

# COPLFR COVID-19 FAQs

## Second Edition

This is the second release in a series as the situation pertaining to COVID-19 evolves. The [first release](#) was in June 2020. Both documents have been developed by the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries to assist appointed actuaries as they contend with the various uncertainties and challenges pertaining to loss reserving in light of the COVID-19 pandemic and related financial and regulatory developments.

Impacts of COVID-19 continue to be fluid at the time of publication, and the full impact of the pandemic will not be known for years. COPLFR will continue to update these FAQs periodically to reflect new information as it emerges.

COPLFR appreciates the opportunity to respond to financial reporting questions that property and casualty (P&C) actuaries may have on this topic. Please write to [casualty@actuary.org](mailto:casualty@actuary.org) and we will consider additional questions in the periodic updates.

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We stress that these questions and responses should not be considered alone in making decisions with respect to the impacts of COVID-19. For example, consultations with company managements, boards of directors, regulators, and independent auditors should be considered, as is deemed necessary.

Additionally, appointed actuaries should be reminded that the Code of Professional Conduct (the Code) requires actuaries to “be familiar with, and keep current with, not only the Code, but also applicable Law and rules of professional conduct for the jurisdictions in which the Actuary renders Actuarial Services.” This includes the National Association of Insurance Commissioners (NAIC) Property and Casualty Actuarial Opinion Instructions (“NAIC Instructions”). Appointed actuaries typically carefully read and consider other resources offering guidance, requirements and standards, including NAIC *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion*, *Actuarial Opinion Summaries* as required by the NAIC, and *Actuarial Reports for the Year 2020*, as prepared by the NAIC’s Actuarial Opinion (C) Working Group (AOWG) of the Casualty Actuarial and Statistical (C) Task Force (CASTF) (hereinafter referred to as “AOWG Regulatory Guidance”), the Actuarial Standards Board’s actuarial standards of practice (ASOPs) and the NAIC Statements of Statutory Accounting Principles (SSAPs).

Certain of these resources include required disclosures related to the approaches and assumptions used by the actuary. Such disclosures add transparency and highlight the uncertainties associated with the impacts of COVID-19.

These FAQs should not be construed as legal or professional advice. They are not necessarily the official position of the Academy and should not be relied upon by any person for any reason.

## 1. PRIOR-YEAR DEVELOPMENT

### **Q.** How should I react to prior-year loss development given the COVID-19 situation? Is it real or merely due to a lag in reporting and payment from COVID-19?

**A.** Actuaries are challenged with how to react to loss emergence in 2020 given the fact that there may be limited loss experience upon which to perform a robust analysis of the impacts of the pandemic since the recognized onset in early 2020. At the time of the writing of these FAQs, we remain in the midst of the pandemic, with the ancillary impacts (e.g., physical and economic) not fully known and likely to persist for years to come.

In addressing how to react to current-year loss emergence, the appointed actuary may consider obtaining advice from specialists in other disciplines—such as finance, claims, or reinsurance—to obtain and validate available evidence to support the emergence. For example, while court closures may have resulted in lags in reporting and settlement, a company may see an increase in mediation in certain lines and different than expected settlement values. It is important to note that the impact(s) of the pandemic on individual lines of business may differ. Interviews of the company’s claims professionals along with a review of details regarding claim resolution in 2020 relative to prior years may provide some evidence for consideration.



COPLFR would stress the importance of obtaining factual evidence and support for the assumptions made in the actuarial evaluation. While applicable to the entirety of the appointed actuary's assessment, of particular note is the Regulatory Guidance issued by the NAIC Actuarial Opinion Working Group (AOWG) regarding assumptions used by the appointed actuary, which states:

*Appointed Actuaries should support their assumptions. The use of phrases like “actuarial judgment,” either in the narrative comments or in exhibit footnotes, is not sufficient. A descriptive rationale is needed.*

## 2. IMPACTS ON METHODOLOGY

### Q. What are some considerations I need to think through with respect to reserving in 2020?

**A.** The impact(s) of the pandemic on individual lines of business may differ. Actuaries might consider adjustments to their reserving methodologies as they weigh the impacts of the infection and economy on the loss experience during 2020. Some considerations include:

