

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

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| <p align="right">DATE: <u>02/09/2017</u></p> <p>CONTACT PERSON: <u>Kris DeFrain</u></p> <p>TELEPHONE: <u>816-783-8229</u></p> <p>EMAIL ADDRESS: <u>kdefrain@naic.org</u></p> <p>ON BEHALF OF: <u>Actuarial Opinion (C) Working Group</u></p> <p>NAME: <u>Julie Lederer, Chair</u></p> <p>TITLE: <u>Property and Casualty Actuary</u></p> <p>AFFILIATION: <u>Missouri Dept. of Insurance</u></p> <p>ADDRESS: <u>PO Box 690</u> <u>Jefferson City, MO 65102-0690</u></p> | <p align="center">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2017-04BWG</u> Year <u>2017</u> Changes to Existing Reporting [X] New Reporting Requirement []</p> <p align="center">REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</p> <p>No Impact [X] Modifies Required Disclosure []</p> <p align="center">DISPOSITION</p> <p>[] Rejected For Public Comment [] Referred To Another NAIC Group [] Received For Public Comment [X] Adopted Date <u>06/14/2017</u> [] Rejected Date _____ [] Deferred Date _____ [] Other (Specify) _____</p> |
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BLANK(S) TO WHICH PROPOSAL APPLIES

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| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input type="checkbox"/> QUARTERLY STATEMENT |
| <input checked="" type="checkbox"/> INSTRUCTIONS | <input checked="" type="checkbox"/> CROSSCHECKS |
| <input type="checkbox"/> Life and Accident & Health | <input checked="" type="checkbox"/> Property/Casualty |
| <input type="checkbox"/> Separate Accounts | <input type="checkbox"/> Fraternal |
| <input type="checkbox"/> Other Specify | <input type="checkbox"/> Health |
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Anticipated Effective Date: 2017 Annual Statement

IDENTIFICATION OF ITEM(S) TO CHANGE

For 2017 P&C Statement of Actuarial Opinion and Actuarial Opinion Summary instructions, the changes include clarifications on current requirements.

For 2017 Title Statement of Actuarial Opinion instructions, the changes include incorporation of the same changes made to the 2016 and proposed 2017 instructions for the P&C Statement of Actuarial Opinion.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

Clarifications are added to assist appointed actuaries in understanding regulatory expectations.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

** This section must be completed on all forms.

ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

ACTUARIAL OPINION

1. There is to be included with or attached to Page 1 of the Annual Statement; the statement of a Qualified Actuary, entitled “Statement of Actuarial Opinion;” (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 of the *Annual Statement Instructions – Property and Casualty*.

Upon initial engagement, the Qualified Actuary must be appointed by the Board of Directors by December 31 of the calendar year for which the opinion is rendered. The Ceompany shall notify the domiciliary commissioner within five business days of the initial 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 (e.g., 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 Board of Directors takes action to no longer appoint or retain the actuary or the actuary no longer meets 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 Iinsurer shall within five (5) business days notify the Insurance Department of the state of domicile of this event. The Iinsurer 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, procedures, type of opinion issued, substantive wording of the opinion or data quality. The disagreements required to be reported in response to this paragraph include both those resolved to the former Appointed Actuary’s satisfaction and those not resolved to the former Appointed Actuary’s satisfaction. The letter should include a description of the disagreement and the nature of its resolution (or that it was not resolved). Within this same ten (10) business days, the Iinsurer shall in writing also request such former Appointed Actuary to furnish a letter addressed to the Iinsurer stating whether the Appointed Actuary agrees with the statements contained in the Iinsurer’s letter and, if not, stating the reasons for which he or she does not agree. The former Appointed Actuary shall provide a written response to the Iinsurer within ten (10) business days of such request and the Iinsurer shall furnish such responsive letter from the former Appointed Actuary to the domiciliary commissioner together with its own responses.

The Appointed Actuary must report to the Board of Directors 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 and identify the manner of presentation (e.g. webinar, in-person presentation, written). 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 ~~w~~Workpapers, should be consistent with the appropriate Actuarial Standards of Practice (ASOPs), including, but not limited to, ASOP No. 23, ASOP No. 36, ASOP No. 41 and ASOP No. 43, as promulgated by the Actuarial Standards Board, and Statements of Principles adopted by the Casualty Actuarial Society.

