

# P/C POST-NAIC UPDATE SUMMER 2016

Sept. 13, 2016



AMERICAN ACADEMY *of* ACTUARIES

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# Agenda

- ❑ **Moderator**—Shawna Ackerman, MAAA, FCAS
  - Vice President, Casualty Practice Council
  
- ❑ **CASTF & Professionalism**—Lisa Slotznick, MAAA, FCAS
  - Chairperson, Committee on Property and Liability Financial Reporting (COPLFR)
  
- ❑ **Big Data, Flood & More**—Jim MacGinnitie, MAAA, FCAS, FSA
  - Academy Senior Casualty Fellow
  
- ❑ **Flood, Workers' Comp & More**—Kris DeFrain, MAAA, FCAS, CPCU
  - Director, Research and Actuarial, NAIC



# American Academy of Actuaries

The American Academy of Actuaries is an 18,500+ 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 policy makers 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.



# CASTF & PROFESSIONALISM

Lisa Slotznick

Chairperson, Committee on Property and  
Liability Financial Reporting (COPLFR)



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# National Association of Insurance Commissioners (NAIC)

- NAIC meetings
  - ▣ In-person three times a year (spring, summer, fall)
  - ▣ Most recent meeting: Summer National Meeting, August 26-29 in San Diego
- NAIC structure
  - ▣ Committees make policy and decisions under a defined hierarchy
  - ▣ Each committee has a specified purpose



# Casualty Actuarial and Statistical Task Force (CASTF)

- CASTF structure and membership
  - CASTF within the casualty hierarchy deals with actuarial and statistical issues within the P/C industry
  - Conference calls monthly in between NAIC meetings and in person during NAIC meetings
    - Met during the summer NAIC meeting
    - Open to public
  - Members represent 21 states, and representatives are a mix of people with casualty only or combined casualty, health, and life regulatory focus



# CASTF – Cont'd

- CASTF has a mission and “charges”
  - Mission: “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 P/C insurance industry.”
- Subgroups of CASTF
  - Actuarial Opinion Working Group
  - Statistical Data Working Group
- CASTF website: [http://www.naic.org/cmte\\_c\\_catf.htm](http://www.naic.org/cmte_c_catf.htm)



# CASTF Interaction with Other NAIC Groups

- Financial reporting and ratemaking focus in support of various NAIC working groups:
  - Financial Reporting and Blanks
  - Statutory Accounting Principles
  - Capital Adequacy Task Force
  - Financial Analysis Handbook Working Group
  - Financial Examiners Working Group
  - Operational Efficiencies Working Group
  - Auto Insurance Working Group



# CASTF—Other Areas of Focus

- Casualty actuarial developments and the resulting impact on regulatory issues
- Own Risk and Solvency Assessment (ORSA)
- Discussion among regulators of rate filing commonalities



# CASTF—Current Focus: Financial Reporting

- Statements of Actuarial Opinion for Property/Casualty and Title Blanks
  - Annual Statement Instructions related to SAOs
  - Regulatory guidance note
  
- Financial reporting
  - Risk-focused exams
  - Financial Examiners Handbook (exposed for comment)
    - [www.naic.org/documents/committees\\_e\\_examover\\_fehtg\\_160713\\_materials.pdf](http://www.naic.org/documents/committees_e_examover_fehtg_160713_materials.pdf) - 193k - 2016-07-06



# CASTF—Current Focus: Ratemaking

- Ratemaking principles comment letter
  - CASTF prepared and submitted comments to CAS
  - CPC also submitted comments to CAS
    - [http://www.actuary.org/files/CPC letter on CAS Statement of Principles on Ratemaking and Markup of Draft 1.31.15.pdf](http://www.actuary.org/files/CPC%20letter%20on%20CAS%20Statement%20of%20Principles%20on%20Ratemaking%20and%20Markup%20of%20Draft%201.31.15.pdf)
- Regulating generalized linear modeling
  - Regulatory survey and exposure for comment
    - [http://www.naic.org/documents/committees\\_c\\_catf\\_exposure\\_castf\\_glm\\_survey.pdf](http://www.naic.org/documents/committees_c_catf_exposure_castf_glm_survey.pdf)
- Information sharing among states related to complex models or rate filings