- ▶ Changes in loss development patterns that may emanate from:
  - Delays in reporting and therefore claim settlement patterns attributed to the shutdown
  - Ability of adjusters working from home to keep up with caseloads
  - Clearing of claim backlogs due to reduced new claim activity
  - Unusual seasonality effect of COVID-19 that may have led to unexpected delays or cancellations in not only insured exposures, but also in the medical and legal systems used in the claims process
  - Acceleration of claim settlement due to digital reporting and remote claims handling
  - Changes in settlement activity due to economic impact of the pandemic
  - Delays in claim development or changes in settlements due to court closures
  - Impacts of reductions in claim staff
  - Changes in case reserving adequacy
  - Change in the average accident date for the 2020 accident year due to the timing of severe economic shutdowns during the year
- ▶ Initial expected loss ratio or loss cost assumptions in light of changes to exposures and premium balances. Potential considerations include:
  - Reduction in risk and exposures in certain lines due to businesses being shut down and fewer automobiles on the road
  - Timing of payroll audits
  - Reduction in premium due to rebates/refunds, risk of nonpayment, and reduced exposures
  - Increase in risks, exposures, and premiums for certain lines involving essential workers
  - Impacts of accounting for premium rebates/refunds on the current loss ratio
  - Appropriateness of reliance on history for purposes of on-level loss ratio/cost assumptions in the current environment
  - Potential mismatch between premium reimbursements or rate reductions and true exposure to loss, given the former are based on estimates

- ▶ Determination of the expected losses for purposes of assessing actual versus expected emergence in 2020 could need to consider a change in the loss development patterns, as well as the selection of the *a priori* loss ratio
- ▶ Economic impacts on cost of claims
  - Demands for healthcare and medical supplies on the rise in conjunction with a potential reduction in supply
  - Demands for healthcare may have declined or been postponed due to concerns regarding COVID-19 infection
  - Slowdown in the economy and impacts on the cost of goods and indemnity payments
  - Potential long-term cost savings through telemedicine, increased utilization of electronic monitoring of health patient conditions
  - This could also lead to potential increase in malpractice claims or delayed diagnosis and therefore adverse results
- ▶ Impacts of morbidity and mortality on run-off books of workers' compensation, lifetime personal injury protection, and/or asbestos and environmental claims
- ▶ Changes in Loss Adjustment Expense (LAE) costs, which could be impacted by:
  - Lower claim frequency and reductions in workforce
  - Reduction in attorney fees due to increased settlements
- ▶ Reinsurance collectability or coverage due to contract definitions/exclusions related to occupational disease or other coverage disputes
- ▶ Lags in salvage and subrogation recoveries or possible changes in salvage values (increase or decrease) given the slowdown in the economy

Note that these considerations will not impact every company and/or every line of business.

### 3. RETURN OF PREMIUMS AND FUTURE DISCOUNTS

**Q. My company is returning auto insurance premium and providing discounts on future premiums. How is this situation typically considered this for purposes of estimating ultimate loss and expense ratios?**

**A.** There are several ways reimbursements are being made to policyholders given reductions in claim frequency due to changes in driving habits during the pandemic. These include rebates, refunds, dividends, and discounts on new and renewal business.

The NAIC approved INT<sup>1</sup> 20-08, which includes a limited-time exception for refunds, rate reductions, and policyholder dividends in response to the decreased activity related to COVID-19. The revised guidance applies to property and casualty lines of business, where rate filings and policy endorsements were filed prior to June 15, 2020. Refunds not required under policy terms are in effect a return of premiums, but the exception permits these voluntary reimbursements to be treated as an underwriting expense.

While application of the exception does not require domiciliary jurisdiction approval, explicit disapproval of the reporting of the refunds as an underwriting expense supersedes the limited-time exception in INT 20-08.

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<sup>1</sup> NAIC Interpretation of the Statutory Accounting Principles Working Group.

INT 20-08 addresses the follow issues:

- Issue 1: How to account for refunds not required under the policy terms.
- Issue 2: How to account for refunds required under the policy terms.
- Issue 3: How to account for rate reductions on inforce and renewal business.
- Issue 4: How to account for policyholder dividends.
- Issue 5: Where to disclose refunds, rate reductions, and policyholder dividends related to COVID-19 decreases in activity.

Consideration of INT 20-08 may be made by actuaries who perform evaluations of lines of business where refunds, rate reductions, and/or policyholder dividends are (or have been) made.

