

Loss Reserve Opinions

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The recent issue of loss reserve opinions and the Statement of Actuarial Opinion (SAO) has been one of the main concerns in the property-casualty industry. The key issue here is the recent public inquiry of the actuarial opinions on loss reserves. In an Issue Brief by the American Academy of Actuaries, it states that recent developments have “increased scrutiny by regulators and the public of the published financial reports of insurance companies, and increased attention to the SAO and the role of the actuary” (1). This is a very important concern for the profession and actuaries are now trying to find ways to improve upon their opinions.

“A primary purpose of the SAO is to present the Appointed Actuary’s opinion regarding the reasonableness of the loss reserves reflected on the insurance company’s balance sheet” (Issue Brief 1). Unfortunately, the level of uncertainty when it comes to reserves is fairly high. Changes to the legal, social and economic environment all contribute to the uncertainty of loss reserves. Courts continually changing the way policies are interpreted, the constant change in the amount of claims being filled, and the possible changes to the nature and quality of the business cannot be precisely realized when the reserve opinion is made (Issue Brief 3). Therefore, these reserve estimates can be somewhat uncertain.

Despite the uncertainty of the reserves, it is the actuary’s job to find a reasonable estimate and range for the loss reserves of a company. Recently, actuaries are trying to improve their way of handling reserves. Mary Francis Miller, former Casualty Actuarial Society President, said in a CAS Press Release that “the organization's board is looking at ways to improve the credibility of the profession, particularly with regards to doubts

about the adequacy of stated loss reserves” (1). There are a number a initiatives that are under consideration, including having the actuary’s experience requirements increased, peer review, requiring the actuary to meet with the company's audit committee regularly, and developing a public track record of actuary’s that sign opinions (CAS: Press Release 1). These changes will hopefully improve the public’s perception of the actuary and their role in reserve opinions.

This issue is not a simple fix, however. It will remain a current issue for years to come. The recent 2006 Casualty Loss Reserve Seminar had a main focus on these recurring topics. According to an article before the seminar, the focus of the seminar will be on “a need by actuaries to broaden the scope and detail of their reviews and opinions” (National Underwriter 1). Learning new techniques and learning about recent changes in the practice will continue to help with the recent scrutiny on the actuary profession.

Overall, the recent concern on actuarial loss reserve opinions is an extremely important issue in the actuarial profession. Recent changes should help with the public perception of the actuary, but it does not stop there. Actuaries must continue to attempt to improve the quality of their analysis of loss reserves. It is also important to make sure that the companies realize the importance of setting an accurate reserve and ensure that they take the advice that the actuary gives them in their Statement of Actuarial Opinion. While the recent concerns of actuarial opinions have caused criticism in the press, actuaries are taken the necessary strides to ensure that they continue enhance their knowledge and professionalism in an ever-changing environment.

Works Cited

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