



## ACTUARIAL STANDARDS BOARD

---

● EXPOSURE DRAFT ●

Proposed Revision of  
Actuarial Standard of Practice No. 36

**Statements of Actuarial Opinion Regarding  
Property/Casualty Loss and Loss Adjustment Expense Reserves**

**Comment Deadline:  
June 15, 2009**

**Developed by the  
Subcommittee on Reserving of the  
Casualty Committee of the  
Actuarial Standards Board**

**Approved for Exposure by the  
Actuarial Standards Board  
March 2009**

---

**TABLE OF CONTENTS**

Transmittal Memorandum	iv
<b>STANDARD OF PRACTICE</b>	
Section 1. Purpose, Scope, Cross References, and Effective Date	1
1.1 Purpose	1
1.2 Scope	1
1.3 Cross References	2
1.4 Effective Date	2
Section 2. Definitions	2
2.1 Accounting Date	2
2.2 Coverage	2
2.3 Event	2
2.4 Loss	2
2.5 Loss Adjustment Expense	2
2.6 Present Value	2
2.7 Reserve	2
2.8 Reserve Analysis	2
2.9 Review Date	2
2.10 Risk Margin	2
2.11 Unpaid Claim Estimate	2
2.12 Unpaid Claim Estimate Analysis	2
2.13 Valuation Date	2
Section 3. Analysis of Issues and Recommended Practices	2
3.1 Legal and Regulatory Requirements	2
3.2 Purpose of the Statement of Actuarial Opinion	2
3.3 Reserves Being Opined Upon	2
3.4 Description of the Reserves Being Opined Upon	2
3.5 Scope of the Analysis Underlying the Statement of Actuarial Opinion	3
3.6 Materiality	3
3.7 Reserve Analysis	3
3.7.1 Opinion Based on the Actuary’s Unpaid Claim Estimates	4
3.7.2 Opinion Based on the Actuary’s Review of Existing Reserve Opinion	4
3.8 Reliance on Others	4
3.8.1 Reliance on Others for Supporting Analyses	4
3.8.2 Reliance on Opinions of Other Actuaries	4
3.9 Prior Opinion	4
3.10 Adverse Deviation	5
3.11 Reinsurance Ceded	5
3.11.1 Collectibility	5
3.11.2 Risk Transfer Requirements	5
3.12 Types of Statements of Actuarial Opinion	5

**EXPOSURE DRAFT—March 2009**

3.13	Documentation	6
Section 4. Communications and Disclosures		6
4.1	Actuarial Communication	6
4.2	Additional Disclosures	7
4.3	Deviation from Standard	9

**APPENDIX**

Appendix—Background and Current Practices		10
	Background	10
	Current Practices	10

**EXPOSURE DRAFT—March 2009**

March 2009

**TO:** Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves

**FROM:** Actuarial Standards Board (ASB)

**SUBJ:** Proposed Revision of Actuarial Standard of Practice (ASOP) No. 36

This document is an exposure draft of a proposed revision of ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*.

Please review this exposure draft and give the ASB the benefit of your comments and suggestions related to the proposed changes. Each written response and each response sent by e-mail to the address below will be acknowledged, and all responses will receive appropriate consideration by the drafting committee in preparing the final document for approval by the ASB.

The ASB accepts comments by either electronic or conventional mail. The preferred form is e-mail, as it eases the task of grouping comments by section. However, please feel free to use either form. If you wish to use e-mail, please send a message to **comments@actuary.org**. You may include your comments either in the body of the message or as an attachment prepared in any commonly used word processing format. **Please do not password protect any attachments.** Include the phrase “ASB COMMENTS” in the subject line of your message. Please note: Any message not containing this exact phrase in the subject line will be deleted by our system’s spam filter.

If you wish to use conventional mail, please send comments to the following address:

ASOP No. 36 Revision  
Actuarial Standards Board  
1850 M Street, Third Floor  
Washington, DC 20036

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Unsigned or anonymous comments will not be considered by the ASB nor posted to the website. The comments will not be edited, amended, or truncated in any way. Comments will be posted in the order that they are received. Comments will be removed when final action on a proposed standard is taken. The ASB website is a public website and all comments will be available to the general public. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

## **EXPOSURE DRAFT—March 2009**

This standard uses the deviation language adopted by the ASB in September 2008. However the deviation language makes reference to ASOP No. 41, *Actuarial Communications*, which is currently being revised. This language will be made final when the revised ASOP No. 41 is adopted.

