



SOCIETY OF ACTUARIES

**Health Valuation Boot Camp
August 12- 13, 2009**

**Session # 7: Recent Changes and Issues
from the NAIC**

**Darrell Knapp, FSA, MAAA
Russell D. Willard, FSA, MAAA**

Valuation Boot Camp

Actuarial Opinion Changes

Actuarial Opinion Requirements

- Background
- Overview of requirements
 - Appointment
 - Opinion wording
 - Memorandum



Background

- Actuarial opinion is required to accompany statutory financial statements
- Health opinion requirements defined in blank instructions
 - Same for P/C
 - Life requirements in regulations
 - Creates a conflict when a life company files an orange blank

Requirements

- Appointment
 - Qualified health actuary
 - By board or committee of the board
 - Prior to December 31
 - Notification to state of domicile
 - Procedures for replacement
 - Annually report to the board



Requirements

- Opinion wording
 - Table of key indicators
 - Opinion is unqualified/qualified/adverse/inconclusive
 - Required wording is prescribed only/prescribed with additional/revised
 - Additional relevant comments
 - Any ASOP “deviation from standard” wording

Requirements

- Opinion wording (cont'd)
 - Identification section
 - Identify
 - Qualified
 - Relationship to company
 - Appointed
 - Scope section
 - List specific lines (even if zero)

Requirements

- Opinion wording (cont'd)
 - Reliance section
 - Either responsible for data or attach a reliance statement
 - Reconciled U&I Exhibit Part 2B to lag data
 - Opinion section
 - Opinion statements
 - U&I Exhibit Part 2B reviewed
 - Work conforms to ASOPs
 - Relevant comments
 - Signature

Requirements

- Opinion Statements
 - A. Actuarial standards consistently applied and fairly stated
 - B. Assumptions relevant to contract and appropriate for purpose
 - C. Meet requirements of laws of states
 - D. Make good and sufficient provision
 - E. Consistent with prior year
 - F. Include appropriate provision for all items that ought to be established

Requirements

- Memorandum
 - Available by May 1
 - Components
 - Narrative that will explain to management, regulator or other authority findings and conclusions
 - Technical
 - Sufficient documentation for another qualified actuary to evaluate quality of analysis
 - Include from lags to conclusions
 - Exhibit reconciling to annual statement
 - Documentation of U&I Part 2B reconciliation
 - Follow up studies
 - Documentation of assumptions in contract reserves

Health Valuation Boot Camp

Risk Based Capital



August 13, 2009

Russ Willard

HUMANA
Guidance when you need it most

RBC

- RBC
 - Factors increasing to how much?
 - When?

RBC

- RBC
 - Factors doubling for Part D
 - NAIC adopts factor changes
 - NAIC adopts trend test

The NAIC



AHIP and
the
Academy

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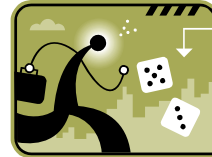
Economic Capital Model

- RBC designed as a **minimum capital requirement**
 - does not address any target or economic capital levels.
- Economic Capital Model calculates **target economic capital**.
- Economic Capital Model details can identify
 - **Company specific risks**
 - **Risk interaction**
 - Impact of **changing risks** upon future strategy.
 - **Target EC amount** identifies company's self image.

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Tools in the Solvency System

- Enterprise Risk Management
 - Revised Model Audit Rule provides the foundation of a sound ERM
 - Required documentation
 - Testing
 - Management's attestation to Internal controls over financial reporting.
 - "Management's Discussion and Analysis"
- Internal Models.



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Tools in the Solvency System

- . **Concerns expressed by NAIC:**
 - Over-Reliance on just one tool
 - Under-estimating value of internal modeling.
 - Failure to make full recognition of model risk with appropriate margins for uncertainties.



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