Adjustments to reserving methodologies may typically be needed in light of the form and amount of reimbursement. Consider as an example when evaluating loss and expense ratios for the current year (2020) versus prior accident years, as there may be a mismatch not only due to exposure, but also due to premium adjustments. Further, the accounting of the premiums could differ from those used in actuarial evaluations. Of course, there are also the impacts of changes in claim frequency and severity given the changes in driving patterns and behaviors.

#### **4. MANAGEMENT RECORDING ABOVE THE ACTUARIAL CENTRAL ESTIMATE DUE TO UNCERTAINTIES EMANATING FROM COVID-19**

**Q. Management’s recorded reserve is above the high end of my range of reasonable estimates. I do not have an explicit provision for the potential impact of COVID-19 included in my estimates. Would an issuance of a “Redundant or Excessive” (i.e., Unreasonable) Statement of Actuarial Opinion be in order in this situation?**

**A.** Actuarial Standard of Practice No. 36 (“ASOP No. 36”), provides guidance, which states:

*The actuary should consider a reserve to be reasonable if it is within a range of estimates that could be produced by an unpaid claim estimate analysis...*

ASOP No. 36 also states:

*Determination of Redundant or Excessive Provision—The actuary should opine that the reserve amount does not make a reasonable provision for the liabilities associated with the specified reserves when the reserve amount is greater than the maximum amount that the actuary believes is reasonable. Furthermore, the actuary should determine the maximum amount that the actuary believes is reasonable.*

To the extent a range of estimates (with no explicit provision for COVID-19) represents a view of the minimum and maximum amounts believed to be reasonable, ASOP No. 36 points in the direction of issuing a “Redundant or Excessive” opinion.

If, on the other hand, it is believed it is reasonable to include a provision for uncertainty related to COVID-19, but do not have a basis for estimating such a provision, an actuary may consider whether the range truly represents the actuary’s view of the minimum and maximum amounts believed to be reasonable. An actuary might consider discussing with management the basis for the COVID-19 provision included in the recorded reserves and the extent to which the actuary believes it is reasonable to include such a provision in their own estimates. If the actuary “make(s) use of”<sup>2</sup> management’s estimate, the actuary might adjust his/her range of estimates by adding a provision in consideration of the impacts. The actuary can then assess management’s recorded reserves in relation to her/his revised range to form an opinion on the reasonableness of the reserves.

## 5. IMPACTS OF COVID-19 ON UNEARNED PREMIUM RESERVE (UPR) FOR SHORT-DURATION CONTRACTS

**Q.** With respect to COVID-19, what are the considerations I need to think through with respect to the premium deficiency reserves (PDRs)?

**A.** PDRs arise when expected losses and expenses incurred in the future on premiums written are expected to exceed the unearned premium reserve. According to SSAP No. 53, *Property Casualty Contracts—Premiums*:

*When the anticipated losses, loss adjustment expenses, commissions and other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve, and any future installment premiums on existing policies, a premium deficiency reserve shall be recognized by recording an additional liability for the deficiency, with a corresponding charge to operations. Commission and other acquisition costs need not be considered in the premium deficiency analysis to the extent they have previously been expensed. For purposes of determining if a premium deficiency exists, insurance contracts shall be grouped in a manner consistent with how policies are marketed, serviced and measured. A liability shall be recognized for each grouping where a premium deficiency is indicated. Deficiencies shall not be offset by anticipated profits in other policy groupings.*

Not only does consideration need to be made for the accounting of premium reimbursements, as discussed in the [previous FAQs](#), but reliance on current experience may mask the need for PDR. Many claimants have delayed or avoided seeing their provider due to fears of contracting COVID-19. This impacts lines like workers’ compensation and automobile liability. Similarly, there have been delays in legal procedures due to pandemic-induced shutdowns impacting various casualty classes. These delays may result in lower-than-expected loss experience in 2020, but higher-than-expected activity in 2021, thereby masking the true 2020 loss ratio, unless consideration is made for these lags.

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<sup>2</sup> According to ASOP No. 36, *Statements of Actuarial Opinion on Property and Casualty Loss and Loss Adjustment Expense Reserves*:

*The actuary may develop estimates of the unpaid claims for all or a portion of the reserve or make use of another’s unpaid claims estimate analysis or opinion for all or a portion of the reserve. For purposes of this section, “another” refers to one not within the actuary’s control...The actuary should only make use of another’s analyses or opinions when, in the actuary’s professional judgment, it is reasonable to do so....*

Where, in the opinion of the actuary, the analyses or opinions of another need to be modified or expanded, the actuary should perform such analyses as necessary to issue an opinion on the total reserves.

