

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<p align="right">DATE: <u>02/21/2018</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: _____</p> <p>NAME: <u>Julie Lederer</u></p> <p>TITLE: <u>Chair</u></p> <p>AFFILIATION: <u>Actuarial Opinion (C) Working Group</u></p> <p>ADDRESS: _____</p>	<p align="center">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2018-05BWG</u></p> <p>Year <u>2018</u></p> <p>Changes to Existing Reporting [X]</p> <p>New Reporting Requirement []</p> <hr/> <p align="center">REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</p> <p>No Impact [X]</p> <p>Modifies Required Disclosure []</p> <hr/> <p align="center">DISPOSITION</p> <p>[] Rejected For Public Comment</p> <p>[] Referred To Another NAIC Group</p> <p>[] Received For Public Comment</p> <p>[X] Adopted Date <u>06/12/2018</u></p> <p>[] Rejected Date _____</p> <p>[] Deferred Date _____</p> <p>[] Other (Specify) _____</p>
---	---

BLANK(S) TO WHICH PROPOSAL APPLIES

- | | |
|--|---|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input type="checkbox"/> QUARTERLY STATEMENT |
| <input checked="" type="checkbox"/> INSTRUCTIONS | <input 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 |
| | <input type="checkbox"/> Title |
| | <input type="checkbox"/> BLANK |

Anticipated Effective Date: 2018 Annual Statements

IDENTIFICATION OF ITEM(S) TO CHANGE

Changes are made to the instructions for the Property/Casualty Statement of Actuarial Opinion to incorporate the *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) requirements and to increase disclosures for accident and health (A&H) reported on a P/C blank.

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

Consistency between blanks for reporting of A&H

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*.



Detail Eliminated To Conserve Space

1A. Definitions

“Appointed Actuary” for purposes of these instructions is a Qualified Actuary appointed by the Board of Directors in accordance with Section 1 of these instructions.

“Board of Directors” for purposes of these instructions can include the designated Board of Directors, its equivalent or an appropriate committee directly reporting to the Board of Directors.

“Qualified Actuary” is a person who meets the basic education, experience and continuing education requirements of the Specific Qualification Standard for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statement, as set forth in the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States*, promulgated by the American Academy of Actuaries, and is either:

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

“Insurer” 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 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.)

“Property and Casualty (P&C) 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 13 months; and (2) the insurer can neither cancel the contract nor increase the premium during the contract term. These contracts are subject to the three tests of SSAP No. 65—Property and Casualty Contracts of the NAIC Accounting Practices and Procedures Manual.

“Accident and Health (A&H) Long Duration Contracts” refers to A&H contracts in which the contract term is greater than or equal to 13 months and contract reserves are required. See Schedule H instructions for a description of categories of contract reserves as well as policy features that give rise to contract reserves. Two specific examples of contracts that typically require contract reserves are long-term care and disability income insurance.



Detail Eliminated To Conserve Space

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~~ Disclosure items (8 through 13.2) 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.”

“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 P&C 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:

- D. Make a reasonable provision for the unearned premium reserves for P&C 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.

Detail Eliminated To Conserve Space

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

- A. Company-Specific Risk Factors

Detail Eliminated To Conserve Space

C. Other Disclosures in Exhibit B

RELEVANT COMMENT paragraphs should describe the significance of each of the remaining Disclosure items (8 through ~~43~~14) in Exhibit B. The Appointed Actuary should address the items individually and in combination when commenting on a material impact.

=====
Detail Eliminated To Conserve Space
=====

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 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 Company 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 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 Company management, the Board of Directors, the regulator or other authority the findings, recommendations and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data (e.g., loss triangles) to the conclusions.

Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves (AG 51) in the NAIC Accounting Practices and Procedures Manual requires a company to perform a stand-alone asset adequacy analysis for its in force long-term care (LTC) contracts with over 10,000 in force lives as of the valuation date. The Actuarial Report and workpapers summarizing the results, assumptions and testing procedures for the asset adequacy testing of LTC business must be in compliance with AG 51 requirements. When referring to AG 51, the term “Actuarial Memorandum” is synonymous with Actuarial Report and workpapers.

The Actuarial Report should contain disclosure of all reserve amounts associated with A&H Long Duration Contracts reported by the Company; the reserve amounts in the Actuarial Report should tie to the Annual Statement.

The Actuarial Report must also include:

- A. A description of the Appointed Actuary’s relationship to the Company, 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 Company responsible for determining the carried reserves.

=====
Detail Eliminated To Conserve Space
=====

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. Unpaid Losses (Liabilities, Surplus and Other Funds page, Col 1, Line 1)	\$ _____
2. Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3)	\$ _____
3. Unpaid Losses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 13 and 15, Line 12 * 1000)	\$ _____
4. 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, adding additional lines as needed)	\$ _____
 <u>Premium Reserves:</u>	
7. Reserve for Direct and Assumed Unearned Premiums for <u>P&C</u> Long Duration Contracts	\$ _____
8. Reserve for Net Unearned Premiums for <u>P&C</u> Long Duration Contracts	\$ _____
9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed)	\$ _____

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 and loss adjustment 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. The net reserves for the A&H Long Duration Contracts that the Company carries on the following lines on the Liabilities, Surplus and Other Funds page:
- 13.1 Losses \$ _____
- 13.2 Loss Adjustment Expenses \$ _____
- 13.3 Unearned Premium \$ _____
- 13.4 Write-In (list separately, adding additional lines as needed, and identify (e.g., "Premium Deficiency Reserves", "Contract Reserves other than Premium Deficiency Reserves" or "AG 51 Reserves")) \$ _____
- ~~13~~14. 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.

This page intentionally left blank.