

Audit Trail GN33 v3.0 to Draft v1

Structure

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<u>Appendix</u>	<u>Appendix</u>
<ul style="list-style-type: none">1A Opinion on Solvency Reserves1B Opinion on Trust Fund Reserves	<ul style="list-style-type: none">1A Opinion on Technical Provisions1B Opinion on Trust Fund Technical Provisions
<ul style="list-style-type: none">2 Data Accuracy Statement	<ul style="list-style-type: none">2 Data Accuracy Statement

The draft has two new sections, “Purpose and Scope” and “Types of Opinion”.

References to “reserves” or “solvency reserves” have mostly been changed to “technical provisions”.

*****Check the Advisory Note on Lloyd's US Opinions for consistency with new draft *****

Appendix 2 is unchanged

The draft anticipates adoption of the proposed new GN12.

The new draft status of paragraphs in the current GN is summarised below

<u>V3.0 Paragraph</u>	<u>Status</u>	<u>V3.0 Paragraph</u>	<u>Status</u>
1.1	1.1	4.1	Split over 6.1 and 6.2
1.2	1.2	4.2	6.3
1.3	1.3	4.3	6.4
1.4	2.4	5.1	7.1
2.1	2.1	5.2	Split over 7.2 and 7.3
2.2	3.1	5.3	7.4, which is slightly extended
2.3	3.2	5.4	Deleted – relates to technique
2.4	Covered by 3.5	5.5	7.5
2.5	Deleted. Covered by revised GN12	5.6	7.6
2.6	4.1	5.7	7.7
3.1	5.1	5.8	7.8
3.2	5.2	5.9	7.9
3.3	5.3	5.10	7.10
3.4	Deleted - redundant	5.11	7.11
3.5	2.2, which makes explicit reference to RIT		

Two new paragraphs with no precedent in GN33 v3.0

- 2.3 Should the actuary become aware of a material cross-funding between the Unearned Premium Reserve and the claims technical provisions in the course of their work, this should be mentioned in the SAO.
- 4.2 The actuary may add comments to their opinion in the section labelled “Relevant Comments”. It is intended that this area be used to highlight uncertainties that may have a material impact on the adequacy of technical provisions. Highlighting such uncertainties in the report does not constitute a qualification, as the actuary can still produce a best estimate on which to base their opinion. It may be expected that syndicates that write volatile classes of business may have such additional comments in their SAOs.

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GN33: Actuarial Reporting for Lloyd's Syndicates writing US Business

Classification

Practice Standard

MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS (PCS) AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES

Legislation or Authority

National Association of Insurance Commissioners – International Insurers Department and New York Insurance Department Regulators

Application

Actuaries appointed by Lloyd's managing agents to provide actuarial opinions required by the International Insurers Department (IID) of the National Association of Insurance Commissioners (NAIC) or by the New York Insurance Department (NYID) for Lloyd's syndicates writing relevant US insurance or reinsurance business.

Author

General Insurance Board

Status

Draft to be approved under due process

Audit (no comment = no change)

Change to current wording which reads:

MEMBERS ARE REMINDED THAT EVERY GUIDANCE NOTE MUST BE READ IN THE CONTEXT OF THE PROFESSIONAL CONDUCT STANDARDS (PCS)

Draft v1

<i>Version</i>	<i>Effective from</i>
1.0	01.12.1997
1.1	01.12.1998
2.0	01.11.1999
3.0	01.01.2003
4.0	TBA

1 Introduction

1.1 Lloyd's syndicates authorised by the IID to write Surplus Lines insurance in the US are required to provide to the IID a Statement of Actuarial Opinion ("SAO") on their worldwide technical provisions both gross and net of reinsurance ("the technical provisions SAO") and an SAO on the technical provisions gross of reinsurance in their Surplus Lines Trust Fund. In addition, the NYID requires an SAO on the technical provisions gross of reinsurance in the Surplus Lines Trust Fund and one on the technical provisions gross of reinsurance in the Credit for Reinsurance Trust Fund. The SAOs in respect of the Trust Funds for the IID and NYID are referred to as "the Trust Fund SAOs" in this Guidance Note. The structure is shown in the Advisory Note on Lloyd's US Opinions issued by the General Insurance Board ("the Lloyd's US Advisory Note".)

