



## ACTUARIAL STANDARDS BOARD

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● **SECOND EXPOSURE DRAFT** ●

**Proposed Revision of  
Actuarial Standard  
of Practice  
No. 36**

**Statements of Actuarial Opinion Regarding  
Property/Casualty Loss, Loss Adjustment Expense,  
or Other Reserves**

**Comment Deadline:  
November 1, 2023**

**Developed by the  
ASOP No. 36 Task Force of the  
Casualty Committee of the  
Actuarial Standards Board**

**Approved for Exposure by the  
Actuarial Standards Board  
June 2023**

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**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, Loss Adjustment Expense, or Other Reserves

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

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

This document contains the second exposure draft of a proposed revision of ASOP No. 36, now titled, *Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves*. Please review this exposure draft and give the ASB the benefit of your comments and suggestions. Each written comment letter or email received by the comment deadline will receive consideration by the drafting committee and the ASB.

The ASB appreciates comments and suggestions on all areas of this proposed standard. The ASB requests comments be provided using the Comments Template that can be found [here](#) and submitted electronically to [comments@actuary.org](mailto:comments@actuary.org). Include the phrase “ASOP No. 36 COMMENTS” in the subject line of your message. Also, please indicate in the template whether your comments are being submitted on your own behalf or on behalf of a company or organization.

The ASB posts all signed comments received on its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted on the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

For more information on the exposure process, please see the [ASB Procedures Manual](#).

**Deadline** for receipt of comments: **November 1, 2023**

### History of the Standard

In March 2000, the ASB adopted ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves* to provide guidance to actuaries when issuing specific types of statements of actuarial opinion.

ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*, was adopted in 2007 and provides guidance to actuaries on estimating unpaid claims, both when such estimates are performed to support a statement of actuarial opinion covered by ASOP No. 36 and in other circumstances. In 2010, the ASB revised ASOP No. 36 to eliminate guidance and language that was redundant with the newly adopted ASOP No. 43, to maintain consistency between ASOP Nos. 36 and 43, and to clarify and provide further guidance within ASOP No. 36.

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When ASOP No. 36 was revised in 2010, the NAIC required the actuary to comment only if there was a significant risk of material adverse deviation (RMAD). Since 2010, the NAIC has expanded its requirements for property/casualty statements of actuarial opinion. For example, it now requires the actuary to always comment on the RMAD. The current revision of ASOP No. 36 incorporates and expands upon the disclosures required in the NAIC Property/Casualty Annual Statement Instructions.

### First Exposure Draft

The first exposure draft was released in July 2022 with a comment deadline of September 30, 2022. Nine comment letters were received and considered in making changes that are reflected in this second exposure draft.

### Notable Changes from the First Exposure Draft

Notable changes made to the first exposure draft are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency.

1. In section 1.2, the guidance for actuaries reviewing a statement of actuarial opinion was changed.
2. In section 1.2, the guidance to follow this ASOP if the actuary determines that the guidance in this standard conflicts with an applicable standard in another practice area was removed.
3. In section 2.7, the definition of materiality standard was deleted.
4. In section 3.3(a), the actuary is now required to determine the discount rate used, when a material portion of the reserves within the scope of a statement of actuarial opinion is discounted.
5. In section 3.4.4, when using an analysis or opinion not produced under the actuary's direction, the guidance now directs the actuary to take into account "whether the work complies with applicable industry, regulatory, and actuarial standards."
6. In sections 3.9, 3.10, and 3.11, guidance was added for situations when the scope of the statement of actuarial opinion includes both direct and assumed reserves and reserves net of recoverables.
7. In section 3.9, guidance was added for situations when an actuary opines on different reserve items individually and reaches different conclusions on those items.
8. In section 3.11, material adverse deviation now applies to the total reserves within the scope of the actuarial opinion.

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9. The disclosure requirements in sections 4.2 and 4.3 were aligned with the changes in section 3.
10. Section 4.4(b) was deleted.

### Notable Changes from the Existing Standard

A cumulative summary of the notable changes from the existing ASOP are summarized below. Notable changes do not include changes made to improve readability, clarity, or consistency.

1. In sections 1.1 and 1.2, the purpose and scope have been expanded beyond “issuing” and “providing” to “performing actuarial services with respect to a written statement of actuarial opinion regarding property/casualty loss, loss adjustment expense, or other reserves.”
2. In section 1.2, the scope was expanded to include other reserves and clarifies that this ASOP applies to the Statements of Actuarial Opinion on reserves of other property/casualty risk financing systems.
3. In section 1.2, the scope was expanded to include actuaries “reviewing a statement of actuarial opinion.”
4. In section 2, definitions of counterparty and recoverable were added, and definitions of event, present value, unpaid claim estimates, and unpaid claim estimate analysis were deleted.
5. In section 3.3, the stated basis of the reserve was revised to include characteristics of other reserves being opined upon.
6. In sections 3.3(a) and 4.3(a), what the actuary is required to determine and disclose regarding discounting has been clarified.
7. Section 3.4.1 clarifies the requirement to determine that the scope of the analysis is appropriate for the scope of the statement of actuarial opinion, including the accounting date and valuation date in addition to the review date.
8. In section 3.4.2, guidance requiring the actuary to review work produced under the actuary’s direction was removed, as the requirement is covered in Precept 3 of the Code of Professional Conduct.
9. In section 3.4.4, guidance related to using another party’s work has been modified.
10. In section 3.6, guidance on uncollectable recoverables was expanded to include other recoverables in addition to reinsurance.