1A. Definitions

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“Insurer” or “Company” means an insurer or reinsurer authorized to write property and/or casualty insurance under the laws of any state and who files on the Property and Casualty 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, the Appointed 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 Appointed Actuary’s opinion or findings, and ~~that documents of documenting~~ the analysis underlying the opinion. The required content of the Actuarial Report is further described in paragraph 7. (Note that the inclusion of the Board of Directors as part of the intended audience for the Actuarial Report does not change the content of the Actuarial Report as described in paragraph 7. The Appointed Actuary should present findings to the Board of Directors in a manner deemed suitable for such audience.)

“Long Duration Contracts” refers to contracts (excluding financial guaranty contracts, mortgage guaranty contracts and surety contracts) that fulfill both of the following conditions: (1) the contract term is greater than or equal to thirteen months; and (2) the insurer can neither cancel the contract nor increase the premium during the contract term.

1B. Exemptions

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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 Actuarial Opinion would exceed the lesser of:

- (i) One percent (1%) of the insurer’s capital and surplus reflected in the insurer’s latest quarterly statement for the calendar year for ~~that~~ which the exemption is sought; or
- (ii) Three percent (3%) 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.

1C. Reporting Requirements for Pooled Companies

For each company in the pool, the Appointed Actuary shall include a description of the pool, identification of the lead company and a listing of all companies in the pool, their state of domicile and their respective pooling percentages.

Exhibits A and B for each company in the pool should represent the company’s share of the pool and should reconcile to the financial statement for that company.

The following paragraph applies to companies that have a 0% share of the pool (no reported Schedule P data). The company shall submit an Actuarial Opinion that reads similar to that provided for the lead company. For example, the IRIS ratio and risk of material adverse deviation discussions, and other relevant comments shall relate to the risks of the lead company in the pool. The Exhibit B responses to question 5 should be \$0 and to question 6 should be “not applicable.” Exhibits A and ~~Exhibits B~~ of the lead company should be attached as an addendum to the PDF ~~file~~ and/or hard copy being filed (but would not be reported by the 0% companies in their data capture).

- 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 Appointed 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, and date of appointment, and specify that the appointment was made by the Board of Directors.

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 Actuarial Opinion. Nevertheless, 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 Actuarial 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, on which he or she is expressing an opinion, reflect the ~~Loss Reserve~~ Disclosure items (8 through 13) 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 _____ (officer name and title at the Company). I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P, Part 1 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 adjustment expense obligations of the Company under the terms of its contracts and agreements."

If the Scope includes material Unearned Premium Reserves for Long Duration Contracts or Other Loss Reserve items on which the Appointed Actuary is expressing an opinion, the Actuarial Opinion should contain language such as the following~~cover the following illustration~~:

- D. Make a reasonable provision for the unearned premium reserves for long duration contracts and/or <insert Other Loss Reserve item on which the Appointed Actuary is expressing an Opinion> of the Company under the terms of its contracts and agreements.



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6. The Appointed Actuary must provide RELEVANT COMMENT paragraphs to address the following topics of regulatory importance.

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C. Other Disclosures in Exhibit B

RELEVANT COMMENT paragraphs should describe the significance of each of the remaining Disclosure items (8 through 13) in Exhibit B. The Appointed Actuary should address the items individually and in combination when commenting on a material impact.

D. Reinsurance

RELEVANT COMMENT paragraphs should address reinsurance collectability, retroactive reinsurance, and financial reinsurance ~~and reinsurance collectability.~~

The Appointed Actuary's comments on reinsurance collectability should address any uncertainty associated with including potentially-uncollectable amounts in the estimate of ceded reserves. Before commenting on reinsurance ~~collectability~~ collectability, the Appointed Actuary should solicit information from management on any actual ~~collectability~~ collectability 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 ninety (90) days past due. The comments should also reflect any other information the Appointed Actuary has received from management or that is publicly available about the capability or willingness of reinsurers to pay claims. The Appointed Actuary's comments do not imply an opinion on the financial condition of any reinsurer.

