



BERMUDA MONETARY AUTHORITY

GUIDANCE NOTE

GROUP ACTUARY'S OPINION

JANUARY 2014

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INTRODUCTION

I. BACKGROUND

1. In the process of implementing its group supervisory regime, the Authority published Group Supervision Rules¹ (GSR – the “Group Rules”) laying out the framework for group supervision and clarifying the group statutory functions of the Group Actuary (GA).
2. Part 2 subparagraph 25 (3)(c) - Group Statutory Financial Return – of the Group Rules specifies that the group statutory financial return must consist of a number of documents including “an opinion of a Group Actuary where such is required under paragraph 27 and prescribed in schedule 2” of those same rules. Furthermore Part 2 subparagraph 25 (5) of this same section indicates that Schedule 2 of the Group Rules prescribes the form and content of the Group Actuary’s opinion and Part 2 paragraph 27 - Opinion of Group Actuary – stipulates that the statutory financial return required by subparagraph 25 (3) of the Group Rules shall include an annual opinion of a Group Actuary in respect of the insurance group’s Insurance Reserves.
3. Schedule 2 paragraph (3) – Group Actuary’s Opinion – stipulates that, as per the instructions for Line 17(d) and 27(d) of the Group Statutory Balance Sheet under Schedule 1, the actuary's opinion must state whether or not, in the opinion of the group’s actuary, the aggregate amount of the liabilities of the group, in relation to insurance business as at the end of the relevant year, are adequate.
4. In accordance with the Authority’s approach, this Guidance Note on the Group Actuary’s Opinion (GAO) is intended to make clear the Authority’s expectations in relation to the Group Rules associated with the group statutory functions of the GA.
5. A primary focus of the Guidance Note is to elaborate upon the Authority’s general approach to the supervision of groups in relation to their engagement of GAs which involves setting out prudent and robust fundamental requirements that groups and their GAs are expected to adhere to during the course of the engagement.
6. The responsibility of professionally opining upon the adequacy of insurance reserves reflected in an insurance group’s statutory financial returns is integral to Bermuda’s insurance supervisory framework. The GAO, issued through this process, assists the Authority in monitoring the adequacy of insurance reserves for groups.
7. The GA approval process that the Authority has implemented is intended to ensure that reliance can be placed upon the professionalism of the GA and the professional standards of his/her official actuarial body.

¹ Group Supervision Rules (GSR – the “Group Rules”) means the Insurance (Group Supervision) Rules 2011.

8. The Authority is of the view that once a GA has been approved, the regulatory focus of the Authority should be placed upon the work product of the GA in the context of the group. The Authority expects that a GA will continue to be a qualified member in good standing of an accredited actuarial body, and will continue to fully comply with the membership and Continuing Professional Development requirements of that organisation.
9. GA roles are carried out by “natural persons” deemed by the Authority to be appropriately skilled actuarial professionals. The Authority has released specific guidance² in relation to both 1) the fit and proper criteria for the approval of actuarial professionals, as well as 2) the roles and responsibilities of actuarial professionals once approved in relation to legal entities.
10. This Guidance Note leans on previously released actuarial guidance, with specific focus upon the fit and proper criteria for the approval of GAs and the roles and responsibilities of GAs once approved.
11. The Authority recognises the need for clarity as to the scope and implementation of the provisions of the Insurance Act 1978 (“the Act”)³ and the Insurance (Group Supervision) Rules 2011 if the regulatory system is to command the confidence of insurers⁴ and contract/policyholders as well as other regulatory bodies. The Authority therefore seeks to ensure that those operating in the context of the Bermuda market have a sound understanding of the Authority’s approach to implementing the Act in the context of GAs.
12. While the Authority aims to provide clarity as to its approach, this Guidance Note cannot be exhaustive. The Authority will endeavour, through this and other guidance notes, to set out information about its regulatory approach and expectations regarding the activities associated with GAs. Ultimately, it is the responsibility of the group to ensure its compliance with the Act and the Group Rules, and all queries associated with this guidance note should be directed to the Authority.
13. There is likely to be a need for some modification in the GA guidance over time, particularly in light of proposals by the IASB and FASB⁵ and Economic Balance Sheet consultations. In this context, it is generally the approach of the Authority to expose material changes in process to industry for comment before being published in final form.

