

Wordings for Actuarial Opinions and Reserving Reports – Large Losses**Overview**

After the US terrorist attacks in 2001 the WTC Working Party was formed by the General Insurance Board. The Working Party produced a paper which was attached to the GN20 and GN33 advisory notes. Amongst other things the paper addressed wordings which actuaries may wish to use in opinions and reports to describe the uncertainty around estimates for the WTC loss. The paper was updated in November 2002 and the wordings expanded to reflect emerging market practice.

In 2004 and 2005 the level of hurricane activity and the scale of the losses have again raised the issue of wordings to describe the uncertainty associated with particular large losses. A GIRO working party was formed to look at Katrina. After discussions at GIRO it was decided to produce a paper which would suggest wordings to relate to large losses, which would cover Katrina, and the other 2004 and 2005 events, and would also replace the wordings comments on the WTC paper. Such wordings would be available for future large losses also.

Scope

The Working Party seeks to suggest possible wordings on large loss estimates and uncertainty for reports and opinions produced under the Faculty and Institute of Actuaries Guidance Notes GN12, GN18, GN20 and GN33. The paper produced by the Working Party (WP Paper) may be provided as part of a GI Board Advisory Note.

Membership of the Working Party

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Wordings for Actuarial Opinions and Reserving Reports – Large Losses

This note considers the situation when there has been a major market loss or event (referred to here as a “Large Loss”) which readers of actuarial opinions and reports would be expected to be aware of, and might reasonably expect to see discussed by the actuary. Under GN20 additional comment is expected when the level of uncertainty is materially increased beyond the norm. This note is intended to be consistent with GN20. We here additionally consider the possibility that, while an event may not materially impact the reserve uncertainty for a particular company or syndicate, the actuary may feel it appropriate to comment on the event and its level of impact, as readers may expect and value a comment, given the scale of the loss to the market as a whole.

We have identified four possible wordings which an actuary may wish to adopt in various circumstances to describe his or her reserving work in relation to a particular Large Loss. The following options are all intended to be additional comments to be included in the Relevant Comments section of the SAO in these situations, and/or to feature in the commentary of a reserve report under GN12. In the SAO case, unless the intention is to qualify the opinion because of the Large Loss, they should all be followed by the statement that *“These comments do not constitute a qualification of my opinion.”*

It should be recognised that for some syndicates or companies it may be appropriate to use different wording options for the different statements of opinion, or for commenting variously on gross, net, by underwriting year, division or other component.

Case 1

If the syndicate or company is not or is only marginally exposed to claims from the Large Loss then there is no need to mention the Large Loss specifically in the statement of opinion or report. However, any actuary in this position who wishes to make it explicit that the matter has been considered and that it has been concluded that this is the situation may include the following as a Relevant Comment.

Wording 1

I am satisfied that the company/syndicate has no material exposure to the Large Loss.

Case 2

If the syndicate or company has material exposure to the Large Loss but this is in classes where loss determination is relatively straightforward or where the uncertainty arising from particular issues (such as coverage disputes or the outcome of pending court cases) is not material in the context of the total level of reserves, then the following wording would be appropriate as a Relevant Comment.

Wording 2

The company/syndicate has material exposure to the Large Loss. However, this exposure does not lead to a material increase in the uncertainty of the company/syndicate's total reserves [in an adverse direction].

Case 3

If the syndicate or company has material exposure to the Large Loss and the loss determination is not straightforward, such that the Loss produces increased uncertainty in the overall reserves, but that the overall reserve uncertainty is not significantly more than the norm for the insurance liabilities of the company/syndicate at this stage of development, then the following wording would be appropriate as a Relevant Comment.

Wording 3

The company/syndicate has material exposure to the Large Loss. This increases the uncertainty of the company/syndicate's total reserves, but does not increase that uncertainty [in an adverse direction] significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development.

Case 4

If the syndicate or company has material exposure to the Large Loss and the loss determination is not straightforward, such that the Large Loss produces increased uncertainty in the overall reserves to such an extent that the level of uncertainty for the total reserves of the company/syndicate is significantly more than the norm for the insurance liabilities of the company/syndicate at this stage of development, then the following wording would be appropriate as a Relevant Comment.

It should be noted that, while auditors will of course form their own professional opinion, they might consider the use of a "Wording 4" as equivalent to an accounting concept described as "fundamental uncertainty", which is a way of drawing special attention to particular issues which could create uncertainty beyond normal levels.

Wording 4

The company/syndicate has material exposure to the Large Loss. The ultimate amounts of these claims are subject to a great deal of uncertainty which, combined with their total size, increases the level of uncertainty for the total reserves of the company/syndicate significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development.

Optional Additional Relevant Comment

I consider that the reserves included in respect of the Large Loss in the amounts shown above are consistent with the current knowledge of the event(s) concerned.

Additional Remarks about Choice of Wording for Lloyd's Solvency Opinions

Actuaries are reminded that in the case of Lloyd's solvency opinions and US Trust Fund opinions, they are giving a one-way opinion only, and so only need comment on the uncertainty in the reserves in an adverse direction. Therefore, if the case should arise that a syndicate has material exposure to a Large Loss, with a high degree of uncertainty, such that the actuary might select a Wording 4, and if the agency is reserving on a conservative basis, the actuary may select Wording 2 or Wording 3, depending on the degree of conservatism in the basis, reflecting the fact that the scope for adverse uncertainty is reduced by the reserving basis adopted. In such cases the actuary should include the words in brackets regarding uncertainty in an adverse direction.