ASOP No. 36 goes on to say that the actuary is required to include disclosure in the Statement of Actuarial Opinion when making use of another for a material portion of the reserves.

When estimating the PDR, actuaries should consider the unusual seasonality effect of COVID-19 and how it may impact certain coverages. Considerations include:

- ▶ **Premium Earning Pattern**  
One of the three tests for long-duration UPRs is that premium should not be earned more quickly than the expected claims and expenses. Although not explicitly required for short-duration UPRs, actuaries typically consider that delays in COVID-19 related treatment in 2020 may cause claims to be skewed to the latter part of 2020 and may necessitate the formation of a PDR.
- ▶ Delay on incurred claims or claims being reported, as well as claim investigation.
- ▶ A shift in the average date of loss and lags in loss development patterns.

## 6. IMPACTS OF COVID-19 ON UPR FOR LONG-DURATION CONTRACTS

### Q. How might COVID-19 impact long-duration unearned premium (UEP) reserves?

**A.** A long-duration UEP reserve relates to contracts with coverage terms greater than 13 months and for which the insurer cannot cancel or increase the premium during the coverage period. The following contracts are excluded: financial guaranty, mortgage guaranty, and surety.

In 1995, the NAIC implemented an accounting rule establishing a methodology for determining minimum long-duration UEP reserves. The three tests that must be applied are listed below:

1. Refund of premium,
2. In proportion to losses and expenses, and
3. The present value of the outstanding losses and expenses.

There is no obvious reason that COVID-19 would impact the premium refund due to a policyholder upon cancellation. However, an actuary would consider how COVID-19 could impact tests 2 and 3.

The impact of COVID-19 on long-duration contracts may vary based on the coverage. For example, extended warranty contracts may not be materially impacted by COVID-19. For long-duration coverages where medical care is a component, however, additional consideration is merited. As discussed in the previous FAQs, many people have delayed or decided not to seek medical care starting in March 2020 due to fears of contracting COVID-19. However, as the situation has evolved, patients are growing more comfortable seeing their doctors. There may be some claim frequency “catch-up” because care that would normally have been spread over several months is now being sought. When evaluating the long-duration UEP under tests 2 and 3, the actuary should consider that losses observed in 2020 may not be indicative of the ultimate expected losses.

Similarly, litigation that may have normally taken place in 2020 may have been delayed due to court closings, law practices, and litigants’ inability to file in court during the pandemic-induced shutdown. If litigation is relatively low for 2020, either in whole or in part, the actuary opining on the adequacy of a long-duration UEP might consider whether recent litigation activity is likely to continue, revert to historical levels, or accelerate as claims are compressed over a shorter timeframe.

## 7. REQUIRED DISCLOSURES REGARDING COVID-19 IN THE 2020 OPINION

### Q. Do I need to disclose COVID-19 in my 2020 P&C Statement of Actuarial Opinion?

**A.** While the 2020 NAIC Instructions do not explicitly reference COVID-19, there are several areas within the Opinion where disclosure may be required. Examples are provided below:

- ▶ The SCOPE section of the Opinion discloses the subjects on which the appointed actuary is expressing an Opinion. The appointed actuary may want to consider whether the scope of his/her Opinion is modified due to COVID-19. For example,
  - If reserves for COVID-19 cannot be reasonably estimated or the appointed actuary is unable to render an opinion on those reserves, the appointed actuary might issue a qualified Statement of Actuarial Opinion.<sup>3</sup> In this case, Item 8 within Exhibit B would include a “Q.”

Further, if the appointed actuary received COVID-19-related loss information or ultimate estimates from a company officer (e.g., general counsel), different from the officer who provided all other data (e.g., chief financial officer), the appointed actuary may wish to include both names in the data reliance section of the SCOPE.