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11. In section 3.9, 3.10, and 3.11, guidance was added for situations when the scope of the statement of actuarial opinion includes both direct and assumed reserves and reserves net of recoverables.
12. In section 3.9, guidance was added for situations when an actuary opines on different reserve items individually and reaches different conclusions on those items.
13. In section 3.10, guidance on determining a materiality standard was added.
14. In section 3.11, guidance on material adverse deviation was expanded.
15. In section 3.13, guidance on reliance on data or other information supplied by others was added.
16. In section 3.14, the documentation section was updated.
17. Section 4 was restructured and revised to align with the changes in section 3 and current ASOP format.
18. The disclosure requirements in section 4.2 were expanded to require additional discussion related to the risk of material adverse deviation.
19. Section 4.4(b) was deleted.

### **Request for Comments**

The ASB appreciates comments and suggestions on all areas of this proposed standard submitted through the Comments Template. Rationale and recommended wording for any suggested changes would be helpful.

The ASB voted in June 2023 to approve this draft for exposure.

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*The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.*



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

**STATEMENTS OF ACTUARIAL OPINION  
REGARDING PROPERTY/CASUALTY LOSS,  
LOSS ADJUSTMENT EXPENSE, OR OTHER RESERVES**

**STANDARD OF PRACTICE**

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

- 1.1 Purpose—This actuarial standard of practice (ASOP or standard) provides guidance to the actuary when performing actuarial services with respect to a written statement of actuarial opinion regarding property/casualty **loss, loss adjustment expense**, or other **reserves**.
- 1.2 Scope—This standard applies to actuaries when performing actuarial services with respect to a written statement of actuarial opinion regarding property/casualty **loss, loss adjustment expense**, or other **reserves** of an insurance company or other property/casualty risk financing system, under one or more of the following circumstances:
- a. the statement of actuarial opinion is prepared to comply with the NAIC Property/Casualty Annual Statement Instructions;
  - b. the statement of actuarial opinion is otherwise prescribed by applicable law (statutes, regulations, and other legally binding authority); or
  - c. the statement of actuarial opinion is represented by the actuary as complying with this standard.

“Other **reserves**” include such items as retrospective reinsurance premium **reserves**, unearned premium **reserves** for property/casualty long-duration contracts, unearned premium **reserves** for extended reporting endorsements, premium deficiency **reserves**, contingent commission **reserves**, or other **reserve** items for which the actuary is providing a statement of actuarial opinion.

Examples of property/casualty risk financing systems include reinsurers, self-insurers, and government and other risk-sharing pools.

Throughout this standard, the phrase “statement of actuarial opinion” refers to the written statement of actuarial opinion regarding property/casualty **loss, loss adjustment expense**, or other **reserves** of an insurance company or other property/casualty risk financing system.

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If the actuary is performing actuarial services that involve reviewing a statement of actuarial opinion, the reviewing actuary should follow the guidance in section 3 to the extent practicable within the scope of the actuary’s assignment.

For actuaries issuing or reviewing statements of actuarial opinion that include both property/casualty insurance liabilities and non-property/casualty insurance liabilities, other standards may apply in addition to this standard, such as ASOP No. 22, *Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Other Liabilities*; ASOP No. 28, *Statements of Actuarial Opinion Regarding Health Insurance Liabilities and Assets*; or ASOP No. 57, *Statements of Actuarial Opinion Not Based on an Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Related Actuarial Items*.

If the actuary determines that the guidance in this ASOP conflicts with a cross-practice ASOP (i.e., an ASOP that applies to all practice areas), this ASOP governs.

If a conflict exists between this standard and applicable law, the actuary should comply with applicable law. If the actuary departs from the guidance set forth in this standard in order to comply with applicable law or for any other reason the actuary deems appropriate, the actuary should refer to section 4.

- 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 follow 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, loss adjustment expense**, or other **reserves** issued on or after four months after adoption by the Actuarial Standards Board.

### Section 2. Definitions

The terms below are defined for use in this standard and appear in bold throughout the ASOP. The actuary should also refer to ASOP No. 1, *Introductory Actuarial Standard of Practice*, for definitions and discussions of common terms, which do not appear in bold in this standard.

- 2.1 Accounting Date—The stated cutoff date for reflecting events and recording amounts in a financial statement or accounting system. The **accounting date** is sometimes known as the “as of date.”
- 2.2 Counterparty—Another entity involved in a financial transaction including, but not limited to, a ceding entity, an assuming entity, an insured, or a service provider.

