

P/C POST-NAIC UPDATE— FALL 2016 WEBINAR



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January 26, 2017

Today's Agenda

- CASTF, Modeling, Workers' Compensation, Auto Insurance
- Risk-Based Capital, Underwriting Risk, Operational Risk
- Travel Insurance, Cyber Risk, Group Capital, International Regulation
- Flood Insurance



The Presenters

Rade Musulin, MAAA, ACAS

Vice-President, Casualty Practice Council

Kevin Dyke, MAAA, FCAS

Chief Actuary, Michigan Dept. of Insurance and Financial Services

Lauren Cavanaugh, MAAA, FCAS

Chairperson, Academy P/C RBC Committee

Jim MacGinnitie, MAAA, FCAS, FSA, HONFFA

Academy Senior Casualty Fellow



The Academy

- 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 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.



CASTF, MODELING, WORKERS' COMPENSATION, AUTO INSURANCE



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Casualty Actuarial & Statistical (C) Task Force

- Continues to address regulatory issues in both ratemaking, and financial reporting and evaluation contexts; and to issue annual statistical studies
- Increased attention to evaluation of more sophisticated ratemaking models (GLM/Predictive Modeling), including regulator training
- http://www.naic.org/cmte_c_catf.htm



CASTF: Financial Reporting

- Responding to referral for review of Financial Analysis Handbook
- Considering proposal to require appointed actuary to submit qualifications for signing the opinion to the board of directors



CASTF: Ratemaking

- Regulator survey on review of generalized linear models (GLMs) in rate filings
 - Final survey
 - http://naic.org/documents/committees_c_catf_exposure_castf_glm_survey.pdf
 - Adopted after several exposure periods
- Regulatory training for predictive modeling
 - Academy presentation planned for NAIC's Insurance Summit in May. Stay tuned for more information



Catastrophe Risk (E) Subgroup

- Various proposed changes to the catastrophic risk RBC charge
 - Formal implementation of new “rcat” charge for 2017 (exposed for comment)
 - http://naic.org/documents/cmte_e_cat_risk_sg_exposure_1607cr.pdf
 - Use of internal models in lieu of 5 approved commercially available (exposed for comment)
 - http://naic.org/documents/cmte_e_cat_risk_sg_exposure_1612cr.pdf
- Future consideration of charges for other catastrophe events
 - Tornado, wildfire, terrorism



Workers' Compensation (C) Task Force

- 2016 Large Deductible study approved and released
 - http://naic.org/prod_serv/WCD-OP-16.pdf
- Oklahoma option plans
 - Declared unconstitutional by Oklahoma Supreme Court
 - Employers had until Jan. 17 to replace with traditional coverage
 - Impact on other states considering opt-out plans
- http://www.naic.org/cmte_c_wctf.htm



Auto Insurance (C/D) Working Group

- Proposal pending for data collection to assist in study of affordability of private passenger auto insurance
 - http://www.naic.org/documents/cmte_c_d_auto_insurance_wg_exposure_private_passenger_auto_insurance.pdf
- Also, the Federal Insurance Office just released a report on auto insurance affordability
 - https://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/FINAL%20Auto%20Affordability%20Study_web.pdf



RISK-BASED CAPITAL, UNDERWRITING RISK, OPERATIONAL RISK



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Relevant NAIC Committees

- Property and Casualty Risk-Based Capital (E) WG
http://www.naic.org/cmte_e_prbc.htm
- Catastrophe Risk (E) Subgroup
http://www.naic.org/cmte_e_cat_risk_sg.htm
- Investment Risk-Based Capital (E) Working Group
http://www.naic.org/cmte_e_investment_rbc_wg.htm
- Operational Risk (E) Subgroup
 - http://www.naic.org/cmte_e_op_risk_sg.htm



Property and Casualty Risk-Based Capital (E) WG

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- Academy submitted report to recommend updated P/C Underwriting Risk Factors
http://www.actuary.org/files/publications/PC_RBC_UWFactors_10282016.pdf
- Recommendation involves a new calibration methodology, based on research done by Academy and CAS work groups
- The proposed methodology refines certain features of the current methodology, and adds other features to promote stability and remove bias from the resulting factors



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Property and Casualty Risk-Based Capital (E) WG

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- Discussion regarding adjustment to exclude catastrophes
- Industry representatives made suggestions regarding future updates
- Voted to expose report for 60 days (ending Feb. 8)
 - http://www.naic.org/documents/cmte_e_prbc_exposure_underwriting_risk_line4_factors.pdf

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Operational Risk Subgroup

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- Oct. 17, 2016, exposure draft proposed add-on of 3% of RBC
- Academy (P/C and Health) response letter Dec. 19, 2016
 - Supported exposure draft
 - Discussed the overlap between operational risk charge and risk charges already included
 - http://www.actuary.org/files/publications/NAIC_OR_Comments_1219_16.pdf
- Academy's Life Operational Risk Work Group provided a separate response letter on Dec. 19
- Subgroup will be looking into growth operational risk in 2017

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Other Relevant RBC Issues

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- ❑ Catastrophe Risk Factors – plan to implement the catastrophe risk charge into the RBC Calculation for 2017 reporting
- ❑ Investment Risk Factors – continued discussion on whether bond structure should be consistent across all statement types (including increased granularity)
- ❑ Mortgage Insurance RBC – NAIC has put this item on the agenda for discussion this year



TRAVEL INSURANCE, CYBER RISK, GROUP CAPITAL, INTERNATIONAL REGULATION



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Travel Insurance

- NAIC working group formed in 2016
 - ▣ http://www.naic.org/cmte_c_travel_ins_wg.htm
- Academy task force is monitoring
- Discussed proposed amendments to NCOIL model law
 - ▣ http://www.naic.org/meetings1612/cmte_c_travel_ins_wg_2016_fall_nm_materials.pdf?1485361475075



Cyber Risk

- ▣ Model law being developed by NAIC task force
 - Mostly about operational risk
 - http://www.naic.org/documents/committees_ex_cybersecurity_tf_exposure_mod_draft_redline.pdf
- ▣ Limited discussion of product/coverage
- ▣ Federal tax credit for business purchase of cyber risk insurance was proposed in last Congress (HR 6032); likely to be reintroduced



Group Capital

- NAIC regulation is entity-focused
- Some needs at group level
 - ▣ Financial crisis fallout
 - ▣ International & Dodd-Frank pressures
- P/C RBC Working Group discussions
 - ▣ Build on existing entity level RBC
 - ▣ How to handle non-insurance; non-US



International

- Continued dialog with IAIS on capital standards
- Solvency II implementation concerns
 - Some EU countries are imposing additional requirements on US companies
 - NAIC questioning “qualified jurisdiction” status
 - Covered agreement announced Jan. 13 may resolve these issues
 - Being reviewed by US Congress and EU Parliament
 - <https://www.treasury.gov/press-center/press-releases/Pages/jl0705.aspx>



Miscellaneous

- Reinsurance—simplified Schedule F for 2018
 - http://www.naic.org/cmte_e_app_blanks.htm
- Innovation
 - CIPR discussion
 - Sandbox concept to maintain regulatory oversight



FLOOD INSURANCE



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Flood Insurance

- Statutory authority for the National Flood Insurance Program (NFIP) expires Sept. 30, 2017
- Broad agreement that it would be good to avoid the disruptions that may be caused by expiration



Flood Insurance

- The NAIC has endorsed a set of principles to guide Congress in writing the reauthorization
 - http://www.naic.org/documents/government_relations_161019_nfip_guiding_principles.pdf
- US House of Representatives approved legislation (HR 2901) in 2016 to facilitate sale of flood insurance by private insurers but failed to pass Senate
 - Academy commented on legislation supporting concept
 - http://www.actuary.org/files/publications/SenBankingNFIP_%2005252016.pdf



The NFIP

- Has multiple, sometimes conflicting, objectives:
 - Reduce the cost to the public of storm recovery
 - Make flood insurance affordable and available
 - Charge accurate rates that support the program
 - Provide direct and indirect subsidies to some
 - Support land use planning and other mitigation



The Academy and Flood Insurance

- Cosponsoring a project by Resources for the Future and the Wharton School (U. Penn.) examining the government's role in disaster insurance
- Developing a new paper on catastrophe modeling and flood insurance
- Producing a new monograph on flood insurance that is expected in spring 2017



Academy Flood Insurance Monograph

- Considers the NFIP's mission and conflicting goals
- Notes differences between capital requirements for federal program vs. private insurance
- Discusses greater role for private insurance at both the consumer and reinsurance levels
- Comments on advances in catastrophe modeling



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Q&A



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