

## Property and Casualty Practice Note

2019

# 5. RELEVANT COMMENTS section

This, the RELEVANT COMMENTS chapter, is the last of four chapters (i.e., [Chapter 2](#) through [Chapter 5](#)) in this practice note that discuss each of the four required sections of the Statement of Actuarial Opinion: IDENTIFICATION, SCOPE, OPINION, and RELEVANT COMMENTS (sections 3 through 6 of the NAIC SAO Instructions).

According to the NAIC SAO Instructions,

*“The Appointed Actuary must provide RELEVANT COMMENT paragraphs to address the following topics of regulatory importance.*

- a. *Company-Specific Risk Factors...*
- b. *Risk of Material Adverse Deviation....*
- c. *Other Disclosures in Exhibit B...*
- d. *Reinsurance...*
- e. *IRIS Ratios...*
- f. *Methods and Assumptions...”<sup>48</sup>*

In addition, the NAIC SAO Instructions state the comments should describe the significance of the Other Disclosures in Exhibit B:

*“RELEVANT COMMENT paragraphs should describe the significance of each of the remaining Disclosure items (8 through 14) in Exhibit B. The Appointed Actuary should address the items individually and in combination when commenting on a material impact.”<sup>49</sup>*

The 2019 AOWG Regulatory Guidance further states:

*In addition to the required Relevant Comments, the Appointed Actuary should consider providing information on other material items such as reinsurance with affiliates, mergers or acquisitions, other premium reserves, and catastrophe risk.*

In addition to the disclosures on Exhibit B, the Appointed Actuary should be familiar with the disclosure requirements of sections 4.1 and 4.2 of [ASOP No. 36](#), which include the following, among others:

- The intended user(s) of the SAO
- The intended purpose of the SAO

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<sup>48</sup> 2019 NAIC Annual Statement Instructions Property/Casualty ([Appendix I.1](#)).

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- The stated basis of reserve presentation
- Whether any material assumption or method was prescribed by applicable law
- Whether the Appointed Actuary disclaims responsibility for any material assumption or method selected by another party

The following sections discuss each of the required RELEVANT COMMENT paragraphs per the Instructions in further detail.

## 5.1 Company Specific Risk Factors

According to the NAIC SAO Instructions:

*“The Appointed Actuary should include an explanatory paragraph to describe the major factors, combination of factors or particular conditions underlying the risks and uncertainties the Appointed Actuary considers relevant. The explanatory paragraph should not include general, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces, etc., nor is the Appointed Actuary required to include an exhaustive list of all potential sources of risks and uncertainties.”<sup>50</sup>*

In this section we will discuss required commentary on major factors or particular conditions underlying the significant risks or uncertainties that the Appointed Actuary considers relevant to the statutory entity.

### 5.1.1 Discussion

The 2019 NAIC SAO Instructions require the Appointed Actuary to comment on company specific risk factors even when no risk of material adverse deviation is judged to exist. COPLFR has prepared a list of possible risk factors; these are not meant to be all-inclusive and certainly are not meant to apply to every company. For example, one would not expect to see discussion of the risk of A&E losses for a personal lines company. The list below is meant to provide some suggestions for the types of risk factors and underlying loss exposures for which comment may be appropriate:

- A&E losses
- Other emerging mass torts
- Construction defects
- Catastrophic weather events
- Exposure related to mortgage defaults
- Exposure to cyber liability
- High excess layers
- Impact of soft market conditions

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