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E. IRIS Ratios

If the Company's reserves will create exceptional values ~~using~~ under the NAIC IRIS Tests for One-Year Reserve Development to Policyholders' Surplus, Two-Year Reserve Development to Policyholders' Surplus ~~and or~~ Estimated Current Reserve Deficiency to Policyholders' Surplus, the Appointed Actuary must include RELEVANT COMMENT on the factors that led to the unusual value(s).

F. 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. If the Appointed Actuary is newly-appointed and is unable to ~~does not~~ review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.

7. The Actuarial Opinion must include assurance that an Actuarial Report and underlying actuarial workpapers supporting the Actuarial Opinion will be maintained at the Ceompany and available for regulatory examination for seven (7) years. The Actuarial Report contains significant proprietary information. It is expected that the Actuarial Report be held confidential and ~~is not be~~ intended for public inspection. The Actuarial Report must be available by May 1 of the year following the year-end for which the Actuarial Opinion was rendered or within two (2) weeks after a request from an individual state commissioner.

The Actuarial Report should be consistent with the documentation and disclosure requirements of ASOP No. 41, Actuarial Communications. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to Ceompany 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 Actuarial Report must also include:

- A. A description of the Appointed Actuary's relationship to the Ceompany, with clear presentation of the Appointed Actuary's role in advising the Board of Directors and/or management regarding the carried reserves. The Actuarial Report should identify how and when the Appointed Actuary presents the analysis to the Board of Directors and, where applicable, to the officer(s) of the Ceompany responsible for determining the carried reserves.
- B. An exhibit that ties to the Annual Statement and compares the Appointed Actuary's conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis. The Appointed Actuary's conclusions include the Appointed Actuary's point estimate(s), range(s) of reasonable estimates or both.
- C. An exhibit that reconciles and maps the data used by the Appointed Actuary, consistent with the segmentation of exposure or liability groupings used in the Appointed Actuary's ~~is~~ analysis, to the Annual Statement Schedule P line of business reporting. An explanation should be provided for any material differences.
- D. An exhibit or appendix showing the change in the Appointed Actuary's estimates from the prior Actuarial Report, including extended discussion of factors underlying any material changes. The exhibit or appendix should illustrate the changes on a net basis, but should also include the changes on a gross basis, if relevant. If the Appointed Actuary is newly-appointed and unable to ~~does not~~ review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.
- E. Extended comments on trends that indicate the presence or absence of risks and uncertainties that could result in material adverse deviation.
- F. Extended comments on factors that led to unusual IRIS ratios for One-Year Reserve Development to Policyholders' Surplus, Two-Year Reserve Development to Policyholders' Surplus, or Estimated Current Reserve Deficiency to Policyholders' Surplus, and how these factors were addressed in prior and current analyses.

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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 Actuarial 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 Actuarial Opinion shall be considered to be in error if the Actuarial Opinion would have not been issued or would have been materially altered had the correct data or other information been used. The Actuarial 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 is required when discovery is made between the issuance of the Actuarial Opinion and December 31 of that year. Notification should include a summary of such findings.

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 Appointed Actuary and the Company should quickly undertake procedures necessary for the Appointed Actuary to make such determination. If the Insurer does not provide the necessary data corrections and other support (including financial support) within ten (10) business days, the Appointed Actuary should proceed with the notification to the Board of Directors and the domiciliary commissioner.

An Insurer who is notified pursuant to the preceding paragraphs shall forward a copy of the amended Actuarial 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 letter and amended Actuarial Opinion submitted 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 an amended Actuarial Opinion has been finalized.

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.

