement of Actuarial Opinion instructions was exposed for a 60-day public comment period ending April 18: “Upon initial engagement, in order for the Board of Directors to assess that the actuary meets the definition of Qualified Actuary and document such review in its minutes, the Board shall require the actuary to explain how all of the applicable requirements in the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* are met. An attestation form available from the American Academy of Actuaries can be completed by the actuary to satisfy documentation requirements. After the initial appointment, the Appointed Actuary shall include in the Actuarial Report documentation that demonstrates continued compliance with the Qualification Standards.” Ms. Lederer said no comments were received, which made her concerned that Appointed Actuaries might not be aware of the proposal.

Mr. Christhilf suggested changing the word “explain” in “explain how all of the applicable requirements ... are met” to “document.” Mr. Botsko and Mary Miller (Risk & Regulatory Consulting—RRC) agreed.

Ms. Andrews suggested changing “After the initial appointment” to “Beginning with the initial appointment.” Ms. Miller said that is state insurance regulators’ decision and that she does not disagree if that makes it easier for the regulators.

Ms. Andrews asked whether the actuary would need to include both the general and specific standards in the Actuarial Report. Ms. Miller said it should only be necessary to require the specific attestation. She said an abbreviated resume also should be in the Actuarial Report. Ms. Andrews said she does not want to see a list of continuing education because she does not want to be in a position to assess whether the education qualifies to meet the standard. She said she would prefer to rely on the random auditing done by the Casualty Actuarial Society (CAS). Ms. Miller said she is not sure if individual states might want different information. Ms. Lederer said she wonders what steps would be taken if the actuary does not meet the qualifications, especially because the state regulates the company and not the actuary. Ms. Miller said the state insurance regulator could ask the company to evaluate the situation, but she said she does not believe a rule should be written on how to handle such.

Ms. Miller said one criticism expressed on a prior call was a concern about requiring too much from the board of directors, such as what the qualification standards are. She said this was not her intent. She said an interested party suggested changing the requirements that the board of directors “assess” to the board of directors “confirm.” She said that would be in line with the spirit of her proposal.
Amy Angell (Milliman) said she is an Appointed Actuary and supports the board of directors being cognizant of the qualifications of its actuary. She said there are current processes already in place, such as a required acknowledgement of qualifications in the actuarial report and the CAS annual certification, which is publicly available on the CAS website. She said there is an auditing process on the CAS certification. If an annual update is needed by the board of directors, she said the Actuarial Report may not be the place to put that. Also, she said the proposed instructions do not provide enough guidance to explain what to include in the disclosure. She said the proposal has not been exposed enough to Appointed Actuaries. Mr. Botsko said the proposal should include examples or an explicit list of what the Appointed Actuary should include in the report. Ms. Miller asked if that could be addressed in the annual Regulatory Guidance. Ms. Lederer said her preference is to include any requirements in the instructions. Derek Freihaut (Pinnacle Actuarial Resources) said that he is an Appointed Actuary and that he agrees that most actuaries are not aware of this proposal. He said he assists auditors, and they regularly check the CAS certification. Ms. Lederer said she is concerned that stakeholders are not aware of these discussions.

Ms. Lederer said a concern remains on how such a proposal would affect the financial analysis and examination processes. Ms. Miller said use of the word “confirm” would make it easier to write the financial regulatory procedures.

Ms. Miller said she has not presented a similar proposal to the Life Actuarial (A) Task Force and Health (B) Actuarial Task Force yet. She said the current life and health instructions are deficient in regards to talking about actuarial qualifications. Ms. Andrews said that is concerning. Ms. Miller said the Joint Appointed Actuary Subgroup drafted a report a few years back to identify agreement to adopt similar language across lines of business, and she said she is surprised those things had not been implemented. She said she is not aware that the Life Actuarial (A) Task Force and Health (B) Actuarial Task Force ever discussed the agreed wording.

Ms. Angell asked for an additional comment period, with exposure targeted at Appointed Actuaries. Ms. Lederer asked about the NAIC process for exposures. Kris DeFrain (NAIC) said an exposure is posted to the NAIC website and emailed to the Task Force’s interested parties. She said the historical action has been for the Task Force to rely on the Committee for Property and Liability Financial Reporting (COPLFR) to represent the view of the actuarial profession. She said it might be possible to send a letter to Appointed Actuaries directly given the companies submit electronic data that includes the names of Appointed Actuaries. Ms. Lederer said the CAS might be able to put a link to the exposure draft in its weekly communication. Ms. Miller said the American Academy of Actuaries (Academy) has a weekly update, so she would ask if they might be willing to put an update in that. Ms. Lederer said she would expect to make a few changes to the proposal (based on the discussion on the call) prior to exposing the document again. She said one question could be whether the proposal provides sufficient information about what should be included in the Actuarial Report. Ms. Angell said another alternative to meet the needs of state insurance regulators might be to require an annual reappointment by the board of directors, with the board of directors annually affirming the actuaries’ qualifications. Ms. Lederer said state insurance regulators recently changed the instructions to no longer require annual reappointment. She said that the Task Force could ask whether reverting to that procedure would be preferred.

Ms. Mottar asked if state insurance regulators are concerned that actuaries who are providing opinions are not qualified to give those opinions. Ms. Miller said it is not a widespread problem. She said some states, especially those where actuaries have long been involved in financial regulation, likely do not see as much of a problem as in other states. She said the issue was the impetus to development of the Academy’s attestation form. She said this would give state insurance regulators a tool when they have concerns.

Ms. Lederer said she would revise the proposal based upon discussion, draft a letter to introduce the proposal with some specific questions and expose the revised proposal for another 60-day public comment period. She said she would see whether the CAS and Academy might broadcast the proposal in their weekly communications.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.