

11 NCAC 11F .0306 OPINION BASED ON ASSET ADEQUACY ANALYSIS

(a) The opinion submitted in accordance with this Rule shall consist of:

- (1) A paragraph identifying the appointed actuary and his or her qualifications as prescribed by Subparagraph (b)(1) of this Rule;
- (2) A scope paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the appointed actuary's work, including a tabulation delineating the reserves and related actuarial items that have been analyzed for asset adequacy and the method of analysis, as prescribed by Subparagraph (b)(2) of this Rule and identifying the reserves and related actuarial items covered by the opinion that have not been so analyzed;
- (3) A reliance paragraph describing those areas, if any, where the appointed actuary has deferred to other experts in developing data, procedures or assumptions, (for example, anticipated cash flows from currently owned assets, including variation in cash flows according to economic scenarios as prescribed by Subparagraph (b)(3) of this Rule), supported by a statement of each such expert in the form prescribed by Paragraph (e) of this Rule; and
- (4) An opinion paragraph expressing the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities as prescribed by Subparagraph (b)(6) of this Rule;
- (5) One or more additional paragraphs shall be needed in individual company cases if the appointed actuary:
 - (A) Considers it necessary to state a qualification of his or her opinion;
 - (B) Must disclose an inconsistency in the method of analysis or basis of asset allocation used at the prior opinion date with that used for this opinion.
 - (C) Must disclose whether additional reserves of the prior opinion date are released as of this opinion date, and the extent of the release.
 - (D) Chooses to add a paragraph briefly describing the assumptions that form the basis for the actuarial opinion.

(b) The following paragraphs are to be included in the opinion in accordance with this Rule. The appointed actuary shall use language that expresses his or her own professional judgement. The opinion shall retain all pertinent aspects of the language provided in this Section.

- (1) The opening paragraph shall indicate the appointed actuary's relationship to the company and his or her qualifications to sign the opinion.
 - (A) For a company actuary, the opening paragraph of the actuarial opinion shall read as follows:

"I [name], am [title] of [insurance company name] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the Board of Directors of the insurer to render this opinion as stated in the letter to the Commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."
 - (B) For a consulting actuary, the opening paragraph shall contain a sentence similar to the following:

"I, [name], a member of the American Academy of Actuaries, am associated with the firm of [name of consulting firm]. I have been appointed by, or by the authority of, the Board of Directors of [name of company] to render this opinion as stated in the letter to the Commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."
- (2) The scope paragraph shall include a statement similar to the following:

"I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, [year]. Tabulated below are those reserves and related actuarial items that have been subjected to asset adequacy analysis.

(Include reserves and related actuarial items that correspond to the Asset Adequacy Tested Amounts Reserves and Liabilities Table listed in the NAIC Model Regulation titled, "Actuarial Opinion and Memorandum Regulation," and any subsequent amendments and editions. A copy of the Table may be obtained from the North Carolina Department of Insurance at a cost prescribed in G.S. 58-6-5(3)).

- (3) If the appointed actuary has relied on other experts to develop certain portions of the analysis, the reliance paragraph shall include a statement similar to one of the following:
- (A) "I have relied on [name], [title] for [e.g., anticipated cash flows from currently owned assets, including variations in cash flows according to economic scenarios] as certified in the attached statement. I have reviewed the information relied upon for reasonableness....", or
 - (B) "I have relied on personnel as cited in the supporting memorandum for certain critical aspects of the analysis in reference to the accompanying statement. I have reviewed the information relied upon for reasonableness."

Such a statement of reliance on other experts shall be accompanied by a statement by each of such experts of the form prescribed by Paragraph (e) of this Rule.

- (4) If the appointed actuary has examined the underlying asset and liability records, the reliance paragraph shall also include the following:
"My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic asset and liability records and such tests of the actuarial calculations as I considered necessary. I also reconciled the underlying basic asset and liability records to [exhibits and schedules listed as applicable] of the company's current annual statement. "

- (5) If the appointed actuary has not examined the underlying records, but has relied upon data (e.g., listings and summaries of policies in force or asset records) prepared by the company or a third party, the reliance paragraph shall include a statement similar to the following:

"In forming my opinion on [specify types of reserves] I relied upon data prepared by [name and title of company officer certifying in-force records or other data] as certified in the attached statement. I evaluated that data for reasonableness and consistency. I also reconciled that data to [exhibits and schedules to be listed as applicable] of the company's current annual statement. In other respects my examination included such review of the actuarial assumptions and actuarial methods used and such tests of the actuarial calculations as I considered necessary."

Such a sentence must be accompanied by a statement by each person relied upon of the form prescribed by Paragraph (e) of this Rule.

- (6) The opinion paragraph of an unqualified opinion shall include the following:
- (A) "In my opinion the reserves and related actuarial values concerning the statement items identified above:
 1. Are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles;
 2. Are based on actuarial assumptions that produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;
 3. Meet the requirements of the insurance laws and rules of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;
 4. Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end (with any exceptions noted below); and
 5. Include provision for all actuarial reserves and related statement items that ought to be established.

The reserves and related items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on such assets, and the considerations anticipated to be received and retained under such policies and contracts, make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the company.

The actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion."

- (B) Select one of the following two paragraphs:

- (i) "This opinion is updated annually as required by law. To the best of my knowledge, there have been no material changes from the applicable date of the annual statement to the date of the rendering of this opinion that should be considered in reviewing this opinion;" or
 - (ii) "The following material change(s) that occurred between the date of the statement for which this opinion is applicable and the date of this opinion should be considered in reviewing this opinion." (Describe the change or changes.)
- (C) "The effect of unanticipated events after the date of this opinion is beyond the scope of this opinion. The analysis of asset adequacy portion of this opinion should be viewed recognizing that the company's future experience may not follow all the assumptions used in the analysis.

Signature of Appointed Actuary

Address of Appointed Actuary

Telephone Number of Appointed Actuary

Date"

(c) The adoption for new issues or new claims or other new liabilities of an actuarial assumption that differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this Rule.

(d) If the appointed actuary is unable to form an opinion, then he or she shall refuse to issue an opinion. If the appointed actuary's opinion is adverse or qualified, then he or she shall issue an adverse or qualified opinion explicitly stating the reason or reasons for such opinion. This statement shall follow the scope paragraph and precede the opinion paragraph. If the appointed actuary's opinion is adverse or qualified, the appointed actuary shall modify the language prescribed in Rule .0306(b)(6) of this Section as made necessary by the reason or reasons for the qualified opinion, and shall label the opinion paragraph with the words "Qualified Opinion."

(e) If the appointed actuary relies on the certification of others on matters concerning the accuracy or completeness of any data underlying the opinion, or the appropriateness of any other information used by the appointed actuary in forming the opinion, the opinion shall so indicate the persons the actuary is relying upon and a precise identification of the items subject to reliance. In addition, the persons on whom the appointed actuary relies shall provide a certification that precisely identifies the items on which the person is providing information and a statement as to the accuracy, completeness or reasonableness, as applicable, of the items. This certification shall include the signature, title, company, address, and telephone number of the person rendering the certification, as well as the date on which it is signed.

History Note: Authority G.S. 58-2-40; 58-58-50(i); 58-58-50(j); Eff. December 1, 1994; Amended Eff. August 1, 2004; Pursuant to G.S. 150B-21.3A, rule is necessary without substantive public interest Eff. December 20, 2015.