**Deadline** for receipt of responses in the ASB office: **June 15, 2009**

### Background

In March 2000, the Actuarial Standards Board adopted ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*. This standard provides guidance to actuaries when issuing specific types of Statements of Actuarial Opinion.

ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*, was adopted by the Actuarial Standards Board in June 2007. This standard provides guidance to actuaries regarding the estimation of unpaid claims, both when such estimates are performed to support a Statement of Actuarial Opinion covered by ASOP No. 36 and in other circumstances.

Actuaries providing a Statement of Actuarial Opinion covered by the current version of ASOP No. 36 are guided by both ASOP No. 36 and ASOP No. 43. In some cases, the guidance is redundant. In other cases, the language in the two documents is unclear when viewed as a whole, as terms and concepts may not be covered in a consistent manner. In order to mitigate such redundant or unclear guidance, a subcommittee was formed to rewrite ASOP No. 36.

The primary goal of the subcommittee was to eliminate any redundant guidance and language that exists between ASOP Nos. 36 and 43. A further goal was to maintain consistency between ASOP Nos. 36 and 43 and, in order to maintain this consistency, to clarify and provide further guidance within ASOP No. 36, if necessary.

### Request for Comments

The subcommittee appreciates comments on all areas of this proposed ASOP and would like to draw the readers' attention to the following areas in particular:

1. Is the guidance provided in this proposed standard sufficiently clear? (Where concerns arise with the clarity, please be specific as to the exact paragraph where the issue arises.)
2. The current version of ASOP No. 36 includes within its scope any opinion "represented by the actuary as a statement of actuarial opinion." In light of the revised Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States effective January 1, 2008, some work products are now explicitly identified by actuaries as "actuarial opinions" that in the past would not have been. The revised ASOP No. 36 is intended to apply only in the same limited scope as the current ASOP No. 36, and section

**EXPOSURE DRAFT—March 2009**

- 1.2 was amended to clarify this. Is the scope of this standard clear? Is it clear that not all work products produced in compliance with ASOP No. 43 require an opinion in compliance with ASOP No. 36?
3. The proposed language requires the actuary to disclose in the Statement of Actuarial Opinion all of the scope items listed in sections 3.3, 3.4, and 3.5. Are such disclosure requirements appropriate? Should any of these requirements be relaxed, or should any others be added?
  4. Section 4.2 of the current version of ASOP No. 36 includes language stating, “if the actuary claims reliance on the work of others and does not take responsibility for such work, the actuary should include a disclosure in the opinion that describes the work of others and the extent to which such others’ work was used in forming the opinion.” This language was deleted. Under section 3.8 of the proposed ASOP, the actuary who issues a statement of actuarial opinion assumes responsibility for it except in circumstances where the actuary relies on another actuary’s opinion. Is this change appropriate? Is the guidance in section 3.8, Reliance on Others, sufficiently clear?
  5. Sections 3.5, Reserve Analysis; 3.6, Uncertainty; and 3.7, Reinsurance Ceded, in the current version of the standard were significantly changed. Some of the material was viewed as educational and therefore inappropriate for a standard. The remainder of the deleted material was considered to be covered by ASOP No. 43. As an example of material deleted because it was viewed as educational, see the second paragraph of section 3.5.2 of the current standard, which discusses the actuary’s consideration of exposure when conducting a reserve analysis. Are there any items from these sections that are not sufficiently covered in ASOP No. 43? Is it sufficiently clear that the actuary must be guided by ASOP No. 43 when issuing a Statement of Actuarial Opinion consistent with this standard?
  6. The guidance in the current ASOP No. 36 suggests the use of one or more expected value estimates to assess the reasonableness of reserves. The proposed ASOP No. 36 requires the actuary to identify the intended measure of the reserves, which may depend on regulatory or accounting requirements. Is this guidance clear and appropriate?