1.2 This note applies to any actuary instructed by a Lloyd's managing agent ("the Managing Agent") to provide such SAOs. The actuary must be familiar with the relevant version of any instructions issued by the IID, NYID or Lloyd's for this purpose. In addition, the actuary should have regard to any relevant detailed technical guidance issued by the General Insurance Board, contained in the latest version of the Lloyd's US Advisory Note. If the actuary has questions concerning the interpretation of any instructions issued by Lloyd's, then he or she should seek clarification from the Lloyd's Actuary.

Audit (no comment = no change)

New version number to be added

Current 1.1 with references to "reserves" and "solvency reserves" changed to "technical provisions"

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1.3 The nature of the opinions required by the IID/NYID is such as to place a high level of responsibility on the profession. The actuary must consider in relation to the Professional Conduct Standards whether he or she has sufficient experience to justify undertaking the assignment. This should include knowledge of the business procedures of Lloyd's and of types of business similar to those underwritten by the syndicate.

2 Purpose and Scope

2.1 The technical provisions SAO should, subject to paragraph 7.8 below, cover all the business of the syndicate for all years of account from 1993 to date, whereas the Trust Fund SAOs should, subject to paragraph 7.8 below, cover business incepting on or after 1 August 1995. Separate figures are required for each economic entity, i.e. each open syndicate year of account, including all years that have been reinsured into it, treating as a separate entity any year of account being closed at the year end. The technical provisions SAO should include claims handling expenses both allocated and unallocated together with an allowance for reinsurance bad debts. The allowance for reinsurance bad debts should include amounts both in respect of reinsurance disputes and reinsurance insolvency. The Trust Fund SAOs should include allocated claims handling expenses. The technical provisions should include allowance for future inflation of claims costs but should not be reduced in anticipation of future investment income on assets supporting the technical provisions. Additional contingency margins are permitted but not required. The SAOs will need to be modified appropriately if there are run-off years of account.

Audit (no comment = no change)

Comment: In the current GN, there is no requirement for the signing actuary to possess a Lloyd's certificate, although it is included in the "Qualifications" section of Appendix 1A.

Current 2.1 with references to "reserves" changed to "technical provisions". Cross-reference has been updated to paragraph 7.8

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2.2 The SAOs are intended solely for the purpose of complying with the Lloyd's US regulatory requirements. Unless the actuary otherwise agrees, reliance on the SAOs for any other purpose should normally not be permitted. In particular, the SAO is not intended to be used to support a calculation of Reinsurance To Close for the syndicate, although the actuary may provide additional advice in this area.

2.3 Should the actuary become aware of a material cross-funding between the Unearned Premium Reserve and the claims technical provisions in the course of their work, this should be mentioned in the SAO.

2.4 Specimen SAOs for the opinions are provided in Appendix 1A & 1B. While it is expected that these will be used as models, modifications may be necessary to suit particular cases including any changes referred to in the Lloyd's US Advisory Note. The specimen SAO for the opinion provided in Appendix 1A is also intended to meet the requirements of the UK regulator in accordance with GN 20.

3 Reporting Requirements

3.1 The SAOs must be supplemented by a separate management report ("the Report") addressed by the actuary to the Managing Agent and may be distributed to Lloyd's and the US regulators.

3.2 The purpose of the Report, which is a formal report for the purposes of GN12, is to explain the work done by the actuary in order to reach the opinion on the technical provisions. It is expected that, in most situations, this work would include independent estimation of the technical provisions and

Audit (no comment = no change)

Current 3.5, extended to make explicit mention of RIT

New

Current 1.4

Current 2.2 with simplified wording. The scope for distribution to other third parties is covered in the revised GN12

Current 2.3, with references to "reserves" changed to "technical provisions".

