

2009 Fall National Meeting
Washington, DC

Casualty Actuarial and Statistical (C) Task Force

September 22, 2009

2:00 pm-3:30 pm

Gaylord Convention Center—National Harbor 10-11—National Harbor Level

ROLL CALL

<u>Commissioner</u>	<u>Primary Rep.</u>	<u>Alternate Reps.</u>	<u>State</u>
Thomas R. Sullivan, Chair	Richard Marcks		Connecticut
Mary Jo Hudson, Vice Chair	Mary Miller	Tom Hess/Maureen Motter/Brad Schroer	Ohio
Jim L. Ridling	Charles Angell		Alabama
Linda S. Hall	Sarah McNair-Grove		Alaska
Steve Poizner	Ron Dahlquist	Luciano Gobbo	California
Gennet Purcell	Clark Simcock	Robert Nkojo	District of Columbia
Kevin McCarty	Howard Eagelfeld		Florida
Michael McRaith	Judy P. Mottar	Sarah Fore/Chantel Long	Illinois
Sandy Praeger	Larry Bruning		Kansas
John M. Huff	Brent Kabler	David Cox	Missouri
Scott J. Kipper	Janice Moskowitz		Nevada
Neil N. Jasey		Boris Privman/William Rader/Sam Sackey	New Jersey
James J. Wrynn	Anne Kelly	Gloria Huberman/Debbie Rosenberg	New York
Teresa Miller	Rae Taylor	David Dahl	Oregon
Joel Ario	Melissa Greiner	Stephanie Ohnmacht	Pennsylvania
Scott H. Richardson	Leslie Jones	Vibha Jayasinghe	South Carolina
Kent Michie	Tomasz Serbinowski		Utah
Mike Kreidler	Lee Barclay	Eric Slavich, Lisa Smego	Washington
Jane L. Cline	Mike Riley	Tonya Gillespie/Elizabeth Webb	West Virginia

NAIC Staff Support: Kris DeFrain/Joe Bieniek

AGENDA

1. Adopt 2010 Charges
2. Premium Deficiency Reserves Blanks Proposal
3. Uniform System for Medical Professional Liability Closed Claim Reporting
4. Discuss Other NAIC Work
5. Discuss American Academy of Actuaries' Work
6. Consider Interim Minutes and Reports
 - Interim Call Minutes
 - Profitability Report (C) Working Group Summary
 - Subgroup Summaries: Catastrophe Modeling Subgroup, Line of Business Subgroup, Statistical Subgroup, and Workers' Compensation Large Deductible Subgroup
7. Any Other Business

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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.
 - 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. *Commercial Lines Competition Database Report—Essential*
 - f. *Personal Lines Competition Database Report—Important*
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 and Accounting (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 **(NAIC staff to
State obtain sponsorship)**

Staff Support: Kris DeFrain

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: <u>Sept. 22, 2009</u>		<u>FOR NAIC USE ONLY</u>	
CONTACT PERSON: <u>Kris DeFrain, NAIC Staff</u>		Agenda Item # _____	
ON BEHALF OF: <u>Casualty Actuarial and Statistical Task Force</u>		Year _____	
NAME: <u>Rich Marcks</u>		Changes to Existing Reporting []	
TITLE: <u>Chair of the Task Force</u>		New Reporting Requirement []	
AFFILIATION: <u>Connecticut Department of Insurance</u>		<u>REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</u>	
ADDRESS: <u>P.O. Box 816</u>		No Impact []	
<u>Hartford, CT 06142</u>		Modifies Required Disclosure []	
TELEPHONE: <u>860-297-3815</u>		<u>DISPOSITION</u>	
		[] Rejected For Public Comment	
		[] Referred To Another NAIC Group	
		[] Received For Public Comment	
		[] Adopted	
		[] Rejected	
		[] Deferred	
		[] Other (Specify) _____	

BLANK(S) TO WHICH PROPOSAL APPLIES

- | | | |
|--|---|--|
| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input checked="" type="checkbox"/> QUARTERLY STATEMENT | <input checked="" type="checkbox"/> INSTRUCTIONS |
| <input checked="" type="checkbox"/> Life and Accident & Health | <input checked="" type="checkbox"/> Property/Casualty | <input type="checkbox"/> Health |
| <input type="checkbox"/> Separate Accounts | <input type="checkbox"/> Fraternal | <input type="checkbox"/> Title |
| <input type="checkbox"/> Other Specify _____ | | |

Anticipated Effective Date: 2010 annual

IDENTIFICATION OF ITEM(S) TO CHANGE

The instructions for Note 29 "Premium Deficiency Reserves" are proposed to change as follows:

Instruction:

For all accident and health contracts and property/casualty contracts, the reporting entity shall disclose the amount of ~~any~~ premium deficiency reserves, the date of evaluation for premium deficiency reserves, and whether anticipated investment income was considered as a factor in the premium deficiency calculation.

The data should be filed electronically.

Illustration:

As of _____, the Company had liabilities of \$ _____ related to premium deficiency reserves. The Company did not consider anticipated investment income when calculating its premium deficiency reserves.

	(1)
1. Liability carried for premium deficiency reserves	\$ _____
2. Date of the most recent evaluation of this liability	_____
3. Was anticipated investment income considered in the analysis?	Yes <input type="checkbox"/> No <input type="checkbox"/>

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

There is some concern that companies are not performing premium deficiency reserve analyses when they should and/or the analyses are not as thorough as they should be. In response, the Task Force considered expanding the scope of the actuarial opinion to include premium deficiency reserves but settled (at this time) for the alternative of collecting data on the reserves and drawing more attention to the requirement for companies to be evaluating the need for these reserves.

Some companies have been answering "Not applicable" to Note 29 and we believe the note should always be applicable. We believe the company should report that they analyzed the need for a premium deficiency reserve and the amount of the premium deficiency reserve. We also are specifically asking that the date of the evaluation be stated so that we, first, ensure that an analysis is being done, and second, are able to request the supporting documentation for the evaluation.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

**** This section must be completed on all forms.**

Revised 01/18/05

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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 Baughn (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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Washington, DC*

**Profitability (C) Working Group
September 22, 2009**

Meeting Summary Report

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

Casualty Actuarial and Statistical (C) Task Force
Subgroup Reports
Sept. 18, 2009

Catastrophe Modeling Subgroup—Rich Marcks, Chair

The Catastrophe Modeling Subgroup held two conference calls this quarter to discuss 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 next Subgroup call Oct. 9, 2009. Recommendations will then be forwarded to the Task Force.

Line of Business Subgroup—Mary Miller, Chair

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.

Statistical Subgroup—Lee Barclay, Chair

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 in 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 from 1:00—2:30 CT. 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.

Workers' Compensation Large Deductible Subgroup—Sarah McNair-Grove, Chair

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 then be drafted in October.

The next step is for the Subgroup to await comments from industry regarding the impact of accounting changes to SSAP 65 on 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.