**EXPOSURE DRAFT—March 2009**

Subcommittee on Reserving of the Casualty Committee

Raji Bhagavatula, Chairperson

Ralph S. Blanchard	Mary Frances Miller
Daniel K. Lyons	Chandrakant C. Patel
Richard J. Marcks	David S. Powell
Kevin C. McAllister	Jason L. Russ

Casualty Committee of the ASB

Patrick B. Woods, Chairperson

Steven Armstrong	Claus S. Metzner
Raji Bhagavatula	David J. Otto
Beth Fitzgerald	Alfred O. Weller
Bertram A. Horowitz	

Actuarial Standards Board

Stephen G. Kellison, Chairperson

Albert J. Beer	Robert G. Meilander
Alan D. Ford	James J. Murphy
Patrick J. Grannan	Godfrey Perrott
David R. Kass	James F. Verlautz

*The ASB establishes and improves standards of actuarial practice. These ASOPs identify what the actuary should consider, document, and disclose when performing an actuarial assignment. The ASB's goal is to set standards for appropriate practice for the U.S.*

**PROPOSED REVISION OF ACTUARIAL STANDARD OF PRACTICE NO. 36**

**STATEMENTS OF ACTUARIAL OPINION  
REGARDING PROPERTY/CASUALTY  
LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES**

**STANDARD OF PRACTICE**

Section 1. Purpose, Scope, Cross References, and Effective Date

- 1.1 Purpose—The purpose of this actuarial standard of practice (ASOP) is to provide guidance to the actuary in issuing a written statement of actuarial opinion regarding property/casualty loss and loss adjustment expense reserves.
- 1.2 Scope—This standard applies to actuaries when providing written statements of actuarial opinion with respect to loss and loss adjustment expense reserves of insurance or reinsurance companies and other property/casualty risk financing systems, such as self-insurance, that provide similar coverages, under one of the following circumstances:
- a. the statement of actuarial opinion is prepared to comply with NAIC Property and Casualty Annual Statement instructions, or
  - b. the statement of actuarial opinion is otherwise prescribed by law or regulation, or
  - c. the statement of actuarial opinion is represented by the actuary as being in compliance with this standard.

References in the standard to *insurance*, *reinsurance*, or *self-insurance* should be interpreted to include risk financing systems that provide for risk retention in lieu of risk transfer. This standard does not apply to statements of actuarial opinion subject to ASOP No. 22, *Statutory Statements of Opinion Based on Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers*, or Actuarial Compliance Guideline No. 4, *Statutory Statements of Opinion Not Including an Asset Adequacy Analysis by Appointed Actuaries for Life or Health Insurers*.

If the actuary's statement of actuarial opinion includes an opinion regarding amounts for items other than loss and loss adjustment expense reserves, this standard applies only to the portion of the statement of actuarial opinion that relates to loss and loss adjustment expense reserves.

If the actuary is providing a statement of actuarial opinion for discounted loss and loss adjustment expense reserves, the actuary should be guided by both this standard and

## EXPOSURE DRAFT—March 2009

ASOP No. 20, *Discounting of Property and Casualty Loss and Loss Adjustment Expense Reserves*.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority) or for any other reason the actuary deems appropriate, the actuary should refer to section 4.3.

- 1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.
- 1.4 Effective Date—This standard is effective for all statements of actuarial opinion regarding loss and loss adjustment expense reserves rendered on or after four months after adoption by the Actuarial Standards Board.

### Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice.

- 2.1 Accounting Date—The date used to separate paid versus unpaid claim amounts.
- 2.2 Coverage—The terms and conditions of a plan or contract, or the requirements of applicable law, that create an obligation for claim payment associated with contingent events.
- 2.3 Event—The incident or activity that triggers potential for claim or claim adjustment expense payment.
- 2.4 Loss—The cost that is associated with an event that has taken place and that is subject to coverage; also known as *claim amount*.
- 2.5 Loss Adjustment Expense—The costs of administering, determining coverage for, settling, or defending claims even if it is ultimately determined that the claim is invalid; also known as *claim adjustment expense*.
- 2.6 Present Value—The value at a point in time of cash flows at other points in time, calculated at selected interest rates; also known as *discounted present value* or *discounted value*.
- 2.7 Reserve—A provision to satisfy obligations as of a specified date.
- 2.8 Reserve Analysis—The process of evaluating the reasonableness of a reserve.