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comparison with those established by the syndicate. In other situations, the actuary's work may not include independent estimation of technical provisions, but rather constitute a review of the methodology and assumptions used by someone else (e.g. the syndicate's own actuarial or other staff) in estimating the technical provisions. This practice is acceptable, provided the actuary signing the SAO is willing to accept personal responsibility for the opinion stated, based on the work reviewed. In these situations the Report should include an explanation of the work performed by the actuary signing the SAO and include details of the work performed by the other party

4 Types of Opinion

4.1 If the actuary, following discussion with the Managing Agent, believes that an SAO can be provided but only with qualifications, then the actuary may still prepare the SAO, using the relevant form of words contained in the Specimen SAO in Appendix 1 (A or B as appropriate), but modified to reflect the qualification, which should make clear to which figure or figures it relates. In this case, the actuary should also prepare the separate Report. It should be recognised that in these circumstances the relevant authorities (i.e. the IID or NYID or Lloyd's) may not accept the SAO and the Managing Agent may ask the actuary to discontinue work. Any qualifications must appear in the SAO; it is not sufficient for a qualification to appear only in the Report. Current 2.6

4.2 The actuary may add comments to their opinion in the section labelled "Relevant Comments". It is intended that this area be used to highlight uncertainties that may have a material impact on the adequacy of technical provisions. Highlighting such uncertainties in the report does not constitute a qualification, as the actuary can still produce a best estimate on which to base New

Audit (no comment = no change)

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their opinion. It may be expected that syndicates that write volatile classes of business may have such comments in their SAOs.

5 Relationships

5.1 The relationships between managing agents, underwriters and auditors to syndicates can be complex. The actuary should make clear his or her relationship with each of these parties and the extent to which he or she has used information obtained from them or relied on work undertaken by them. The actuary should not rely on the auditor unless there is a specific agreement for such reliance.

5.2 It is the responsibility of the Managing Agent to set the technical provisions. The role of the actuary is to provide an opinion on those technical provisions. The professional responsibilities of the actuary in providing the SAO override any responsibilities he or she might have as an employee or consultant.

5.3 The actuary should make clear at the outset that he or she may require frequent access to underwriters and other members of the Managing Agent's staff, and may wish to use work carried out by or for the Managing Agent, including the work of any other actuary who has worked for the Managing Agent as an employee or consultant. However, since the actuary providing the SAO must take full responsibility for the opinion stated, he or she must be satisfied as to the validity of the material used for that purpose.

Audit (no comment = no change)

Current 3.1

Current 3.2, with references to “reserves” changed to “technical provisions”.

Current 3.3

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6 Data

6.1 The actuary should obtain assurances from the Managing Agent as to the accuracy and completeness of the data provided. The actuary should review all key data for reasonableness but may otherwise rely upon the Managing Agent in this respect. The actuary will need to amend the wording of the reference to data in the specimen SAO given in Appendix 1 (A or B as appropriate) if he or she encounters anything during the course of the work that gives rise to any material concerns with regard to the accuracy of the data, and the Managing Agent is unable to resolve these concerns satisfactorily.

6.2 A specimen Data Accuracy Statement (DAS) from the Managing Agent is given in Appendix 2. If there are any material data discrepancies or anomalies that cannot be resolved with the Managing Agent, the actuary should discuss them with the auditor. In some circumstances, it may be necessary to modify the wording of the specimen DAS given in Appendix 2.

6.3 Should the data prove to be incomplete, inaccurate, unreliable, or not as appropriate as desired, the actuary should consider whether the use of such imperfect data might produce material biases in the results of the investigation and make appropriate allowances. If the data are so inadequate that they cannot be used to carry out the work necessary for the SAO, even on a very conservative basis, the actuary should decline to provide an SAO.

6.4 For the Trust Fund SAOs, the actuary is required to verify that the data presented by the Managing Agent in Schedule P of the annual return to the NYID reconcile with the Trust Fund data used by him or her for the purpose of preparing the Trust Fund SAOs. Appropriate wording is included in the specimen SAO attached at Appendix 1B to confirm this. If the timescale is such that the actuary is unable to see the final version of the schedule before he

Audit (no comment = no change)

Current 4.1 first part

Current 4.1 second part

Current 4.2

Current 4.3

Draft v1

or she signs the SAOs, then he or she should obtain a draft of this Schedule prior to signing, and an undertaking from the Managing Agent that there will be no changes between the draft and the final version. In these circumstances the appropriate paragraph in the SAO should be amended to: -

"I have verified that the data contained in a final draft of Schedule P reconcile with the Trust Fund data used for the purpose of preparing this SAO [except for immaterial differences, possibly due to rounding]/(except for rounding differences)]. [The Managing Agent] has confirmed that there was/will be no change to Schedule P before submission"

If the Managing Agent advises the actuary of any changes, then he or she will need to consider the effect on the calculations, and whether the SAOs need to be amended and re-issued.

7 Valuation Principles

7.1 In order to be able to provide an SAO, the actuary needs to be satisfied that the technical provisions held by the syndicate are at least as large as those calculated by applying generally accepted actuarial methods and using assumptions that he or she considers reasonable in the context of the Valuation of Liabilities Rules.

7.2 The technical provisions calculated by the actuary for the purpose of forming the opinions should be at least as large as those implied by a "best estimate" basis without precautionary margins. If, however, the Managing Agent has set technical provisions materially higher than those indicated by such a basis, the actuary may still provide the SAO without qualification. In

Audit (no comment = no change)

Current 5.1 with reference to "reserves" changed to "technical provisions".

Current 5.2 first part, with references to "reserves" changed to "technical provisions".

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this context, the term “best estimate” is intended to represent the expected value of the distribution of possible outcomes of the unpaid liabilities. This definition is intended to clarify the concept but it will generally be impossible to apply it directly in practice. Note, however, that where the Lloyd’s Valuation of Liability Rules prescribe a basis that is stronger than best estimate for certain elements of the technical provision, then the actuary must follow the rules in respect of those elements, without taking any offsetting benefit by adopting a weaker than best estimate basis for the other elements of the technical provision.

7.3 In the case of the Trust Fund SAOs, the “best estimate” basis may need to be modified to take account of the basis agreed with the regulators, which is summarised in the Lloyd’s US Advisory Note.

7.4 In classes which have historically shown a tendency to give rise to latent claims, the actuary should, in the absence of evidence to the contrary, assume continuation of that tendency, but need not allow for the emergence of unanticipated major new types or classes of claims for the existence of which there is no evidence.

7.5 The technical provisions included in the technical provisions SAO must include provision for reinsurance bad debts and claims handling expenses (both allocated and unallocated) in the currencies where such expenses are expected to be incurred. The Trust Fund SAOs should include provision for allocated claims handling expenses. For each economic entity, the SAO relates to the total technical provisions including these provisions, where relevant, and does not apply to each element separately.

7.6 The technical provisions SAO refers to technical provisions conforming to UK insurance regulations and therefore the UK accounting

Audit (no comment = no change)

Current 5.2 second part

Current 5.3 but the final sentence is extended

“...for the existence of which there is no evidence.”

Current 5.5 with references to “reserves” or “solvency reserves” changed to “technical provisions”.

Current 5.6 with references to “reserves” or “solvency reserves” changed to “technical provisions”.

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principles will apply. The Trust Fund and the NYID version of the Surplus Lines Trust Fund SAOs refer to technical provisions being consistent with the “Modified UK Basis, as agreed with the NYID” and the actuary should therefore be familiar with that basis, as described in the Lloyd’s US Advisory Note.

7.7 Where a syndicate is expected to be a net borrower, additional technical provisions may be needed to cover borrowing costs because of the need to fund claims (and other) costs in advance of premium receipts or reinsurance (or other) recoveries.

7.8 In some circumstances the actuary may be asked by the Managing Agent to provide an SAO on a subset of the technical provisions to which it is intended to apply. In most situations, this is likely to be unacceptable to the relevant authorities (i.e. the IID, NYID or Lloyd’s). However, there may be specific reasons for excluding certain items from the scope of the SAOs, for example contracts that are subject to ongoing dispute over coverage. The actuary may agree to this, as long as the exclusions are made clear in the SAO.

7.9 The actuary should be aware of the need to provide for the cost of the reinsurance protection of the liabilities covered by the technical provisions SAO, irrespective of the year of account to which the relevant reinsurance premiums will be charged. This could be particularly important where reinsurance is placed on the basis of losses occurring during the year of account and when policies are written for periods in excess of one year or under binding arrangements.

7.10 If there are specific features of the business or the claims that significantly increase the uncertainty, beyond that which a reader of the accounts would reasonably expect, then a comment to that effect should be

Audit (no comment = no change)

Current 5.7 with reference to “reserves” changed to “technical provisions”.

Current 5.8 with reference to “reserves” changed to “technical provisions”.

Current 5.9 with opening words deleted.

Current 5.10 with reference to “Additional Comments” changed to “Relevant Comments ”.

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included in the relevant SAO. In addition, if for some or all elements of the technical provisions the actuary has adopted a methodology that is materially different from generally accepted actuarial methods, then reference should be made to this in the "Relevant Comments" section of the relevant SAO and in the Report.

7.11 The actuary may be asked by the Managing Agent to carry out some of his or her work as at a valuation date prior to the SAO valuation date. In all circumstances, the actuary must carry out sufficient work, using data as at the SAO valuation date, in order to be satisfied that he or she can sign the SAO. In addition, the actuary should ascertain from the Managing Agent whether there have been any material events between the valuation date and the date of signing the SAO, and make an appropriate adjustment to the technical provisions for such events. If there is insufficient time to make such an adjustment, then the actuary may need to draw attention to this in the SAO.

Audit (no comment = no change)

Current 5.11 with reference to “reserves” changed to “technical provisions”.

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Appendix 1A: Opinion on Technical Provisions

To: International Insurers Department

Statement of Actuarial Opinion
- Syndicate KLM

Identification

I, ABC, am an actuary employed by XYZ [the Managing Agent.]

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by XYZ [the Managing Agent.]

Qualification

I am a Fellow of the [Casualty Actuarial Society and an Affiliate of the] Faculty/ Institute of Actuaries and possess a certificate valid as at the date of this Opinion to provide UK Actuarial Opinions for Lloyd's Syndicates, issued by the Institute /Faculty of Actuaries.

Scope

I have examined the technical provisions listed below for the underwriting years 1993 to [current year] of Syndicate KLM as at 31st December [current year], as reported in Form(s) SR16 "Analysis of Technical Provisions" submitted by the Managing Agent. I have reviewed the technical provisions shown in lines 6 (column 1), line 10 (columns 1 and 4), line 11 (column 3), line 17 (column 1) and line 18 (column 1) for each relevant year of account. [The

Audit (no comment = no change)

"Solvency Reserves" changed to "Technical Provisions".

Reference to "reserves" changed to "technical provisions".

Comment: are form references OK?

Draft v1

form references may need to be changed, if the relevant forms are altered. The actuary should refer to any relevant instructions issued by Lloyd's.]

The technical provisions are the responsibility of the Managing Agent; my responsibility is to express an opinion on those technical provisions based on my review.

	[current year]	[current year –1]	[current year –2]
Total gross technical provisions (Conv £000's)			
Total technical provisions net of reinsurance (Conv £000's)			
CAN dollar (C\$000's)			
LATF (US\$000's)			

NB: "Conv £" figures above are converted at [£1 = US\$ a.aa = C\$ b.bb = Euro c.cc]

[NB: The table may need to be amended if, for example, there are old open years of account]

The preceding technical provisions are for indemnity amounts and claims handling expenses (both allocated and unallocated) and include provision for future claims arising from unexpired periods of risk. They are net of salvage and subrogation on past and current business. They are not discounted for the time value of money. The net technical provisions, Canadian Dollar technical provisions and the LATF technical provisions include a provision for reinsurance bad debts, where appropriate.