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- 2.3 Coverage—The terms and conditions of a plan or contract, or the requirements of applicable law, that create an obligation to pay benefits, expenses, or claims associated with contingent events.
- 2.4 Explicit Risk Margin—An explicit provision for uncertainty in a **reserve**.
- 2.5 Loss—The cost that is associated with an event that has taken place and that is subject to **coverage**. It is also known as “claim amount.” The term “**loss**” may include **loss adjustment expense** as appropriate.
- 2.6 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. It is also known as “claim adjustment expense.”
- 2.7 Recoverable—An amount (for example, deductibles, ceded reinsurance, salvage, or subrogation) that may be collected from a **counterparty**.
- 2.8 Reserve—An amount recorded in a financial statement or accounting system to reflect potential obligations.
- 2.9 Reserve Evaluation—The process of evaluating the reasonableness of a **reserve**.
- 2.10 Review Date—The date (on or after the **valuation date**) through which material information known to the actuary is included in forming the statement of actuarial opinion. This date is sometimes known as the “information date.”
- 2.11 Valuation Date—The date(s) through which transactions are included in the data used in the analysis.

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

- 3.1 Purpose and Users of the Statement of Actuarial Opinion—The actuary should identify the intended purpose and intended users of the statement of actuarial opinion. For example, the intended purpose may be to satisfy the requirements for such an opinion under the NAIC Property/Casualty Annual Statement Instructions, where the intended users include the company’s board of directors and its regulators.
- 3.2 Reserves Being Opined Upon—The actuary should take into account the following regarding the **reserves** being opined upon:
- a. the amount of the **reserves**;
  - b. the **accounting date**; and
  - c. the accounting standards applicable to the **reserves** (for example, U.S. SAP, U.S. GAAP, or IFRS).

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- 3.3 Stated Basis of the Reserves—The actuary should determine the stated basis of the **reserves**, which is a description of the nature of the **reserves**, usually found in the financial statement and the associated footnotes and disclosures. The stated basis often depends upon regulatory or accounting requirements. When determining the stated basis, the actuary should identify the following:
- a. whether the **reserves** are nominal or discounted for the time value of money and, if discounted, the items discounted (for example, tabular **reserves** only), the basis for the discount rate(s) (for example, risk-free rate or portfolio rate), and the discount rate(s) used;
  - b. whether the **reserves** include an **explicit risk margin** and, if so, the stated basis for the **explicit risk margin** (for example, stated percentile of distribution or stated percentage load above the **reserve** without the **explicit risk margin**);
  - c. whether the **reserves** are gross or net of specified **recoverables**;
  - d. whether the **reserves** reflect a provision for uncollectable **recoverables**. If so, the actuary should identify the categories of such uncollectable **recoverables** and whether those categories reflect currently known or potential ultimate collectability concerns. Possible categories of uncollectable **recoverables** include those related to disputes and those related to **counterparties** in financial difficulty;
  - e. the types of unpaid **loss adjustment expense** covered by the **reserves**, if any (for example, **coverage** dispute costs, defense costs, or adjusting costs);
  - f. the characteristics of other **reserves** being opined upon, if any (for example, the nature of the contracts generating unearned premium **reserves**); and
  - g. any other items that, in the actuary’s professional judgment, are needed to describe the **reserves** sufficiently for the **reserve evaluation**.

To the extent the actuary cannot determine all or a portion of the stated basis of the **reserves**, the actuary should request this information from the principal. If the actuary is unable to obtain this information from the principal, the actuary should select an assumed basis of the **reserves** with regard to the missing information for purposes of the **reserve evaluation**.

If the statement of actuarial opinion is only for a portion of the **reserves**, the actuary should identify the portion of the **reserves** within the scope of the statement of actuarial opinion (for example, line of business, year, or state).

- 3.4 Reserve Evaluation—The actuary should evaluate the reasonableness of **reserves** consistent with the applicable ASOPs and the identified stated basis of the **reserves**.

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- 3.4.1 Scope—The actuary should ensure that the scope of the **reserve evaluation** is consistent with the scope of the statement of actuarial opinion, taking into account the following:
- a. **accounting date, valuation date, and the review date;**
  - b. if separate **reserves** for different **reserve** items, such as **loss** and **loss adjustment expense**, are disclosed in the statement of actuarial opinion, whether the statement of actuarial opinion applies to those items in the aggregate or individually; and
  - c. any other items that, in the actuary’s professional judgment, are needed to ensure that the scope of the **reserve evaluation** is consistent with the scope of the statement of actuarial opinion.
- 3.4.2 Evaluation Based on the Actuary’s Estimates—When developing estimates to evaluate the reasonableness of **reserves**, the actuary may develop a point estimate, a range of estimates, or both. The actuary should be guided by applicable ASOPs for the development of these estimates. For example, when developing unpaid claim estimates to evaluate the reasonableness of unpaid claim **reserves**, the actuary should be guided by ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*.
- 3.4.3 Using a Model Developed by Another Party—When using a model developed by another party, the actuary should refer to ASOP No. 56, *Modeling*, and ASOP No. 38, *Catastrophe Modeling (for All Practice Areas)*.
- 3.4.4 Using an Analysis or Opinion Not Produced Under the Actuary’s Direction—If the actuary uses an analysis or opinion not produced under the actuary’s direction to support the statement of actuarial opinion, the actuary should understand the intended purpose of the analysis or opinion and assess whether the analysis or opinion is consistent with the stated basis of the **reserves**. For purposes of this section, “another party” refers to someone not under the actuary’s direction.

