



ACTUARIAL STANDARDS BOARD

**Actuarial Standard
of Practice
No. 36**

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

Revised Edition

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

**Adopted by the
Actuarial Standards Board
December 2010
Updated for Deviation Language Effective May 1, 2011**

Doc. No. 153

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December 2010

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: Actuarial Standard of Practice (ASOP) No. 36

This document contains the final version of a revision of ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*.

Background

In March 2000, the Actuarial Standards Board originally adopted ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves* (Doc. No. 069). 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.

The Casualty Committee's Subcommittee on Reserving has prepared this revision to ASOP No. 36 to eliminate redundant guidance and language that exists between ASOP Nos. 36 and 43, to maintain consistency between ASOP Nos. 36 and 43, and to clarify and provide further guidance within ASOP No. 36.

First Exposure Draft

The first exposure draft of this revised ASOP was issued in March 2009 with a comment deadline of June 15, 2009. The Subcommittee on Reserving carefully considered the eleven comment letters received and made changes that were reflected in the second exposure draft.

Second Exposure Draft

The second exposure draft of this ASOP was issued in March 2010 with a comment deadline of June 30, 2010. The Subcommittee on Reserving carefully considered the six comment letters received and made changes in several sections in response.

For a summary of the issues contained in these comment letters, please see appendix 2.

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The ASB thanks everyone who took the time to contribute comments and suggestions on both exposure drafts.

The ASB adopted this revised standard at its December 2010 meeting.

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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.

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 property/casualty 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, *Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers*; ASOP No. 28, *Compliance with Statutory Statement of Actuarial Opinion Requirements for Hospital, Medical, and Dental Service or Indemnity Corporations, and for Health Maintenance Organizations*; 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.

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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 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.

- 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 issued on or after May 1, 2011.

Section 2. Definitions

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

- 2.1 Accounting Date—The stated cutoff date for reflecting events and recording amounts as paid or unpaid in a financial statement or accounting system. The accounting date is sometimes referred to as the “as of date.”
- 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 Explicit Risk Margin—An explicit provision for uncertainty in a reserve or unpaid claim estimate.
- 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 expenses 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 Present Value—The value at a point in time of cash flows at other points in time, calculated at selected interest rates. It is also known as “discounted present value” or “discounted value.”
- 2.8 Reserve—An amount recorded in financial statements or accounting systems in order to reflect potential obligations.
- 2.9 Reserve Evaluation—The process of evaluating the reasonableness of a reserve.
- 2.10 Review Date—The date (subsequent to the valuation date) through which material information known to the actuary is included in forming the reserve opinion.
- 2.11 Unpaid Claim Estimate—The actuary’s estimate of the obligation for future payment resulting from claims due to past events.
- 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 be satisfied that the statement of actuarial opinion is consistent with relevant requirements of applicable laws and regulations.
- 3.2 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 Annual Statement Instructions, and the intended users may be the company and its regulators.
- 3.3 Reserves Being Opined Upon—The actuary should identify the following regarding the reserves being opined upon:
- a. the reserve amount(s);
 - b. the accounting date; and
 - c. the accounting standards applicable for the reserves, if relevant (for example, US SAP, US GAAP, IFRS, etc.).

3.4 Stated Basis of Reserve Presentation—The actuary should identify the stated basis of reserve presentation, 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. It includes, as appropriate, the following:

- a. whether reserves are stated as being nominal or discounted for the time value of money and, if discounted, the items discounted (for example, tabular reserves only) and the stated basis for the interest rate (for example, risk-free rate, portfolio rate, or fixed rate of x%);
- b. whether the reserves are stated to 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 expected);
- c. whether the reserves are gross or net of specified recoverables (for example, deductibles, ceded reinsurance, and salvage and subrogation);
- d. whether the potential for uncollectible recoverables is considered in the reserves, when recoverables are involved and, if so, the categories of such uncollectible recoverables considered and whether those categories reflect currently known collectibility concerns or potential ultimate collectibility concerns. Possible categories of uncollectibles include those related to disputes and those related to counterparties in financial difficulty (credit default);
- e. the types of unpaid loss adjustment expenses covered by the reserve (for example, coverage dispute costs, defense costs, and adjusting costs);
- f. when the opinion is only for a portion of a reserve, the claims exposure to be covered by the opinion (for example, type of loss, line of business, year, and state); and
- g. any other items that, in the actuary's professional judgment, are needed to describe the reserves sufficiently for the actuary's evaluation of the reserves.