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

Exhibit A: SCOPE
DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

| <u>Loss and Loss Adjustment Expense Reserves:</u> | <u>Amount</u> |
|--|---------------|
| 1. Reserve for Unpaid Losses (Liabilities, Surplus and Other Funds page, Col 1, Line 1) | \$ _____ |
| 2. Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3) | \$ _____ |
| 3. Reserve for Unpaid Losses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 13 and 15, Line 12 * 1000) | \$ _____ |
| 4. Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 17, 19 and 21, Line 12 * 1000) | \$ _____ |
| 5. The Page 3 write-in item reserve, “Retroactive Reinsurance Reserve Assumed” | \$ _____ |
| 6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, <u>adding additional lines as needed</u>) | \$ _____ |
| <u>Premium Reserves:</u> | |
| 7. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts | \$ _____ |
| 8. Reserve for Net Unearned Premiums for Long Duration Contracts | \$ _____ |
| 9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, <u>adding additional lines as needed</u>) | \$ _____ |

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

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.

1. Name of the Appointed Actuary Last _____ First _____ Mid _____
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 (indicated by the letter code):
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 U.S. dollars (used to Answer Question #6) \$ _____
6. Are there significant risks that could result in Material Adverse Deviation? Yes No Not Applicable
7. Statutory Surplus (Liabilities, Surplus and Other Funds page, Col 1, Line 37) \$ _____
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (should equal Part 1 Summary, Col 23, Line 12 * 1000) \$ _____
9. Discount included as a reduction to loss reserves and loss adjustment expense reserves as reported in Schedule P
- 9.1 Nontabular Discount [Notes, Line 32B23, (Amounts 1, 2, 3 & 4)], Electronic Filing Cols 1, 2, 3, & 4; \$ _____
- 9.2 Tabular Discount [Notes, Line 32A23, (Amounts 1 & 2)], Electronic Filing Col 1 & 2; \$ _____
10. The net reserves for losses and loss adjustment expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and loss adjustment expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines. \$ _____
11. The net reserves for losses and loss adjustment expenses that the Company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines. *
- 11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 33A03D, ending net asbestos reserves for current year) Electronic Filing Col 5 \$ _____
- 11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03D, ending net environmental reserves for current year), Electronic Filing Col 5 \$ _____
12. The total claims made extended loss, loss adjustment ~~and~~ expense, and unearned premium reserves (Greater than or equal to Schedule P Interrogatories).
- 12.1 Amount reported as loss and loss adjustment expense reserves \$ _____
- 12.2 Amount reported as unearned premium reserves \$ _____
13. Other items on which the Appointed Actuary is providing relevant comment (list separately, adding additional lines as needed) \$ _____

* The reserves disclosed in item 11 above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability, and Pollution and Remediation Legal Liability.

ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

ACTUARIAL OPINION SUMMARY SUPPLEMENT

1. For all Companies that are required by their domiciliary state to submit a confidential document entitled Actuarial Opinion Summary (AOS), such document shall be filed with the domiciliary state by March 15 (or by a later date otherwise specified by the domiciliary state). This AOS shall be submitted to a non-domiciliary state within fifteen days of request, but no earlier than March 15, provided that the requesting state can demonstrate, through the existence of law or some similar means, that ~~they are~~ it is able to preserve the confidentiality of the document.

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4. The AOS contains significant proprietary information. It is expected that the AOS be held confidential; ~~it and~~ is not intended for public inspection. The AOS should not be filed with the NAIC and should be kept separate from any copy of the Statement of Actuarial Opinion (Actuarial Opinion) in order to maintain confidentiality of the AOS. The AOS can contain a statement that refers to the ~~Statement of~~ Actuarial Opinion and the date of that opinion.
5. The AOS should be signed and dated by the Appointed Actuary who signed the ~~Statement of~~ Actuarial Opinion and shall include at least the following:
 - A. The Appointed Actuary's range of reasonable estimates for loss and loss adjustment expense reserves, net and gross of reinsurance, when calculated;
 - B. The Appointed Actuary's point estimates for loss and loss adjustment expense reserves, net and gross of reinsurance, when calculated;
 - C. The Company's carried loss and loss adjustment expense reserves, net and gross of reinsurance;
 - D. The difference between the Company's carried reserves and the Appointed Actuary's estimates calculated in A and B, net and gross of reinsurance; and
 - E. Where there has been one-year adverse development in excess of 5% of the prior year-end's policyholders' surplus as measured by Schedule P, Part 2 Summary in ~~at least three (3) or more~~ of the past five (5) calendar years, ~~include an~~ explicit description of the reserve elements or management decisions which were the major contributors.
6. The AOS for a pooled Companyies (as referenced in paragraph 1C of the instructions for the ~~Statement of~~ Actuarial Opinion) shall include a statement that the Company is a xx% pool participant. For a non-0% Companyies, the information provided for paragraph 5 should be numbers after the Company's share of the pool has been applied; specifically, the point or range comparison should be for each statutory Company and should not be for the pool in total. For any 0% pool participant, the information provided for paragraph 5 should be that of the lead company.
7. The net and gross reserve values reported by the Appointed Actuary in the AOS should reconcile to the corresponding values reported in the Insurer's Annual Statement, the Appointed Actuary's ~~Statement of~~ Actuarial Opinion, and ~~values in~~ the Actuarial Report. If not, the Appointed Actuary shall provide an explanation of the difference.