## EXPOSURE DRAFT—March 2009

- 2.9 Review Date—The cutoff date for including information known to the actuary in the unpaid claim estimate analysis.
- 2.10 Risk Margin—An amount that recognizes uncertainty; also known as a *provision for uncertainty*.
- 2.11 Unpaid Claim Estimate—The actuary’s estimate of the obligation for future payment resulting from claims due to past events. Any reference to “unpaid claims” in this standard includes losses, loss adjustment expenses, or both.
- 2.12 Unpaid Claim Estimate Analysis—The process of developing an unpaid claim estimate.
- 2.13 Valuation Date—The date through which transactions are included in the data used in the unpaid claim estimate analysis.

### Section 3. Analysis of Issues and Recommended Practices

- 3.1 Legal and Regulatory Requirements—When an actuary prepares a statement of actuarial opinion to satisfy the requirements of law or regulation, the actuary should have the necessary knowledge to comply with the specific requirements of that law or regulation. The actuary should make a reasonable effort to consider the relevant generally distributed interpretations by governing regulatory authorities.
- 3.2 Purpose of the Statement of Actuarial Opinion—The actuary should identify the intended purpose of the statement of actuarial opinion. For example, the intended purpose may be to satisfy the requirements for such an opinion under the Annual Statement instructions, or to provide an opinion in a situation where another actuary has already issued an opinion.
- 3.3 Reserves Being Opined Upon—The actuary should identify the following regarding the reserves being opined upon:
- a. the reserve amount(s); and
  - b. the accounting date.
- 3.4 Description of the Reserves Being Opined Upon—The actuary should identify what the reserves represent, which may depend upon regulatory or accounting requirements. This includes the following:
- a. the intended measure of the reserves (guidance on intended measures is found in ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*, section 3.3(a));
  - b. whether the reserves are gross or net of specified recoverables (or both gross and net of specified recoverables);

## **EXPOSURE DRAFT—March 2009**

- c. whether and to what extent the reserves reflect collectibility risk, when recoverables are involved;
- d. the specific types of unpaid loss adjustment expenses covered by the reserve (for example, coverage dispute costs, defense costs, and adjusting costs);
- e. the claims to be covered by the reserve (for example, type of loss, line of business, year, and state); and
- f. any other items that, in the actuary's professional judgment, are needed to describe the reserves sufficiently.

3.5 Scope of the Analysis Underlying the Statement of Actuarial Opinion—The actuary should identify the scope of the analysis upon which the opinion is based. This includes the following:

- a. the valuation date of the data that underlies the actuary's analysis;
- b. the review date of the actuary's analysis;
- c. if separate reserve amounts for different reserve items, such as losses and loss adjustment expenses, are disclosed in the statement of actuarial opinion, whether the actuary's opinion applies to those items in the aggregate or individually; and
- d. any other items that, in the actuary's professional judgment, are needed to describe the scope of the actuary's analysis sufficiently.

3.6 Materiality—The actuary should evaluate materiality based on the actuary's professional judgment, any applicable materiality guidelines or standards, and the intended purpose for which the actuary is preparing the statement of actuarial opinion.

The actuary should understand which financial values are usually important to the intended users of the statement of actuarial opinion and how those financial values are likely to be affected by changes in the reserves and future payments for losses and loss adjustment expenses. For example, for a statement of actuarial opinion for an insurance company to be used for financial reporting to insurance regulators, materiality might be evaluated in terms of the company's reported reserves or statutory surplus.

3.7 Reserve Analysis—In evaluating the reasonableness of a reserve, the actuary may develop estimates of the unpaid claims or may review another actuary's opinion on the reserve. The actuary should consider a reserve to be reasonable if it is within a range of estimates that could be produced by an analysis that is, in the actuary's professional judgment, consistent with both ASOP No. 43 and the description of the reserves subject to the statement of actuarial opinion.

## EXPOSURE DRAFT—March 2009

3.7.1 Opinion Based on Actuary's Unpaid Claim Estimates—When developing unpaid claim estimates to evaluate the reasonableness of a reserve, the actuary may develop a point estimate, a range of estimates, or both. The actuary should be guided by ASOP No. 43 for the development of these unpaid claim estimates.

3.7.2 Opinion Based on Actuary's Review of Existing Reserve Opinion—When an actuary's work involves reviewing the opinion and supporting analyses of another actuary in order to render an opinion on the reserves, the intended purpose of the reviewed opinion should be clearly understood by the reviewing actuary.