² Guidance Notes #3(GN3), #4(GN4), #9(GN9) and #10(GN10) lay out the Authority’s direction in relation to the fit and proper criteria and roles of Loss Reserve Specialists and Approved Actuaries.

³ “The Act” means the Insurance Act 1978 and its related regulations. The Insurance (Group Supervision) Rules 2011 form a part of the “Act”.

⁴ Unless otherwise indicated, the term “insurer”, as defined per Section 1 of the Insurance Act 1978, refers to insurers, reinsurers and insurer/reinsurer Bermuda groups.

⁵ International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB).

II. INTERPRETATION

14. Group Actuary A natural person approved by the Authority under Section 27G of the Act as qualified to provide an opinion as to the adequacy of an insurance group's: a) net loss and loss expense provisions, Line 17(d), for its General Business and b) total Long-Term Business insurance reserves, Line 27(d), as reported in its statutory financial statements.
15. Actuarial Point Estimate An estimate that represents an expected value over a range of reasonably possible outcomes⁶. This range may not include all conceivable outcomes, as, for example, it may not include conceivable extreme events where the contribution of such events to an expected value is not reliably estimable. An "actuarial point estimate" may or may not be the result of the use of a probability distribution or a statistical analysis, and, in the GA's professional judgement, is neither optimistic nor pessimistic.⁷
16. Adequate In the context of a GA opining on Line 17(d) and Line 27(d) of the statutory financial statements, "adequate" means that the held reserve equals or exceeds an actuarial point estimate considered to be a reasonable estimate of liabilities. This requirement is not intended to imply that the GA should in all cases develop an actuarial point estimate. For the purposes of evaluating reserves, the GA may develop a single "actuarial point estimate" or a "range of reasonable estimates" where each point within the range meets the definition of "actuarial point estimate".
17. Adverse Deviation The potential variation in the actual amount that will be needed to pay future obligations gives rise to uncertainty in the reserve estimates. In the context of this GN, an adverse deviation occurs when such a variation results in amounts higher than provided for in the Insurance Reserves. The GA should consider whether there are significant risks and uncertainties that could result in a material adverse deviation.⁸
18. Materiality In evaluating materiality within the context of "adverse deviation", the GA should consider the purposes and intended uses for which he/she is preparing the statement of actuarial opinion. In discussing "Material Adverse Deviation" within Part 6 – Relevant Comment of the Opinion - the GA should arrive at a conclusion as to whether or not significant risk factors and/or uncertainties exist that could result in a material adverse deviation of unpaid liabilities from the held reserve amounts. The GA must select a materiality standard in the context of the company's (regulatory)

⁶ Such estimate is commonly referred to as a "best estimate".

⁷ Actuarial Standards Board (ASB) - Actuarial Standards of Practice (ASOP) - No. 43 - "Actuarial Central Estimate".

⁸ This definition is consistent with ASB - ASOP - No. 36 - 3.9.

capital and surplus and/or held reserves. Finally the GA should discuss the considerations underlying his/her conclusions.⁹

FIT AND PROPER CRITERIA AND APPROVAL PROCESS FOR GROUP ACTUARIES

III. APPOINTMENT OF A GROUP ACTUARY

19. Section 27G of the Act stipulates that the designated insurer of an insurance group must appoint a GA for the purposes of opening upon their Insurance Reserves and that this appointment is subject to approval by the Authority. The GAO is to be provided annually with the Statutory Financial Return.
20. Each insurance group that is required to appoint a GA must apply in writing to the Authority for approval of their candidate(s) for that position. The Authority will confirm in writing its decision concerning the approval or otherwise of the insurance group's candidate(s) for GA.
21. Where there are any material changes in the information included in the GA application, subsequent to the GA's approval, the insurance group has the duty to forthwith provide written notice of the changes to the Authority.