To the extent the actuary does not know the above items, the actuary should request this information from the principal. If unable to obtain these items from the principal, the actuary should identify what the actuary assumed to be the intended basis of reserve presentation for purposes of the reserve evaluation.

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 review date, if it differs from the date the opinion is signed;

- b. 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
- c. 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 Evaluation—The actuary should consider a reserve to be reasonable if it is within a range of estimates that could be produced by an unpaid claim estimate analysis that is, in the actuary's professional judgment, consistent with both ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*, and the identified stated basis of reserve presentation.

The actuary should consider the relevant characteristics of the entity's exposures to the extent that they are likely to have a material effect on the results of the actuary's reserve evaluation. These characteristics may be influenced by the methods used to sell or provide coverages, the distribution channels from which the entity's business is obtained, the general underwriting practices and pricing philosophy of the entity, and the marketing objectives and strategies of the entity.

If the actuary makes use of other personnel within the actuary's control to carry out assignments relative to analyses supporting the opinion, the actuary should review their contributions and be satisfied that those contributions are reasonable.

The actuary may develop estimates of the unpaid claims for all or a portion of the reserve or make use of another's unpaid claims estimate analysis or opinion for all or a portion of the reserve. For purposes of this section, "another" refers to one not within the actuary's control.

3.7.1 Evaluation 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 Evaluation Based on Actuary's Use of Another's Unpaid Claims Estimate Analysis or Opinion—In the course of conducting a reserve evaluation, the actuary may make use of another's supporting analyses or opinions. The actuary should understand the intended purpose of the analyses or opinions, and assess whether the analyses or opinions are consistent with the stated basis of presentation of the reserves. (See section 4.2(f) for related disclosure requirements.)

The actuary should only make use of another's analyses or opinions when, in the actuary's professional judgment, it is reasonable to do so. In making this determination, the actuary should consider the following:

- a. the amount of the reserves covered by another's analyses or opinions in comparison to the total reserves subject to the actuary's opinion;
- b. the nature of the exposure and coverage;
- c. the way in which reasonably likely variations in estimates covered by another's analyses or opinions may affect the actuary's opinion on the total reserves subject to the actuary's opinion; and
- d. the credentials of the individual(s) that prepared the analyses or opinions.

Where, in the opinion of the actuary, the analyses or opinions of another need to be modified or expanded, the actuary should perform such analyses as necessary to issue an opinion on the total reserves.

If in using the analyses or opinions of another the actuary reaches conclusions materially different from those in the analyses or opinions used, the actuary should, when practical, contact the appropriate parties to discuss the differences. Where material differences exist, the issues underlying the differences should be understood by the actuary. Materiality in this situation should be measured relative to the actuary's opinion, not relative to the analyses or opinions used.

3.8 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 opinion, the actuary should consider whether the changes are likely to have had a material effect on the actuary's unpaid claim estimate. (See section 4.2(a) for related disclosure requirements.)

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.

- 3.9 Adverse Deviation—The actuary should consider whether there are significant risks and uncertainties that could result in future paid amounts being materially greater than those provided for in the reserves. (See section 4.2(e) for related disclosure requirements.)

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.

- 3.10 Collectibility of Ceded Reinsurance—If the scope of the statement of actuarial opinion includes reserves net of ceded reinsurance and 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 Statements of Actuarial Opinion—An actuary who is issuing a statement of actuarial opinion cannot claim reliance on another's work or opinion except as described in section 3.7.2. The statement of actuarial opinion should be one of the following types:

- 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. (See section 3.7).
- b. Determination of Deficient or Inadequate 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 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(b) 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(c) 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 within the scope of the opinion are in question because they cannot be reasonably estimated or the actuary is unable to issue 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. (See section 4.2(d) for related disclosure requirements.) 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.
 - 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 should either issue a statement of no opinion or choose not to issue any opinion at all. A statement of no opinion should include a description of the reasons no opinion could be given.
- 3.12 **Adequacy of Assets Supporting Reserves**—This standard does not obligate the actuary to undertake an evaluation of the adequacy of the assets supporting the stated reserve amount except as may be needed to comply with any applicable law, regulatory requirement, or other ASOP.
- 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*. When the statement is provided to meet regulatory requirements, the actuary should follow the detailed requirements specified by regulators as to the form and content of supporting reports and other documentation.