The reviewing actuary should assess the reasonableness of the data underlying the actuarial analyses and should evaluate the appropriateness of the methods and assumptions, with consideration of the intended purpose of the reviewing actuary's opinion. The reviewing actuary need not perform additional actuarial analysis if, in the opinion of that actuary, the reviewed actuarial analyses are sufficient for the reviewing actuary's purposes. Where, in the opinion of the reviewing actuary, the reviewed analyses need to be modified or expanded, the reviewing actuary should perform such analyses as necessary to render an opinion.

If the conclusions reached by the reviewing actuary differ materially from those of the reviewed actuary, the reviewing actuary should, when practical, contact the reviewed actuary to discuss the differences. Where material differences exist, the issues underlying the differences should be understood by the reviewing actuary.

3.8 Reliance on Others—In the course of conducting a reserve analysis, the actuary may rely on the supporting analyses or opinions of others.

3.8.1 Reliance on Others for Supporting Analyses—The actuary who issues the statement of actuarial opinion assumes responsibility for it, except to the extent the opinion indicates reliance on the opinions of other actuaries, as described in section 3.8.2. If the actuary makes use of other personnel to carry out assignments relative to analyses supporting the opinion, the actuary should review and comprehend such contributions and be satisfied that the analyses are reasonable.

3.8.2 Reliance on Opinions of Other Actuaries—In preparing a statement of actuarial opinion, an actuary may rely on and disclaim responsibility for the opinion of another actuary for a portion of the reserve if that opinion was prepared for a consistent purpose.

3.9 Prior Opinion—If the actuary prepared the most recent prior opinion, or if the actuary is able to review the prior opining actuary's work, then the actuary should determine whether the current assumptions, procedures, or methods differ from those employed in providing the most recent prior opinion prepared in accordance with this standard. If the current assumptions, procedures or methods differ from those employed in the prior

## **EXPOSURE DRAFT—March 2009**

opinion, the actuary should consider whether the changes are likely to have had a material effect on the actuary's unpaid claim estimate.

The use of assumptions, procedures, or methods for new reserve segments (for example, line of business or accident year) that differ from those used previously is not a change in assumptions, procedures, or methods within the meaning of this section. Similarly, when the determination of the reasonableness of reserves is based on the periodic updating of experience data, factors, or weights, such periodic updating is not a change in assumptions, procedures, or methods within the meaning of this section.

- 3.10 Adverse Deviation—The actuary should consider whether there is a significant risk that future paid amounts will be materially greater than those provided for in the reserves. When the actuary's analysis derives separate reserve estimates for various segments or claim groupings, the actuary should consider the combined risks and uncertainties associated with the reserves that are the subject of the opinion.
- 3.11 Reinsurance Ceded—The actuary should consider the following when addressing ceded reinsurance in statements of actuarial opinion that cover reserves net of reinsurance:
- 3.11.1 Collectibility—If the amount of ceded reinsurance is material, the actuary should consider the collectibility of ceded reinsurance in evaluating net reserves. The actuary should solicit information from management regarding collectibility problems, significant disputes with reinsurers, and practices regarding provisions for uncollectible reinsurance. The actuary's consideration of collectibility does not imply an opinion on the financial condition of any reinsurer.
- 3.11.2 Risk Transfer Requirements—This standard does not obligate the actuary to opine that the reserves are established in accordance with regulatory or accounting requirements regarding risk transfer in reinsurance contracts. However, if the actuary intends to address risk transfer requirements in the scope of the opinion, then the actuary should ascertain whether an adjustment to the unpaid claim estimates to meet such requirements is likely to have a material effect on the results of the actuary's reserve analysis.
- 3.12 Types of Statements of Actuarial Opinion—The statement of actuarial opinion should be made in accordance with one of the following sections:
- a. Determination of Reasonable Provision—The actuary should opine that the reserve amount makes a reasonable provision for the liabilities associated with the specified reserve when the reserve is found to be reasonable based on a) the actuary's unpaid claim estimate analysis (see section 3.7.1), or b) the actuary's review of another actuary's opinion (see section 3.7.2).
  - b. Determination of Deficient or Inadequate Provision—The actuary should opine that the reserve amount does not make a reasonable provision for the

## EXPOSURE DRAFT—March 2009

liabilities associated with the specified reserves when the reserve amount is less than the minimum amount that the actuary believes is reasonable. Furthermore, the actuary should determine the minimum amount that the actuary believes is reasonable. (See section 4.2(e) for related disclosure requirements.)

