

GN18: Actuarial Reporting for U.K. General Insurance Companies writing US Regulated Business

Classification

Recommended Practice

MEMBERS ARE REMINDED THAT EVERY GUIDANCE NOTE MUST BE READ IN THE CONTEXT OF THE PROFESSIONAL CONDUCT STANDARDS (PSC)

Legislation or Authority

National Association of Insurance Commissioners - International Insurers Department and New York and/or other State Insurance Department Regulators.

Application

Actuaries appointed by UK insurance companies to provide opinions required by the International Insurers Department (IID) of the National Association of Insurance Commissioners (NAIC), by the New York Insurance Department (NYID) and/or other State Insurance Departments for companies writing relevant US insurance or reinsurance business.

Author

General Insurance Board

Status

Fast Track Amendment

<i>Version</i>	<i>Effective From</i>
1.0	01.07.1991
1.1	01.06.1996
2.0	31.12.1999
2.1	01.12.2002

Adopted by BAS on 19.05.06

Ceased to apply from 01.10.11

1 Introduction

- 1.1 UK general insurance companies applying for authorisation or authorised to write Excess and Surplus Lines insurance or to write Reinsurance business in the US are required to provide a Statement of Actuarial Opinion (“SAO”) on their worldwide technical provisions net of reinsurance (the “net SAO”) or an SAO for Trust Fund Liabilities for Excess and Surplus Lines and/or Reinsurance business (“Trust Fund SAOs”).

UK insurance companies authorised to write Excess and Surplus Lines business in the US are required to provide the IID with an SAO in respect of their outstanding claims provisions, gross of ceded reinsurance, in respect of relevant business incepting on or after 1st January 1998.

UK insurance companies authorised to write Reinsurance business in the US may also be required to provide NYID with an SAO in respect of their

provisions for outstanding claims and unearned premiums gross of ceded reinsurance on relevant business.

Other US States may impose requirements for Trust Fund SAOs for some or all elements of the related technical provisions gross of ceded reinsurance or for a net SAO in respect of worldwide technical provisions.

- 1.2 This note applies to any actuary instructed by a UK insurance company (“the company”) to provide such SAOs. The actuary must be familiar with the relevant version of any instructions issued by the IID, NYID or any other relevant State Insurance Department (collectively referred to as the “US Regulators”) for this purpose. In addition, the actuary should have regard to any relevant detailed papers or advisory notes issued by the General Insurance Board, such as might be contained in any current Advisory Note. The actuary should also be familiar with the Trust Deeds insofar as they affect the technical provisions for the US Excess and Surplus Lines and for US Reinsurance business.
- 1.3 The nature of the opinions required by the US Regulators is such as to place a high level of responsibility on the profession. The actuary must consider in relation to the Professional Conduct Standards whether he or she has sufficient experience to justify undertaking the assignment. This should include knowledge of the company’s procedures and of types of business similar to those underwritten by the company.
- 1.4 This Guidance Note refers below only to specific requirements for a net SAO as provided to the US Regulators covering worldwide net technical provisions as reported to UK Regulators and to Trust Fund SAOs as provided to NYID for Reinsurance business and as provided to the IID for Excess and Surplus Lines business.
- 1.5 Specimen SAOs are provided in Appendices 1A and 1B. While it is expected that these will be used as models, modifications may be necessary to suit particular cases and/or the particular requirements of US States.

2 Reporting Requirements

- 2.1 The net SAO should, subject to paragraph 5.6 below, cover the worldwide business of the company and include, on a net of ceded reinsurance basis, outstanding claims provisions (including both allocated and unallocated claims handling expenses), and provisions for unearned premiums, unexpired risks and claims equalisation and an appropriate allowance for reinsurance bad debts. The allowance for reinsurance bad debts should include amounts both in respect of reinsurance disputes and reinsurance solvency. The Trust Fund SAOs would normally cover relevant business gross of ceded reinsurance.
- 2.2 The SAOs should be supplemented by a separate management report (“the Report”), addressed by the actuary to the company. The Report should state for whom it is intended and the extent, if any, to which it may be distributed

to third parties other than the US Regulators.

