

California Workers' Compensation

Special California Schedule P ("SCASP")

Part VII - Actuarial Certification Questions and Answers

1. There is an exemption for companies whose reserves fall below a certain threshold. What is the threshold?

Answer: The Special CA Schedule P ("SCASP") must be filed by all companies licensed to write or authorized to reinsure Workers' Compensation in California. The Actuarial Certification in Part VII must be completed if the company's SCASP deposit requirement is \$1 million or higher.

2. Will the Actuarial Certification apply to Part VII only, or the entire SCASP?

Answer: The Actuarial Certification in Part VII applies to the entire SCASP.

3. Is a formal Statement of Actuarial Opinion ("SAO") required, with multiple sections such as the NAIC SAO, or can it be an Opinion paragraph or something in between?

Answer: The only SCASP requirement is that the actuary must make this statement on Page 7:

"In my opinion, the California workers' compensation reserves reported on the Company's Special California Schedule P make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company for its California workers compensation exposure under the terms of its contracts and agreements."

The actuary could provide, on a separate piece of paper, additional comments regarding the company's California workers' compensation loss and loss adjustment expenses reserves.

4. Are underlying documentation such as, workpapers, etc. adequate to fulfill professional documentation standards?

Answer: See #3. A report is not required; however it is possible that the California Insurance Department ("CDI") may request supporting information on a case-by-case basis. The actuary is required to comply with professional standards, including those regarding documentation of work and statements of actuarial opinion.

5. Does this apply to reserves on direct, assumed, gross, net, or some combination of those?

Answer: The opinion is intended to apply to reserves net of authorized reinsurance to the extent that credit for deposit is taken as shown in Page 1, Column 20, Grand Total.

6. If the opinion covers net reserves, a couple of significant potential complications could be aggregate covers and reinsurers excluded from the SCASP because they aren't licensed in California ("CA"). In many

companies, the reinsurance allocation process is so accounting-driven and complex that there is no way an actuary could assess it. With respect to the underlying date, in some companies, it may prove to be logistically infeasible for the actuary to be sure that the SCASP data is the same as the corresponding CA values in the Annual Statement Page 14. How should these situations be handled?

Answer: The CDI understands that in some situations it may be infeasible to provide the ceded loss and LAE reserves as shown in Page 1, Column 19. For these situations, it would be sufficient for the actuary to opine on the reasonableness of the direct and assumed loss and LAE reserves as shown in Page 1, Column 18, Grand Total, and that the ceded loss and LAE reserves as shown in Page 1, Column 19 are derived through a reasonable allocation process.

7. The actuarial certification includes information regarding the consulting firm he/she is associated with. Is it the implication that the company is required to engage an outside actuary to render this opinion or can the company's appointed actuary, who may also be an officer of the company, render this opinion?

Answer: It is not a requirement that the actuary rendering this opinion be from outside the company. The company's appointed actuary, who may also be an officer of the company, may render this opinion and provide his or her information on that page.

8. Have you considered if the signing of the one-sentence opinion leaves an actuary technically non-compliant with the requirements of ASOP 36? For example, ASOP 36 Section 4.6 provides a list of items a) thru j) that should be disclosed in the statement of actuarial opinion if they apply.

Answer: See #3.

9. Who is qualified to sign the actuarial certification? Can anyone who meets the requirements of a qualified actuary for P&C loss reserve opinions in California sign the actuarial certification?

Answer: Yes. The requirements stated in the Actuarial Opinion Instructions, which are also found in the Annual Statement Instructions, apply.

10. In the case where a life insurance company is required to file the SCASP because of Workers' compensation carve-out business, can a life actuary sign the actuarial certification?

Answer: No, a life actuary is not qualified to sign the actuarial certification on the SCASP. A property-casualty actuary must sign the certification.

11. In the case of #10, can the signer be either the appointed actuary or a company employee?

Answer: The Appointed Actuary must sign, unless the opinion is signed by a qualified actuary as specified in the Property-Casualty Actuarial Opinion Instructions.