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 No. 41.

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

- a. the words “statement of actuarial opinion,” or alternative words with similar meaning if required by law or regulation governing the opinion, in the title of the written opinion;
- b. the intended user(s) of the statement of actuarial opinion;

- c. the intended purpose of the statement of actuarial opinion, as described in section 3.2;
- d. the reserves being opined upon, as described in section 3.3;
- e. the stated basis of reserve presentation, as described in section 3.4. In certain circumstances, referring to specific financial statement reserve figures and their specific source (for example, Statutory Annual Statement of Company ABC as filed with the Company's state of domicile) would satisfy disclosures related to section 3.4;
- f. the scope of the analysis underlying the statement of actuarial opinion, as described in sections 3.5(b) and 3.5(c), and the review date (see section 3.5(a)) if different from the date the opinion is signed;
- g. the type of opinion, as described in section 3.11;
- h. 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);
- i. the disclosure in ASOP No. 41, section 4.3, if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and
- j. the disclosure in ASOP No. 41, section 4.4, if, in the actuary's professional judgment, the actuary has otherwise deviated materially from the guidance of this ASOP.

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. 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 is not able to review the prior opining actuary's work, then the actuary should disclose that the prior assumptions, procedures and methods are unknown. (See section 3.8.)
- b. 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.

- c. 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.
- d. 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.
- e. 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 3.9 for guidance on evaluating materiality and adverse deviation.) The explanatory paragraph should contain the amount of adverse deviation that the actuary judges to be material with respect to the statement of actuarial opinion, and 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.

- f. If the actuary makes use of an analysis or opinion of another not within the actuary's control for a material portion of the reserves, the actuary should disclose whether the actuary reviewed the others' underlying analysis. If a review was conducted, the actuary should disclose the extent of the review including items such as the methods and assumptions used and the underlying arithmetic calculations.
- g. 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 evaluation, the actuary should disclose that present values were used in forming the opinion, the interest rate(s) used by the actuary, and the monetary amount of discount that was reflected in the reserve amount.
- h. If the reserves being opined upon are net of ceded reinsurance and the amount of ceded reinsurance is material, the actuary should comment on the collectibility of that reinsurance. This standard does not require the actuary to quantify the collectibility. (See section 3.10.)

- i. When the statement is provided to meet regulatory requirements, the actuary should follow the detailed requirements specified by regulators as to the form and content of the required disclosures, to the extent not addressed above.

Appendix 1

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. ASOP No. 43 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 reserves and reserve evaluations, 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.

Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of this ASOP, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*, was issued in March 2010 with a comment deadline of June 30, 2010. Six 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 Subcommittee on Reserving carefully considered all comments received, and the Casualty Committee and ASB reviewed (and modified, where appropriate) the proposed changes.

Summarized below are the significant issues and questions contained in the comment letters and the responses.

The term “reviewers” in appendix 2 includes the subcommittee, the Casualty Committee, and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in this final version.

GENERAL COMMENTS	
Comment	One commentator thought the use of the word “loss” was confusing and recommended it be eliminated from the standard and replaced by “claim” with a note that the term “loss” is often used in practice.
Response	The reviewers retained the references to “loss reserves” as in the title of the standard, as such use is common and understood. The definition of “loss” states that it is also known as “claim amount.”
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	One commentator suggested the scope be changed to include the actuarial opinion summary and supporting reports.
Response	The reviewers disagree and made no change. The actuarial opinion summary and supporting reports are subject to ASOP Nos. 9, <i>Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations</i> ; 41, <i>Actuarial Communications</i> ; and 43, <i>Property/Casualty Unpaid Claim Estimates</i> ; but 36 is intended to apply solely to the statement of actuarial opinion.
SECTION 2. DEFINITIONS	
Section 2.1, Accounting Date	
Comment	One commentator felt the reference to “as of” date was unclear.
Response	The reviewers think the reference helps clarify the definition for some and have left it unchanged.
Comment	One commentator suggested deleting the phrase “as paid.”
Response	The reviewers modified the definition to refer to both “paid” and “unpaid.”
Comment	One commentator suggested changing to “the date on which an accounting period ends”
Response	The reviewers do not believe this adds clarity and made no change.