# CASTF and the American Academy of Actuaries

- Statements of Actuarial Opinion (SAO) for Property/Casualty and Title Blanks
  - In response to continuing concerns of regulators seeking well-written SAOs and practitioners wanting to learn how to write good SAOs
    - Opinion writers seminar December 6 & 7
      - <http://www.actuary.org/content/2016-seminar-effective-pc-loss-reserve-opinions>
    - SAO practice note (including the regulatory guidance note)
      - [http://www.actuary.org/files/COPLFR\\_2015\\_Loss\\_Reserve\\_Practice\\_Note.pdf](http://www.actuary.org/files/COPLFR_2015_Loss_Reserve_Practice_Note.pdf)
    - P/C Loss Reserve Law Manual
  - Provide specific comments to regulators on language in instructions



# Professionalism and the Academy

## □ Attestation Form

- Helps actuaries voluntarily demonstrate how they meet the U.S. Qualification Standards (USQS) specific requirements for signing NAIC annual statements of actuarial opinion (SAOs).
- <http://attest.actuary.org/#/>



# BIG DATA, FLOOD, & RBC

Jim MacGinnitie

Academy Senior Casualty Fellow



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# Relevant NAIC Committees

- Several committees handle P/C topics
  - Executive
    - Cybersecurity Task Force
    - International Insurance Relations
  - Property & Casualty Insurance (C) Committee
    - CASTF
    - Auto Insurance Working Group
  - Market Regulation and Consumer Affairs (D) Committee
    - Big Data Working Group
    - Auto Insurance Working Group
  - Financial Condition (E) Committee
    - P/C Risk-Based Capital Working Group
    - Group Capital Calculation Working Group
  - International Insurance Relations (G) Committee



# Big Data/Auto Insurance Working Groups

- ❑ Predictive modeling/GLM a major focus
- ❑ Differing opinions on value of granularity
- ❑ Concerns about accuracy and privacy
- ❑ Concerns about affordability and availability
- ❑ Regulatory review capabilities
- ❑ Should the NAIC house special resources?
- ❑ Survey of review procedures—Open for comment
  - ❑ [http://www.naic.org/documents/committees\\_c\\_catf\\_exposure\\_castf\\_glm\\_survey.pdf](http://www.naic.org/documents/committees_c_catf_exposure_castf_glm_survey.pdf)
- ❑ Other uses of Big Data, e.g., claims, marketing



# Flood

- National Flood Insurance Program (NFIP) expires September 30, 2017
- NAIC reform recommendations (draft)
  - Long term
  - Private sector
  - Increase take up rates
  - Affordability
  - Study alternatives
  - [http://www.naic.org/documents/committees\\_c\\_exposure\\_nfip\\_reauthorization\\_draft.pdf](http://www.naic.org/documents/committees_c_exposure_nfip_reauthorization_draft.pdf)



# Flood (cont'd)

- Actuarial soundness questions
  - Government program
  - Mitigation encouragement
  - \$23 billion current debt
- Academy monograph (2011) being revised; expected end of 2016
  - [http://www.actuary.org/files/publications/AcademyFloodInsurance\\_Monograph\\_110715.pdf](http://www.actuary.org/files/publications/AcademyFloodInsurance_Monograph_110715.pdf)
- Resources for the Future/Wharton Conference
  - November 29-30 in Washington, D.C.
  - Discussion of disaster insurance options



# Cyber Risk

- NAIC's major focus is on insurer operational risk
- NAIC data call on 2015 cyber risk premiums
  - Findings (released 2016):
    - \$1.5 billion direct written
    - Only a partial picture; omits:
      - Non-admitted
      - Bundled/latent exposures
  - [http://www.naic.org/Releases/2016\\_docs/cybersecurity\\_insurance\\_data\\_analysis.htm](http://www.naic.org/Releases/2016_docs/cybersecurity_insurance_data_analysis.htm)



# Risk-Based Capital

- Issues RBC working groups are addressing:
  - Bond factor revision (R1)
    - Increased granularity
    - Updated factors
    - Driven by life insurance considerations
    - How to adapt for property/casualty?
  - Other assets (R2)
  - Reserves (R4) and underwriting (R5)
    - Updates in progress
  - Catastrophe and operational risk



