

P/C PUBLIC POLICY UPDATE—FALL 2018



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Today's Speakers

- ▣ Rade Musulin, MAAA, ACAS
 - Vice President, Casualty
- ▣ Kay Cleary, MAAA, FCAS, FCA
 - Chairperson, Extreme Events and Property Lines Committee



The Academy

- 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.



Today's Agenda—1

- National Association of Insurance Commissioners
 - Travel Insurance
 - Risk-Based Capital
 - Big Data/Predictive Modeling
 - Qualifications and Credentials



Today's Agenda—2

- Catastrophes
 - ▣ Flood
 - ▣ Hurricane
 - ▣ Wildfire
 - ▣ Volcano
 - ▣ Locusts?



Today's Agenda—3

- Other Developments
 - ASOP 17, Expert Testimony
 - High Deductibles for Workers' Compensation
- Looking Ahead
 - Webinars, Seminars, Publications



NAIC



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NAIC—Travel Insurance

- New Model Law
 - Approved by the Property/Casualty (C) Committee
 - Pending at the Executive Committee
 - https://www.naic.org/insurance_summit/documents/insurance_summit_2018_MR_07-2.pdf
- Academy's Travel Insurance Task Force issued a monograph, *Travel Insurance: An Actuarial Perspective*
 - http://www.actuary.org/files/publications/TravelInsuranceMonograph_09052018.pdf



NAIC—RBC Bond Factors

- Risk-Based Capital (RBC) bond factors will become more granular, probably starting in 2020
- Academy volunteers from the P/C RBC Committee and the Health Solvency Committee have been working with multiple NAIC committees



NAIC—Bond Factors (cont'd)

- Report from the Academy's Joint Property and Casualty/Health Bond Factors Analysis Working Group is now posted as an exposure draft by the NAIC
 - http://www.actuary.org/files/publications/Report_to_NAIC_IRBC_PCRBC_HRBC_Bond_Factors_July_30.pdf



NAIC—Big Data/Predictive Modeling

- Proceeding on 2 tracks
 - Assessing the cost and practicality of creating an NAIC resource center to help states evaluate rate filings that include predictive modeling
 - Casualty Actuarial and Statistical Task Force (CASTF) is helping state regulators get up to speed on Big Data in general and predictive modeling in particular



NAIC—Big Data/Predictive Modeling (cont'd)

- In May 2017, the Academy's Automobile Insurance Committee presented a one-day seminar on predictive modeling at NAIC's Insurance Summit for regulators
 - <http://www.actuary.org/content/predictive-modeling-academy-presentations-naic-insurance-summit>



NAIC—Big Data/Predictive Modeling (cont'd)

- In June 2018, Academy Past President Bob Beuerlein spoke to CASTF's "book club" for regulators, reviewing the Academy's white paper on Big Data
 - http://www.actuary.org/files/publications/Beuerlein_NAIC_CASTF_Book_Club_Presentation_FINAL.pdf
- The Academy continues to work with NAIC staff as these projects evolve



NAIC—Qualifications

- In 2017, the NAIC's Executive Committee initiated a review of issues related to the qualifications and credentials of casualty actuaries
- Portions of the review were retained by the Ex Committee and portions were assigned to CASTF
- No changes affecting 2018 opinions



NAIC—Qualifications (cont'd)

- The NAIC is looking at three broad issues
 - Basic education/training requirements for all actuaries signing P/C opinions
 - Three-year supervision requirement
 - Continuing Education requirements and/or recertification



NAIC—Qualifications (cont'd)

- This is an ongoing process, and the proposals continue to evolve
- The Academy has submitted a series of comments
 - ▣ <http://www.actuary.org/files/publications/castf-three-year-period-response.pdf>
 - ▣ http://www.actuary.org/files/publications/Academy_CASTF_Attestation_Comments_07.25.2018.pdf
 - ▣ http://www.actuary.org/files/publications/Letter_on_CASTF_Continued_Competence_Proposal_07.20.2018.pdf
 - ▣ http://www.actuary.org/files/publications/Academy_CASTF_Letter_Attestation_Proposal_05.11.2018.pdf



