

COMMONWEALTH OF VIRGINIA



STEVEN T. FOSTER
COMMISSIONER OF INSURANCE

Box 1157
RICHMOND, VA 23209
TELEPHONE: (804) 786-3741
TDD/VOICE: (804) 225-3806

STATE CORPORATION COMMISSION BUREAU OF INSURANCE

LETTER

REPLACED

By Administrative
Letter 1999-8

November 10, 1992
Administrative Letter 1992-19

TO: All Organizations Licensed under Chapters 11, 12, 25, 26, 42, 43, 44 or 45 of Title 38.2 or Licensed as a Property or Casualty Insurer under Chapter 10 of Title 38.2 of the Code of Virginia

RE: Actuarial Opinion Submissions in Company Annual Statements

The purpose of this letter is to withdraw Administrative Letter 1990-16 and to replace its requirements as to those identified above with modified provisions which shall be effective for Annual Statement filings for all years ended December 31, 1992 or thereafter.

Subject to the provisions of this letter, the Annual Statement submissions of all those licensees identified above must contain the opinion of a qualified actuary regarding the adequacy of policy and claim reserves, including any loss adjustment expense reserves, and any other actuarial items established for all lines of business written or reinsured by the company. This actuarial opinion filing is being required pursuant to Sections 38.2-1109, 38.2-1203, 38.2-1300, 38.2-1301, 38.2-2506, 38.2-2613, 38.2-4214, 38.2-4307, 38.2-4408, 38.2-4509, and 38.2-4602 of Title 38.2 of the Virginia Code.

Who Must Comply

All property and casualty companies licensed to do business in Virginia under Chapter 10 of Title 38.2 of the Virginia Code and all other organizations licensed to do business under the following chapters of Title 38.2 must file an opinion by a qualified actuary in their Annual Statement submissions to the Commission, subject to the limitations and/or exemptions stated in this letter:

Administrative Letter 1992-19

November 10, 1992

Page 2

- a) Chapter 11 - Captive Insurers
- b) Chapter 12 - Reciprocal Insurance
- c) Chapter 25 - Mutual Assessment Property and Casualty Insurers - provided they have:
 - a) 500 members, and
 - b) \$500,000 of assessments received during a calendar year.
- d) Chapter 26 - Home Protection Companies
- e) Chapter 42 - Health Services Plans
- f) Chapter 43 - Health Maintenance Organizations
- g) Chapter 44 - Legal Services Plans
- h) Chapter 45 - Dental or Optometric Services Plans

Title insurance companies licensed under Chapter 46 shall not file an actuarial opinion except upon the specific request of the Commission.

Definitions

The following terms as stated in this letter shall have the following meanings:

- a) Annual Statement means the annual financial statement (including all schedules, exhibits, addenda and attachments) required to be filed with the Commission as provided in Section 38.2-1300 of the Virginia Code (Section 38.2-4307 for licensed health maintenance organizations).
- b) Qualified actuary means either:
 - i) an individual who is a member in good standing of the American Academy of Actuaries and is qualified to sign statements of actuarial opinion in accordance with the American Academy of Actuaries Qualification Standards for actuaries signing such statements; or
 - ii) an individual who is either a Fellow or an Associate by examination of the Society of Actuaries or the Casualty Actuarial Society.

Effective immediately, the qualified actuary shall be appointed by the Board of Directors, or its equivalent, or by a committee of the Board, by December 31 of the calendar year for which the opinion is rendered. Whenever the appointed actuary is replaced by the Board of Directors, the company shall promptly notify the Commission and give reasons for the replacement. The appointed actuary must present a report to the Board of Directors each year on the items within the scope of the opinion.

Opinion Form and Content

The actuarial opinion is to consist of, though not necessarily be limited to, the following:

- a) an identification paragraph,
- b) a scope paragraph,
- c) a reliance paragraph (if necessary),
- d) an opinion paragraph,
- e) any additional paragraphs deemed necessary to further explain or to qualify the opinion, and
- f) date of the opinion's issuance and actuary's signature.

If the qualified actuary relied on another individual's(s') opinion(s) for determining the accuracy of the underlying records, the qualified actuary should state such in the reliance paragraph of his opinion. Additionally, the individual(s) upon whom the qualified actuary relied, should submit a signed and dated statement certifying the accuracy and inclusion of the underlying records. This statement should be attached to the qualified actuary's opinion.

If there has been any material change in the actuarial assumptions and/or methods from those previously employed, that change should be described in the opinion.

The language expressed in the opinion should follow that encompassed in the NAIC Annual Statement instructions and/or the American Academy of Actuaries Financial Reporting Recommendations and Interpretations; however, such illustrative language should be modified as needed to meet the circumstances of a particular case, and the actuary should use language which clearly expresses his/her professional judgment.

The Commission shall have final authority regarding approval of the form of the actuarial opinion.

Exemptions

The Commission may allow an exemption from filing the actuarial opinion to certain companies which can demonstrate the following:

- a) They are under supervision or conservatorship pursuant to statutory provision, unless ordered by their domiciliary commissioner to file an actuarial opinion.
- b) The nature of business written and/or the nature of asset or liability items on the company's Annual Statement balance sheet would not necessitate the filing of such actuarial opinion.
- c) Filing the opinion would be an undue financial hardship.

If an exemption from filing or any other provision of this letter is sought by a company, a written request for an exemption must be made for each calendar year on or before December 1 of the year for which such exemption is sought. Such request must set forth the basis and reasons for which the exemption is sought. The Commission may require that the request for an exemption contain the statement of a qualified actuary, which sets forth the basis for which the exemption is sought. The Commission may then issue a written exemption.

Delay by a company in obtaining any exemption will not relieve the company from any applicable fines, penalties, and/or other appropriate regulatory action.

Administrative Letter 1992-19
November 10, 1992
Page 5

Due Date

The actuarial opinion or certified copy of the Commission's written exemption: (i) is to be included on or attached to Page 1 of the company's Annual Statement that is to be filed with the Commission, and (ii) **is due when the Annual Statement is due**. An Annual Statement submitted without the qualified actuary's opinion or Commission's written exemption may subject the company to applicable penalties and/or fines as well as suspension or revocation of its Virginia license as provided for in Title 38.2 of the Virginia Code. For good cause shown, the Commission may extend a company's deadline for submitting the qualified actuary's opinion or the Commission's written exemption for a limited and specified period of time, but not beyond 60 days after its Annual Statement filing deadline.

Any questions regarding the implementation of the contents of this letter should be directed to:

Edward J. Buyalos, Jr., CFE, CPA, FLMI
Supervisor, Financial Analysis Section
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23209
(804) 786-3637

Sincerely,



Steven T. Foster
Commissioner of Insurance

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