- 2.3 The purpose of the Report, which is a formal report for the purposes of GN12, is to explain the work done by the actuary in order to reach the opinion on the technical provisions. It is expected that, in most situations, this work would include independent estimation of the technical provisions and comparison with those established by the company. In other situations, the actuary's work may not include independent estimation of technical provisions, but rather constitute a review of the methodology and assumptions used by someone else (e.g. the company's own actuarial or other staff) in estimating the technical provisions. This practice is acceptable, provided the actuary signing the SAO is willing to accept personal responsibility for the opinion stated, based on the work reviewed. In these situations the Report should include an explanation of the work performed by the actuary signing the SAO and include details of the work performed by the other party.
- 2.4 The actuary should make clear the purpose of the Report and that it should not be used for purposes for which it is not intended.
- 2.5 The Report should address the key issues. Together with the files, it should be sufficient to allow any other suitably experienced actuary to form a view as to the appropriateness or otherwise of the work carried out. Another actuary should be able, by referring to the Report and files, to reproduce the technical provisions without access to the signing actuary. The Report alone need not be in the detail to allow another actuary to reproduce the technical provisions, but it should be in sufficient detail for another actuary to be satisfied that sufficient work has been done to enable the original actuary to sign the SAO. In particular, if there are any material incongruous results or subjective judgements, the Report should make clear what the actuary has done in order to be satisfied that it was proper to sign the SAO.
- 2.6 If the actuary, following discussion with the company, believes that an SAO can be provided but only with qualifications, then the actuary may still prepare the SAO, using the relevant form of words contained in Appendix 1 (A or B as appropriate), but modified to reflect the qualification, which should make clear to which figure or figures it relates. In this case, the actuary should also prepare the separate Report. It should be recognised that in these circumstances the US Regulators may not accept the SAO and the company may ask the actuary to discontinue work. Any qualification must appear in the SAO; it is not sufficient for the qualification to appear only in the Report.

3. Relationships

- 3.1 The relationships between management, underwriters, and auditors can be complex. The actuary should make clear his or her relationship with each of these parties and the extent to which he or she has used information obtained from them or relied on work undertaken by them. The actuary should not rely

on the auditor unless there is a specific agreement for such reliance.

- 3.2 It is the responsibility of the company to set the technical provisions. The role of the actuary is to provide an SAO on those technical provisions. The professional responsibilities of the actuary in providing the SAO override any responsibilities he or she might have as an employee or consultant.
- 3.3 The actuary should make it clear at the outset that he or she may require frequent access to underwriters and other members of the company's staff, and that he or she may wish to use work carried out by or for the company, including the work of another actuary who has worked for the company as an employee or consultant. However, since the actuary providing the SAO must take full responsibility for the opinion stated, he or she must be satisfied as to the validity of the material used for that purpose.
- 3.4 Although the actuary is required to submit a detailed report to the company, he or she is not required to communicate formally with the board or other governing body in respect of the provision of the SAO.
- 3.5 The SAOs are intended solely for the purpose of complying with the company's US regulatory requirements. Unless the actuary otherwise agrees, reliance on the SAOs for any other purpose should normally not be permitted.

4. Data

- 4.1 The actuary should obtain assurances from the company as to the accuracy and completeness of the data provided. The actuary should review all key data for reasonableness but may otherwise rely upon the company in this respect. The actuary will need to amend the wording of the reference to data in the specimen SAO given in Appendix 1, if he or she encounters anything during the course of the work that gives rise to any material concerns with regard to the accuracy of the data, and the company is unable to resolve these concerns satisfactorily. A specimen Data Accuracy Statement (DAS) from the company is given in Appendix 2. If there are any material data discrepancies or anomalies that cannot be resolved with the company, the actuary should discuss them with the auditor. In some circumstances it may be necessary to modify the wording of the DAS given in Appendix 2.
- 4.2 Should the data prove incomplete, inaccurate, unreliable, or not as appropriate as desired, the actuary should consider whether the use of such imperfect data may produce material biases in the results of the investigation and make appropriate allowances. If the data are so inadequate that they cannot be used to carry out the work necessary for the SAO, even on a very conservative basis, the actuary should decline to provide the SAO concerned.
- 4.3 For the NYID Reinsurance Trust Fund SAO, the actuary is required to verify that the data presented by the company in Schedule P of the annual return to the NYID reconcile with the Trust Fund data used by him or her for the purpose of preparing the SAO. Appropriate wording is included in the

specimen SAO in Appendix 1B to confirm this. If the timescale is such that the actuary is unable to see the final version of the Schedule before signing the SAO, then he or she should obtain a draft of this Schedule prior to signing, and an undertaking from the company that there will be no changes between the draft and the final version. In these circumstances the appropriate paragraph in the SAO should be amended to:

“I have verified that the data contained in a final draft of Schedule P reconcile with the data used for the purpose of preparing this opinion [(except for immaterial differences, possibly due to rounding)/(except for rounding differences)]. [The company] has confirmed that there was/will be no change to Schedule P before submission”.