Catastrophes



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Extreme Events 2018

- Flood
- Hurricane
- Wildfire
- Volcano



Florence

Wind and Surge

- ❑ Saffir-Simpson Cat 1
- ❑ Slow moving
- ❑ Huge geographic area

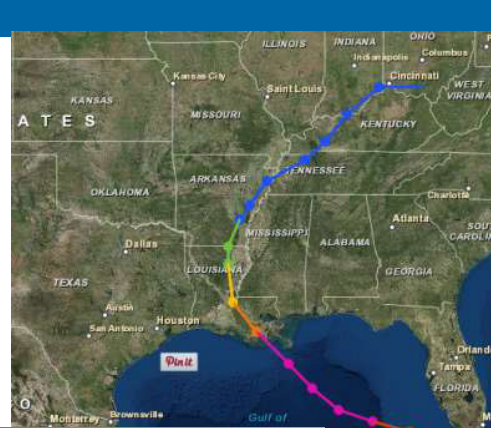
Rain and Inland Flooding

- ❑ Saturated Ground
- ❑ Contaminated Water
- ❑ Infrastructure Damage




Is Flood an Insurable Peril?

- Inland/Coastal
- Pre-1965
 - private market or not covered
- 1965
 - Hurricane Betsy
- Current thinking
 - At least partially insurable



Decision Making Quotes

It is better to be approximately right than precisely wrong



Warren Buffet



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Insurable Risks

- Large numbers of exposure units
- Defined and measurable loss
- Determinable probability distribution
- Calculable chance of loss
- Fortuitous loss
- Non-catastrophic loss
- Adequate and affordable premiums



National Flood Insurance Program (NFIP)



- Current authorization extension to expire November 30, 2018, at 11:59 pm
- Opportunity for beneficial modifications



NFIP (cont'd)

- Multiple proposals for reform of NFIP
- House passed reform measures in 2016 and again in 2017, but no action yet in the Senate
- The Academy's Flood Insurance Working Group published a monograph on the NFIP
 - <http://www.actuary.org/files/publications/FloodMonograph.04192017.pdf>



Private Flood Insurance

- Market Appetite
- Critical Definitions and Outlines
- Tools
- Residual Market
- Beyond Loss Coverage



Flood—Spreading the Risk

- ▣ What Is the Target?
- ▣ How Do We Get There from Here?



Flood Insurance—Private Coverage

- Questions for Regulators
 - ▣ Market Issues
 - ▣ Contracts and Coverages
 - ▣ Underwriting
 - ▣ Rates
 - ▣ Building Standards
 - ▣ Financial Issues
 - ▣ State Guarantee and Residual Funds
 - ▣ Reinsurance
 - ▣ http://www.actuary.org/files/publications/Private_Flood_Regulator_Questions_7.20.2018.pdf



Wildfire—Cascading Risks

- California's worst drought in 1,200 years
- Groundwork for largest wildfire in the state's recorded history, part of a string of fires that amounted to record-breaking wildfire losses in 2017
- Immediately followed by “Pineapple Express” torrential rains, which resulted in what may be the state's costliest mudslide on record
- More record-breaking wildfires in 2018



Wildfire—Extreme Events Committee

- Lessons Learned (draft expected Q4 2018)
 - Wildland/Urban Interface
 - Fire Zones
 - Modeling
 - Severity of Loss
 - Post-Loss Regulatory Rulings



Wildfire—Public Policy

- California Department of Insurance has decreed that fire coverages will apply to mudslides that result from earlier wildfires
 - <http://www.insurance.ca.gov/0400-news/0100-press-releases/2018/release012-18.cfm>
- Legislation in California would make clear that utility companies are liable for damages resulting from wildfires sparked by electric lines



Volcano—Might Be Covered

- If resulting from volcanic eruption
 - ▣ Fire or Explosion
 - ▣ Volcanic Blast
 - ▣ Airborne Shock Waves
 - ▣ Ash
 - ▣ Dust
 - ▣ Lava Flow



Volcano—Probably Not Covered

- Unless explicitly purchased
 - Earthquake, Land Tremors, Landslide, Mudflow, or Other Earth Movement
 - Flood
 - Ash Removal