IV. APPROVAL PROCESS FOR A GROUP ACTUARY

22. The process of approval generally requires that an insurance group provide adequate information to the Authority to demonstrate that its candidate for the post meets the eligibility and fit and proper criteria discussed herein. This documentation is expected to include, but is not limited to:
 - a. Cover Letter from the insurance group making request for the named candidate to be approved. If applicable, this letter should include a written explanation for any change from the current GA. This letter should also confirm that the appointed GA shall have the ability to communicate directly with the parent board without the need for management review or approval; and that the parent board shall have direct access to the GA. This requirement might be complied with by ensuring that the GA is able to address the parent board or an appropriate committee thereof, directly without management executives being present;
 - b. Letter of Resignation from the current GA;
 - c. Letter of Undertaking and Acceptance from the candidate stating that the GA:

⁹ The ASB - ASOP - No. 36 - 3.6, for example, states that "the actuary should evaluate materiality based on the actuary's professional judgment, any applicable materiality guidelines or standards, and the intended purpose for which the actuary is preparing the statement of actuarial opinion. The actuary should understand which financial values are usually important to the intended users of the statement of actuarial opinion and how those financial values are likely to be affected by changes in the reserves and future payments for losses and loss adjustment expenses."

- i. Undertakes to perform their functions in accordance with the Group Rules, the accounting standards adopted by the group and the professional standards of their official actuarial body;
 - ii. Has the ability to fulfill the role of GA, laying out specific work experience and skills relevant to the business underwritten by the group;
 - iii. Confirms his/her understanding that he/she shall have the ability to communicate directly with the parent board without the need for management review or approval; and that the parent board shall have direct access to the GA;
 - iv. Meets the Continuing Professional Development requirements promulgated by their official actuarial body; and
 - v. Commits to providing a letter of resignation as required in b. above at the time of his/her resignation from the GA role.
- d. Resumé from the candidate with information about relevant qualifications, including membership in professional associations, employment history and related work experience; and
 - e. Copy of certificates and/or confirming evidence from official actuarial bodies attesting to the fact that the candidate is a qualified member in good standing of the associations.

V. CRITERIA FOR APPROVAL

23. Prior to approving a person as a GA, the Authority will assess whether the proposed GA is fit and proper to fulfill the role required. Fit and proper criteria would include whether, commensurate with the nature, scale and complexity of the insurance group's business and the requirements and standards of the Act, the person possesses the appropriate integrity, competency, resources, qualifications and experience including being appropriately conversant with the accounting standards adopted by the group.
24. A person will generally be considered fit and proper to serve as a GA if the person:
- a. Is a qualified member in good standing of the Institute and Faculty of Actuaries (in the UK), the Canadian Institute of Actuaries, the Casualty Actuarial Society (in the US), the American Academy of Actuaries, or the Institute of Actuaries of Australia; when opining upon Line 17(d) of the annual statutory financial return in Section 1 - General Business of the GAO; and/or
 - b. Is a qualified member in good standing of the Institute and Faculty of Actuaries (in the UK), the Canadian Institute of Actuaries, the Society of Actuaries (in the U.S), the American Academy of Actuaries, or the Institute of Actuaries of Australia; when opining upon Line 27(d) of the annual statutory financial return in Section 2 - Long-Term Business of the GAO; and
 - c. Meets the continuing professional development requirements promulgated by their official actuarial body;