The actuary should use another party’s analysis or opinion only when, in the actuary’s professional judgment, it is reasonable to do so. In making this determination, the actuary should take into account the following:

- a. the amount of the **reserves** covered by another party’s analysis or opinion in comparison to the total **reserves** within the scope of the statement of actuarial opinion;
- b. the nature of the exposure and **coverage**;
- c. the way in which reasonably likely variations in estimates covered by another party’s analysis or opinion may affect the statement of actuarial

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opinion on the total **reserves** within the scope of the statement of actuarial opinion;

- d. the credentials or expertise of the individual(s) who prepared the analysis or opinion; and
- e. whether the work complies with applicable industry, regulatory, and actuarial standards.

When, in the professional judgment of the actuary, the analysis or opinion of another party needs to be modified or expanded, the actuary should perform such analysis as necessary to issue the statement of actuarial opinion.

If the actuary reaches conclusions that are materially different from the other person's conclusions, the actuary should, when practical, contact the appropriate parties to discuss the differences. Where material differences exist, the actuary should understand the issues underlying the material differences. In this situation, the actuary should measure material differences relative to the **reserve evaluation** underlying the statement of actuarial opinion, not relative to the conclusions of the other person.

- 3.5 Discounting—If the actuary is providing a statement of actuarial opinion for discounted **loss** and **loss adjustment expense reserves**, the actuary should follow the guidance in ASOP No. 20, *Discounting of Property/Casualty Claim Estimates*.
- 3.6 Uncollectable Recoverables—If the statement of actuarial opinion includes **reserves** net of **recoverables** and the amount of **recoverables** is material, the actuary should take into account the collectability of those **recoverables** in evaluating net **reserves**. The actuary should obtain information regarding collectability problems, significant disputes with **counterparties**, and practices regarding provisions for uncollectable **recoverables**. The actuary is not required to express an opinion on the financial condition of any **counterparty**.
- 3.7 Work Underlying the Prior Statement of Actuarial Opinion—If the actuary prepared the prior statement of actuarial 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, methods, or models differ from those used in the prior statement of actuarial opinion. If the current assumptions, procedures, methods, or models differ from those used in the prior statement of actuarial opinion, the actuary should determine whether the changes are likely to have a material effect on the actuary's estimate.

The use of assumptions, procedures, methods, or models for new exposures (for example, lines of business or accident years) that differ from those used previously is not a change in assumptions, procedures, methods, or models within the meaning of this section. Similarly, when the **reserve evaluation** is based on the periodic updating of experience data, factors, or weights, such periodic updating is not a change in assumptions, procedures, methods, or models within the meaning of this section.

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- 3.8 Types of Opinions—When issuing a statement of actuarial opinion, the actuary should issue one or more opinions of the following types.
- 3.8.1 Determination of Reasonable Provision—The **reserves** make a reasonable provision for the liabilities associated with the specified **reserves** when the **reserves** are within a range of estimates that could be produced and that the actuary considers reasonable, consistent with the applicable ASOPs, and consistent with the identified stated basis of the **reserves**.
- 3.8.2 Determination of Deficient or Inadequate Provision—The **reserves** do not make a reasonable provision for the liabilities associated with the specified **reserves** when the **reserves** are less than the minimum amount that the actuary believes is reasonable. The actuary should include the minimum amount that the actuary believes is reasonable.
- 3.8.3 Determination of Redundant or Excessive Provision—The **reserves** do not make a reasonable provision for the liabilities associated with the specified **reserves** when the **reserves** are greater than the maximum amount that the actuary believes is reasonable. The actuary should include the maximum amount that the actuary believes is reasonable.
- 3.8.4 Qualified Opinion—The **reserves** for a certain item or items are in question because the actuary cannot determine a reasonable estimate, or the actuary is unable to render an opinion on the **reserves** for those items. The actuary should determine whether the **reserves** make a reasonable provision for the liabilities associated with the specified **reserves** exclusive of 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.
- 3.8.5 No Opinion—If the actuary cannot reach a conclusion due to deficiencies or limitations in the data, analyses, assumptions, or related information, then the actuary should either state that no opinion could be rendered or choose not to render an opinion. The actuary should include a description of the reasons no opinion could be given.
- 3.9 Issuing Multiple Opinions within the Statement of Actuarial Opinion—The actuary may issue multiple opinions within a statement of actuarial opinion.
- 3.9.1 Direct and Assumed Reserves and Reserves Net of Recoverables—If the scope of the statement of actuarial opinion includes both direct and assumed **reserves** and **reserves** net of **recoverables**, the actuary should issue an opinion on a direct and assumed basis and an opinion on a net of **recoverables** basis.
- 3.9.2 Opinion on Total Reserves—When the actuary issues different types of opinions on different **reserve** items, such as (1) **loss and loss adjustment expense reserves** and (2) unearned premium **reserves**, the actuary should issue an opinion on the total **reserves** within the scope of the statement of actuarial opinion.

