



AMERICAN ACADEMY *of* ACTUARIES

June 3, 2002

Casualty Actuarial Task Force
National Association of Insurance Commissioners (NAIC)
Actuarial Opinion Instructions Working Group
c/o Mr. John M. Purple
State of Connecticut Insurance Department
P.O. Box 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 regarding the Casualty Actuarial Task Force's (CATF's) proposed revisions to the Instructions for the Property/Casualty Statements of Actuarial Opinion. We appreciate the CATF's response to issues raised by our group and the insurance industry concerning the prior drafts of proposed revisions.

We respectfully submit our comments and continued concerns on the revised April 16, 2002 draft of the Instructions for the Statement of Actuarial Opinion to the Actuarial Opinion Instructions Working Group (Working Group) of the Casualty Actuarial Task Force (CATF).

Instruction 4

This draft of the instruction continues to require that disclosures about audits and general representations from company officials be attached to the Statement of Actuarial Opinion. In requesting a statement from the company officer(s) responsible for the data base the actuary relied on, the Working Group appears to be requesting very high level assurances from company systems officers, who may be very remote from the actuarial opinion process, regarding the data base from which the actuarial review data was extracted. We do not expect that this new requirement will have any significant impact on the quality of data underlying the financial statement or the actuarial opinion. We further believe that this requirement is duplicative since Company representatives already sign the Jurat page of the Annual Statement attesting that it is a full and true statement. The requirement merely adds to the administrative

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

burden of the company and potentially raises the additional administrative issues noted in our April 29 letter.

We remain somewhat confused regarding the Working Group's expectations as to the process and as to who would sign the required statement, beyond those who sign the Jurat page, in cases where the appointed actuary is an employee of the company. In these instances, the actuary usually will have prepared the data him/herself or will have drawn the data from a potentially wide range of business units within the company. Is it expected that the opining actuary will also sign the data representation in some instances? Having a long list of business unit personnel who provided data to the opining actuary sign the representation does not appear to be a desired or practical occurrence.

We continue to strongly recommend this instruction be deleted and that any remaining regulatory concerns regarding the quality of data in Schedule P or the actuary's analysis be addressed directly through specific new audit requirements.

Instruction 6

Instruction 6(a) contains a new requirement instructing the actuary to state "*whether or not he or she believes that there are significant risks and uncertainties that could result in material adverse deviation.*" This differs in two ways from ASOP 36, which requires such disclosure **when** the actuary **reasonably** believes that there **are** significant risks and uncertainties that could result in material adverse deviation (emphasis added). Deleting the word "reasonably" lowers the bar for disclosure, and requiring an explicit statement in situations where there is no significant risk may inappropriately leave the reader with the impression that material adverse deviation will not occur. As such, we believe the current instructions will likely result in the inclusion of a "boilerplate" disclosure in almost every opinion. The more boilerplate language actuaries include in opinions, the less we differentiate situations that really need disclosure. We recommend that the instructions be reworded to be consistent with ASOP 36.

We also note that ASOP 36 was specifically worded so that readers would be more likely to receive meaningful comments when the actuary is concerned about significant risks and uncertainties that could result in material adverse deviation. It has now been in effect for only two Annual Statement cycles. We would urge that its enforcement continue to be pressed and that its performance continue to be tested rather than change its wording so soon after introduction.

We would suggest that materiality be disclosed as either a dollar amount or such other measure as the actuary deems appropriate. Dollar amounts alone may imply an inappropriately simplistic approach or may provide less information than should be conveyed. For example, a small dollar amount may be material if it, for example, crosses an RBC trigger. Both readers of the Opinion as well as practitioners need to focus on specific circumstances of the company in determining and discussing materiality.

We continue to believe that the requirements of item (b) in this instruction stating that the actuary should address the items in Exhibit B-Other Disclosures individually should be amended to require discussion only if these items are material. We continue to believe that requiring the discussion of a list of undifferentiated disclosure items makes it much harder for the reader of the opinion to determine if what the actuary is discussing is material to the reserve adequacy. It makes discussion of meaningful risks and issues harder for the reader to find and follow. If the Working Group is concerned that the company may have recorded immaterial reserves in instances where the exposure is material, the Working Group might consider adding a sentence to the instructions along the lines of "It will be presumed that lack of

comment on any of the items in Exhibit B indicates that the company has recorded an immaterial amount and that the actuary has reviewed the company's exposure sufficiently to confirm that it is not material."

We note that the layout of Exhibit B makes it relatively easy for the regulator to determine whether an item is or is not material, at least on a net basis.

Section (c) of this Instruction requires comments on retroactive and financial reinsurance. We likewise recommend that a discussion be required only if amounts are material.

On an editorial basis, the Working Group may wish to cite the line items in Exhibit B on which it requires discussion on. The current instruction 6(b), by requiring description of the significance of each of the remaining items in Exhibit B, sweeps in the Surplus line item. We are not sure what comments the actuary would make regarding surplus.

Instruction 7

We believe it would be advisable to take this opportunity to make the wording in the definition of Actuarial Report and instructions for the report more precise. The definition contains language that the actuary will assure that parties to the report understand the significance of its conclusions. Instruction 7 indicates that the actuary must assure the regulator that the report will be maintained for inspection for seven years. The actuary can provide information in both cases, but cannot necessarily ensure understanding or control the retention or availability of the report.

Instruction 9

COPLFR continues to recommend that regulators pursue a model law to assure the confidentiality of the Actuarial Report, and codify protections for actuaries acting in good faith. We believe this would make a significant contribution to discussions of the nature and degree of risk in the reserves recorded by the company and factors materially affecting reserves.

COPLFR appreciates the opportunity to provide these comments. The Committee and its individual members devote considerable professional time to the statutory Statement of Actuarial Opinion, and are committed to an Opinion process that satisfies all users of the Opinion—the company, its Board, the regulators and the public. As such we remain concerned that revision of the instructions for this important document must be thoroughly explored in order to avoid unintended and undesired consequences. As noted previously, we would be pleased to meet with the CATF to further explore ways to accomplish its objectives.

Very truly yours,

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