

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

Casualty Actuarial and Statistical (C) Task Force Sept. 22, 2009, Minutes

Casualty Actuarial and Statistical (C) Task Force 2010 Charges (Attachment One)

Casualty Actuarial and Statistical (C) Task Force Aug. 11, 2009, Conference Call Minutes (Attachment Two)

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Casualty Actuarial and Statistical (C) Task Force
Washington, DC
September 22, 2009

The Casualty Actuarial and Statistical (C) Task Force met in Washington, DC, Sept. 22, 2009. The following Task Force members participated: Thomas R. Sullivan, Chair, represented by Richard Marcks (CT); Mary Jo Hudson, Vice Chair, represented by Mary Miller (OH); Linda S. Hall represented by Sarah McNair-Grove (AK); Jim L. Ridling represented by Charles Angell (AL); Steve Poizner represented by Ron Dahlquist (CA); Scott J. Kipper represented by Jackie Rombardo (NV); James Wrynn represented by Anne Kelly (NY); Teresa Miller represented by Rae Taylor (OR); Kent Michie represented by Tomasz Serbinowski (UT); and Mike Kreidler represented by Lee Barclay (WA).

1. Adopt 2010 Charges

Mr. Dahlquist made a motion, seconded by Mr. Barclay, to adopt the 2010 Task Force charges. The charges were modified to combine the commercial and personal lines competition database reports into one *Property and Casualty Competition Database Report*. Steve Broadie (Property Casualty Insurers Association of America—PCI) asked whether a specific charge to do work for the Solvency Modernization Initiative (SMI) should be added, but the Task Force decided that any SMI referrals were already covered by the charges without specific reference. The charges were adopted as modified (Attachment One).

2. Premium Deficiency Reserves Blanks Proposal

The Task Force discussed a blanks proposal to modify Note 29, Premium Deficiency Reserves. Mr. Marcks said the proposal was not calling for the addition of an actuarial opinion on premium deficiency reserves (PDR), but was a first step. Ms. Miller said that regulators can ask to see the PDR calculation, if desired. Mr. Barclay said he supports the Note 29 modifications, but would also like to continue discussion of the actuarial opinion changes. Mr. Angell and Mr. Dahlquist agreed. Ms. Miller said the time to consider further changes beyond Note 29 would be after data collected from Note 29 electronic reporting is analyzed.

Marc Oberholtzer (PricewaterhouseCoopers, representing the American Academy of Actuaries—AAA) said the AAA's Committee on Property and Liability Financial Reporting (COPLFR) supports a change to Note 29 as a first step. He said there is still a risk that the answer to the note would be "not applicable," even though the Task Force does not wish to see that. He also suggested that the wording about the date of evaluation be clearer, by identifying that it is the date of evaluation of premium adequacy and premium deficiency reserves. Bill Weller (America's Health Insurance Plans—AHIP) questioned whether this would apply to the life, accident and health blank; NAIC staff was asked to verify the different blanks that would be impacted. Mr. Weller said any modification to wording should be discussed with accident and health experts. He said that if unearned premium reserves are mentioned in the note, then active life reserves ought to be mentioned, as well. Ralph Blanchard (Travelers) said the wording in the instruction should match the wording in the illustration, so that either "calculation" or "analysis" should be used.

The PDR drafting subgroup will contact accident and health experts and provide a revised blanks proposal for the next Task Force call.

3. Uniform System for Medical Professional Liability Closed-Claim Reporting

Mr. Barclay said the Statistical Subgroup is discussing a potential uniform mechanism to collect medical professional liability closed-claim reporting data. One idea was to have the NAIC develop a uniform reporting system. He said there is value to a uniform system for data collection, especially from an efficiency standpoint, but it might be too late to get something like that included in the 2010 NAIC budget. He said he didn't know yet whether a central data-collection system would accommodate all state data-reporting requirements or whether state laws would have to be modified, but he recognized that some states have sophisticated data systems. Mr. Blanchard said any uniform system would need a strong state exception engine.

Mr. Barclay will draft a memo to send to the parent committee to request guidance on pursuing this issue.

4. Other NAIC Work

Mr. Barclay said that the Principles-Based Reserving (EX) Working Group exposed a document to spark some discussion at the working group level on the use of statistical agents and the NAIC's role in that. He said that Fred Andersen (NY) is working on the life insurance statistical issue and potentially would like to meet with property/casualty statistical experts at the Winter National Meeting.

Kris DeFrain (NAIC) said that an SMI Roadmap is being developed by International Solvency (EX) Working Group.

Mr. Marcks has been notified that a proposal might be introduced that would require reporting of directors' and officers' liability coverage as a separate line of business in the financial statements.

5. Discuss AAA Work

Effective in October, Mr. Oberholtzer said Joe Herbers (Pinnacle Actuarial Resources) will be the new chair of COPLFR. Mr. Marcks said the Task Force appreciated Mr. Oberholtzer's service. COPLFR continues to work on the Valuation Manual, the Actuarial Opinion Boot Camp scheduled for Dec. 2-3, PDR, international financial reporting standards (IFRS), and a model audit paper.

Mr. Blanchard said that Actuarial Standard of Practice No. 36 is being redrafted. He said there is significant discussion about the reliance on other opinions and whether responsibility can be abdicated in the Statement of Actuarial Opinion. Ms. Miller said she is not convinced that an opining actuary has to take total responsibility under a reliance statement. Mr. Marcks said that the Property Casualty Opinion does not call for prescribed language, however the person who is relied upon should be identified and then the regulator can ask for additional information, if needed. Mr. Dahlquist said there should be limitations. He said that if there is reliance that amounts to more than half of the total opinion, then that is not desirable; in which case, the other person should then submit the opinion.

6. Profitability Working Group

The Profitability Working Group did not meet in the third quarter of 2009. The Profitability Working Group plans to begin discussions on the *Report on Profitability by Line by State in 2008* after the Fall National Meeting.

7. Catastrophe Modeling Subgroup

The Catastrophe Modeling Subgroup held two conference calls this quarter to discuss recommended modifications to the NAIC's *Catastrophe Modeling Handbook*. The Subgroup expects to propose modifications by the Winter National Meeting. Final modifications to the handbook questions are expected to be completed on the Subgroup's Oct. 9 call. Recommendations will then be forwarded to the Task Force.

8. Property/Casualty Line of Business Subgroup

The Property/Casualty Line of Business Subgroup has received responses from its survey about property/casualty financial statement line of business definitions. The survey has closed. The results have been compiled and distributed by NAIC staff to Subgroup members. A call will be scheduled to discuss the results.

9. Statistical Subgroup

The Statistical Subgroup met via conference call July 21, Aug. 17 and Sept. 15 to review the draft Guideline for Implementation of Medical Professional Liability Closed Claim Reporting, which supplements the model law. The Subgroup focused on Part A of the guideline and exposed for comment an Aug. 10 draft of Part A. The Subgroup continues to discuss Parts B through E of the Dec. 3, 2008, draft of the guideline. The drafts are available on the NAIC Web site. During the Aug. 17 conference call, Texas representatives provided the Subgroup with their experiences in collecting and utilizing jury verdict data for medical professional liability.

The Subgroup also discussed the possibility of a uniform system for reporting medical professional liability closed-claim data. The creation of a central data collection system by the NAIC would help in making the reporting easier for all entities.

The Subgroup met June 25 via a regulator-to-regulator conference call (as the possibility that company-specific information would be discussed) to review and consider a *Personal Lines Competition Database Report*. This report would be similar to the *Commercial Lines Competition Database Report*. Since some annual statement lines of business include personal and commercial data in the same line, the Subgroup decided a *Competition Database Report* would be produced. Both personal and commercial lines of business will be broken out in the report. The data for both market segments will be similar, with “not applicable” shown in the risk retention columns for personal lines. The report cannot be produced until the *Report on Profitability by Line by State in 2008* is produced, as some of the data comes from that report.

A conference call of the Subgroup is scheduled for Oct. 20. During the next quarter, the Subgroup expects to approve the *2006/2007 Auto Insurance Database Report* and the *2007 Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner’s Insurance* report.

10. Workers’ Compensation Large Deductible Subgroup

The Workers’ Compensation Large Deductible Subgroup will create an outline of all responses received on the large deductible proposal, listing pros and cons as to why the Subgroup agreed to not pursue any of the options. A summary conclusion will be drafted in October.

The next step is for the Subgroup to await comments from industry regarding the impact of accounting changes to SSAP No. 65, Property and Casualty Contracts, regarding inconsistencies between credit losses or insurance losses in reference to credit exposure with large deductible losses. If no further requests or comments are received from interested regulators, this issue will be tabled until further recommendations are received.

11. Consider Interim Minutes

Upon a motion by Mr. Angell, seconded by Mr. Barclay, the Task Forces’ Aug. 11 conference call minutes were adopted (Attachment Two).

