



AMERICAN ACADEMY *of* ACTUARIES

March 4, 1999

Mona Carter, Director
Property and Casualty Division
Kentucky Insurance Department
215 W. Main Street
Frankfort, KY 40602

RE: Status Report on Academy Work on Use of Multiple Statistical Agents in Workers' Comp.

Dear Ms. Carter:

The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

The American Academy of Actuaries appreciates this opportunity to provide comments to the NAIC's Multiple Rating Organization Study Group. The Academy's Worker's Compensation Work Group is developing a white paper on the use of multiple statistical agents. This letter serves as a status report on that project and provides the NAIC with an overview of Academy work in this area.

A statistical agent collects and compiles workers' compensation data from insurance carriers and some self-insurers at both an aggregate level and on a claim by claim basis. The primary purposes of the data collected by the statistical agents are: for actuaries at the rating organizations to use this data to develop statewide rates and rating plans; for insurance carriers to use this data to evaluate individual risks, determine deviated rating levels and develop underwriting strategies; and for regulators to use the data to evaluate the carriers' rates and some self-insurers', reserves and financial condition, as appropriate. In addition, group programs (both insured safety groups and self insurance groups) may use the data to develop rates and rating plans. Individual self insurers may use the data in estimating their funding requirements. Self-insurers and smaller carriers may use this data to establish adequate loss reserve levels.

Historically, the National Council of Compensation Insurers ("NCCI") has been the agent in most states, including many states with independent rating bureaus. However, with the emergence of IDR Statistical Services, Incorporated ("IDR") over the last several years, states are considering how

multiple statistical agents can exist within a single state. The use of multiple statistical agencies has already been approved in Florida. Arizona recently changed statistical agents; and several other states are considering the possibility of competitive statistical agents. Consequently, the American Academy of Actuaries has developed a set of basic guidelines intended to help states in their consideration of multiple statistical agents. We believe the NAIC may also find them useful in providing recommendations to the states. The guidelines are as follows:

1. There should be a single, minimum standard class plan and statistical plan countrywide, for the following reasons:
 - It increases credibility in the ratemaking process by providing the ability to aggregate experience for many states. This is particularly important for smaller classes in order to prevent wide swings in policyholder premiums from one year to the next. In addition, increased credibility leads to improved predictability, reduced pricing risk, lowered required returns, and in turn, lower rates.
 - It allows for comparison of rates across states.
 - It facilitates the pricing of multi-state risks.
 - It is more efficient for carriers, statistical agents and rating agents.

Note that a minimum standard class plan would not preclude individual states choosing to sub-divide classes as deemed appropriate.

2. There should be minimum qualification standards for statistical agents aimed at ensuring data integrity and appropriate data confidentiality.

(It is critical to maintain data integrity in order to minimize the possibility of erroneous actuarial projections and inaccurate rates overall, by class, and by employer.)

3. There should be good electronic communications and data transfer abilities between statistical agencies and ratemaking organizations, in order to ensure efficiency and data integrity.
4. There should be good electronic communications and data transfer abilities between statistical agencies in order to determine whether a risk is eligible for experience rating and to facilitate accurate experience rating calculations. A prospective insurer with appropriate authority should have access to all experience generated by a particular employer, regardless of which statistical agent is collecting experience each year and in each state.
5. All decisions should keep in mind the benefits to minimizing the cost of compiling and accessing data by all advisory organizations. Advisory organizations include both rating organizations and other authorized users.
6. Provisions should be made to enable the aggregation of industry wide data as necessary. Because of the need to protect data confidentiality, this data aggregation should not be maintained by a state or other agency subject to open records laws. Access to detailed data should also limited in accordance with the property rights of insurers in collected data and information.

Sincerely,

Layne Onufer, FCAS, MAAA, Chairperson
Workers Compensation Work Group