American Academy *of* Actuaries

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June 25, 2021

Jacob Garn
Chair
Blanks (E) Working Group
National Association of Insurance Commissioners (NAIC)

c/o: Mary Caswell
mcaswell@naic.org

Calvin Ferguson
cferguson@naic.org

Re: 2021 NAIC Blanks Proposals *2021-11BWG* and *2021-13BWG* Exposed for Public Comment

Dear Mr. Garn:

On behalf of the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries,[1] I appreciate this opportunity to provide comments on the proposed changes to the financial requirements exposed by the National Association of Insurance Commissioners (NAIC) Blanks (E) Working Group, exposed for public comment on May 26, 2021, with comments due back by June 25, 2021.

COPLFR appreciates your consideration of our comments.

The Blanks Working Group has exposed two proposals that we would like to provide comment on.

I. 2021-11BWG- Add a new annual statement supplement to the Property and Casualty (P/C) statement to capture exposure data for Annual Statement Lines 2.5, 4, 19.1, 19.2 and 21.2 of the Exhibit of Premiums and Losses. Add a column to the Quarterly Parts 1 and 2 to capture exposure data for these annual statement lines for the quarter. Comment Deadline 6/25/2021

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

II. *2021-13BWG- Add a new supplement to capture premium and loss data for Annual Statement Lines 17.1, 17.2 and 17.3 of the Exhibit of Premiums and Losses (State Page) – Other Liability by more granular lines of business. Comment Deadline 6/25/2021*

We believe that the potential benefit that may be derived by the public from having access to additional reported information needs to be considered relative to the effort to obtain the additional information. We also believe that the quality and consistency of the data that would be provided under the proposals are a concern, and that the proposals should ensure the additional data will serve the intended use.

The level of detail that would be requested by the two exposure drafts is not regularly captured in typical company financial data systems. It will require time for each company to clarify the detailed requirements and then additional lead time to implement within individual company systems to ensure quality data can be provided.

The value of the reported data will depend on what is available from each specific company. Additional granularity of some data may still only be achieved through judgment and allocations made at the individual company level. This often makes detailed information less valuable once obtained and aggregated to the industry level. In addition, requesting data with unclear requirements and with definitions not commonly used across the industry is not likely to produce consistent and useful quality data.

Specific issues that we would like to point out, given the currently provided details of these two proposals, are separately discussed below.

<u>2021-11BWG</u>

- <u>Definition of exposure</u>—A clearer definition of how exposure should be calculated for each requested line is needed. Some lines where this additional information is requested contain significant issues related to mix of exposure.
    - For example, “Homeowners line 4” contains exposures varying in type including owner occupied, apartment renters, condo owners, and mobile home owners, with significantly varying lines of amount of insurance per exposure.
    - For Auto lines, would exposure for a policy having Comprehensive & Collision coverage be measured similarly to a policy containing only one Physical Damage coverage?

  Comparisons year over year within each company will be distorted when there are material changes in mix across these various types of exposures. Comparisons between companies could also be distorted. We recognize that this aggregated information is regularly used to compare premium but comparing *average* premiums could be distorted.

- <u>Calendar date alignment</u>—We note that the timing for the source of exposure data requested (that is available currently in company ratemaking systems) may not match the financial reporting data for financial premium. Exposures are typically maintained in detailed policy-based systems along with policy premium and are provided on a policy year basis. They are often separate from financial reporting systems where premium is on a calendar-year-earned basis. While premiums from ratemaking and financial systems could be reconciled, they might not provide a precise match. We note that data from ratemaking systems is already available and provided when requested by regulators or through specific data calls and filing inquiries.

- Existing alternative data sources—Some of the data requested is already available through statistical plan reporting which may meet the intended need. Statistical plan data is primarily available to regulators (the restricted availability is intended to protect the proprietary nature of each company's data).

Changes that COPLFR would suggest that would *improve* the proposal (2021-11BWG):

- Include a complete and clear definition of exposure and calculation for each line proposed, particularly as respects the crossing (or overlap) of calendar time periods. Clear specifications ensure greater consistency across companies reporting.
- Definitions that account or minimize distortions from mix would be recommended.
- If these requests move forward to requirements, we respectfully suggest a 2023 implementation date as the earliest date for achievement of those requests.
- We recommend that flood coverage (Annual Statement Line 2.5) be removed from the proposal, as flood has a mix of both Personal and Commercial policies, written on both primary and excess bases.

2021-13-BWG

- Granularity and definition—The (29) proposed components of additional reporting for Other Liability will require clear definition (or instruction) on how to map class plan or package policies to these new required sublines of Other Liability. Significant judgment will be necessary at the individual company level depending on the policies written by that company. It is not clear that the proposed sublines are exclusively defined to eliminate overlap, nor that they will subsequently add up to the whole (e.g., internet liability vs cyber; employee benefit liability vs. fiduciary; one package policy covering three sublines of liability). A particular policy type could possibly be matched to one reporting line or another, generating inconsistency across companies, or year after year as policy changes evolve or new products are distributed. It is not clear why more granularity of data would not be put into the statistical data requirements, rather than being added into the Annual Statement. The proposal notes an additional Appendix defining the 29 granular pieces, but we do not find those proposed components included in the exposure draft for review.
- Credibility/Quality (IBNR)—We note that further subdividing the Liability data, already sparse in areas, will not necessarily provide valuable additional information across all the data elements requested. Inclusion of Incurred But Not Reported (IBNR) reserves at this new granular level of detail will most likely be arrived at through a company-determined allocation process. Liability is generally a low frequency / high severity line of business. Actuarial reserves for Liability are necessarily analyzed at higher levels of aggregated data to arrive at meaningful estimates and to reduce volatility in those reserve estimates

over time. While some companies may segment Liability into credible pieces given their business profile, likely no company utilizes the (29) sublines proposed in their derivation of IBNR reserves.

- Inconsistency with the underlying policies—We find that this breakout of a broad type/cause of loss product such as Liability would be excessive and also is not consistent with the purpose of the General Liability policy, which is to provide broader aggregated coverage across a variety of situations which by themselves may not be as easily or affordably insurable.
- Preparation—The proposed breakouts of Other Liability as currently listed as the sublines requested would not be consistently defined across companies. If this list will continue to change, it should be noted that the value and quality of the information would be reduced with each change, and each change would require additional company preparation time as well as discretion to report. Given appropriate time to prepare systems for this change, the quality of the data would improve.

Changes that COPLFR would suggest that would *improve* the proposal (2021-13-BWG):

- Remove the requirement to include IBNR reserves from this new granular level of Liability reporting.
- Clearly define the sublines and eliminate any overlap or redundancies. Balance the additional information requested with the value added by collecting that additional granularity. For example, what is the difference between cyber and internet liability? Where would you categorize a package Liability policy that provides coverage across three of the above proposed sublines?
- Please provide and expose for comment the Appendix noted in the proposal that clearly defines the lines and coverages requested.
- Provide sufficient lead time for system preparation and implementation to improve the quality of data obtained. If these requests move forward to requirements, we respectfully suggest a 2023 implementation date as the earliest date for achievement of those requests.

COPLFR appreciates this opportunity to provide comments to the NAIC Blanks Working Group (and CASTF). We hope these observations are helpful, and we welcome further discussion. If you have any questions about our comments, please contact Rob Fischer, the Academy's casualty policy analyst, at fischer@actuary.org.

Sincerely,

Derek Freihaut, MAAA, FCAS
Chairperson
Committee on Property and Liability Financial Reporting
American Academy of Actuaries