- d. Meets the education, examination and experience requirements to be considered qualified to sign statutory statements of actuarial opinions pertaining to the lines of business included in Line 17(d) and/or Line 27(d), as applicable, by their official actuarial body;
 - e. Has experience in insurance reserves evaluation for the business as written by the insurance group, including being appropriately conversant with the accounting standards adopted by the group; and
 - f. Is not subject to any actual, potential or perceived conflicts that may prevent the GA from objectively fulfilling his/her role.
25. In the event that an insurance group wishes to propose the same candidate to opine upon both Line 17(d) and Line 27(d), pursuant to paragraph 32.c., but where the proposed GA meets the criteria set out in paragraph 24 to opine upon either Line 17(d) or Line 27(d), but not both, then the Authority may use its discretion to approve the appointment of the person, giving due regard to the particular circumstances, such as the materiality of the business as written by the insurance group to be opined upon.
26. The principle of objectivity imposes an obligation on all GAs not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. As such, we will generally expect specific disclosures to be made if the GA is not financially, organisationally, or otherwise independent in relation to the provision of the GA opinion.¹⁰
27. While the proposed GA may be an employee of, or consultant to, the insurance group, a person will generally not be approved as a GA if the person is:
- a. A chief executive officer, a chief operating officer, a chief financial officer, a chief risk officer, a chief underwriting officer (or a person performing like functions within the group);
 - b. A director of the group. Where the proposed GA holds directorships at the subsidiary level within the group, the Authority may exercise its discretion in granting approval in such circumstances provided, generally, that the combined net insurance reserves of the entities for which he/she is a director amount to no more than 30% of the total for the group (considered separately for line 17(d) and line 27(d));
 - c. A person with operational underwriting (and/or pricing) or claims authority within the group; or,
 - d. A person who has any personal financial ties with one or more key persons in the group as identified in a., b. and/or c. herein, where, in the view of the Authority, there is an actual or perceived conflict of interest or lack of independence, that could affect the GA's ability to objectively fulfill his/her role.

¹⁰ These guidelines are consistent with the ASB - ASOP - No. 41 - Actuarial Communications - 3.4.2 - Conflict of Interest.

28. Where the insurance group elects to appoint a GA from within the group, the insurance group must ensure that the compensation of the proposed GA, once the GA is appointed, does not compromise the GA's independence.

VI. FITNESS AND PROPRIETY OF A GROUP ACTUARY

29. Prior to selecting a candidate for the role of GA, the insurance group is expected to consider whether its candidate meets the eligibility criteria of the Authority and whether the candidate is fit and proper to fulfill his/her role. This requires considering whether, commensurate with the nature, scale and complexity of the insurance group's business and the requirements and standards of the Act, the person possesses the appropriate integrity, competency, resources, qualifications and experience including being appropriately conversant with the accounting standards adopted by the group. Wherever appropriate, the insurance group should seek confirmation of this, in advance, from the candidate.

30. If an insurance group becomes aware at any time that its GA is no longer fit and proper, the insurance group has the duty to forthwith inform the Authority and replace the GA with a person who meets the eligibility and fit and proper criteria.

31. An insurance group is expected to provide information when requested by the Authority, to demonstrate that its candidate for GA meets, or in the case of an incumbent GA, continues to meet the eligibility and fit and proper criteria.

32. The Authority will generally approve no more than:

- a. One GA to opine upon Line 17(d) in Section 1 - General Business - of the GAO where the proposed GA meets the criteria set out in paragraph 24 for the General Business of the group; and
- b. One GA to opine upon Line 27(d) in Section 2 - Long-Term Business - of the GAO where the proposed GA meets the criteria set out in paragraph 24 for the Long-Term Business of the group; or
- c. One GA to opine upon both Line 17(d) and Line 27(d) of the GAO where the proposed GA meets the criteria set out in paragraph 24 for both the General and Long-Term Business of the group.

33. Where a group can establish a valid argument that it underwrites one or more specialist segments of business, where the segment must be reported jointly either on Line 17(d) and/or Line 27(d), e.g. Health and General P&C and/or Health and General Life, then the Authority will use its discretion to consider an application made by the group for an additional GA to be appointed.

34. In the event that an insurance group wishes to propose a GA who does not appear to meet the criteria of paragraph 24, the insurance group should seek preliminary

discussions with the Authority in order to identify any issues that would need to be addressed prior to such an appointment being made.

35. When making an approval the Authority may use its discretion to place appropriate limitations within the notification of approval, giving due regard to the particular circumstances, such as the business as written by the insurance group to be opined upon.