2.6, Loss Adjustment Expense	
Comment	One commentator thought this definition should be clarified as to whether it includes both unallocated and allocated claim adjustment expenses, thinking the language of the definition implies only “allocated” (i.e., “defense and cost containment” in Annual Statement vernacular) because it leaves out “adjusting and other” (Annual Statement vernacular for unallocated) as examples of types of costs.
Response	The reviewers note the definition does include “administration” and “determining coverage for” which would be Adjusting and Other expenses. Thus, no change was made to the definition.
Section 2.13, Valuation Date	
Comment	One commentator suggested changing to “the date as of which the actuary’s estimate applies to the opinion.”
Response	The reviewers disagree with this definition, as it is possible for a valuation date to differ from the date at which the estimate applies. For example, if an actuary used data through December 31, 2008 to opine on the reasonableness of a reserve booked at December 31, 2007, the valuation date in this case would be December 31, 2008, while the accounting date would be December 31, 2007.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Comment	Two commentators suggested the removal of the section on Risk Transfer Requirements be mentioned in the transmittal memorandum.
Response	The reviewers do not believe this is necessary and made no change. The reason for its removal, as noted in the appendix of the second exposure draft, was that the reviewers decided this is an accounting issue outside the scope of this ASOP. The deletion of this section does not in any way imply the actuary is obligated to opine that the reserves are established in accordance with regulatory or accounting requirements regarding risk transfer in reinsurance contracts.
Section 3.3, Reserves Being Opined On	
Comment	One commentator questioned the need to identify the reserve amount and accounting date, stating they should be simply disclosed. The commentator further noted the accounting date is not mentioned in the disclosures.
Response	The reviewers note it is reasonable to first identify something before disclosing it. Furthermore, the reviewers note the disclosure in 4.1(d) does include both the reserve amount and the accounting date.
Comment	One commentator suggested changing language to state “if there are specific accounting standards applicable to the stated basis (per section 3.4) of the reserves (for example, US SAP, US GAAP, IFRS, etc.), then the actuary should reflect such stated basis in developing their opinion.”
Response	The reviewers have modified the language by adding the words “if relevant.”
Section 3.4, Stated Basis of Reserve Presentation	
Comment	One commentator suggested the last word in this section be changed from “reserve evaluation” to “opinion.”
Response	The reviewers believe “reserve evaluation” is appropriate.

Section 3.5, Scope of the Analysis Underlying the Statement of Actuarial Opinion	
Comment	One commentator suggested revising section 3.5(a) to read “the review date of the actuary’s unpaid claim estimate analysis....”
Response	The reviewers disagree, as it is the review date of the opinion that should be disclosed in the opinion, which may differ from the review date of an underlying unpaid claim estimate analysis. The language in section 3.5 and the definition in section 2.10 were modified to clarify this.
Section 3.7, Reserve Evaluation	
Comment	One commentator suggested changing the word “producers” in section 3.7.2 to “authors.”
Response	The reviewers decided to change the word to “appropriate parties.”
Comment	One commentator stated the second paragraph of this section was educational in nature and therefore inappropriate for a standard of practice.
Response	While the reviewers agree the second sentence of that paragraph is partly educational, the reviewers believe it adds clarity and have retained it.
Comment	One commentator suggested that the paragraph beginning, “If the actuary makes use of other personnel within...” be moved to section 3.7.1., as the commentator believes an actuary making use of other personnel within the actuary’s control to carry out assignments is essentially developing his/her own estimates, so section 3.7.2 would not apply.
Response	The reviewers did not make the change, as it is possible for an actuary to make use of personnel within the actuary’s control in the process of making use of another’s analysis or opinion per section 3.7.2.
Comment	Multiple commentators disagreed with the removal of the references to “review opinion” and suggested changes to allow for a more limited review in certain cases.
Response	The reviewers disagreed, believing that all opinions subject to the standard should be held to the same requirements. The reviewers note that when conducting a “review opinion” the actuary may decide to make use of data accumulations, methods, assumptions and calculations performed by another actuary, so long as, in the actuary’s professional judgment, it is reasonable to do so, as discussed in section 3.7.2. Additional language was added to section 4.2(f) regarding the disclosure of the extent of the actuary’s review of the underlying analysis.
Comment	Some commentators thought the final sentence in the first paragraph of section 3.7.2 was long and could be clarified.
Response	The reviewers edited this sentence, using an outline form, to clarify.
Comment	Some commentators thought the actuary should be required to disclose issues underlying material differences between the actuary’s conclusions and those of an actuary whose work is reviewed.
Response	The reviewers do not believe such disclosure is relevant to the opinion on the reserves.
Comment	One commentator suggested adding language stating the actuary should consider the reasonableness of the unpaid claims estimate.
Response	The reviewers note this is not necessary, as the standard refers to ASOP No. 43, and ASOP No. 43 addresses the topic of reasonableness.
Section 3.8 , Prior Opinion	
Comment	One commentator suggested adding a reference to section 4.2(a).
Response	The reviewers agreed and made the addition.