12. What should the actuary do with the form if the opinion is something other than "reasonable"?

Answer: If the actuary believes that it is inappropriate to render a "reasonable" opinion, he or she should provide the type of opinion that is appropriate. He or she should also be prepared to answer questions from representatives of the CDI. CDI requires that each company transacting

workers' compensation insurance in California maintains deposits sufficient to cover reserves that meet the "reasonable" standard.

13. With respect to ceded reinsurance, actuaries typically would not know if the reinsurer has established a deposit sufficient to cover the ceded reserves. Is it okay for the actuary to assume that the reinsurers have established sufficient deposits for purposes of opining on the reasonableness of net loss reserves?

Answer: Yes, CDI will review the filed SCASP and verify that the deposits held by the assuming reinsurers are sufficient. If the deposit is deficient, a notice will be sent to the deficient company.

14. Are reserves for USL&H exposures intended to be within the scope of the actuarial certification?

Answer: Yes, companies that write USL&H fund its deposit and report this business on the SCASP.

15. Does CDI allow discounting the reserves for unpaid losses on California workers' compensation exposures?

Answer: It is important to note that it is not permissible to record reserves for unpaid losses on California workers' compensation exposures on a discounted basis in the Annual Statements filed with the CDI. It is permissible, however, for a company to discount its entire California workers' compensation reserve for the purpose of determining the amount of the required deposit. The rate used for this discounting is specified in the California Insurance Code Section 11693.

Companies that wish to discount to determine the present value of the workers' compensation deposit is required to file its discounted SCASP through OASIS and submit the payout pattern used for discounting to FADWC@insurance.ca.gov. Please follow filing instructions provided in the Instructions page of the SCASP and Part VI, #4 of the SCASP.

16. Discount information is required to be supported actuarially. Would the actuary signing the actuarial certification be responsible for the discount documentation?

Answer: Yes, CDI requires actuarial support for the payment pattern used for discounting. The actuary who provides the opinion on the reasonableness of the reserves is the one who is responsible for the discount documentation.

17. Considering the response to Question 5, should the phrase "as shown in Page 1, column 20, Grand Total" be added to the Actuarial Certification paragraph? The answer to Question 6 allows certification for Page 1, column 18. Depending on the insurer situation the actuary will be opining on column 16a + 17a, 18, or 20. Additional language by the opining actuary is needed or space on the form for the actuary to specify what the opinion is covering.

Answer: The actuary should specify which reserves he or she is opining on. This would normally be the reserves found in Column 20. In the special circumstance covered by Questions 6 and 18, it may be permissible to opine on either Column 18 or the sum of Columns 16a and 17a. In these cases, the actuary is still required to comment on the reasonableness of the allocation of ceded and/or assumed reinsurance, as the case may be. Consistent with this form's instructions for data entry, these and other additional comments may be placed on a separate sheet or sheets and attached to the back of the completed forms.

18. Page 1, column 18 and 20, of the SCASP, includes the calculation of unallocated from Part II on page 2. The unallocated is by formula and not determined by the actuary. What review is need by the actuary? Should the actuary exclude ULAE from the opinion?

Answer: Consistent with the answers to Question 17, the actuary will be opining on the reserves found in either Column 20, or Column 18, or the sum of Columns 16a and 17a. The ULAE calculation in Part II does not affect any of these columns. It only comes into play in determining the values shown in Column 22, and possibly Column 25. Therefore, this is a non-issue. The actuary is required to offer an opinion on the full loss and loss expense reserves, including the ULAE reserves carried by the company.

Although the unallocated from Part II on Page 2 is by formula, it is the actuary's responsibility to check if the distribution is correct for the company.

19. Our FAQ 13 deals with complicated ceded reinsurance. What happens when there are similar complications with respect to assumed reinsurance? Can the actuary base an opinion on direct reserves and a reasonable allocation of assumed reserves?

Answer: By all means, the opining actuary of the assuming company should communicate with the opining actuary of the ceding company to ascertain that the reserves are reasonable on the assumed business especially the big blocks of assumed business. We would certainly expect that a serious effort would be made to do so in both the cases of ceded and assumed reinsurance, and we would expect a written explanation as to why this cannot be done. "Boilerplate" statements will not be acceptable.