VII. ACCEPTANCE OF AN ENGAGEMENT

36. Prior to accepting an appointment as a GA, and on an ongoing basis, the candidate is expected to be satisfied, given the nature, scale and complexity of the business as written by the insurance group, and their level of familiarity with the accounting standards adopted by the group, that the estimation of the insurance reserves of the insurance group (pursuant to the Act) is within their professional expertise and proficiency.
37. The candidate is expected to confirm in the Letter of Undertaking and Acceptance that he/she is not subject to any actual, potential or perceived conflicts that may prevent him/her from objectively fulfilling his/her role. A GA may be an employee of the insurance group. In this instance, and any other similar circumstances (whether or not identified in paragraph 27 above) where there could be a perceived conflict of interest, the candidate is expected to disclose such a relationship to the Authority prior to making formal application for approval.¹¹ In such circumstances the Authority will ascertain whether the perceived conflict disqualifies the candidate from being considered for approval.

VIII. NOTIFICATION OF APPROVAL

38. The Authority shall, upon its approval of the candidate, issue a written notification of such approval. Such notification may include specified conditions and may restrict the approval to General Business and/or Long-Term Business dependent upon whether the insurance group explicitly makes application for the GA to be approved to opine upon Line 17(d) or Line 27(d) or both.

IX. CHANGE IN GROUP ACTUARY

39. Where there is a proposed change to a GA, the insurance group has the duty to forthwith provide written notice to the Authority of the proposed change and, if applicable, the reasons for the change.

¹¹ Where a conflict of interest creates a threat to the GA's objectivity, confidentiality, or professional behavior that, in the opinion of the Authority, cannot be eliminated or reduced to an acceptable level through the application of safeguards, the GA shall not accept the engagement or shall resign from one or more conflicting roles or engagements.

40. Where a GA's appointment is terminated or where the GA resigns and where there are circumstances connected to the ending of the appointment which in the GA's professional judgment should be brought to the attention of the Authority, then, in addition to the letter of resignation discussed in paragraph 22.b., the GA has the duty to forthwith provide written notice to the Authority. This written notice should be issued without the need for group management review or approval and should include details of the reasons for the cessation of appointment.

X. DISQUALIFICATIONS

41. The Authority may require that an insurance group remove a person occupying the role of GA where the Authority considers the person to no longer be fit and proper for the role. Criteria for disqualification could include, but are not limited to, where the person:
- a. Has failed to perform the functions and duties of such appointment satisfactorily; or
 - b. No longer meets the fit and proper criteria for such an appointment; or
 - c. Fails to meet the Continuing Professional Development requirements promulgated by the GA's official actuarial body(s).
42. The Authority shall not revoke its approval unless it has first notified the GA and the insurance group of its intention to do so.

ROLE OF GROUP ACTUARIES

XI. ACCEPTED ACTUARIAL PRACTICE

43. It is the responsibility of the GA to be conversant with the requirements of the Act and the Insurance (Group Supervision) Rules 2011 and their implications with respect to the issuance of his/her opinion.
44. The GA's estimate of Insurance Reserves and any other matters specified by the Authority are expected to be prepared in accordance with accepted actuarial practice and all applicable standards of practice of his/her official actuarial body, the accounting standards adopted by the group and the Group Rules. Where actuarial practice standards of the official actuarial body have geographical limitations, these limitations should generally be interpreted to include Bermuda for the purposes of providing a GAO. However, where any provisions of the Group Rules differ from the standards of practice, then the Group Rules shall prevail.

XII. DISCOUNTING OF GENERAL BUSINESS INSURANCE RESERVES

45. In determining the rules applicable to discounting General Business Insurance Reserves for groups, the accounting standard of the group, as recognised by the Authority, shall apply. Accounting standards or principles recognised by the Authority include —

- a. International Financial Reporting Standards (IFRS);
- b. Generally Accepted Accounting Principles (GAAP) that apply in Bermuda, Canada, the United Kingdom or the United States of America; or
- c. Such other GAAP or international standards as the Authority may recognise.

46. Where an insurance group's approved accounting standard does not allow for discounting, but where that insurance group is of the opinion that it can satisfy the Authority that specified insurance reserves should qualify for discounting, then an appropriate application should be made.

XIII. RIGHT TO INFORMATION

47. An insurance group is expected to make any reasonable arrangements that are necessary to enable the GA to complete his/her assigned responsibilities. This includes promptly complying with any and all reasonable requests for information. Where any such arrangement is denied by the insurance group, the GA has the duty to forthwith notify the Authority.