When issuing different types of opinions within a statement of actuarial opinion, the actuary should include narrative comments to describe each conclusion.

- 3.10 Determination of Materiality Standard—The actuary should determine a materiality standard that is appropriate for the intended purpose of the statement of actuarial opinion.

When determining the materiality standard, the actuary should take into account the financial metrics that the actuary believes are relevant to the intended users of the statement of actuarial opinion and how those financial metrics are likely to be affected by changes in the total **reserves** within the scope of the statement of actuarial opinion. For example, for a statutory statement of actuarial opinion for an insurance company to be used for financial reporting to insurance regulators, the materiality standard might be based on an amount that would trigger a regulatory action for the company. Other examples of materiality standards include percentage of surplus, percentage of **reserves**, and the amount of adverse deviation that would cause surplus to fall below minimum capital requirements.

If the actuary chooses to comment on the risk of material adverse deviation on a direct and assumed basis, the actuary may select different materiality standards on a direct and assumed basis and on a net of **recoverables** basis.

The actuary should use the selected materiality standard to determine whether there is a significant risk of material adverse deviation. This materiality standard may not be appropriate for use in evaluating materiality in the **reserve evaluation** or in other contexts.

- 3.11 Material Adverse Deviation—The actuary should determine whether there are significant risks and uncertainties that could result in material adverse deviation. When making this determination, the actuary should take into account both quantitative and qualitative factors to assess whether there are significant risks that could result in future outcomes being greater than what is provided for in the total **reserves** within the scope of the statement of actuarial opinion by more than the materiality standard. The actuary should take into account the scope of the statement of actuarial opinion, the intended purpose and intended users of the statement of actuarial opinion, and the requirements of applicable law.

If the scope of the statement of actuarial opinion includes both direct and assumed **reserves** and **reserves** net of **recoverables**, the actuary should assess the risk of material adverse deviation on a net of **recoverables** basis. The actuary may choose to comment on the risk of material adverse deviation on a direct and assumed basis. The actuary's conclusion on the risk of material adverse deviation may differ between direct and assumed **reserves** and **reserves** net of **recoverables**.

The actuary should compare the sum of (1) the total **reserves** within the scope of the statement of actuarial opinion and (2) the materiality standard to the high end of the range of estimates that could be produced and that the actuary considers reasonable, consistent with the applicable ASOPs, and consistent with the identified stated basis of the **reserves**. If the sum is less than or equal to the high end of the range, the actuary should



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find that there is a risk of material adverse deviation. If the sum is greater than the high end of the range, the actuary may find that a risk of material adverse deviation exists.

When the **reserve evaluation** is based on separate estimates for different **reserve** items, such as **loss**, **loss adjustment expense**, and other **reserves**, the actuary should take into account the combined risks and uncertainties of the total **reserves** within the scope of the statement of actuarial opinion to determine whether a risk of material adverse deviation exists. The actuary also may comment on the risk of material adverse deviation related to different **reserve** items.

- 3.12 Adequacy of Assets Supporting Reserves—This standard does not obligate the actuary to evaluate the adequacy of the assets supporting the **reserves** except as may be needed to comply with any applicable law or other ASOP.
- 3.13 Reliance on Data or Other Information Supplied by Others—When relying on data or other information supplied by others, the actuary should refer to ASOP No. 23, *Data Quality*, and ASOP No. 41, *Actuarial Communications*, for guidance.
- 3.14 Documentation—The actuary should prepare and retain documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. The actuary should prepare such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary’s work. The degree of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and intended purpose of the statement of actuarial opinion. When the statement of actuarial opinion is provided to meet applicable law, the actuary should follow the detailed requirements specified by regulators with regard to the form and content of supporting reports and other documentation. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

### Section 4. Communications and Disclosures

- 4.1 Required Disclosures in an Actuarial Report—When issuing an actuarial report supporting a statement of actuarial opinion to which this standard applies, the actuary should refer to ASOP Nos. 20, 23, 38, 41, 43, and 56.
- 4.2 Required Disclosures in the Statement of Actuarial Opinion—The actuary should include the words “statement of actuarial opinion,” or alternative words with similar meaning, in the title of the written statement of actuarial opinion. In addition, the actuary should disclose the following in the statement of actuarial opinion:
  - a. the intended purpose and intended users of the statement of actuarial opinion (see section 3.1);
  - b. the **reserves** being opined upon (see section 3.2);

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- c. the stated basis of the **reserves** (see section 3.3) or the assumed basis of the **reserves**, if the actuary is unable to obtain the stated basis for all or a portion of the **reserves** (see paragraph following section 3.3[g]);
- d. the **accounting date**, the **valuation date**, and the **review date** (see section 3.4.1[a]);
- e. the scope of the **reserve evaluation** (see sections 3.4.1[b] and 3.4.1[c]);
- f. the type(s) of opinion(s) (see section 3.8);
- g. the materiality standard and its basis (see section 3.10);
- h. the quantitative and qualitative factors underlying risks and uncertainties that the actuary considered in assessing whether there are significant risks and uncertainties that could result in material adverse deviation (see section 3.11); and
- i. whether there are significant risks and uncertainties that could result in material adverse deviation (see section 3.11).

