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**MEMORANDUM**

**TO:** Steve Alpert, President, American Academy of Actuaries  
(Sent via e-mail to Mary Downs, Executive Director, downs@actuary.org)

Brian Z. Brown, President, Casualty Actuarial Society  
(Sent via e-mail to Cynthia R. Ziegler, Executive Director, cziegler@casact.org)

Mike Lombardi, President, Society of Actuaries  
(Sent via e-mail to Greg Heidrich, Executive Director, gheidrich@soa.org)

**FROM:**

Statement of Actuarial Opinion Instructions  
Definition of a Qualified Actuary

proposed definition to be  
included in Section 1A. Definitions of the Actuarial Opinion instructions for Statements of Actuarial Opinion:

1A. Definitions

- (i) meets the basic education, experience and continuing education requirements of the Specific Qualification Standard for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statement, as set forth in the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (U.S. Qualification Standards)*, promulgated by the American Academy of Actuaries (Academy); and
- (ii) has obtained an actuarial designation approved by the NAIC minimum property/casualty actuarial educational standards; and
- (iii) has sufficient experience and knowledge to understand reserving and business activities; and
- (iv) is a member of a professional actuarial association subject to the same *Code of Conduct* promulgated by the Academy, the *U.S. Qualification Standards*, and the Actuarial Board for Counseling and Discipline when practicing in the U.S.

determined to be a Qualified Actuary for particular lines of business and business activities. Should a person qualify under this alternate route, the actuary must attach a copy of the approval letter from the Academy to the Actuarial Opinion each year.

Note: This definition contemplates the Academy will revise the U.S. Qualification Standards in line with the NAIC instructions.

## Proposed Changes to the Statement of Actuarial Opinion Instructions

The following is a draft of potential changes to the Actuarial Opinion instructions for Statements of Actuarial Opinion

requirements for an Attestation requirement to be decided by the Casualty Actuarial and Statistical (C) Task Force, which will be consistent with the revised working definition of a qualified actuary.

This proposal will continue to be modified with expectation of adoption for Statements of Actuarial Opinion filed on 2019 annual financial statements.

### **ACTUARIAL OPINION**

#### 1A. Definitions

- (i) meets the basic education, experience and continuing education requirements of the Specific Qualification Standard for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statement, as set forth in the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States (U.S. Qualification Standards)*, promulgated by the American Academy of Actuaries (Academy); and
- (ii) has obtained an actuarial designation approved by the NAIC as meeting or minimum property/casualty actuarial educational standards; and
- (iii) and business activities; and
- (iv) is a member of a professional actuarial association subject to the same *Code of Conduct* promulgated by the Academy, the *U.S. Qualification Standards*, and the Actuarial Board for Counseling and Discipline when practicing in the U.S.

An exception to this definition would be a person evaluated by the determined to be a Qualified Actuary for particular lines of business and business activities. Should a person qualify under this alternate route, the actuary must attach a copy of the approval letter from the Academy to the Actuarial Opinion each year.

#### 3. Identification Paragraph

M  
O for Other

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## **11. Attestation and Supporting Documentation**

*-----Attestation requirements are currently being redrafted by the Casualty Actuarial and Statistical (C) Task Force.*

**NAIC Educational Standards**  
**Appointed Actuary “Knowledge Statements”**

Insurance regulators rely on expert actuarial opinions provided by Appointed Actuaries. Given the actuarial profession is self-regulated in the U.S., the state insurance regulators believe it important to establish minimum expectations of basic education for actuaries who are being relied upon by regulators.

The following are the Knowledge Statements grouped by educational domain. For each Knowledge Statement, the Educational Standard will be developed to explain the depth of knowledge needed to be included in basic education and any additional knowledge that is expected to be learned outside of basic education through experience and/or continuing education.

