

Property and Casualty Practice Note

2020

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...”⁵⁴*

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.”⁵⁵

The 2020 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 must follow 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

⁵⁴ 2020 NAIC Annual Statement Instructions Property/Casualty ([Appendix I.1](#)).

⁵⁵ 2020 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 NAIC SAO 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.”⁵⁶

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 2020 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:

- COVID-19 (see [Section 5.7](#))
- A&E losses
- Other emerging mass torts
- Construction defects
- Catastrophic weather events
- Conflagration events
- Exposure related to mortgage defaults
- Exposure to cyber liability

⁵⁶ 2020 NAIC Annual Statement Instructions Property/Casualty ([Appendix I.1](#)).

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- High excess layers
- Impact of soft market conditions
- Large deductible workers' compensation claims
- Medical professional liability legislative issues
- New products or new markets
- Opioid epidemic
- Rapid growth in one or more lines of business or segments
- Lack of data or unexpected and unexplained changes in data
- Operational changes that are not objectively quantified
- Sudden unexplained changes in frequency or severity of reported data for a line of business or segment
- Changes in adequacy of known case reserves
- Changes in distribution of policy limits and/or policy attachments/deductibles
- Terms and conditions of reinsurance contracts

The NAIC SAO Instructions direct the Appointed Actuary to address “the major factors, combination of factors or particular conditions underlying the risks and uncertainties the Appointed Actuary considers relevant.” The list below is meant to provide some suggestions for the types of combinations of risk factors and conditions about which comment may be appropriate:

- Rapid growth during a soft market in a line of business in which the company has limited historical experience
- Risk of adverse medical inflation on a large book of excess workers' compensation business
- Risk of increased sustained unemployment, along with reductions in home prices on a mortgage insurance book of business
- Significant shifts upward in policy limits and attachment points sold, along with a reduction in reinsurance protection purchased

Note:

- The Appointed Actuary may refer to section 4.2.e of ASOP No. 36, which pertains to Significant Risks and Uncertainties, for further guidance about the explanatory paragraph.

5.1.2 Illustrative language

The following language may be appropriate. Note that the 2020 AOWG Regulatory Guidance requires this section of the SAO to go beyond the mention of general risk factors, such as the first three sentences of the following illustrative language. Including only these first three sentences would not satisfy the regulatory requirement around risk factors; subsequent sentences would be necessary: