Draft: 11/3/22

Virtual Meeting
(in lieu of meeting at the 2022 Fall National Meeting)

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE
Tuesday, November 8, 2022
2:00 p.m. – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

ROLL CALL

Mike Kreidler, Chair	Washington	Chlora Lindley-Myers	Missouri
Grace Arnold, Vice Chair	Minnesota	Troy Downing	Montana
Mark Fowler	Alabama	Edward M. Deleon Guerrero	N. Mariana Islands
Ricardo Lara	California	Barbara D. Richardson	Nevada
Michael Conway	Colorado	Chris Nicolopoulos	New Hampshire
Andrew N. Mais	Connecticut	Marlene Caride	New Jersey
Karima M. Woods	District of Columbia	Russell Toal	New Mexico
David Altmaier	Florida	Mike Causey	North Carolina
Colin M. Hayashida	Hawaii	Judith L. French	Ohio
Dana Popish Severinghaus	Illinois	Glen Mulready	Oklahoma
Amy L. Beard	Indiana	Andrew R. Stolfi	Oregon
Doug Ommen	Iowa	Michael Humphreys	Pennsylvania
Vicki Schmidt	Kansas	Michael Wise	South Carolina
James J. Donelon	Louisiana	Larry D. Deiter	South Dakota
Timothy N. Schott	Maine	Cassie Brown	Texas
Kathleen A. Birrane	Maryland	Kevin Gaffney	Vermont
		Allan L. McVey	West Virginia

NAIC Support Staff: Kris DeFrain

AGENDA

1. Consider Adoption of its Oct. 18 e-vote minutes and Summer National Meeting Minutes—*Eric Slavich (WA)* — Attachment One, Attachment Two

2. Consider Adoption of its Working Group Reports—*Eric Slavich (WA)* — Attachment Three
   A. Actuarial Opinion (C) Working Group—*Anna Krylova (NM)*
   B. Statistical Data (C) Working Group—*Sandra Darby (ME)*

3. Consider Adoption of Loss Cost Multiplier (LCM) Form and Instructions —*Eric Slavich (WA)/Larry Steinert (IN)* — Attachment Four

4. Discuss Potential Elimination of the Expense Constant Supplement —*Larry Steinert (IN)* — Attachment Five

5. Hear from Professional Actuarial Organizations—*Eric Slavich (WA)*
   A. American Academy of Actuaries (Academy): Committee on Property and Liability Reporting (COPLFR) and Casualty Practice Council (CPC)
   B. Actuarial Board for Counseling and Discipline (ABCD)
   C. Casualty Actuarial Society (CAS)—*Brian Fannin (CAS)*
   D. Society of Actuaries (SOA)

6. Discuss Any Other Matters Brought Before the Task Force —*Eric Slavich (WA)*

7. Adjournment

Draft: 10/19/22

Casualty Actuarial and Statistical (C) Task Force
E-Vote
October 18, 2022

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Oct. 18, 2022. The following Task Force members participated: Mike Kreidler, Chair, represented by Eric Slavich (WA); Grace Arnold, Vice Chair, represented by Phil Vigliaturo (MN); Ricardo Lara represented by Mitra Sanandajifar (CA); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhilf (DC); David Altmaier represented by Christina Huff (FL); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd (KS); Kathleen A. Birrane represented by Robert Baron (MD); Chlora Lindley-Myers represented by Julie Lederer (MO); Troy Downing represented by Mari Kindberg (MT); Russell Toal and Anna Krylova (NM); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Andrew R. Stolfi represented by David Dahl (OR); Michael Humphreys represented by Michael McKenney (PA); Michael Wise represented by Will Davis (SC); Cassie Brown represented by J'ne Byckovski (TX); and Allan L. McVey and Juanita Wimmer (WV).

1. Adopted its 2023 Proposed Charges

The Task Force conducted an e-vote to consider adoption of its 2023 proposed charges (Attachment One-A) and propose the charges to its parent committee. The motion passed unanimously.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2022_Fall/CASTF/101822 evote min.docx

Draft: 8/19/22

Casualty Actuarial and Statistical (C) Task Force
Portland, Oregon
August 10, 2022

The Casualty Actuarial and Statistical (C) Task Force met in Portland, OR, Aug. 10, 2022. The following Task Force members participated: Mike Kreidler, Chair, represented by Eric Slavich (WA); Grace Arnold, Vice Chair, represented by Phil Vigliaturo (MN); Ricardo Lara represented by Ken Allen and Lynne Wehmueller (CA); Michael Conway represented by Sydney Sloan (CO); Andrew N. Mais represented by Wanchin Chou (CT); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Bruce Sartain and Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd (KS); Timothy N. Schott represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann and Julie Lederer (MO); Mike Causey represented by Richard Kohan (NC); Russell Toal and Anna Krylova (NM); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Michael Humphreys represented by Shannen Logue (PA); Michael Wise represented by Will Davis (SC); Cassie Brown represented by Miriam Fisk (TX); Kevin Gaffney and Rosemary Raszka (VT); and Allan L. McVey represented by Greg Elam (WV).

