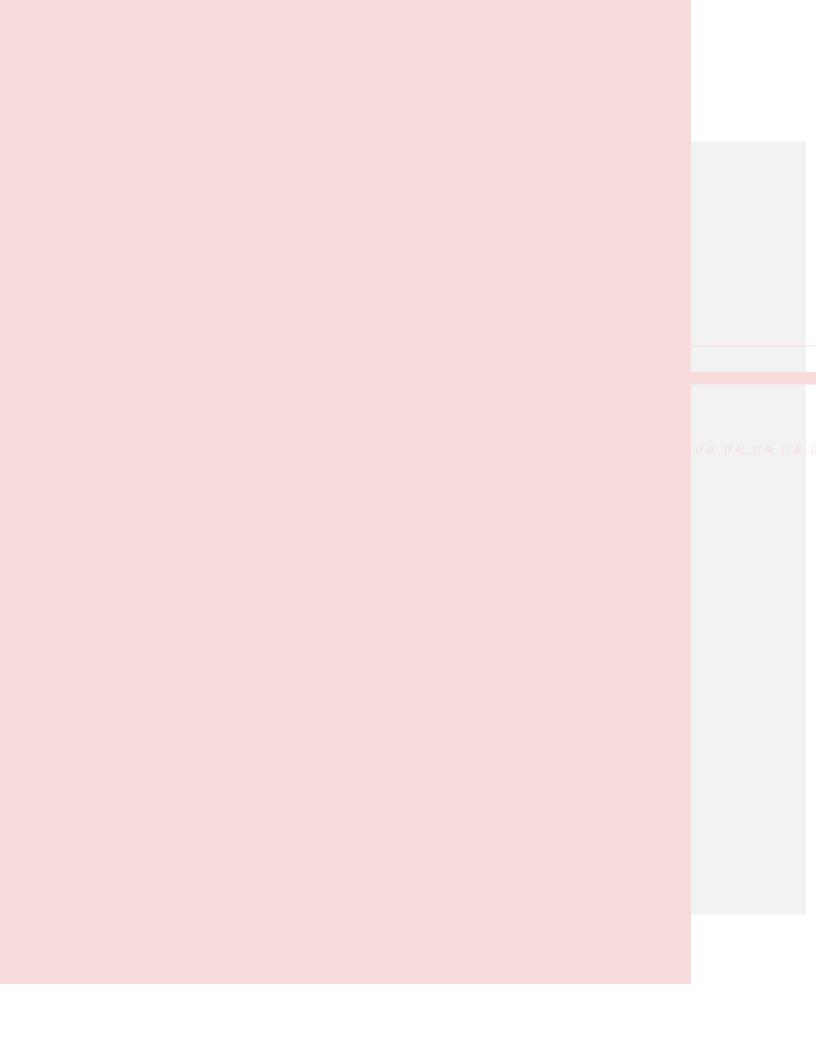
REGULATORY GUIDANCE on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year $\frac{2023}{2024}$

Prepared by the NATC Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force

The NAIC Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force believes that the



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I. General Comments

A. Reconciliation Between Documents

If there are any differences between the values reported in the Statement of Actuarial Opinion (SAO), Actuarial Opinion Summary (AOS), Actuarial Report, and annual statement, the Actuarial Opinion (C) Working Group expects Appointed

the time the Appointed Actuary concludes the analysis. For instance, the Appointed Actuary's analysis may go through several iterations, and an insurer's comments on the Appointed Actuary's draft Actuarial Report may prompt the Appointed Actuary to make changes to the report. While state insurance regulators are interested in material disagreements regarding differences between the former Appointed Actuary's final estimates and the insurer's carried reserves, they do not expect notification on routine discussions that occur during the course of the Appointed Actuary's work.

E. Reporting to the Board of Directors

The Appointed Actuary is required to report to the insurer's Board of <u>Directors</u> every year, and the Instructions were amended in 2016 to require that the Beard's-minutes of the Board of <u>Directors</u> specify the manner in which the Appointed Actuary presents the required information. This may be done in a form of the Appointed Actuary's choosing, including, but not limited to, an executive summary or PowerPoint presentation. The Working Group strongly encourages the Appointed Actuary to present his or her analysis in person so the risks and uncertainties that underlie the exposures and the significance of the Appointed Actuary's findings can be adequately conveyed and discussed. Regardless of how the Appointed Actuary presents his or her conclusions, the Actuarial Report must be made available to the Board.