- c. **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. (See section 4.2(f) for related disclosure requirements.)
- d. **Qualified Opinion**—The actuary should issue a qualified statement of actuarial opinion when, in the actuary’s opinion, the reserves for a certain item or items are in question because they cannot be reasonably estimated or the actuary is unable to render an opinion on the reserves for those items. The actuary should determine whether the reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, *except for* the item or items to which the qualification relates. The actuary is not required to issue a qualified opinion if the actuary reasonably believes that the item or items in question are not likely to be material. (See section 4.2(g) for related disclosure requirements.)
- e. **No Opinion**—The actuary’s ability to give an opinion is dependent upon data, analyses, assumptions, and related information that are sufficient to support a conclusion. If the actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information, then the actuary may issue a statement of no opinion. A statement of no opinion should include a description of the reasons no opinion could be given.

- 3.13 **Documentation**—The actuary should consider the intended purpose of the statement of actuarial opinion when documenting work, and should refer to ASOP No. 41, *Actuarial Communications*.

### Section 4. Communications and Disclosures

- 4.1 **Actuarial Communication**—When issuing a statement of actuarial opinion subject to this standard, the actuary should consider the intended purpose of the statement of actuarial opinion and be guided by ASOP Nos. 23, *Data Quality*, and 41.

In addition, consistent with the intended purpose, the actuary should disclose the following in the statement of actuarial opinion:

## EXPOSURE DRAFT—March 2009

- a. the words *statement of actuarial opinion* in the title of the written opinion;
- b. the intended purpose of the statement of actuarial opinion, as described in section 3.2;
- c. the reserves being opined upon, as described in section 3.3;
- d. the description of the reserves being opined upon, as described in section 3.4;
- e. the scope of the analysis underlying the statement of actuarial opinion, as described in section 3.5;
- f. the intended user(s) of the statement of actuarial opinion;
- g. the type of opinion, as described in section 3.12; and
- h. whether or not the actuary reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation, as described in section 3.10, and the amount of adverse deviation that the actuary judges to be material with respect to the statement of actuarial opinion.

### 4.2 Additional Disclosures—In certain cases, consistent with the intended purpose, the actuary may need to make the following disclosures in addition to those in section 4.1:

- a. If the actuary relies on and disclaims responsibility for the opinion of another actuary, this reliance and disclaimer should be disclosed with a description and the amount of the relevant reserves to which the reliance applies. The actuary should also provide a description of the extent to which the actuary reviewed the other actuary's opinion and underlying analysis for reasonableness. If this reliance precludes or limits the actuary's ability to evaluate significant risks and uncertainties concerning material adverse deviation relating to the reserves, the actuary should disclose this limitation. (See section 3.8.2.)
- b. The actuary should disclose the nature of changes in assumptions, procedures or methods from those employed in the most recent prior opinion prepared in accordance with this standard, unless the actuary concludes the changes are not likely to have a material effect on the actuary's unpaid claim estimate. This standard does not require the actuary to quantify the impact of such changes. If the actuary cannot review the prior opining actuary's work, then the actuary should disclose that the prior assumptions, procedures and methods are unknown.
- c. If changes in accounting or processing procedures have significantly affected the consistency of the data used in the reserve analysis that the actuary believes are likely to have a material effect on the actuary's unpaid claim estimate, then the actuary should disclose the nature of such changes in accounting or processing

## **EXPOSURE DRAFT—March 2009**

procedures. This standard does not require the actuary to quantify the impact of such changes. If the actuary cannot make a judgment as to whether the change is likely to have a material effect on the actuary's unpaid claim estimate, then the actuary should disclose that there has been a change in accounting or processing procedures, the effect of which is unknown.

