



AMERICAN ACADEMY *of* ACTUARIES

June 5, 2001

Ms. Anne Kelly
Chief Casualty Actuary
New York State Insurance Department
25 Beaver Street
New York, NY 10004

RE: NAIC CASUALTY ACTUARIAL TASK FORCE

**ILLINOIS BLANKS PROPOSAL TO CHANGE ANNUAL STATEMENT
INSTRUCTIONS FOR THE STATEMENT OF ACTUARIAL OPINION**

The American Academy of Actuaries¹ Committee on Property and Liability Financial Reporting (“COPLFR”) wishes to comment on the Illinois Department of Insurance proposal to change the Annual Statement Instructions for the Statement of Actuarial Opinion scheduled to be discussed at the June 2001 NAIC Meeting. The Illinois proposal would add disclosure to the Statement of Actuarial Opinion (“SAO”) to identify the portion of the reserves which has been independently evaluated by the appointed actuary and to identify situations, if any, where reliance was placed on another actuary by the appointed actuary.

Specifically, the Illinois proposal is that the Annual Statement Instructions for the SAO be modified to include:

- 1) Disclosure of the percentage of the company’s reserves identified in the scope paragraph that were independently evaluated by the opining actuary;
- 2) An explanation of the nature of the reserves that were excluded from the opining actuary’s analysis, if any;

¹ The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

- 3) If any portion of the reserves were excluded, identification of the actuary upon whose work the appointed actuary has relied, together with a copy of the SAO regarding the excluded reserves, if applicable; and
- 4) If the appointed actuary did not independently review reserves relating to workers' compensation pools, identification of the names of each workers' compensation pool in which the company participates. In this instance, a copy of the SAO regarding the excluded reserves is not required.

Existing Guidance

The current SAO Instructions require disclosure of the amount of the company's recorded net loss and loss adjustment expense reserves that relates to its participation in pools and associations. The Instructions also require the actuary to discuss reserves for pools and associations in the SAO, if, in the actuary's estimation, they are material. Further, in instances where the actuary's opinion is qualified, the Instructions require that the SAO include the reason for the qualification.

In preparing statements of actuarial opinion, actuaries are also bound by relevant professional standards of practice promulgated by the Actuarial Standards Board. Actuarial Standard of Practice No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations* ("ASOP 9"), and Actuarial Standard of Practice No. 36, *Statements of Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves* ("ASOP 36") are particularly relevant for Statements of Actuarial Opinion prepared in accordance with the NAIC Instructions.

ASOP 36 provides specific guidance for actuaries on written statements of actuarial opinion regarding property/casualty loss and loss adjustment expense reserves. The relevant provisions from ASOP 36 in this instance are as follows:

"Section 3.3.2.d. Qualified Opinion – When, in the actuary's opinion, the reserves for a certain item or items are in question because they cannot be reasonably estimated or the actuary is unable to render an opinion on those items, the actuary should issue a qualified statement of actuarial opinion. Such a qualified opinion should state whether the stated reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, *except for* the item, or items, to which the qualification relates. The actuary is not required to issue a qualified opinion if the actuary reasonably believes that the item or items in question are not likely to be material..."

"Section 4.6.f. If the actuary issues a qualified opinion, he or she should disclose in the opinion the item or items to which the qualification relates,

the reasons for the qualification, and the amounts for such items, if disclosed by the entity, that are included in the stated reserve amount. If the amounts for such items are not disclosed by the entity, the actuary should disclose that the stated reserve amount includes unknown amounts for such items.”

“Section 4.4. Reliance on Opinions of Other Actuaries – Another actuary may have provided a statement of actuarial opinion regarding some portion of the subject reserves on which the actuary is issuing a statement of actuarial opinion. The actuary should evaluate whether such portions of the subject reserves are likely to have a material impact on the actuary’s opinion regarding the total subject reserves. If the impact is likely to be material, the actuary should decide whether or not to claim reliance on such opinions.

The actuary should claim reliance on the opinion of another actuary only if the actuary ascertains that reliance on the other actuary’s opinion is consistent with the other actuary’s intended use. The reliance on the opinion of another actuary should be disclosed in the subject opinion with a description of the relevant reserves or subject matter to which the reliance applies. If there is reliance on another actuary’s opinion that precludes or limits the actuary’s recognition of significant risks and uncertainties concerning material adverse deviation relating to the subject reserves, the actuary should disclose this limitation.”

Observations

In our opinion, ASOP 36 effectively addresses the concerns underlying the proposed changes to the NAIC Instructions for the Statement of Actuarial Opinion and provides more comprehensive instruction to the appointed actuary than would be provided by the proposed modifications.

The Casualty Actuarial Task Force should reasonably expect that appointed actuaries will comply with the Actuarial Standards of Practice. If a regulator receives a Statement of Actuarial Opinion that, in his or her opinion, does not satisfy these standards, the regulator may wish to direct the appointed actuary to the relevant provisions of the standard and request that the actuary revise his or her opinion accordingly.

The American Academy of Actuaries Committee on Property and Liability Financial Reporting appreciates the opportunity to comment on the Illinois Department of Insurance proposed changes to the NAIC Instructions for Statements of Actuarial

COPLFR Comments on Illinois Blanks Proposal
June 5, 2001
Page 4

Opinion. We would be pleased to work with the Casualty Actuarial Task Force to address perceived shortcomings in the Instructions for Statements of Actuarial Opinion.

Sincerely,

Patricia A. Teufel, FCAS, MAAA
Chairperson