Management is limited to reporting single values on lines 1 and 3 of the Liabilities, Surplus, and Other Funds page of the balance sheet. However, actuarial estimates are uncertain by nature, and point estimates do not convey the variability in the projections. Therefore, the Board of Directors should be made aware of the Appointed Actuary's opinion regarding the risk of material adverse deviation, the sources of risk, and what amount of adverse deviation the Appointed Actuary judges to be material.

F. Requirements for Pooled Companies

Effective with the 2014 Instructions, requirements for companies that participate in intercompany pools are as follows:

For all intercompany pooling members:

- x Text of the SAO should include the following:
 - o Description of the pool.
 - o Identification of the lead company.
 - o A listing of all companies in the pool, their state of domicile, and their respective pooling percentages.
- x Exhibits A and B should represent the company's share of the pool and reconcile to the financial statement for that company.

For intercompany pooling members with a 0% share of the pooled reserves:

- x Text of the SAO should be similar to that of the lead company.
- x Exhibits A and B should reflect the 0% company's value.
 - o Response to Exhibit B, Item 5 (materiality standard) should be \$0.
 - o Response to Exhibit B, Item 6 (risk of material adverse deviation) should be "not applicable."
- x Exhibits A and B of the lead company should be filed with the 0% company's SAO.
- $x \quad \mbox{Information presented in the AOS should be that of the lead company.}$

Note the distinction between pooling with a 100% lead company with no retrocession and ceding 100% via a quota share reinsurance agreement. The state insurance regulator must approve these affiliate agreements as either an intercompany pooling arrangement or a quota share reinsurance agreement. The proper financial reporting is dependent on the approved filings, regardless of how company management regards its operating platform.

For intercompany pooling members with a greater than 0% share of the pooled reserves, state insurance regulators encourage the Appointed Actuary to display values in the AOS on a pooled (or consolidated) basis in addition to the statutory entity basis. This can be accomplished by displaying two tables of information.

G. Explanation of Adverse Development

1.

The Appointed Actuary is required to provide comments in the SAO on factors that led to unusual values for Insurance Regulatory Information System (IRIS) ratios 11, 12, or 13. The Working Group considers it insufficient to attribute unusual reserve development to "reserve strengthening" or "adverse development," and it expects the Appointed Actuary to provide insight into the company-specific factors that caused the unusual value. Detailed

B-C. Making Use of Another's Work

1. Schedule P Reconciliation

The Working Group acknowledges that myriad circumstances (e.g., mergers, acquisitions, changes in claim systems,

2. Change in Estimates

The Working Group expects the Appointed Actuary to discuss any significant change in the Appointed Actuary's total estimates from the prior Actuarial Report. However, an explanation should also be included for any significant fluctuations within accident years or segments. When preparing the change-in-estimates exhibits, the Appointed Actuary should choose a level of granularity that provides meaningful comparisons between the prior and current year's results.

3. Narrative

The narrative section of the Actuarial Report should clearly convey the significance of the Appointed Actuary's findings and conclusions, the uncertainty in the estimates, and any differences between the Appointed Actuary's estimates and the carried reserves.

4. Support for Assumptions

Appointed Actuaries should support their assumptions. The

- x A desire by state insurance regulators to gain a greater understanding of P/C insurers' exposure to
 - A&H long-duration contracts.

 This guidance does not specify how P/C insurers should report the liabilities associated with A&H long-duration contracts on the annual statement. Through work performed on financial examinations, state insurance regulators have found that P/C insurers may include the liabilities in various line items of the

Not all states have enacted the NAIC Property and Casualty Actuarial Opinion Model La#745), which requires the AOS to be filed. Nevertheless, the Working Group recommends that the Appointed Actuary prepare the AOS regardless

3. I am a member of [professional actuarial association] that requires adherence to the same Code of Professional 14