If the company advises the actuary of any changes, then he or she will need to consider the effect on the calculations, and whether the SAO needs to be amended and re-issued.

5 Valuation Principles

- 5.1 In order to be able to provide an SAO, the actuary needs to be satisfied that the technical provisions or reserves held by the company bear an appropriate relationship to those calculated by applying generally accepted actuarial methods and using assumptions that he or she considers reasonable.
- 5.2 In classes of business which have historically shown a tendency to give rise to latent claims, the actuary should, in the absence of evidence to the contrary, assume continuation of that tendency, but need not allow for the emergence of unanticipated major new types or classes of claims.
- 5.3 The SAOs cover recent and hence immature years. In some cases the available historical data may be insufficient to enable the actuary to use conventional projection techniques. Benchmarking and methods such as the Bornhuetter-Ferguson method are generally accepted actuarial techniques, although the actuary would need to have sufficient information to be satisfied that the benchmarks were reasonable for the business written. Alternative approaches might include obtaining a detailed understanding of the difference between the business included in the benchmark and the business written, and making appropriate adjustments. If the actuary has sufficient doubts as to the suitability of the benchmarks, he or she should amend the wording of the SAO appropriately.
- 5.4 The actuary is required to give an opinion on the technical provisions (or reserves) reported in the SAO and is not expressing any opinion on the components of any split of provisions by class, by underwriting, by accident year, or by currency.
- 5.5 The net SAO and the IID version of the Surplus Lines Trust Fund SAO refer to technical provisions complying with UK insurance regulations. The NYID version of the Reinsurance Trust Fund SAO refers to reserves complying with

New York insurance regulations. Other States may require separate SAOs addressed to the State Insurance Department and with the opinion complying with that State's insurance regulations. The actuary should be familiar with the requirements and the relevant regulations.

- 5.6 In some circumstances the actuary may be asked by the company to provide an SAO on a subset of the outstanding claims provisions to which it is intended to apply. In most situations this is likely to be unacceptable to the US Regulators. However, there may be specific reasons for excluding certain items from the scope of the SAOs: for example, contracts that are subject to ongoing dispute over coverage. The actuary may agree to this, as long as the exclusions are made clear in the SAO.
- 5.7 If there are specific features of the business or the claims that significantly increase the uncertainty, beyond that which a reader of the accounts would reasonably expect, then a comment to that effect should be included in the relevant SAO. In addition, if for some or all elements of the technical provisions the actuary has adopted a methodology that is materially different from generally accepted actuarial methods, then reference should be made to this in the "Additional Comments" section of the SAO and in the Report.
- 5.8 The actuary may be asked by the Company to carry out some of his or her work as at a valuation date prior to the SAO valuation date. In all circumstances, the actuary must carry out sufficient work, using data as at the SAO valuation date, in order to be satisfied that he or she can sign the SAO.

Appendix 1A Opinion on Net Technical Provisions

To: **International Insurers Department**

STATEMENT OF ACTUARIAL OPINION TECHNICAL PROVISIONS FOR [THE COMPANY] AS AT [CURRENT YEAR END]

Identification

I, ABC, am an actuary employed by [the company].

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by [the company].

Qualification

I am a Fellow of the [Casualty Actuarial Society and an Affiliate of the] Faculty/Institute of Actuaries with experience of claims reserving.

Scope

I have examined the technical provisions listed below as at [current year end], as reported in [the Balance Sheet of the UK Companies Act Accounts/Forms 15 and 13(Sheet 2) of the FSA Returns] submitted by the company. [The form references may need to be changed, if the relevant forms are altered. The actuary should refer to relevant instructions issued by the regulators.]

The technical provisions are the responsibility of the company. My responsibility is to express an opinion on those technical provisions based on my review.

Technical Provisions	(£1 = US\$ $x.xxxx$)	
	£000s	US\$'000s
Worldwide Technical Provisions		

The above technical provisions are for indemnity amounts, are net of ceded reinsurance and include amounts for outstanding claims, claims handling expenses (both allocated and unallocated), claims equalisation and provision for future claims arising from unexpired periods of risk. They are net of salvage and subrogation and of anticipated future premiums on past and current business.

The above technical provisions [are / are not] discounted for the time value of money. The reserves make allowance for reinsurance bad debt, where appropriate.

[Where only some of the technical provisions are discounted, details of the claims subject to discounting shall be disclosed.]

I have relied upon data prepared by the responsible employees of the company. These data have not been checked by me, although the company has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the company in determining the reserves, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

"In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary."

[Additional Comments

Other comments at the discretion of the Actuary.