4.3 Additional Disclosures in the Statement of Actuarial Opinion—When applicable and consistent with the intended purpose of the statement of actuarial opinion, the actuary should make the following additional disclosures:

- a. the amount of the discount included in the **reserves** within the scope of the statement of actuarial opinion, the items discounted, and the basis for the discount rate(s) used, if the statement of actuarial opinion relies on discounted values, and whether the actuary believes that such reliance is likely to have a material effect on the results of the actuary's **reserve evaluation** (see section 3.3[a]);
- b. the name, credentials, and affiliation of the individual who prepared the analysis or opinion, if the actuary uses an analysis or opinion of another party not under the actuary's direction for a material portion of the **reserves** (see section 3.4.4);
- c. any material exposure to uncollectable **recoverables** (see section 3.6);
- d. the changes in assumptions, procedures, methods, or models from those used in the prior statement of actuarial opinion, if the actuary concludes the changes are likely to have a material effect on the actuary's estimate (see section 3.7);
- e. that the prior assumptions, procedures, methods, or models are unknown, if the actuary is not able to review the prior opining actuary's work (see section 3.7);
- f. the minimum amount that the actuary believes is reasonable, if the actuary determines that the **reserves** are deficient or inadequate (see section 3.8.2);

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- g. the maximum amount that the actuary believes is reasonable, if the actuary determines that the **reserves** are redundant or excessive (see section 3.8.3);
- h. if the actuary issues a qualified opinion:
  - i. 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 **reserves**;
  - ii. that the **reserves** include unknown amounts for such items, if the amounts for such items are not disclosed by the entity; and
  - iii. whether the **reserves** make a reasonable provision for the liabilities associated with the specified **reserves** exclusive of the item or items to which the qualification relates (see section 3.8.4); or
- i. the reasons no opinion could be rendered, if the actuary does not render an opinion (see section 3.8.5); and
- j. narrative comments describing each conclusion, if the actuary issues different types of opinions (see section 3.9).

4.4 Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in an actuarial report in accordance with ASOP No. 41 for the following circumstances:

- a. if any material assumption or method was prescribed by applicable law;
- b. if, in the actuary’s professional judgment, the actuary has deviated materially from the guidance of this ASOP.

## **Appendix 1**

### **Background and Current Practices**

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

#### **Background**

Property/casualty statements of actuarial opinion were initially introduced by the NAIC in the mid-1970s in response to a number of property/casualty insurance insolvencies. Initially, the opinions were required to be signed by a qualified loss reserve specialist, which was defined as a member in good standing of the American Academy of Actuaries or someone whose qualifications otherwise satisfied the domiciliary commissioner. In response to the new requirements, the American Academy of Actuaries adopted Financial Reporting Recommendation 8, Statement of Actuarial Opinion for Fire and Casualty Insurance Company Statutory Annual Statements, along with Interpretations 8-A, 8-B, and 8-C.

By 1990, the NAIC had changed the NAIC Property/Casualty Instructions for the Annual Statement to require a statement of opinion by a qualified actuary. Over the years, the statement of opinion evolved to become a statement of actuarial opinion, and the number of specific aspects upon which the signer was instructed to comment has continually grown. Such aspects currently include anticipated salvage and subrogation; discount for time value of money; underwriting pools and associations; retroactive reinsurance; financial reinsurance; reinsurance collectability; other reserves such as unearned premium reserves for property/casualty long-duration contracts; NAIC IRIS Tests 9, 10, and 11; company-specific risk factors; risk of material adverse deviation; and any additional relevant topics.

In addition to the required statements of actuarial opinion for insurance companies, actuaries were being asked to issue statements of actuarial opinion for other types of entities, including self-insureds, self-insured pools, residual market mechanisms, voluntary pools, captives, and funds or other risk-pooling entities created by legislation or regulation.

With the increasing requirements for NAIC statements of actuarial opinion and the increasing demand for actuaries to issue non-NAIC opinions, the Actuarial Standards Board (ASB) determined that an actuarial standard of practice (ASOP) should be developed to replace the Financial Reporting Recommendation and Interpretations and be broad enough in scope to include other statements of actuarial opinion on property/casualty reserves. The ASB adopted ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*, in 2000.

In 2007, the ASB issued ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*, to provide guidance to actuaries performing evaluations of the reserves underlying the statements of actuarial opinion. Previously, actuaries were guided by the Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves adopted by the Board of

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Directors of the Casualty Actuarial Society (CAS) in May 1988. In 2020, the CAS rescinded this document.

The issuance of ASOP No. 43, combined with increased requirements for issuing NAIC statements of actuarial opinion, has led the ASB to revise ASOP No. 36 in 2010 and again in 2022.

