

AMERICAN ACADEMY *of* ACTUARIES

August 6, 2007

Gregory Krohm
International Association of Industrial Accident Boards and Commissions
5610 Medical Circle, Suite 24
Madison, WI, 53719-1295

Re: Proposed Self-Insured Loss Reporting Forms

Dear Dr. Krohm:

In July 2006, the Self-Insurance Committee of the International Association of Industrial Accident Boards and Commissions (IAIABC) solicited comments and suggestions from the American Academy of Actuaries' (Academy)¹ Workers' Compensation Subcommittee ("Subcommittee") regarding a draft set of loss reporting forms intended for use by self-insured entities.

The forms initially provided to the Subcommittee had been constructed principally by incorporating features currently in use in some jurisdictions. It is our understanding that the IAIABC had undertaken the creation of a standard set of forms to attain a more consistent reporting format for self-insurers in different jurisdictions, provide more appropriate supporting information for consulting actuaries asked to provide opinions on self-insurers' loss reserves, establish a systematic approach to verifying loss development, and enhance regulators' ability to monitor security requirements for self-insured programs.

The Subcommittee reviewed the draft forms, considering questions of content and organization that would increase the level of detail and flexibility in actuarial analysis that could be accomplished based on the requested data.

In response to the IAIABC request, a set of possible loss reporting forms, based on the IAIABC drafts but expanded to include more data, and intended to more fully support various actuarial and regulatory analyses, was circulated to the members of the Subcommittee for comment. In September 2006, the Subcommittee held a teleconference to consider the cumulative comments, suggestions, and draft form changes

¹ The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces, and work groups regularly prepare testimony and provide information to Congress and senior federal policymakers; comment on proposed federal and state regulations; and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions, and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure that high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

that had been offered. That teleconference included participation by a representative of the IAIABC Self-Insurance Committee.

The discussion acknowledged the analytical value of many of the suggested additions to the IAIABC drafts but also raised the practical consideration of whether many self-insureds and/or their Third Party Administrator (TPA) vendors would be willing and/or able to supply portions of the detail under review.

The Subcommittee concluded that the preferred approach would be to establish a set of forms requesting broad information pertaining to self-insured program costs, would be organized in a fashion that would support basic actuarial techniques, and would request information that most self-insureds would be able to supply. Ultimately, the forms attached hereto were viewed as being preferable to more rigorous and technically advanced alternatives. While those alternatives may theoretically allow a greater range of actuarial methods and focus on more refined details, the considered judgment of the Subcommittee was that they would meet resistance from the self-insured community and/or request information that proved to be unavailable from significant parts of that community.

In March 2007, a second review was conducted via teleconference with input from a consultant experienced in working for and with self-insured clients. With particular regard to the resulting forms, we note the following:

Exhibit A:

The loss report forms should ask self-insurers to describe any excess insurance provisions applicable to their history of self insurance in the state in which their activities are being reported. Such a description should include: policy period(s), applicable limits, whether the limits applied on a per claim or per occurrence basis, any aggregate excess provisions, whether excess coverage applied to losses only or to losses and expenses combined, etc.

The Subcommittee expects that the identification of the TPA firm(s) handling specific claims may at best be available only for open claims from many self-insureds. Accordingly, even if the IAIABC elects not to include that column in the loss reporting forms, we recommend that TPA arrangements be the subject of a separate narrative question requesting that self-insurers describe the TPA arrangements historically applicable to their workers' compensation business in the state in which their activities are being reported.

Exhibit B:

The suggested form provides columns for both gross and net incurred-but-not-reported (IBNR) losses. These columns are intended to cover both future loss developments on known claims and the potential emergence of new claims. Some self-insurers may focus only on gross or net data. Consequently, the Subcommittee suggests that the forms be used in a fashion that allows self-insurers to report either or both of these columns. It is anticipated that identifying IBNR by state and accident year may present a challenge to at least some self-insurers who book these amounts only on a corporate, countrywide basis.

Exhibit C:

Many self insurers will not be able to provide a robust history of the development data envisioned for Exhibit C. However, even if self-insurers provide only the most recent diagonal for Exhibit C, over time, the development reports will mature into a useful collective history.

The exercise of compiling and reporting the development histories contemplated by Exhibit C may be regarded as onerous by self-insureds. If regulators receive Exhibit B on an annual basis, they could compile the data triangles presented in Exhibit C without requiring self-insureds to submit the data in that form. While this approach would not heighten self-insureds' awareness of the development behavior of their data directly, it might be more readily accepted by self-insurers that are asked or required to report data to their regulators.

Definitions of the various data elements may also be needed . For example:

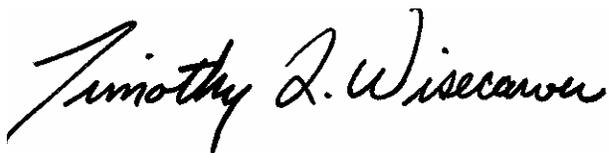
Gross = gross of any excess insurance (but, if possible, net of recoveries such as second injury fund recoveries and subrogation received).

Paid to date = paid from the inception of the claim until the evaluation date. For Exhibits B and C, this includes amounts paid on all open and closed claims.

Case Reserves = reserves for future payments held on individual claims. This may also be computed as the Case Incurred Loss and Loss Adjustment Expense minus the Paid to Date Loss and Loss Adjustment Expense.

We appreciate the IAIABC's efforts to address this topic and the opportunity to comment.

Sincerely,

A handwritten signature in black ink that reads "Timothy L. Wisecarver". The signature is written in a cursive, flowing style.

Timothy L. Wisecarver, Chair
Workers' Compensation Subcommittee
American Academy of Actuaries

Enclosures