XIV. COMMUNICATION OF OPINION

48. The GA shall provide an opinion as to the adequacy of the insurance reserves and shall state the extent to which any instructions in the Group Rules relating to the valuation or presentation of these insurance reserves have been complied with.

49. The following sets out minimum standards for the presentation, and the level of detail expected to be included in the communication of the GA's Opinion. The Opinion should be comprised of up to eighteen parts, nine parts for General Business - Section 1 and nine parts for Long-Term Business - Section 2, as described below:

Section 1 – General Business (and/or Section 2 – Long-Term Business) - Part 1 – Identification

50. This section should:

- a. Identify the name of the GA; his/her full address; and the professional qualifications under which the opinion is being rendered;
- b. Include confirmation that the GA continues to be a qualified member in good standing of all official actuarial bodies included in the application to the Authority for his/her approval and that the GA has met the Continuing Professional Development requirements promulgated by their official actuarial body for the period ending [day/month/year], where the signing date of the Opinion falls within one year of that date;

- c. Confirm whether or not the GA has ties to the group that could be perceived to render the GA as not being financially, organisationally, or otherwise independent relative to the communications disclosed within the group’s actuarial opinion¹²;
- d. Where the GA holds a directorship in one or more subsidiaries of the group, state any directorships held, and include a statement that “the combined net insurance reserves of the subsidiary(s) where I hold a directorship(s) is x% of the total net group insurance reserves included in Line 17(d) and y% of the total net group insurance reserves included in Line 27(d)” as applicable; and
- e. Include confirmation that the GA satisfies the fit and proper criteria, with due consideration of the nature, scale and complexity of the insurance group’s business and the accounting standards adopted by the group.

Section 1 – General Business (and/or Section 2 – Long-Term Business) - Part 2 – Scope

51. This section should identify the insurance group involved and the valuation date of the opinion, and provide details defining the business that is the subject of the opinion. This section should clearly identify the sections of the Insurance Act and/or Group Supervision Rules under which the provision is being provided, the relevant lines of the annual statement (or the portion thereof) for which the opinion is being given, and the date of the Statutory Financial Statements of which these lines form a part of.

Section 1 – General Business (and/or Section 2 – Long-Term Business) - Part 3 – Conditions and Limitations

52. In this section the GA should provide details concerning all reasonably foreseeable conditions and limitations relevant to determination of insurance reserves specific to the insurance group’s business and circumstances. It is not necessary that the GA state general broad statements about risks and uncertainties.

Section 1 – General Business (and/or Section 2 – Long-Term Business) - Part 4 – Expression of Opinion

53. The opinion should be clearly stated, without restriction where appropriate, and must show the GA’s quantified actuarial point estimate of liabilities and/or the lower bound of his/her range of actuarial estimates.
- a. Where the GA considers the held reserves to be adequate, but where either the held reserves are lower than the GA’s quantified actuarial point estimate or where the GA has not produced a quantified actuarial point estimate, then the GA must show the lower bound of his/her range of reasonable actuarial estimates. For this

¹² Where this statement does not confirm independence, as discussed in paragraphs 26 and 27, the GA candidate should disclose any pertinent information that is not apparent.

- purpose the range should reflect a range of actuarial judgmentally determined reasonable estimates, rather than the (wider) range of all possible outcomes;
- b. Where the GA issues a qualified opinion in circumstances where the reserves for certain item(s) are in question, the GA should disclose in the opinion the item or items to which the qualification relates, the reasons for the qualification, and the amount of group reserves held for such items if this detail is disclosed by the group. If the amounts for such items are not separately disclosed by the group, then the GA should disclose whether the group's held reserves include unquantified values for such qualified items. The GA should also disclose whether the held reserves make an adequate provision for the aggregate liabilities for all business written except for the item or items to which the qualification relates.

Section 1 – General Business only - Part 4 - Expression of Opinion

54. The opinion paragraph for insurance groups with general business insurers should include sentences which cover at least the points listed in the following illustration:

a. **Option A:**

“In my opinion, the amount of \$x carried at line 17(d) of the group statutory balance sheet:

- i. [Meets; does not meet] the requirements of the insurance laws of Bermuda;
- ii. [Makes; does not make] an adequate provision for total unpaid incurred losses and loss adjustment expenses of the group under the terms of its contracts and agreements.”