12. Actuarial Standards Board

Mr. Mareks said the Actuarial Standards Board (ASB) is discussing the repeal of Actuarial Standard of Practice No. 9. He said he has concerns that its repeal would lead to lower standards. He asked for regulatory actuaries to express their concerns to the ASB.

13. Catastrophe Reserves

Ms. Kelly said the Catastrophe Reserve Working Group might ask the Task Force to analyze its catastrophe reserve proposal and assess its effect on overall rate levels, particularly for homeowners insurance.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

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**CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE
2010 Charges**

The mission of the Casualty Actuarial and Statistical (C) Task Force is to identify, investigate and develop solutions to actuarial problems and statistical issues in the property/casualty insurance industry. The Task Force's goals are to maintain the financial health of property/casualty insurers and to ensure that appropriate data regarding property/casualty insurance markets are available.

Ongoing Maintenance of NAIC Programs, Products or Services:

1. Provide reserving, pricing, ratemaking, statistical and other actuarial support to NAIC committees, task forces and working groups. Propose changes to the appropriate work products (with the most common work products noted below) and present comments on proposals submitted by others relating to casualty actuarial and statistical matters. Monitor the activities, including the development of financial services regulations and statistical (including disaster) reporting, relating to casualty actuarial issues.—*Essential*
 - Blanks (E) Working Group (property/casualty annual statement, including Schedule P; property/casualty quarterly statement; property/casualty quarterly and annual statement instructions, including Statement of Actuarial Opinion)
 - Statutory Accounting Principles (E) Working Group and Emerging Accounting Issues (E) Working Group (*Accounting Practices and Procedures Manual*)
 - Capital Adequacy (E) Task Force (property/casualty risk-based capital report)
 - Financial Analysis Handbook (E) Working Group (property/casualty actuarial sections of the *Financial Analysis Handbook*)
 - Financial Examiners Handbook (E) Technical Group (property/casualty actuarial sections of the *Financial Condition Examiners Handbook*)
 - Operational Efficiencies (EX) Working Group (property/casualty actuarial sections of the *Product Filing Examiners Handbook*)
 - Disaster Reporting (E) Working Group (disaster reporting framework)
2. Identify the types of data that are necessary to properly evaluate the medical liability insurance market — including the frequency, severity and causes of loss — in order to evaluate regulatory and legislative proposals. Identify the sources of this data and the steps necessary to capture it, including changes needed in the *Statistical Handbook of Data Available to Insurance Regulators*, and the need to develop claims databases or other appropriate means of capturing the necessary information.—*Essential*
3. Consider updates and developments, provide technical assistance and oversee the production of the following reports and databases. Also, periodically evaluate the demand, utility and income derived vs. the costs of production of each product.—*Essential*
 - a. *Report on Profitability by Line by State* (Charge the Profitability Working Group with producing this report on an annual basis.)
 - b. Homeowners Average Premium Report
 - c. *Auto Insurance Database*
 - d. *Market Share Reports for Groups and Companies – Property/Casualty*
 - e. *Property and Casualty Competition Database Report*
4. Monitor activities related to establishing life insurance principle-based reserving and provide guidance based on experiences with establishing property/casualty principle-based reserving.—*Important*
5. Monitor national casualty actuarial developments and consider regulatory implications.—*Important*
 - Casualty Actuarial Society (Statements of Principles and *Syllabus of Basic Education*)
 - American Academy of Actuaries (Standards of Practices)
 - Federal legislation
6. Provide property/casualty actuarial advice and assistance to the International Solvency (EX) Working Group, including providing commentary as needed on relevant draft reports of the International Actuarial Association and other international bodies.—*Important*

7. Consider updates and changes to the *Statistical Handbook of Data Available to Insurance Regulators*.—*Important*

New Objectives and Goals (*representing new NAIC programs, services or initiatives*):

None

Sponsors for Proposed 2010 Charges:

(Except as noted, I support all charges)

Commissioner/Director
State

Thomas Sullivan
CT

Mary Jo Hudson
OH

Mike Kreidler
WA

Staff Support: Kris DeFrain

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Draft: 8/19/09

Casualty Actuarial and Statistical (C) Task Force
Conference Call
August 11, 2009