### Current Practices

Actuaries are guided by ASOP No. 43 and other applicable ASOPs. In addition, since 1993, the Casualty Practice Council of the American Academy of Actuaries has published practice notes addressing current NAIC requirements for the statement of actuarial opinion required for the Property/Casualty Annual Statement. The practice notes describe some current practices and provide illustrative wording for handling issues and problems. While these practice notes are updated annually, they are not binding, and they have not gone through the exposure and adoption process of the standards of practice promulgated by the ASB.

Numerous educational papers in the public domain are relevant to the topic of reserves and reserve evaluations, including those published by the CAS. While these may provide useful educational guidance to practicing actuaries, they are not actuarial standards of practice and are not binding.

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### Appendix 2

#### Comments on the First Exposure Draft and Responses

The first exposure draft of the proposed revision of ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves*, was issued in July 2022 with a comment deadline of September 30, 2022. Nine comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The ASOP No. 36 Task Force and the Casualty Committee of the Actuarial Standards Board (ASB) carefully considered all comments received, and the ASB reviewed (and modified, where appropriate) the changes proposed by the Casualty Committee.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Minor wording or punctuation changes that were suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term “reviewers” in appendix 2 includes the ASOP No. 36 Task Force, the Casualty Committee, and the ASB. The section numbers and titles used in appendix 2 refer to those in the first exposure draft, which are then cross referenced with those in the new exposure draft.

<b>GENERAL COMMENTS</b>	
Comment	One commentator questioned whether expanding the scope to cover other reserves is appropriate.
Response	The reviewers believe expanding the scope to cover other reserves is appropriate and made no change in response to this comment.
Comment	Several commentators suggested adding “other reserves” to any listing of “loss and LAE” reserves.
Response	The reviewers made changes consistent with the intent of the commentator’s suggestion.
Comment	One commentator suggested replacing “loss reserves” with “unpaid claim estimates.”
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested expanding the scope.
Response	The reviewers made no change in response to this comment.
<b>SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE</b>	
<b>Section 1.2, Scope</b>	
Comment	Several commentators suggested adding “premium deficiency reserves” to the examples of other reserves.
Response	The reviewers agree and made the change.
Comment	Several commentators said that the language on reviewing statements of actuarial opinion was unclear.
Response	The reviewers agree and made clarifying changes.

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Comment	One commentator suggested clarifying that only opinions prepared in compliance with this standard should be reviewed under this standard.
Response	The reviewers made changes consistent with the intent of the commentator’s suggestion.
Comment	One commentator suggested deleting, “If the actuary determines that the guidance in this standard conflicts with an applicable standard in another practice area, that ASOP governs.”
Response	The reviewers agree and deleted the sentence.
Comment	One commentator suggested deleting item (c).
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested changing “other reserves” to “premium reserves.”
Response	The reviewers disagree but added an example of a non-premium other reserve.
<b>SECTION 2. DEFINITIONS</b>	
Comment	One commentator said it was unclear why “events” and “unpaid claim estimate” were removed from the definitions.
Response	The reviewers believe these definitions are no longer necessary and made no change in response to this comment.
<b>Section 2.2, Counterparty</b>	
Comment	One commentator suggested adding “that has a financial interest in the transaction” to the definition of counterparty.
Response	The reviewers disagree and made no change.
<b>Section 2.11, Review Date</b>	
Comment	One commentator suggested adding “on or” in the parenthetical phrase.
Response	The reviewers agree and made the change.
<b>Section 3. Analysis of Issues and Recommended Practices</b>	
<b>Section 3.1 in the 2011 standard</b>	
Comment	Two commentators suggested reinstating the original section 3.1, Legal and Regulatory Requirements.
Response	The reviewers made no change in response to this comment. The reviewers note that the Code of Professional Conduct states, “An actuary must 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.” In addition, section 1.2 states, “If a conflict exists between this standard and applicable law, the actuary should comply with applicable law.”
<b>Section 3.1, Purpose and Users of the Statement of Actuarial Opinion</b>	
Comment	One commentator suggested adding auditors to the list of intended users.
Response	The reviewers note that this is an example and made no change.
<b>Section 3.3, Stated Basis of the Reserves</b>	
Comment	One commentator suggested replacing “identify the exposure to be covered by” with “identify the portion of the reserves intended to be in the scope of...”
Response	The reviewers made changes consistent with the intent of the commentator’s suggestion.