In instances where the GA has elected to report an actuarial point estimate of liabilities, a statement reflecting the following should be included:

“My actuarial point estimate of the corresponding liabilities:

- iii. Is \$y;
- iv. Has been computed in accordance with accepted actuarial practice”; (and)

In instances where an insurance group writing general business discounts its insurance reserves pursuant to paragraphs 45 and/or 46, then the following statement should be added:

- v. Has been discounted and reflects rate(s) of interest and cash flows appropriate to the circumstances of the insurance group and the policies in force, resulting in a reduction of my undiscounted actuarial estimate by \$u.”

and/or

b. **Option B:**

“In my opinion, the amount of \$x carried at line 17(d) of the group statutory balance sheet:

- i. [Meets; does not meet] the requirements of the insurance laws of Bermuda;
- ii. [Makes; does not make] an adequate provision for total unpaid incurred losses and loss adjustment expenses of the group under the terms of its contracts and agreements.”

In instances where the GA elects to report a range of reasonable estimates, and/or where the GA has deemed the held reserves to be adequate but where the held reserves are lower than the GA’s actuarial point estimate; or where the GA has determined that the held reserves do not meet the requirements of the insurance laws of Bermuda as a result of a reserve deficiency, a statement reflecting the following should be included:

“My selected range of reasonable actuarial estimates of the corresponding liabilities:

- iii. Has a lower bound value of \$z.
- iv. Has been computed in accordance with accepted actuarial practice”; (and)

In instances where an insurance group writing general business discounts its insurance reserves pursuant to paragraphs 45 and/or 46, then the following statement should be added:

- v. Has been discounted and reflects rate(s) of interest and cash flows appropriate to the circumstances of the insurance group and the policies in force, resulting in a reduction of my undiscounted lower bound actuarial estimate by \$v.”

Section 2 – Long-Term Business only - Part 4 - Expression of Opinion

55. The opinion paragraph for insurance groups with long-Term business insurers should include a sentence which covers at least the points listed in the following illustration:

“In my opinion, the amount of \$x carried at line 27(d) of the group statutory balance sheet:

- a. [Meets; does not meet] the requirements of the insurance laws of Bermuda;
- b. [Makes; does not make] an adequate provision for total long-term business liabilities of the group under the terms of its contracts and agreements.”

“My actuarial estimate of the corresponding liabilities:

- c. Is \$y;
- d. Has been computed in accordance with accepted actuarial practice;
- e. Reflects rate(s) of interest, cash flows, and rate(s) of mortality, accident, sickness, or other contingencies and assumptions relating to policyholder behavior appropriate to the circumstances of the insurance group, and the policies in force.

Section 1 – General Business (and/or Section 2 – Long-Term Business) - Part 5 – Summary of Methodology

56. In this section the GA should provide an executive summary of methodologies used in arriving at his/her Opinion including the following:

- a. The name of each legal entity, business unit and/or reserving group along with their respective contributions to the held insurance reserves; however this detail is only required for legal entities, business units and/or reserving groups where reserves comprise of 5% or more of the group’s reserves, with the remainder shown as a balancing amount; and
- b. Brief discussions of how the GA arrived at his/her actuarial estimates of the group’s aggregate insurance reserves, including any ranges of reasonable estimates produced (where applicable), along with the date(s) through which data or other information has been considered in developing the findings included in the report.

Section 1 – General Business (and/or Section 2 – Long-Term Business) - Part 6 - Relevant Comment

57. In this section the GA should include comment on matters that create additional uncertainty in the Insurance Reserves or where the amount of liability is subject to an unusual amount of variance, such as:

