



BUREAU OF INSURANCE

August 24, 1999

Administrative Letter 1999-8

TO: All Companies Licensed under Chapter 11, 12, 25, 26, 42, 43, 44, 45 or 46 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 replace Administrative Letter 1992-19 effective for Annual Statement filings for all years ended December 31, 1999, or thereafter.

Subject to the provisions of this letter, the Annual Statement submissions of all those companies 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 §§ 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 Code of Virginia.

Who Must Comply

All property and casualty insurers licensed to do business in Virginia under Chapter 10 of Title 38.2 of the Code of Virginia and all other companies 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:

- a) Chapter 11 - Captive Insurers.
- b) Chapter 12 - Reciprocal Insurance.
- c) Chapter 25 - Mutual Assessment Property and Casualty Insurers – provided they have:

- i) 500 members, and
- ii) \$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.
- i) Chapter 46 - Title Insurance.

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 of HMO's pursuant to § 38.2-4307 and of other licensed companies pursuant to § 38.2-1300 of the Code of Virginia.
- 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 acceptable to the Commission who is either a Fellow or an Associate by examination of the Society of Actuaries or the Casualty Actuarial Society.

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 promptly shall notify the Commission, in writing, and give reasons for the replacement. The appointed actuary must present a report to the Board of Directors or other appointing group each year on the items within the scope of the opinion.

Opinion Form and Content

The actuarial opinion shall include, but may not be limited to, the following:

- a) an identification paragraph,

- b) a scope paragraph,
- c) a reliance paragraph (if necessary),
- d) an opinion paragraph,
- e) all disclosures, opinions, and comments required by the NAIC annual statement instructions or the NAIC accounting practices & procedures manual describing the actuarial report that should be filed with the company's annual statement,
- f) any additional paragraphs deemed necessary to explain further or qualify the opinion, and
- g) the date of the opinion's issuance and actuary's signature.

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

The language expressed in the opinion shall follow that encompassed in the NAIC Annual Statement instructions; however, language in the American Academy of Actuaries Financial Reporting Recommendations and Interpretations is acceptable if such is identified. All such illustrative language shall be modified as needed to meet the circumstances of a particular case, and the actuary shall 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) It is under supervision or conservatorship pursuant to statutory provision, unless ordered by its 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 the company, a written request for an exemption must be made for a specific calendar year on or before December 1 of the year for which such exemption is sought. The 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 then may 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.

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 Code of Virginia. 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.

Companies domiciled in Virginia should direct questions regarding the implementation of the contents of this letter to:

Edward J. Buyalos, Jr.
Supervisor, Domestic Financial Analysis Section
SCC, Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218
(804) 371-9637

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Companies not domiciled in Virginia should direct questions to:

Gregory D. Walker
Supervisor, Non-Domestic Financial Analysis Section
SCC, Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218
(804) 371-9636

Sincerely,

Alfred W. Gross
Commissioner of Insurance

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