- ▶ The OPINION section requires explicit disclosure when the appointed actuary makes use of the work of another person not within his/her control for a material portion of the reserves.<sup>4</sup>
- ▶ The RELEVANT COMMENTS section requires the appointed actuary to address topics including company-specific risk factors, the risk of material adverse deviation, reinsurance collectability/disputes, changes in methods and assumptions, and exceptional values under NAIC Insurance Regulatory Information System (IRIS) Tests 11, 12, and 13. COVID-19 may impact these and other topics requiring comment. For example, COVID-19 may be a specific risk factor of the company that would be considered when assessing whether there are significant risks that could result in material adverse deviation. In addition, ancillary impacts of the pandemic may result in the use of alternative methods and assumptions. According to the NAIC Instructions, a significant change in methods and/or assumptions should be described.

In addition to the implicit requirements of disclosure within the Instructions, the NAIC Actuarial Opinion Working Group has issued [Regulatory Guidance](#) in 2020 that states that the appointed actuary should consider direct and indirect impacts of COVID-19. According to the Guidance:

*If the impact on reserves is significant, the actuary should make relevant comments on COVID-19 impacts and discuss the corresponding actuarial assumptions in the Statement of Actuarial Opinion. Otherwise, Appointed Actuaries are still strongly encouraged to mention their review of COVID-19 effects on the company in the Statement of Actuarial Opinion, to demonstrate that it has not been overlooked or disregarded.*

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<sup>3</sup> See section 3.11d, ASOP No. 36 and the NAIC SAO Instructions.

<sup>4</sup> See also ASOP No. 36, *Statements of Actuarial Opinion on Property and Casualty Loss and Loss Adjustment Expense Reserves*.

## 8. IMPACT OF COVID-19 ON NAIC IRIS TESTS 11, 12, AND 13

**Q.** The Instructions require disclosure of exceptional values under NAIC IRIS Tests 11, 12, and 13. How could these tests be impacted, because they are focused on hindsight testing?

**A.** IRIS Tests 11 (One-Year Reserve Development to Policyholders' Surplus) and 12 (Two-Year Reserve Development to Policyholders' Surplus) assess the adequacy of prior-year estimates given one or two years of hindsight, respectively. However, the company may change its estimate of ultimate loss and LAE on prior years due to ancillary impacts of the pandemic. Such changes may result in increases or decreases in a company's prior-year estimates. For example, an increase could result if a company expects increases in medical costs on injury claims due to delays in treatment or demands on the medical system. A decrease might result if a company is able to accelerate claim settlements at amounts lower than previously expected.

IRIS Test 13 (Estimated Current Reserve Deficiency to Policyholders' Surplus) assumes that the ratio of the company's net loss and loss adjustment expense reserves in the immediate prior two years (adjusted for development in subsequent years) to calendar-year earned premium is a reasonable benchmark for current-year reserves. However, the reasonableness of this benchmark depends on whether the current-year exposures are commensurate with: (a) those in the immediate prior two years; and (b) the 2020 earned premium as stated in Schedule P.

An exceptional value for IRIS 13 may result if a company has experienced a decrease in exposure that it has considered in the loss and LAE reserves as of December 31, 2020, but has not been able to consider in the earned premium to which the IRIS 13 benchmark is applied.

IRIS 13 may also be impacted in 2021 given that earned premiums included in Schedule P are on a calendar-year basis and once they are entered in Schedule P they do not change for retrospective premium adjustments.

Workers' compensation is an example of a line that might be particularly impacted by return premiums as a result of decreases in payroll stemming from economic shutdowns.

## 9. OTHER ASPECTS OF COVID-19 THAT THE APPOINTED ACTUARY MIGHT NEED TO CONSIDER IN THE 2020 OPINION

**Q.** In addition to the aforementioned reserving and disclosure items, what are some of the other aspects of COVID-19 that I might need to consider when issuing my Opinion on Loss and LAE Reserves as of December 31, 2020?

**A.** The following provides examples of additional aspects of COVID-19 that the appointed actuary considers when issuing his/her Opinion on December 31, 2020, loss and LAE reserves:

### **Am I qualified?**

COVID-19 provides an additional topic that the appointed actuary will need to consider in his/her 2020 Statement(s) of Actuarial Opinion. As with any Opinion, the appointed actuary needs to first assess whether he/she meets the definition of a Qualified Actuary for purposes of issuing the Statement of Opinion. We refer the actuary to the NAIC Instructions, actuarial standards of practice, and the U.S. Qualification Standards pertaining to the requirements of a Qualified Actuary for Opinion purposes.

### **Data**

There may be data items pertaining to COVID-19 that are requested by the appointed actuary in addition to what he/she normally relies upon. These should be considered in communications among relevant parties (e.g., the company, its auditors) in accordance with the NAIC data testing requirements.