# Risk-Based Capital (cont'd)

## □ Group Capital

- [http://www.naic.org/documents/committees\\_e\\_grp\\_capital\\_wg\\_exposure\\_memo\\_inventory\\_method\\_w\\_questions.pdf](http://www.naic.org/documents/committees_e_grp_capital_wg_exposure_memo_inventory_method_w_questions.pdf)
- Build on current individual entity RBC
- Non-insurance; international



# Capital Adequacy: Other Actors

- Federal Reserve

<https://www.gpo.gov/fdsys/pkg/FR-2016-06-14/pdf/2016-14004.pdf>

- International Association of Insurance Supervisors

- European Union, implementing Solvency II

- Some affected companies say they're being disadvantaged



# Capital Adequacy: Other Actors (cont'd)

## □ Covered Agreement Negotiations

### ■ Being negotiated between USA and EU

- US represented by Federal Insurance Office (Treasury Department) and US Trade Representative
- Concern about lack of transparency

### ■ [http://www.naic.org/cipr\\_topics/topic\\_covered\\_agreement.htm](http://www.naic.org/cipr_topics/topic_covered_agreement.htm)





# FLOOD, AUTO, TERRORISM, SHARING ECONOMY, WORKERS' COMP

Kris DeFrain

Director, Research and Actuarial, NAIC



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# P/C Insurance Committee

## FLOOD INSURANCE

- ❑ National Flood Insurance Program (NFIP)
- ❑ Changing Marketplace
- ❑ NAIC Recommendations
- ❑ Catastrophe Insurance (C) Working Group – NFIP data



# Auto Insurance Working Group

- Researched use of credit, occupation, or education
- Auto availability and affordability issues
  - Potential to collect data
  - Potential to conduct an NAIC study



# Terrorism Risk Insurance

- Data call
  - ▣ [www.naic.org/industry\\_terrorism\\_risk\\_data\\_call.htm](http://www.naic.org/industry_terrorism_risk_data_call.htm) - 11k - 2016-09-09
- Availability and affordability
- Assessing insurers' financial exposure to terrorism risk



# Sharing Economy

- White paper on transportation network companies, March 2015
  - [www.naic.org/documents/committees\\_c\\_sharing\\_econ\\_wg\\_exposure\\_adopted\\_tnc\\_white\\_paper\\_150331.pdf-185k-2015-04-07](http://www.naic.org/documents/committees_c_sharing_econ_wg_exposure_adopted_tnc_white_paper_150331.pdf-185k-2015-04-07)
- Next—white paper on home sharing
- Assessing coverage gaps



# Workers' Compensation

## □ White paper on large deductibles

- [www.naic.org/documents/committees\\_c\\_wctf\\_naic\\_iaiaabc\\_160727\\_wc\\_study\\_comments.pdf-564k-2016-07-21](http://www.naic.org/documents/committees_c_wctf_naic_iaiaabc_160727_wc_study_comments.pdf-564k-2016-07-21)

## ■ Recently adopted by working group

## ■ Regulatory concerns; insurer insolvencies

## ■ Recommendations

- [http://www.naic.org/meetings1608/committees\\_c\\_wctf\\_2016\\_summer\\_nm\\_materials.pdf?1473723379410?1473723467514?1473723498618](http://www.naic.org/meetings1608/committees_c_wctf_2016_summer_nm_materials.pdf?1473723379410?1473723467514?1473723498618)



# Fall NAIC Meeting: Preview

- NAIC Fall 2016 National Meeting
  - December 10-13, 2016 – Miami, FL
  - Hot topics:
    - Big Data?
    - Auto Insurance?
    - Cyber Insurance?
    - Flood?
    - Other?



# P/C Post-NAIC Update—Summer 2016

- Academy resources
  - Casualty webpage with all P/C work products
    - [actuary.org/casualty](http://actuary.org/casualty)
  - Post-NAIC Alert (Summer 2016)
    - <http://www.actuary.org/content/academy-presents-public-policy-and-professionalism-activities-naic-summer-national-meeting>



# P/C Post-NAIC Update—Summer 2016

## Q & A



# P/C Post-NAIC Update—Summer 2016

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