Audit (no comment = no change)

References to “reserves” changed to “technical provisions”.

References to “reserves” changed to “technical provisions”.

References to “reserves” changed to “technical provisions”.

Draft v1

I have relied upon data prepared by the responsible employees of the Managing Agent. These data have not been checked by me, although the Managing Agent has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the Managing Agent in determining the technical provisions, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

"In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary."]

[Relevant Comments

Other comments at the discretion of the Actuary.

These comments do not constitute a qualification of my opinion.]

Variability

In evaluating whether the technical provisions make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable

Audit (no comment = no change)

Reference to "reserves" changed to "technical provisions".

Change from "Additional Comments"

Change from "These additional comments..."

Current wording:

In evaluating whether the reserves make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the

Draft v1

development. In my work I have taken into account both. However, I have not anticipated the emergence of major new types or classes of claims, nor the emergence of any major new reinsurance disputes.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the technical provisions identified above comply with the Lloyd's Valuation of Liabilities Rules and each is no less than the expected future cost of the corresponding claims and claims handling expenses net of anticipated future premiums for which Syndicate KLM was liable at 31st December [current year].

[Qualifications on Opinion]

Other comments at the discretion of the Actuary.]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Managing Agent.

This statement of opinion is solely for the use of, and to be relied upon only by the following:

1. the Managing Agent, the syndicate auditors, the Council of Lloyd's and their auditors for the purpose of compliance with the Valuation of Liabilities Rules, and

Audit (no comment = no change)

scope for adverse development exceeds the scope for favourable development. **In particular, although I have made what I believe to be a reasonable allowance for the risk of adverse development,** I have not anticipated the emergence of major new types or classes of claims, nor the emergence of any major new reinsurance disputes.

Wording has been changed as it is felt to be misleading.

Reference to "reserves" changed to "technical provisions".

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2. the Managing Agent and International Insurers Department for the purposes of compliance with IID/NAIC regulatory requirements.

Signed:

Name:

Fellow of the Faculty/Institute of Actuaries (or Fellow of the Casualty Actuarial Society and Affiliate of Faculty/Institute of Actuaries)

Date:

Address:

Audit (no comment = no change)

Draft v1

Appendix 1B: Opinion on Trust Fund Technical Provisions

To: New York Insurance Department/International Insurers Department

**STATEMENT OF ACTUARIAL OPINION
GROSS TECHNICAL PROVISIONS FOR SYNDICATE KLM
US CREDIT FOR REINSURANCE TRUST FUND/US SURPLUS LINES
TRUST FUND
AS AT 31ST DECEMBER [CURRENT YEAR]**

Identification

I, ABC, am an actuary employed by XYZ [The Managing Agent.].

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by XYZ [The Managing Agent.]

Qualification

I am a Fellow of the [Casualty Actuarial Society and an Affiliate of the] Faculty/ Institute of Actuaries with experience of claims reserving.

Scope

I have examined the technical provisions listed below for the underwriting years 1995 to [current year] of Syndicate KLM as at 31st December [current year], as reported in the [US Credit for Reinsurance Trust Fund]/[US Surplus Lines Trust Fund] returns as at [insert date] relating to the business

Audit (no comment = no change)

“Reserves” changed to “Technical Provision”

“Reserves” changed to “Technical Provisions”

“Reserves” changed to “Technical Provisions”

Draft v1

written under the Fund.

The technical provisions are the responsibility of the Managing Agent; my responsibility is to express an opinion on those technical provisions based on my review.