These additional comments do not represent a qualification of my opinion.]

Variability

In evaluating whether the technical provisions make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premiums, claims and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development. Although I have made what I believe to be a reasonable allowance for the risk of adverse development, I have not anticipated the emergence of major new types or classes of claims, nor the emergence of any major new reinsurance disputes.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the technical provisions identified above are no less than the expected future cost, calculated in accordance with the UK Insurance Regulations and make reasonable provision for the expected future cost of the corresponding claims and claims handling expenses net of anticipated future premiums, in respect of business written by the company as at [current year end] under the terms of its policies and agreements.

[Qualifications on Opinion

Other comments at the discretion of the Actuary.]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the company.

This statement of opinion is solely for the use of, and only to be relied upon by, the company and the International Insurers Department in each case for the purposes of compliance with IID/NAIC regulatory requirements.

Signed:

Name:

Fellow of the [Casualty Actuarial Society and Affiliate of the] Faculty/Institute of Actuaries

Date:

Address:

Appendix 1B Opinion on Trust Fund Reserves

To: New York Insurance Department (or Other State Insurance Department)/International Insurers Department

**STATEMENT OF ACTUARIAL OPINION
GROSS RESERVES FOR [THE COMPANY]
US REINSURANCE TRUST FUND/US EXCESS AND SURPLUS LINES
TRUST FUND
AS AT [CURRENT YEAR END]**

Identification

I, ABC, am an actuary employed by [the Company].

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by [the Company].

Qualification

I am a Fellow of the [Casualty Actuarial Society and an Affiliate of the] Faculty/Institute of Actuaries with experience of claims reserving.

Scope

I have examined the reserves listed below as at [current year end], as reported in the US Reinsurance/US Excess and Surplus Lines Trust Fund returns as at [insert date] relating to the business written [for Surplus Lines “on or after 1 January 1998”] under the Fund.

The reserves are the responsibility of the company. My responsibility is to express an opinion on those reserves based on my review.

US REINSURANCE	US\$'000s
Claims and allocated claim expenses	
Unearned Premiums	
Total	

US EXCESS AND SURPLUS LINES	US\$'000s
CASE RESERVES PLUS IBNR	

The above reserves are gross of reinsurance and net of salvage and subrogation. They [are \ are not] discounted for the time value of money.

[Where only some reserves are discounted, details of the claims subject to discounting shall be disclosed. It will be necessary in all cases to check that discounting of the relevant reserves is permitted.]

I have relied upon data prepared by the responsible employees of the Company. These data have not been checked by me, although the Company has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the company in determining the reserves, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

"In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary."

[For Reinsurance Trust Fund add

I have verified that the data contained in Schedule P reconciles with the Trust Fund data used for the purpose of preparing this opinion except for immaterial differences, possibly due to rounding/except for rounding differences].

[Additional Comments

Other comments at the discretion of the Actuary.

These additional comments do not represent a qualification of my opinion.]

Variability

In evaluating whether the reserves make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premiums, claims and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development. Although I have made what I believe to be a reasonable allowance for the risk of adverse development, I have not anticipated the emergence of major new types or classes of claims.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the reserves identified above

- (i) are consistent with [New York/ other US State Insurance Regulations] [UK Insurance Regulations]
- (ii) are calculated in accordance with generally accepted actuarial principles
- (iii) are based on factors relevant to policy provisions
- (iv) make reasonable provision for the [unpaid claims and unearned premiums/case Reserves plus IBNR] net of anticipated future premiums written under the

[Reinsurance/Excess and Surplus Lines] Trust Fund [for Excess and Surplus Lines “on or after 1st January 1998”] as at [end of current year] under the terms of its policies and agreements.

[Qualifications of Opinion

Other comments at the discretion of the Actuary.]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Company.

This statement of opinion is solely for the use of, and only to be relied upon by, the Company and the New York Insurance Department (other State Insurance Departments)/International Insurers Department in each case for the purposes of complying with the Department’s regulatory requirements.

Signed:

Name:

Fellow of the [Casualty Actuarial Society and Affiliate of the] Faculty/Institute of Actuaries

Date:

Address:

Appendix 2: Data Accuracy Statement

I, _____, _____, hereby affirm
Name Title

that the listings and summaries of premium and of claims data (including indemnity and expense amounts)

regarding _____ as at _____ and other
Company XYZ Valuation Date

relevant data and information provided to _____ were
Actuary's name and firm

prepared under my direction and, to the best of my knowledge and belief, are accurate and complete [except where advised otherwise]. _____

Signed : _____ Date : _____