There may be limitations to the data that is available to provide an independent assessment of unpaid claims pertaining to COVID-19. Depending on the significance of this limitation, limitations could result in disclosure or even a qualified opinion.

### **Original signatures**

With many appointed actuaries working from home during the pandemic, it may be difficult to issue hard copies of the Opinion with original signatures. Certain states may permit electronic signatures and copies of the Opinion. However, this may be temporary for 2020 and may not have been considered in the current regulations. Therefore, even if this topic is not addressed in a state's regulations, appointed actuaries might consider seeking guidance from company personnel responsible for preparing and issuing the Annual Statement, who in turn may contact their regulator on the required form of presentation of the Opinion.

## **10. REQUIRED DISCLOSURES REGARDING COVID-19 IN THE ACTUARIAL REPORT**

### **Q. Am I required to disclose any additional information in my Actuarial Report, other than that disclosed in the Opinion?**

**A.** The appointed actuary, as with any disclosure in the Opinion, is required by the NAIC Instructions to provide an expanded discussion in the Actuarial Report supporting the Opinion.

The AOWG Regulatory Guidance issued in 2020 states the expectation that the Actuarial Report will address impacts of changes stemming from COVID-19 on the actuarial methods and assumptions, as follows:

*It is important for the Appointed Actuary to understand the company's treatment of any changes stemming from COVID-19, for example premium refunds or rate reductions, in the annual financial statement. The impact of such financial reporting on assumptions and methods used in the actuarial analysis should be discussed within the Actuarial Report.*

## 11. DOCUMENTATION OF THE IMPACT OF COVID-19 ON ASSUMPTIONS AND ESTIMATES

**Q.** How might I document the basis for my assumptions and resulting estimates of the impact of COVID-19 on my unpaid estimates?

**A.** There are numerous resources and guidance documents pertaining to documentation requirements. On such resource is ASOP No. 41. Documentation should meet the requirements of ASOP No. 41, including:

*In the actuarial report, the actuary should state the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report.<sup>5</sup>*

Judgment is a necessary element of actuarial analysis, and the appointed actuary may find himself/herself relying heavily on judgment with respect to any provision that is included for COVID-19 in unpaid estimates. The appointed actuary should explain his/her rationale clearly in her/his report so that, per ASOP No. 41, another actuary qualified in the same practice area can make an objective appraisal of the reasonableness of the appointed actuary's work.

The appointed actuary again might look to the AOWG Regulatory Guidance regarding the use of the phrase "actuarial judgment" and the importance of anchoring assumptions to factual information or evidence, as stated below:

*Appointed Actuaries should support their assumptions. The use of phrases like "actuarial judgment," either in the narrative comments or in exhibit footnotes, is not sufficient. A descriptive rationale is needed.*

## 12. DISCLOSURES REGARDING DIRECT VS. INDIRECT IMPACTS OF COVID-19

**Q.** I expect that COVID-19 will have a direct impact (actual loss activity arising from COVID-19) as well as an indirect impact (absence of loss activity due to COVID-19). Should the actuary be proactive about discussing both types of effects?

**A.** According to the 2020 AOWG Regulatory Guidance:

*COVID-19 and subsequent economic events have had a significant impact on 2020 accident year insurance liabilities for some lines of business. Furthermore, the effects of COVID-19 could extend to other aspects of the company's operations and the claims process. The Appointed Actuary should consider the direct impacts to loss and unearned premium reserves, claims patterns and loss trends, collectability of reinsurance and/or premiums, exposure, etc., as well as indirect impacts such as claims handling delays and procedural changes resulting from public health orders. It is important for the Appointed Actuary to understand the company's treatment of any changes stemming from COVID-19, for example premium refunds or rate reductions, in the annual financial statement. The impact of such financial reporting on assumptions and methods used in the actuarial analysis should be discussed within the Actuarial Report.*

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<sup>5</sup> Section 3.2, ASOP No. 41, *Actuarial Communications*.

### 13. IMPACTS OF COVID-19 CONTINUE TO EVOLVE

**Q.** The situation regarding COVID-19 remains fluid and I therefore expect the landscape to be shifting continuously up to the date the opinion is issued. How should I disclose this in the Actuarial Opinion?