- a. Where there has been a material change in the actuarial assumptions or methods employed. The GA should describe the nature of the change and the impact of these changes on the GA’s valuation;
- b. Where the information provided by the insurance group is incomplete or inadequate to complete the evaluation in accordance with accepted actuarial standards, the accounting standards adopted by the group and other professional standards in general. The GA should state this and describe the impact on the GA’s evaluation;
- c. Where the GA has had to select a key assumption with limited analytical support. The GA should state this and describe the risks and uncertainties associated with these selections;
- d. (***Section 1 – General Business – Only***) Whether the GA reasonably believes there are significant risks that could result in material adverse deviation. The GA

should identify the materiality standard selected and include an explanatory paragraph to describe the major risk factors. Where the GA reasonably believes there are no apparent significant risks that could result in material adverse deviation, the GA should include a statement attesting to this observation in this section. At a minimum, the GA should include in the opinion the following statements as appropriate:

- i. "I conclude that there are (no reasonably foreseeable) significant risk factors and/or uncertainties that could result in a material adverse deviation from the held reserve amounts.
- ii. My determination is based upon a materiality standard of x% of the group's [capital and surplus, held reserves, etc.] or \$y."

Where an affirmative risk of material adverse deviation (RMAD) comment is indicated, the GA should include in the opinion a statement similar to the following as appropriate:

- iii. "I conclude that the major risk factors associated with the uncertainty in reserves are z [lines of business, specified risks and/or events, etc]."

Section 1 – General Business (and/or Section 2 – Long-Term Business) - Part 7 – Reliance on Opinions of Other Actuaries

58. It is anticipated that there will be circumstances where a GA is called upon to rely on the opinion of another actuary, including one or more actuaries within the group,¹³ in order to render an opinion on an insurance group's Insurance Reserves.

59. In this section the GA should:

- a. Claim reliance on the opinion of another actuary only if the GA ascertains that reliance on the other actuary's opinion is consistent with the other actuary's intended use. The reliance on the opinion of another actuary should be disclosed within this section of the Opinion with a description of the relevant Insurance Reserves or subject matter to which the reliance applies;
- b. Disclose where reliance on another actuary's opinion precludes or limits the GA's recognition of significant risks and uncertainties concerning material adverse deviation relating to the subject Insurance Reserves;
- c. Discuss his/her evaluation of the appropriateness of his/her reliance and whether such portions of the subject Insurance Reserves relied upon are likely to have a material impact on the GA's opinion regarding the total subject Insurance Reserves. If the impact is likely to be material, the GA should decide whether or not, within his/her professional judgment, it is appropriate to claim reliance on such opinions;

¹³ Where the GA is called upon to rely on the opinion of professionals, other than actuaries, similar disclosures should be made.

- d. Discuss the use of his/her professional judgment: 1) in self-assessing his/her ability to evaluate the quality of the work product relied upon, and 2) in evaluating the fitness and propriety of all persons upon whose opinion he/she is relying. (In making this latter assessment, it is not necessary for the GA to restrict consideration of professional memberships only to those bodies referred to in paragraph 24.);
- e. Disclose the person(s) upon whose opinion is being relied including their name(s), the relevant professional designation(s), appointment status (i.e. officer designation, or consultant), and the associated firm(s); and
- f. Acknowledge that he/she is aware that it is he/she who bears the ultimate professional responsibility for the results signed off in the Opinion.

Section 1 – General Business (and/or Section 2 – Long-Term Business) - Part 8 – Work Papers

60. This section should include a statement describing all actuarial reports, analyses and work products that have been completed, indicating a statement that these same documents will be made available in Bermuda upon request by the Authority. If requested, such documents should be sufficient in and of themselves to enable the completion of an independent review of the opinion by another unrelated but qualified actuary and should at a minimum include:
- a. Descriptions of each legal entity, business unit and/or reserving group consolidated into the group along with their respective contributions to the held insurance reserves;
 - b. Reconciliations from all applicable actuarial reports to the insurance reserves recorded in the Group Annual Statutory Financial Return; and
 - c. Discussions of how the GA arrived at his/her actuarial range and/or point estimate of the group’s aggregate insurance reserves, including, where relevant to insurance reserves, how intragroup transactions have been allowed for.

Section 1 – General Business (and/or Section 2 – Long-Term Business) - Part 9 - Signature

61. This section should include the GA’s signature, the relevant professional designations, appointment status (i.e. officer designation, consultant, etc.), the associated company, and contact information including telephone number and email address.