



DATE: October 1, 2011

TO: DOMESTIC CASUALTY, FIRE AND MARINE INSURANCE COMPANIES,
RECIPROCALLS AND INTER-INSURANCE EXCHANGES

SUBJECT: **QUALIFIED ACTUARY, QUALIFIED ACTUARY APPOINTMENTS, AND
CHANGES IN QUALIFIED ACTUARY**
[40 P. S. §§ 443(a)(1) and (2)]

FROM: KAUSHIK K. PATEL, CHIEF
FINANCIAL ANALYSIS DIVISION

Section 320 of The Insurance Company Law, as amended, requires insurers to adhere to the Annual and Quarterly Statement Instructions and the Accounting Practices and Procedures Manuals prescribed by the National Association of Insurance Commissioners ("NAIC").

Under Section 320 and 31 PA Code § 118a, the Pennsylvania Insurance Department ("Department") is requiring the submission of a "Statement of Actuarial Opinion" for the 2011 Annual Statements. In addition to the Regulation and Department policy, this requirement is reinforced in the NAIC's Annual Statement Instructions – Property/Casualty ("Instructions") under the section captioned Actuarial Opinion starting on page 9.

Qualified Actuary

Under the requirements, the Statement of Actuarial Opinion ("Actuarial Opinion") must be prepared by a "Qualified Actuary" which is defined in the Regulation and the Instructions as a person who meets the basic education, experience and continuing education requirements of the Specific Qualification Standard for Statements of Actuarial Opinion, NAIC Property and Casualty Annual Statement, as set forth in the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States*, promulgated by the American Academy of Actuaries, and is either:

- a. A member in good standing of the Casualty Actuarial Society, or
- b. A member in good standing of the American Academy of Actuaries who has been approved as qualified for signing casualty loss reserve opinions by the Casualty Practice Council of the American Academy of Actuaries, or
- c. A person who otherwise has competency in loss reserve evaluation as demonstrated to the satisfaction of the insurance regulatory official of the domiciliary state. In such a case, at least 90 days prior to the filing of its Annual Statement, the insurer must request approval that the person be deemed qualified and that request must be approved or denied. The request must include an NAIC Biographical Affidavit and a list of all loss reserve opinions and/or certifications issued in the last three years by this person.

If the insurance company will be relying on Item (c) mentioned above, the following must be submitted by the insurance company to the Department no later than December 1, 2011:

1. The name of the person requesting to be deemed a qualified actuary.
2. An NAIC Biographical Affidavit on the person.
3. A list of all loss reserve opinions issued in the last three years by the person including a description of the lines of business covered by those opinions.

In determining whether an individual will be approved as a "Qualified Actuary" under Item (c) on Page 1, the Department will consider the following other relevant factors:

1. Historical adequacy of the company's loss and loss adjustment expense reserves.
2. Number of states in which the company writes business.
3. Experience and qualifications of such individual including a demonstration of knowledge and competency in insurance accounting and also in insurance loss reserve estimation.
4. Total assets of the company estimated as of September 30, 2011.
5. Nature and amount of insurance the company writes or assumes.
6. Number of years the company has been in existence.

Please note that a request to qualify an individual as a "Qualified Actuary" applies only to the 2011 Annual Statement. Each subsequent year the insurance company must follow the same procedure to qualify its actuary even if the company intends to use the same person.

The Department recommends that the insurance company submit its request as soon as possible, however, no later than December 1, 2011.

The Department will notify the insurance company by December 31, 2011 if such request has been approved or denied.

Appointment (or "Retention") of Qualified Actuary

The actuary providing an Actuarial Opinion must be a Qualified Actuary appointed by the Board of Directors, or its equivalent, or by a committee of the Board, by December 31 of the calendar year for which the opinion is rendered.

Under the Regulation and the Instructions, upon initial appointment (or "retention") of a Qualified Actuary, the insurance company shall notify the Department within five business days of the appointment with the following information:

1. Name and title (and, in the case of a consulting actuary, the name of the firm),
2. Manner of appointment of the Appointed Actuary (who made the appointment and when), and

3. A statement that the person meets the requirements of a Qualified Actuary (as defined above).

Once this notification is furnished, no further notice is required with respect to this person unless the actuary ceases to be appointed or retained or ceases to meet the requirements of a Qualified Actuary.

Change in Qualified Actuary

Under the Regulation and the Instructions, if an actuary who was the Appointed Actuary for the immediately preceding filed Actuarial Opinion is replaced by an action of the Board of Directors, the insurer shall:

1. Notify the Department of this event, within five (5) business days,
2. Furnish the Department with a separate letter within ten (10) business days of the above notification stating whether in the twenty four (24) months preceding such event there were any disagreements with the former Appointed Actuary regarding the content of the opinion on matters of the risk of material adverse deviation, required disclosures, scopes, procedure, or data quality.

The disagreements required to be reported in response to this paragraph include both those resolved to the former Appointed Actuary's satisfaction and those not resolved to the former Appointed Actuary's satisfaction,

3. In writing, request such former Appointed Actuary to furnish a letter addressed to the insurer stating whether the actuary agrees with the statements contained in the insurer's letter and, if not, stating the reasons for which he/she does not agree, and
4. Furnish such responsive letter from the former Appointed Actuary to the Department together with its own letter. These letters shall be filed in a timely manner.

Filing Requirements

Filings required under the criteria enumerated above must be filed within the stipulated timeframes to:

Commonwealth of Pennsylvania
Insurance Department
Financial Analysis Division
1345 Strawberry Square
Harrisburg, PA 17120