**A.** The appointed actuary is required to disclose the “review date” within the Statement of Actuarial Opinion. The “review date” is defined in ASOP No. 36 as “the date (subsequent to the valuation date) through which material information known to the actuary is included in forming the reserve opinion.” Disclosure of the “review date” identifies the time period through which the appointed actuary has considered information in forming the opinion.

The appointed actuary might also disclose COVID-19 as a specific risk factor, depending on the level of uncertainty and/or potential materiality of COVID on the company’s recorded reserves. This risk factor, along with others identified by the appointed actuary, would be considered for purposes of determining whether there are significant risks that could result in material adverse deviation.

### 14. CONSIDERATION OF NEW RISK FACTORS

**Q.** Specific to personal automobile insurance, driving patterns changed significantly in 2020 and many companies have observed a decrease in claim frequency. I would expect that uncertainties pertaining to this, as well as potential changes in claim severity due to a shift in the mix of claims, will result in consideration of a new risk factor in 2020 Statements of Actuarial Opinion. How should appointed actuaries address this?

**A.** COPLFR agrees that the uncertainties regarding claim frequency and severity may be a risk factor depending on the significance of a company’s reserves for personal auto. Within the Statement of Actuarial Opinion, the appointed actuary is required to disclose risk factors specific to the company and then answer the question: *Are there significant risks that could result in adverse deviation?* When answering this question, the appointed actuary should consider the risk factors alone and in combination.

### 15. GREATER THAN REMOTE

**Q.** What if I have no idea whether the likelihood of adverse development from direct or indirect impacts of COVID is “greater than remote”? For example, the potential for adverse development for workers’ compensation loss development due to long-term economic and physical effects of COVID that are still not known.

**A.** The appointed actuary is reminded the question regarding RMAD (i.e., risk of material adverse deviation) in Exhibit B of the Statement of Actuarial Opinion is, “Are there significant risks that could result in adverse development?” Therefore, the appointed actuary first determines and discloses the risks that the company is exposed to and then discloses whether those risks could result in material adverse deviation.

If there are uncertainties resulting from the long-term effects of COVID-19, then the appointed actuary may disclose this as a risk factor. For purposes of determining whether there are significant risks (either on their own or in combination) could result in material adverse deviation, the appointed actuary will consider materiality and might wish to consider the company's position in the appointed actuary's range. If the appointed actuary deems that it is reasonable to expect that the recorded reserves will develop by a material amount given the risk factors, then the appointed actuary would affirmatively conclude that there are significant risks that could result in material adverse deviation.

## 16. CONCERN REGARDING DISCLOSURE AND POTENTIAL PRECEDENCE

**Q.** What if company management is concerned with including disclosures about claims in litigation? For example, may companies in the U.S. have upheld that business interruption claims emanating from government-imposed shutdowns are not covered under most property policies given there is no physical loss to the property resulting in the interruption. However, many such claims are being litigated. Despite denial of coverage based on policy wording, the fact that these claims are in litigation results in uncertainty with respect to the ultimate cost of such claims. Company legal counsel may be concerned with describing the impacts of COVID-19 as a risk factor in the Statement of Actuarial Opinion, as it could be construed as acknowledgement of coverage. How should I handle this situation?

**A.** This concern is similar to that identified in previous years with respect to asbestos and environmental claims, namely that disclosure or inclusion of an estimate for such claims might result in perceived acknowledgement of coverage. However, the appointed actuary is required to disclose risk factors that he/she deems are relevant.

It is publicly known that there is litigation pertaining to whether the pandemic is a covered claim under various coverages. As such, the appointed actuary would typically disclose, depending on the portfolio, whether the business is impacted. Appropriate sample wording can be found by looking to other public disclosures made by the company (e.g., 10-K, earnings calls, Management Discussion & Analysis).

The identification of the risk does not translate to admission of coverage. Rather, it informs the reader that there are uncertainties in the ultimate cost of claims given the risk factors noted.

### Academy Offers Resource Page on Coronavirus Pandemic Information

The Academy has created a [webpage with resources for the ongoing coronavirus \(COVID-19\) pandemic](#). The page includes resources such as links to the Centers for Disease Control and Prevention (CDC) and World Health Organization (WHO), the Centers for Medicare & Medicaid Services (CMS) regulatory activity and other legislative and regulatory actions, pertinent articles, and more. The Academy will continue to add resources to this freely available webpage as more information becomes available.

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