8. The Insurer required to furnish an AOS shall require its Appointed Actuary to notify its Board of Directors in writing within five (5) business days after any determination by the Appointed Actuary that the AOS 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 AOS shall be considered to be in error if the AOS would have not been issued or would have been materially altered had the correct data or other information been used. The AOS 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 when discovery is made between the issuance of the AOS and Dec. 31 of that year. Notification should include a summary of such findings.

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 AOS, the Appointed Actuary and the Company should quickly undertake procedures necessary for the Appointed Actuary to make such determination. If the Insurer does not provide the necessary data corrections and other support (including financial support) within ten (10) business days, the Appointed Actuary should proceed with the notification to the Board of Directors and the domiciliary commissioner.

An Insurer who is notified pursuant to the preceding paragraphs shall forward a copy of the amended AOS 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 letter and amended AOS submitted 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 an amended AOS has been finalized.

7. 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.

ANNUAL STATEMENT INSTRUCTIONS – TITLE

ACTUARIAL OPINION

1. There is to be included with or attached to Page 1 of the Annual Statement; the statement of a Qualified Actuary, entitled “Statement of Actuarial Opinion;” (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 of the *Annual Statement Instructions – Title*.

Upon initial engagement, the Qualified Actuary must be appointed by the Board of Directors by December 31 of the calendar year for which the opinion is rendered. The Company shall notify the domiciliary commissioner within five business days of the initial 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 (e.g., 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 Board of Directors takes action to no longer appoint or retain the actuary or the actuary no longer meets 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~~ Insurer 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, procedures, type of opinion issued, substantive wording of the opinion or data quality. The disagreements required to be reported in response to this paragraph include both those resolved to the former Appointed Actuary’s satisfaction and those not resolved to the former Appointed Actuary’s satisfaction. The letter should include a description of the disagreements and the nature of its resolution (or that it was not resolved). Within this same ten (10) business days, the ~~reporting entity~~ Insurer shall, in writing, also request such former Appointed Actuary to furnish a letter addressed to the ~~entity~~ Insurer stating whether the Appointed Actuary agrees with the statements contained in the ~~entity’s~~ Insurer’s letter and, if not, stating the reasons for which he or she does not agree. The former Appointed Actuary shall provide a written response to the Insurer within ten (10) business days of such request, and the ~~reporting entity~~ Insurer shall furnish such responsive letter from the former Appointed Actuary to the domiciliary commissioner together with its own responses.

The Appointed Actuary must report to the Board of Directors 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 and identify the manner of presentation (e.g. webinar, in-person presentation, written). 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 ~~w~~Workpapers, should be consistent with the appropriate Actuarial Standards of Practice (ASOPs), including but not limited to ASOP No. 23, ASOP No. 36, ASOP No. 41 and ASOP No. 43, as promulgated by the Actuarial Standards Board, and Statements of ~~Principals~~ Principles adopted by the Casualty Actuarial Society.

1A. Definitions

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“Insurer” or “Company” 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 the Appointed 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 Appointed Actuary’s opinion or findings, and ~~that of documentings~~ the analysis underlying the opinion. The expected content of the Actuarial Report is further described in paragraph 7. (Note that the inclusion of the Board of Directors as part of the intended audience for the Actuarial Report does not change the content of the Actuarial Report as described in paragraph 7. The Appointed Actuary should present findings to the Board of Directors in a manner deemed suitable for such audience.)