The overall assessment of whether professional actuarial designations are sufficient support for achievement of the Educational Standards will be reflected in

6. The impact of changes in underwriting, mix of business, or target market on claims' experience (e.g., classifications, underwriting variables, guidelines, growth, profitability, staffing, programs, appetite, rate changes)
7. Rating plans (e.g., individual risk rating, class rating, experience rating, retrospective rating, participating policies, judgment rating, schedule rating), and the impact of changes therein.
8. Risks specific to the business (e.g., mass tort potential, latent exposures, new coverages, emerging risk, bad faith, extra contractual obligations, long duration contracts, potential for salvage and subrogation)
9. Claims experience changes when considering organizational, operational and marketing differences (e.g., stock, mutual, direct, agency, captives, risk retention groups, voluntary and involuntary pools, use of third party administrators, target markets, distribution channels, sales incentives, competitors)

### **C. Reinsurance**

The Appointed Actuary must be able to assess the effect of reinsurance on the reserves for which the Appointed Actuary is opining, along with the associated risks and uncertainties. The Appointed Actuary must understand the

4. Key activities in the claims handling process (e.g., claims' investigations, claims' documentation, cause of loss determination, liability, loss amount, claim conclusion, procedures, staffing or outsourcing, controls on timing and amounts of case investigations, case reserves and payments, diary dates, claims audit involvement, information flows from claims to accounting/actuarial sources)
5. Processes used by the company for handling and managing claims in various lines and classes of business
6. The effects of changes in claims handling on the reserve analysis
7. IT environment (e.g., exposure, premium and loss reporting, claim count data, claim closing, report dates, year-end closing date, claim p

32.



17. Meaning of "significant" and "material" considering users' needs for the purposes of determining Risk of Material Adverse Deviation (RMAD)
18. Understand the causes and drivers of loss and LAE development
- 19.

## Educational Standards and Assessment Project

### Potential Action Plan

The following is a potential action plan for development of Educational Standards, for assessment of the CAS and SOA P/C actuarial educational programs, and for final adoption of revisions to the Statement of Actuarial Opinion Instructions. The NAIC would like to discuss the plan with the actuarial organizations and agree to workable timelines.

#### **Participants**

The NAIC ad hoc group of Commissioners will continue to oversee the development of Educational Standards and the Assessment and will determine the final proposal to the Executive (EX) Committee for adoption.

The NAIC will establish groups of actuaries with the following stated minimum responsibilities:

- 1) The actuarial associations will nominate Subject Matter Experts (SMEs) and the NAIC will select SMEs and regulators to participate in the process.
- 2) The NAIC will establish SME Subgroups - a group of 25 to 30 SMEs will be paired-up and each pair assigned a set of 5-10 related Knowledge Statements. The SME Subgroups will meet via conference call.
- 3) The NAIC will establish a Focus Group - a group of 5 members. The Focus Group will oversee all of the SME Subgroups and be the decision makers on what to present to the NAIC, when needed. The Focus Group will conduct some work via conference call and hold up to 5 meetings in person.
- 4) As the current U.S. educational societies, the CAS and SOA will be asked to participate in multiple steps.

#### **Educational Standards and Assessment**

The following is the action plan for development of Educational Standards and the Assessment:

- A. Evaluate Knowledge Statements and propose any revised wording.
- B. Propose draft Educational Standards.
- C. Evaluate the proposed draft Educational Standards and create the final Educational Standards to use in the Assessment process.
- D. Map the CAS and SOA educational content (reading materials, etc.) to each Knowledge Statement and Educational Standard
- E. Assess the CAS and SOA educational content for each Educational Standard.
- F. Produce an over-minimum standards.

The following provides details of the action plan for development of Educational Standards and the Assessment and includes potential deadlines for each step:

- A. Evaluate Knowledge Statements and propose any revised wording.
  - 1) Who:
    - i) The SME Subgroups will evaluate the Knowledge Statements to propose any revised wording, considering any suggested changes made via Feb. 12 comment letters. [April 30]
    - ii) The NAIC will decide the final Knowledge Statements. [May 15]
  - 2) Why: This is being done because the drafting process in the job analysis project did not include time to wordsmith the Knowledge Statements.
- B. Propose Educational Standards.



2) Process:

- i. Evaluate the study materials provided by the CAS and SOA to provide the assessments as to whether the Educational Standard is met.  
Where only part of the Educational Standard is met, such will be documented.
- ii. Document the draft assessment results for NAIC approval.
- iii. Discuss draft assessment results with the CAS and SOA, individually, allowing the CAS and SOA to provide written comments.
- iv. The CAS and SOA should inform the Focus Group if and how the organization will rectify any deficiency as identified in the assessment.

If the deficiency is rectified using the approved materials of the other 5(r)- 3k4ah415(et)-5(y)