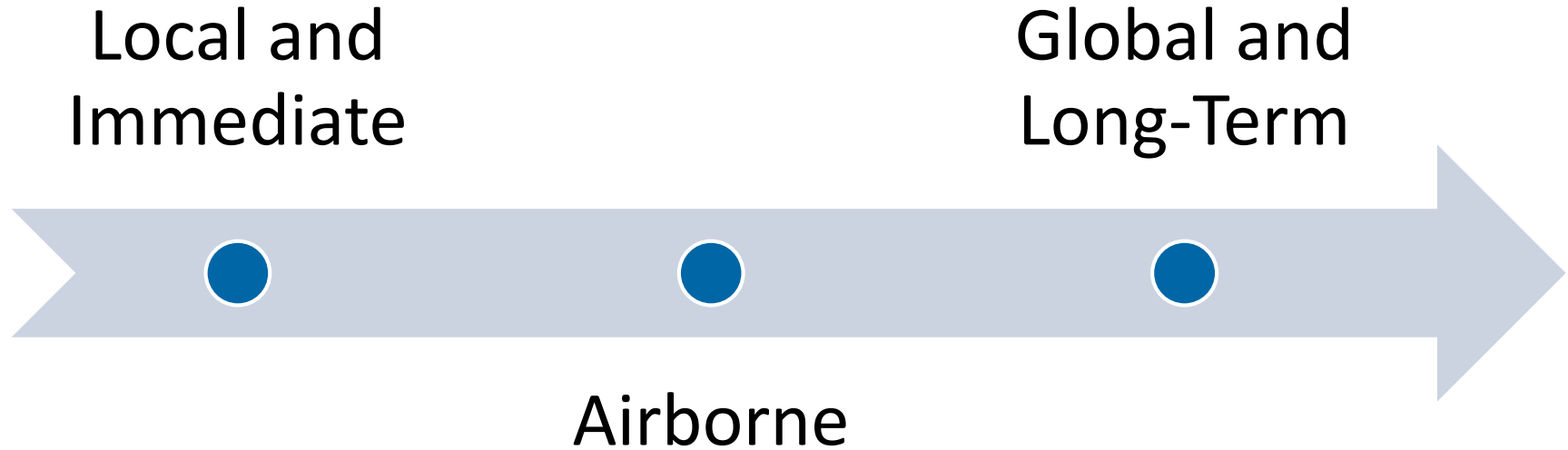


Hawaii Property Insurance Association

- Dwelling, Homeowner's, Renter's, Unit Owner's
 - Perils covered: fire, lightning, ... and volcanic eruption
Earth Movement, meaning earthquake, including land shock waves or tremors before, during or after a volcanic eruption; landslide; mine subsidence; mudflow; earth sinking, rising or shifting; unless direct loss by (a) fire; or (b) explosion ensues and then we will pay only for the ensuing loss. <http://www.hpiainfo.com/coverage-information/>



Temporal and Geographic Dispersion of Loss



Other Developments



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ASOP 17

- The Actuarial Standards Board (ASB) has revised ASOP 17, concerning when an actuary is providing expert testimony
 - http://www.actuarialstandardsboard.org/wp-content/uploads/2018/09/boxscore.Sept2018.pdf?utm_source=member&utm_medium=email&utm_campaign=thisweek



High Deductibles

- The subject of high deductibles in P/C risk management has come up in two contexts
 - Insurers or TPAs that are associated with policies that have high deductibles, especially in workers' comp
 - Non-insurance entities that have high deductibles or self-insurance programs which are reviewed by actuaries for non-NAIC reports



High Deductibles (cont'd)

- In 2016, the NAIC issued a White Paper on high deductibles in workers' comp
 - https://www.naic.org/prod_serv/WCD-OP-16.pdf
- Since then, several states have issued or proposed regulations



High Deductibles (cont'd)

- California Department of Insurance has exposed new draft rules for insurers to report on workers' comp high deductibles in their book of business
- The Academy's Committee on Property and Liability Financial Reporting filed a comment letter which resulted in CDI revising the financial reporting components of their proposal

- http://www.actuary.org/files/publications/WC_CA_Large_Deductible_Comments_08.10.2018.pdf



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High Deductibles (cont'd)

- Retained risk shows up in other lines besides workers' comp, and in forms other than high deductibles
- Increasingly, actuaries get involved in reviewing retained risks at non-insurance entities
- COPLFR published a practice note earlier this year
 - http://www.actuary.org/files/publications/Retained_Risk_Practice_Note_4.24.2018.pdf



Looking Ahead

- Live Events
 - Webinar on Catastrophe Modeling
 - October 17
 - Academy Annual Meeting—P/C breakout sessions
 - Washington DC, November 1-2
 - Seminar on P/C Opinion Writing
 - Chicago O’Hare, December 6-7
 - <http://www.actuary.org/content/2018-seminar-effective-pc-loss-reserve-opinions>



Looking Ahead (Cont'd)

- Publications—coming in late December
 - 2018 Practice Note, Statements of Actuarial Opinion on Property and Casualty Loss Reserves
 - 2018 edition, P/C Loss Reserves Law Manual



P/C Public Policy Update—Fall 2018

Q&A



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