1B. Exemptions

~~An insurer 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.

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1C. Reporting Requirements for Pooled Companies

For each company in the pool, the Appointed Actuary shall include a description of the pool, identification of the lead company and a listing of all companies in the pool, their state of domicile and their respective pooling percentages.

Exhibits A and B for each company in the pool should represent the company’s share of the pool and should reconcile to the financial statement for that company.

The following paragraph applies to companies that have a 0% share of the pool (no reported Schedule P data). The company shall submit an Actuarial Opinion that reads similar to that provided for the lead company. For example, the risk of material adverse deviation discussions and other relevant comments shall relate to the risks of the lead company in the pool. The Exhibit B responses to question 5 should be \$0 and to question 6 should be “not applicable.” Exhibits A and ~~Exhibits B~~ of the lead company should be attached as an addendum to the PDF file and/or hard copy being filed (but would not be reported by the 0% companies in their data capture).

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 Appointed 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 Ceompany, qualifications for acting as Appointed Actuary, and date of appointment, and specify that the appointment was made by the Board of Directors.

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 Actuarial 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 Ceompany must attach, each year, a letter from that official stating that the individual meets the state's requirements for rendering the Actuarial 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 (8 through 14) 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 _____ (officer name and title at the Company). I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P, Parts 1 and 2 of the Ceompany'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."

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6. The Appointed Actuary must provide RELEVANT COMMENT paragraphs to address the following topics of regulatory importance.

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B. Risk of Material Adverse Deviation.

The Appointed Actuary must provide specific RELEVANT COMMENT paragraphs to address the risk of material adverse deviation. The Appointed Actuary must identify the materiality standard and the basis for establishing this standard with respect to the relevant characteristics of the Ceompany. The materiality standard must also be disclosed in U.S. dollars in Exhibit B: Disclosures. The Appointed 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. This determination is also to be disclosed in Exhibit B.

C. Other Disclosures in Exhibit B

RELEVANT COMMENT paragraphs should describe the significance of each of the remaining Disclosure items (8 through 14) in Exhibit B. The Appointed Actuary should address the items individually and in combination when commenting on a material impact.

If the C-ompany's reserves will cause the ratio of One-Year or Two-Year Known Claims Reserve Development (shown in Schedule P, Part 3) to the respective prior year's Policyholders' Surplus to be greater than 20%, the Appointed Actuary must include RELEVANT COMMENT on the factors that led to the exceptional reserve development.

D. Reinsurance

RELEVANT COMMENT paragraphs should address reinsurance collectability, retroactive reinsurance, and financial reinsurance ~~and reinsurance collectability~~.

The Appointed Actuary's comments on reinsurance collectability should address any uncertainty associated with including potentially-uncollectable amounts in the estimate of ceded reserves. Before commenting on reinsurance collectability, the Appointed Actuary should solicit information from management on any actual collectability 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 ninety (90) days past due. The comments should also reflect any other information the Appointed Actuary has received from management or that is publicly available about the capability or willingness of reinsurers to pay claims. The Appointed 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 Casualty Reinsurance*, paragraph 354, 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.

E. Reserve Development

If the Ceompany's reserves will cause the ratio of One-Year or Two-Year Reserve Development (shown in Schedule P, Part 2) to the respective prior year's Policyholders' Surplus to be greater than 20%, the Appointed Actuary must include RELEVANT COMMENT on the factors that led to the exceptional reserve development.

F. 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~~ RELEVANT COMMENT paragraph. If the Appointed Actuary is newly-appointed and does not ~~unable to~~ review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.

7. The Actuarial Opinion must include assurance that an Actuarial Report and underlying actuarial workpapers supporting the Actuarial Opinion will be maintained at the Ceompany and available for examination for seven years. The Actuarial Report contains significant proprietary information. It is expected that the Actuarial Report be held confidential and not be intended for public inspection. The Actuarial Report must be available by May 1 of the year following the year-end for which the Actuarial Opinion was rendered or within two (2) weeks after a request from an individual state commissioner.