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<b>Section 3.3(b)</b>	
Comment	One commentator suggested replacing “expected” with “the unloaded reserve.”
Response	The reviewers made changes consistent with the intent of the commentator’s suggestion.
<b>Section 3.3(c)</b>	
Comment	One commentator suggested adding “implicit or explicit” before “recoverables.”
Response	The reviewers believe the language is appropriate and made no change.
<b>Section 3.4.1, Scope</b>	
Comment	One commentator suggested removing the requirement to disclose the valuation date.
Response	The reviewers believe the guidance is appropriate and made no change.
<b>Section 3.4.3, Using an Analysis or Opinion Not Produced Under the Actuary’s Direction (now section 3.4.4)</b>	
Comment	One commentator suggested deleting the sentence following item (d) and adding item “e. the standards, including but not limited to applicable ASOPs and audit and financial accounting standards, under which the other analysis was prepared.”
Response	The reviewers made changes consistent with the intent of the commentator’s suggestion.
<b>Section 3.6, Uncollectable Recoverables</b>	
Comment	One commentator suggested changing the beginning of the first sentence to “If reserves being opined on reflect a material amount of anticipated recoverables on the unpaid reserves.”
Response	The reviewers believe the language is clear and made no change in response to this comment.
<b>Section 3.7, Work Underlying the Prior Statement of Actuarial Opinion</b>	
Comment	One commentator suggested adding guidance and clarification for how a reviewing actuary would use section 3.7.
Response	The reviewers believe the changes made to section 1.2 address the commentator’s concern.
<b>Section 3.8, Type of Statement of Actuarial Opinion (now Types of Opinions)</b>	
Comment	One commentator suggested adding “adequate” as an opinion type.
Response	The reviewers note that deviating from the standard to follow the law is covered in section 1.2 and made no change in response to this comment.
Comment	One commentator suggested adding guidance on how to address situations when there are differing conclusions about the reasonableness of individual reserve segments being opined upon.
Response	The reviewers made changes consistent with the intent of the commentator’s suggestion.
<b>Section 3.8.4, Qualified Statement of Actuarial Opinion (now Qualified Opinion)</b>	
Comment	One commentator suggested clarifying the language.
Response	The reviewers agree and made the suggested change.
<b>Section 3.9, Determination of Materiality Standard (now section 3.10)</b>	
Comment	Two commentators suggested clarifying that the financial metrics should be those the actuary believes are relevant to the intended users.
Response	The reviewers agree and made the change.



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<b>Section 3.10, Material Adverse Deviation (now section 3.11)</b>	
Comment	One commentator questioned whether it was clear that material adverse deviation applies to the reserves being opined upon in total.
Response	The reviewers made changes consistent with the intent of the commentator’s suggestion.
Comment	One commentator suggested language that did not use the word “understated” in the first paragraph.
Response	The reviewers made changes consistent with the intent of the commentator’s suggestion.
Comment	One commentator suggested adding, “If there are such significant risks and uncertainties the actuary should find that a risk of material adverse deviation exists,” to the end of the first paragraph.
Response	The reviewers believe the language as modified in response to another comment is appropriate and made no change in response to this comment.
Comment	One commentator suggested clarifying language if the actuary has not developed a range.
Response	The reviewers believe the language is appropriate and made no change in response to this comment.
Comment	Two commentators suggested deleting the second paragraph.
Response	The reviewers disagree because the language clarifies appropriate practice and made no change as a result of this comment.
Comment	One commentator suggested limiting the calculation in the second paragraph to only those instances when the actuary has determined a range of reasonable estimates.
Response	The reviewers disagree but made changes to clarify that this applies whether or not the actuary has determined a range of reasonable estimates.
Comment	One commentator suggested changing “sum of the materiality standard and the loss and loss adjustment expense reserves is within the actuary’s range of reasonable estimates” to “The actuary should find that a risk of material adverse deviation exists when the difference between the high end of the actuary’s range of reasonable estimates and the recorded reserves is greater than the materiality standard.”
Response	The reviewers note that producing a range is not required and therefore made no change in response to this comment.
Comment	One commentator suggested that the inclusion of disclosures related to the risk of material adverse deviation for non-NAIC opinions is too broad, citing informal quarterly reserve reviews as an example.
Response	The reviewers disagree and note that the standard applies only to legally required statements of actuarial opinion and statements of actuarial opinion that the actuary represents as in compliance with the standard.
<b>Section 4. COMMUNICATIONS AND DISCLOSURES</b>	
<b>Section 4.2, Required Disclosures in a Statement of Actuarial Opinion</b>	
Comment	One commentator thought the guidance in (h)-(j) is too broad.
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested combining 4.3(b) into 4.2(d).
Response	The reviewers agree and made the change (now in section 4.2[c]).

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<b>Section 4.3, Additional Disclosures in the Statement of Actuarial Opinion</b>	
Comment	One commentator suggested expanding the disclosure to include the discount rate used.
Response	The reviewers disagree and made no change in response to this comment.
Comment	One commentator suggested adding a disclosure for whether the actuary reviewed another's work.
Response	The reviewers disagree that such a disclosure should be included in the statement of actuarial opinion and note that it is covered by ASOP No. 41, <i>Actuarial Communications</i> , for actuarial reports. Therefore, the reviewers made no change in response to this comment.
Comment	One commentator suggested alternate language for sections 4.3(g) and (h).
Response	The reviewers believe the language is clear and made no change in response to this comment.
Comment	One commentator suggested clarifying the language in section 4.3(i)iii (now 4.3[h]iii).
Response	The reviewers agree and made the suggested change.
<b>Appendix 1, Background and Current Practices</b>	
Comment	One commentator suggested adding captive insurance companies to the list in the third paragraph.
Response	The reviewers made changes consistent with the intent of the commentator's suggestion.