The Casualty Actuarial and Statistical (C) Task Force met via conference call Aug. 11, 2009. The following Task Force members participated: Thomas R. Sullivan, Chair, represented by Richard Marcks (CT); Mary Jo Hudson, Vice Chair, represented by Mary Miller, Tom Hess and Brad Schroer (OH); Linda Hall represented by Sarah McNair-Grove (AK); Thomas E. Hampton represented by Clark Simcock (DC); Scott J. Kipper represented by Janice Moskowitz (NV); Neil N. Jasey represented by Boris Privman (NJ); Kermit Brooks represented by Anne Kelly, Gloria Huberman, Sak Man Luk, Deborah Rosenberg and Hau Michael Ying (NY); Teresa Miller represented by Rae Taylor and David Dahl (OR); Joel Ario represented by Stephanie Ohnmacht (PA); Mike Kreidler represented by Lee Barclay (WA); and Jane L. Cline represented by Aaron Baughman (WV). Also participating were: Karen Adams (AZ); Ramona Lee (IA); Robin Coombs (KY); Alan Wickman (NE); David Withers (NH); Miriam Ortiz (PR); John Duncan (TN); and Nicole Elliott (TX).

1. Premium Deficiency Reserves

The drafting group of Mr. Marcks, Ms. Miller, Missy Greiner (PA) and Ms. Elliott proposed to the Task Force to not add an actuarial opinion requirement for premium deficiency reserves (PDR) at this time. Instead, the group suggested modification to instructions for Note 29.

Ms. Elliott said there were multiple concerns about requiring an actuarial opinion on PDR at this time: the PDR determination crosses actuarial disciplines of pricing and reserving; the actuarial workload is already heavy during opinion season; there is typically limited need to book a PDR; and there is currently no clear guidance. She said clear guidance for the Note 29 and/or modification to the SSAP is needed before PDR requirements are added to the actuarial opinion scope.

Mr. Marcks said the Task Force should focus on improvement of the instructions to Note 29 first. He said an answer of “not applicable” should not be allowed, given that an analysis of PDR is always applicable and regulators need a more informative response. He said a requirement might be needed that is reviewable upon examination or upon request. The company should be able to show regulators how they determined no PDR was needed and how the company aggregated its lines of business in the determination.

Mr. Marcks asked the American Academy of Actuaries (AAA) to identify existing articles and identify ways to determine a PDR. He asked the AAA to consider developing a presentation at a rate-making seminar or a journal article with an aim to improve disclosures.

2. Catastrophe Modeling Subgroup

Mr. Marcks said the Catastrophe Modeling Subgroup agreed to propose modifications to the NAIC’s 2001 *Catastrophe Modeling Handbook*. They will propose a bibliography of catastrophe-modeling literature to explain how models have developed since 2001. They will also suggest revisions to questions about an insurer’s use of catastrophe modeling in a property rate filing that regulators should ask themselves and potentially ask the insurer. The Subgroup’s next call should result in a draft questionnaire to submit to the Task Force.

3. Property/Casualty Line of Business Definitions Subgroup

The Property/Casualty Line of Business Definitions Subgroup will discuss responses to their survey on their next call. Ms. Miller would like to talk to regulators who use Schedule P to analyze the reserves of individual companies.

4. Statistical Issues Subgroup

Mr. Barclay said the Statistical Issues Subgroup continues to draft Part A of the guidelines for implementing the Medical Professional Liability Closed Claim Reporting Model Law. Part A will provide a regulation that states can use when the model law is implemented. However, only two states joined the Subgroup’s June conference call so the call was cancelled. Another call is planned for Aug. 17. The academic community has proposed additional subsections in Part A that would require reporting on trial information, outcomes and claimant demands. Academics report that Texas has similar

requirements, so the Subgroup has asked to have a Texas representative join the Subgroup's next call to discuss how that data is utilized.

5. Workers' Compensation Large Deductible Subgroup

Ms. McNair-Grove said the Workers' Compensation Large Deductible Subgroup had expected the Property Casualty Insurers Association of America (PCI) and the American Insurance Association (AIA) to submit a joint letter to the Subgroup to confirm that a loss approach to determination of assessments is acceptable. However, the AIA has now said assessments should be based on some type of premium methodology. While the original plan was for the Task Force to develop one uniform methodology, the Subgroup might propose a summary paper listing various options that could be considered and the pros/cons of each option.

6. American Academy of Actuaries

Lauren Pachman (AAA) said the law manual questionnaires have been sent to state insurance departments with more lead-time than last year. Ms. Miller volunteered to be the liason with the AAA to encourage the states' completion of these questionnaires.

7. Regulatory Guidance on Statements of Actuarial Opinion

A drafting group of Mr. Marcks, Ms. Miller, Ms. Greiner and Ms. Elliott was established to develop the first draft of the Task Force's annual regulatory guidance on actuarial opinions and actuarial opinion summaries. Regulatory actuaries were asked to submit new ideas for inclusion in the regulatory guidance.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

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