Section 3.10, Collectibility of Ceded Reinsurance	
Comment	One commentator suggested adding a sentence, “This standard does not obligate the actuary to quantify uncollectible reinsurance recoveries in cases where the applicable accounting standard does not require it.”
Response	The reviewers believe the instruction to “consider” to be appropriate, and did not make any change.
Section 3.11, Statements of Actuarial Opinion	
Comment	One commentator suggested switching the order of the last two sentences in section 3.11(d).
Response	The reviewers agreed and made the change.
SECTION 4. COMMUNICATIONS AND DISCLOSURES	
Section 4.1, Actuarial Communication	
Comment	One commentator thought the requirement of identifying the intended user of the SAO should be removed, stating they are generally addressed to and paid for by the Board of Directors but there is also clearly an intended use for regulators, and that this is confusing and will lead to criticisms about independence and conflicts of interest.
Response	The reviewers disagree with the suggested change, as the disclosure should add clarity. An example of intended users has been added to section 3.2.
Comment	Some commentators suggested expanding 4.1(f) to include disclosure of the valuation date. One commentator believed this would help provide clarity when an unpaid claim estimate analysis is performed prior to the accounting date with a subsequent roll-forward to the accounting date.
Response	The reviewers believe this disclosure is more appropriate in the underlying report than in the opinion, and have deleted the reference to valuation date in section 3.5. The preparation of the underlying report is covered by ASOP No. 43, which states the actuary should disclose the valuation date.
Comment	One commentator suggested that the requirement in section 4.1(h) of the second exposure draft to make a statement to the effect that the actuary does not reasonably believe that there are significant risks and uncertainties that could result in material adverse deviation is inappropriate. The commentator indicated that while this is the current standard for US statutory statements of actuarial opinions, extending this requirement to other opinions could lead to instances of misinterpretation by less sophisticated audiences, especially in cases where the perception of materiality could differ among the various audiences (for example, a state workers’ compensation loss certification for a self-insured employer).
Response	The reviewers agreed and have deleted section 4.1(h) and modified section 4.2(e). The reviewers note that for US statutory statements of actuarial opinion, the actuary would still be required to make such disclosures per the NAIC annual statement instructions.
Comment	One commentator stated the disclosure requirements in section 4.1(e) were burdensome and inappropriate for an opinion.
Response	The reviewers do not believe the requirement to be burdensome, as in many cases it could be satisfied through referring to specific items in financial statements. The standard does not require an exhaustive list of disclosures as suggested by the commentator.
Comment	Two commentators noted the references to ASOP No. 41 correspond to an exposure draft rather than the standard in place.
Response	This final version refers to the final version of ASOP No. 41 effective April 1, 2011.

Section 4.2, Additional Disclosures	
Comment	One commentator suggested editing section 4.2(a) to read, “If the actuary is not able to review the prior opining actuary’s work....”
Response	The reviewers agreed and made the change.
Comment	One commentator suggested limiting the disclosure in section 4.2(e) to only those cases where the material adverse deviation would be within the actuary’s range of unpaid claim estimates.
Response	<p>The reviewers did not make this change. First, the reviewers believe material adverse deviation that goes beyond the actuary’s range of unpaid claim estimates can be a very useful thing to disclose. The range of reasonably possible outcomes is generally much wider than the range of reasonable unpaid claim estimates, and to the extent there are significant risks and uncertainties that could lead to an outcome that would result in a material adverse deviation, it is useful to disclose such information, even if such outcomes are outside the actuary’s range of estimates. Second, there is no requirement for an actuary to determine a range of unpaid claim estimates, which would be needed in order to modify the standard as the commentator suggested.</p> <p>The commentator used the phrase “significant risk of material adverse deviation.” The reviewers note the language in the standard is “significant risks and uncertainties that could result in a material adverse deviation,” not “significant risk of material adverse deviation.”</p>