



AMERICAN ACADEMY *of* ACTUARIES

June 23, 2003

Mr. John Purple, FCAS, MAAA
Chairperson, Casualty Actuarial Task Force (CATF)
National Association of Insurance Commissioners (NAIC)
P. O. 816
Hartford, CT 06142-0816

Dear Mr. Purple:

The Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries¹ is pleased to provide comments concerning the June 18, 2003 draft Model Law for the Property and Casualty Statement of Actuarial Opinion and associated Annual Statement Instruction revisions for implementing the proposed Model Law.

We believe the current proposals work well to provide regulators with important data to allow them to more effectively monitor solvency and to establish requirements that opining actuaries can reasonably and meaningfully fulfill. As such, we would characterize our comments as suggested technical refinements.

Instructions

First Paragraph Regarding a Change in Actuary

The CATF amended the language in the paragraph in its June 18 draft to ensure its intentions are clear; that only material disagreements between management and the actuary that would have affected the conclusions or contents of the Statement of Actuarial Opinion need to be disclosed. It is not intended that disagreements concerning the finer points of the actuarial analysis, such as the choice of individual assumptions, be disclosed. Nor is it intended that disagreements on matters not related to the Statement of Actuarial Opinion be disclosed. We support any reasonable effort the CATF can make to make it as clear as possible that disclosure should reflect only disagreements at the management decision making level regarding only these related to the Statement of Opinion.

We do note that some of our members have reservations about this paragraph in that it tends to put the actuary in some respects in the shoes of the regulator in trying to uncover inappropriate actions by management. There is also concern that in many cases this exchange of letters may constitute unnecessary public airing to the regulator of what should have remained private business differences.

^{1 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.

We also note that there may be some practical problems in obtaining responses from outgoing actuaries who no longer have engagement agreements with the company, may not be compensated for their time, and, more importantly, may be subjecting themselves to lengthy and acrimonious interchanges and perhaps additional liability as a result of whatever comments are made in their response to the company letter.

We believe the process outlined by the CATF is best served if the letters provided by the company and the actuary are kept confidential. We would hope that regulators would endeavor to protect this exchange from public disclosure where possible.

Addition of a Second Paragraph Regarding a Change in Actuary

We continue to believe it would be beneficial to ensure that the incoming actuary receive copies of the letters between the company and the outgoing actuary referenced above. We would suggest wording like the following:

“The insurer will provide the actuary appointed/elected/approved to replace a previously appointed actuary with copies of the insurer’s notification to the domiciliary commissioner and the prior actuary’s response.”

Item E, Regarding the Actuarial Opinion Summary

We presume it is the intent of the CATF that the Actuarial Opinion Summary will be done on a statutory company basis, by individual company. Many groups using inter company pooling now complete only one opinion and one report covering the pool as a whole. Since the results of the one year development test relative to surplus may differ substantially among companies in an inter company pool, a separate Actuarial Opinion Summary would often have to be completed for each statutory company. We note that changes previously enacted by the CATF in 2004, such as the creation of an attachment to the Opinion showing reserve and surplus levels may have a similar effect.

Other Comments

We are aware that the CATF expects to receive input from the Information Sharing Task Force of the NAIC in the near future concerning the proposed Model law and revised Instructions. We would appreciate the opportunity to review these comments and any revisions to the current proposals contemplated in response to these comments.

Mr. John Purple

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Next Steps

COPLFR would appreciate any information the CATF can provide as to what the expected process and time line will be for implementing the Model Law once it has been acted upon by the CATF.

Specifically, advice concerning when final NAIC approval might occur and what the usual time frame has been for states adopting model laws would be helpful in alerting our members to future changes concerning the Statement of Actuarial Opinion.

COPLFR has appreciated the opportunity to contribute to the work of the CATF in developing these proposals.

Sincerely,

Andrea Sweeny, FCAS, MAAA, FCA, Chairperson
Committee on Property and Liability Reporting