The Actuarial Report should be consistent with the documentation and disclosure requirements of ASOP No. 41, Actuarial Communications. The Actuarial Report must contain both narrative and technical components. The narrative component should provide sufficient detail to clearly explain to Ceompany 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 Actuarial Report must also include:

- A. A description of the Appointed Actuary's relationship to the Ceompany, with clear presentation of the Appointed Actuary's role in advising the Board of Directors and/or management regarding the carried reserves. The Actuarial Report should identify how and when the Appointed Actuary presents the analysis to the Board of Directors and, where applicable, to the officer(s) of the Ceompany responsible for determining the carried reserves.
- B. An exhibit that ties to the Annual Statement and compares the Appointed Actuary's conclusions to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis. The Appointed Actuary's conclusions include the Appointed Actuary's point estimate(s), range(s) of reasonable estimates or both.
- C. An exhibit that reconciles and maps the data used by the Appointed Actuary, consistent with the segmentation of exposure or liability groupings used in the ~~their~~ Appointed Actuary's analysis, to the Annual Statement Schedule P. An explanation should be provided for any material differences.
- D. An exhibit or appendix showing the change in the Appointed Actuary's estimates from the prior Actuarial Report, including extended discussion of factors underlying any material changes. The exhibit or appendix should illustrate the changes on a net basis, but should also include the changes on a gross basis, if relevant. If the Appointed Actuary is newly-appointed and does not ~~unable to~~ review the work of the prior Appointed Actuary, then the Appointed Actuary should disclose this.
- E. Extended comments on trends that indicate the presence or absence of risks and uncertainties that could result in material adverse deviation.
- F. Extended comments on factors that led to exceptional reserve development, as defined in 6C and 6E~~d~~, and how these factors were addressed in prior and current analyses.

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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 Actuarial 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 Actuarial Opinion shall be considered to be in error if the Actuarial Opinion would have not been issued or would have been materially altered had the correct data or other information been used. The Actuarial 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 is required when discovery is made between the issuance of the Actuarial Opinion and December 31 of that year. Notification should include a summary of such findings.

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 Appointed Actuary and the Company should quickly undertake procedures necessary for the Appointed Actuary to make such determination. If the Insurer does not provide the necessary data corrections and other support (including financial support) within ten (10) business days, the Appointed Actuary should proceed with the notification to the Board of Directors and the domiciliary commissioner.

An Insurer who is notified pursuant to the preceding paragraphs shall forward a copy of the amended Actuarial 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 letter and amended Actuarial Opinion submitted 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 an amended Actuarial Opinion has been finalized.

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.

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

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, <u>adding additional lines as needed</u>) | \$ _____ |

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 the Appointed Actuary | _____ | _____ | _____ |
| 2. The Appointed Actuary's relationship to the <u>C</u> ompany. Enter E or C based upon the following: | | | |
| E - If an Employee of the <u>C</u> ompany or <u>G</u> roup | | | |
| C - If a Consultant | | | _____ |
| 3. The Appointed Actuary has the following designation (indicated by the letter code): | | | |
| 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 U.S. dollars (used to answer question #6) | \$ _____ | | |
| 6. Are there significant risks that could result in Material Adverse Deviation? | | | _____ |
| 7. Statutory Surplus (<u>Liabilities, Surplus, and Other Funds Page, Line 32</u>) | \$ _____ | | |
| 8. Known claims reserve (<u>Liabilities, Surplus, and Other Funds Page, Line 1</u>) | \$ _____ | | |
| 9. Statutory premium reserve (<u>Liabilities, Surplus, and Other Funds Liability Page, Line 2</u>) | \$ _____ | | |
| 10. Aggregate of other reserves required by law (<u>Liabilities, Surplus, and Other Funds Liability Page, Line 3</u>) | \$ _____ | | |
| 11. Supplemental reserve (<u>Liabilities, Surplus, and Other Funds Liability Page, Line 4</u>) | \$ _____ | | |
| 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 <u>adjustment</u> expense reserves as reported in Schedule P | \$ _____ | | |
| 14. Other items on which the Appointed Actuary is providing relevant comment (list separately, <u>adding additional lines as needed</u>) | \$ _____ | | |