1.1 US \$'0 00s			
US Credit for Reinsurance Trust Fund/US Surplus Lines Trust Fund	[current year]	[current year –1]	[current year –2]
Reported Outstanding Claims			
IBNR Claims and Unexpired Risks			
Sub-Total			
Less deferred premiums, funds withheld and LOCs			
Total			

[NB: The table may need to be amended if, for example, there are old open years of account]

The preceding technical provisions are for indemnity amounts and allocated claims handling expenses, include provision for future claims arising from unexpired periods of risk and are gross of reinsurance. They are net of salvage and subrogation, and anticipated future premiums (net of acquisition expenses) on past and current business. They are not discounted for the time value of money.

I have ensured that the technical provision in respect of unexpired periods of risk is at least 100% of the estimated unearned premiums (net of acquisition

Audit (no comment = no change)

“Reserves” changed to “Technical Provisions”

“reserves” changed to “technical provisions”

“reserve” changed to “technical provision”

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expenses). In making a deduction for anticipated future premiums, I have estimated the bad debt provision on that part of the future premiums that relate to “earned unsigned” premiums (net of acquisition expenses), subject to a minimum of 25% of the estimated earned unsigned premiums (net of acquisition expenses). In addition, I have not anticipated any profits on the earned unsigned premiums.

I have relied upon data prepared by the responsible employees of the Managing Agent. These data have not been checked by me, although the Managing Agent has confirmed that the data supplied to me are accurate and I have reviewed all key data for reasonableness. In other respects my examination included the use of such actuarial assumptions and methods and such tests of the calculations, as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the Managing Agent in determining the technical provisions, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

"In other respects my examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary."

I have verified that the data contained in Schedule P reconciles with the Trust Fund data used for the purpose of preparing this opinion [except for immaterial differences, possibly due to rounding/except for rounding differences].

[Relevant Comments

Other comments at the discretion of the Actuary.

Audit (no comment = no change)

“reserves” changed to “technical provisions”

Change from “Additional Comments”

Draft v1

These comments do not constitute a qualification of my opinion.]

Variability

In evaluating whether the technical provisions make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development. In my work I have taken into account both. However, I have not anticipated the emergence of major new types or classes of claims.

Opinion

In my opinion, subject to the above comments [and except for the qualifications stated below], the technical provisions identified above are no less than the expected future cost, calculated in accordance with the Modified UK Basis, as agreed with the New York Insurance Department, of the corresponding claims and allocated claims handling expenses net of anticipated future premiums, of the business written by Syndicate [KLM] under the [US Credit for Reinsurance/US Surplus Lines] Trust Fund as at 31st December [current year] under the terms of the Syndicate policies and agreements.

[Qualifications on Opinion

Other comments at the discretion of the Actuary.]

Audit (no comment = no change)

Change from “These additional comments...”

Current wording:

In evaluating whether the reserves make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development.

In particular, although I have made what I believe to be a reasonable allowance for the risk of adverse development, I have not anticipated the emergence of major new types or classes of claims, nor the emergence of any major new reinsurance disputes.

Wording has been changed as it is felt to be misleading.

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An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Managing Agent.

This statement of opinion is solely for the use of, and to be relied upon only by, the Managing Agent, the syndicate auditors, the Council of Lloyd's, their auditors and the New York Insurance Department/International Insurers Department for the purpose of compliance with NYID/IID regulatory requirements.

Signed:

Name:

Fellow of the [Casualty Actuarial Society and Affiliate of the] Faculty/Institute of Actuaries

Date:

Address:

Audit (no comment = no change)

Draft v1

Appendix 2: Data Accuracy Statement

Audit (no comment = no change)

I, _____, _____, hereby
affirm

Name

Title

that the listings and summaries of premium and claims data (including
indemnity and expense amounts)

regarding _____ as at _____ and
other

Syndicate KLM

Valuation Date

relevant data and information (including details of reinsurance disputes and

reinsurance bad debts) provided to
were

Actuary's name and firm

prepared under my direction and, to the best of my knowledge and belief, are
accurate
and complete [except where advised otherwise].

Signed: _____

Date: _____