- d. If the scope of the opinion includes consideration of regulatory or accounting requirements regarding risk transfer in reinsurance contracts and if an adjustment to the unpaid claim estimates to satisfy such requirements is likely to have a material effect on the results of the actuary's reserve analysis, then the actuary should disclose the effect of the risk transfer requirements.
- e. If the actuary determines that the reserve amount is deficient or inadequate, the actuary should disclose the minimum amount that the actuary believes is reasonable.
- f. If the actuary determines that the reserve amount is redundant or excessive, the actuary should disclose the maximum amount that the actuary believes is reasonable.
- g. If the actuary issues a qualified opinion, the actuary should disclose in the opinion the item or items to which the qualification relates, the reasons for the qualification, and the amounts for such items, if disclosed by the entity, that are included in the reserve. If the amounts for such items are not disclosed by the entity, the actuary should disclose that the reserve includes unknown amounts for such items. The actuary should also disclose whether the reserve amount makes a reasonable provision for the liabilities associated with the specified reserves, *except for* the item or items to which the qualification relates.
- h. If the actuary reasonably believes that there are significant risks and uncertainties that could result in material adverse deviation, an explanatory paragraph should be included in the statement of actuarial opinion. (See sections 3.6 and 3.10 for guidance on evaluating materiality and adverse deviation.) The explanatory paragraph should contain a description of the major factors or particular conditions underlying risks and uncertainties that the actuary believes could result in material adverse deviation.

The actuary is not required to include in the explanatory paragraph general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc., nor is the actuary required to include an exhaustive list of all potential sources of risks and uncertainties.

- i. If the statement of actuarial opinion relies on present values and if the actuary believes that such reliance is likely to have a material effect on the results of the actuary's reserve analysis, the actuary should disclose that present values were

**EXPOSURE DRAFT—March 2009**

used in forming the opinion, the interest rate(s) used by the actuary, and the monetary amount of discount that was included in the reserve amount.

- j. If the actuary is reviewing the opinion of another actuary and material differences exist between the conclusions of the two actuaries, the actuary should disclose the issues underlying the differences.

4.3 Deviation from Standard—If the actuary departs from the guidance set forth in this standard, the actuary should include the following where applicable:

- 4.3.1 the disclosure in ASOP No. 41, section 4.2, if any material assumption or method was prescribed by applicable law (statutes, regulations, and other legally binding authority);
- 4.3.2 the disclosure in ASOP No. 41, section 4.3.1, if any material assumption or method was selected under applicable law by a party other than the actuary, and the actuary disclaims responsibility for the assumption or method;
- 4.3.3 the disclosure in ASOP No. 41, section 4.3.2, if the actuary disclaims responsibility for any material assumption or method in any situation not covered under section 4.3.1 or 4.3.2; and
- 4.3.4 the disclosure in ASOP No. 41, section 4.4, if the actuary otherwise deviated from the guidance of this ASOP.

## **Appendix**

### **Background and Current Practices**

*Note:* This appendix is provided for informational purposes, but is not part of the standard of practice.

#### **Background**

In 2000, the ASB issued ASOP No. 36, *Statements of Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*. At that time, there was no standard of practice concerning the underlying actuarial analyses. Guidance was provided in the *Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves* adopted by the Board of Directors of the Casualty Actuarial Society in May 1988.

Since the issuance of ASOP No. 36 the ASB has issued ASOP No. 43, *Property/Casualty Unpaid Claim Estimates* in 2007. This standard provides guidance to actuaries concerning the actuarial analyses typically underlying the opinions subject to ASOP No. 36. Certain material is duplicated in these two ASOPs. This revision eliminates the duplications and brings consistency in language with ASOP No. 43

#### **Current Practices**

Actuaries are guided by ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*. Other ASOPs issued by the Actuarial Standards Board pertaining to unpaid loss and loss adjustment expense estimates include ASOP No. 20, *Discounting of Property and Casualty Loss and Loss Adjustment Expense Reserves*; ASOP No. 23, *Data Quality*; and ASOP No. 41, *Actuarial Communications*. Guidance is also provided by the *Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves* of the Casualty Actuarial Society, which is currently under review.

In addition, since 1993, the Casualty Practice Council of the American Academy of Actuaries has published practice notes addressing current National Association of Insurance Commissioners' requirements for the statement of actuarial opinion required for the Statutory Annual Statement. The practice notes describe some current practices and show illustrative wording for handling issues and problems. While these practice notes (and future practice notes issued after the effective date of this standard) can be updated to react in a timely manner to new concerns or requirements, they are not binding, and they have not gone through the exposure and adoption process of the standards of practice promulgated by the Actuarial Standards Board.

Numerous educational papers are in the public domain that are relevant to the topic of unpaid loss and loss adjustment expense estimates, including those published by the Casualty Actuarial Society. While these may provide useful educational guidance to practicing actuaries, these are not actuarial standards and are not binding.