1. Adopted its July 12, June 14, and Spring National Meeting Minutes

Mr. Slavich said the Task Force met July 12, June 14, and March 8. During these meetings, the Task Force took the following action: 1) exposed the loss cost multiplier (LCM) form for a 40-day public comment period ending June 7; and 2) exposed the regulatory review of tree-based model guidance for a 25-day public comment period ending Aug. 5.

The Task Force also met June 21, May 17, April 19, and March 15 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss rate filing issues.

The Task Force held Predictive Analytics Book Club meetings on July 26, June 28, April 26, and March 22. On July 26, Betterview presented on “Leveraging Computer Vision and AI for Property and Risk Management.” On June 28, Dorothy L. Andrews (American Academy of Actuaries—Academy) and Julia Romero (Academy) presented on “Correlation vs. Causation.” On April 26, Kris DeFrain (NAIC), Ms. Andrews (NAIC), Sam Kloese (NAIC), and Roberto Perez (NAIC) presented on “Speed to Market.” On March 22, Brian Fannin (Casualty Actuarial Society—CAS) presented on “R for Actuaries and Data Scientists with Application to Insurance.”

Mr. Vigliaturo made a motion, seconded by Mr. Botsko, to adopt the Task Force’s July 12 (Attachment One); June 14 (Attachment Two); and March 8 (*see NAIC Proceedings – Spring 2022, Casualty Actuarial and Statistical (C) Task Force*) minutes. The motion passed unanimously.

2. Adopted the Report of the Actuarial Opinion (C) Working Group

Ms. Krylova said the Actuarial Opinion (C) Working Group met Aug. 2. The Working Group discussed a Financial Analysis (E) Working Group referral on predictive analytics in a reserve setting, potential changes to the qualification documentation requirements and disclosures, and potential changes to 2022 Regulatory Guidance and 2023 *Annual Statement Instructions*. The Actuarial Opinion (C) Working Group has begun to draft some financial surveillance questions that could be asked about reserve models. Because the qualification documentation is a burden on actuaries and does not change much year to year, the Working Group is discussing whether the qualification documentation only needs to be submitted to the Board ever five years and when there have been significant changes in the actuarial qualifications or a company's operations.

Ms. Krylova said the Working Group also met July 22 and June 3 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss 2021 Statements of Actuarial Opinion (SAOs). She said no serious issues or trends were identified.

Ms. Krylova made a motion, seconded by Mr. Botsko, to adopt the report of the Actuarial Opinion (C) Working Group, including its Aug. 2 minutes (Attachment Three). The motion passed unanimously.

3. <u>Adopted the Report of the Statistical Data (C) Working Group</u>

Ms. Darby said the Statistical Data (C) Working Group met Aug. 4, July 20, June 15, May 18, and April 14. During these meetings, the Working Group: 1) discussed implementing an accelerated timeline for the *Auto Insurance Database Report* (Auto Report); 2) heard a presentation from the Center for Economic Justice (CEJ) on the modernization of statistical data reporting; and 3) discussed proposed changes to the Auto Report, the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report), the *Competition Database Report* (Competition Report), and the *Report on Profitability by Line by State* (Profitability Report) presented by Arthur Schwartz (LA). As previously reported, the Working Group adopted an accelerated timeline for the submission of auto insurance premium and exposure data. Statistical agents will now provide that data by Dec. 1 following the end of the data year. The Working Group will continue to consider the proposed changes to the statistical reports, as well as consider the need for updates to the *Statistical Handbook of Data Available to Insurance Regulators* and the statistical data reporting process.

Ms. Darby made a motion, seconded by Mr. Chou, to adopt the report of the Statistical Data (C) Working Group, including its Aug. 4 (Attachment Four), July 20 (Attachment Five), June 15 (Attachment Six), May 18 (Attachment Seven), and April 14 (Attachment Eight) minutes. The motion passed unanimously.

4. <u>Exposed the LCM Form and Memorandum</u>

Mr. Slavich said the idea to create an updated LCM form was brought forward at the Spring National Meeting, after which Larry Steinert (IN) led a volunteer group to update and combine the NAIC's numerous forms. At the July 12 meeting, there were no suggested changes to the form; however, the Task Force decided to wait on adoption until the LCM memorandum could be updated and considered for adoption at the same time. A proposed memorandum was distributed for the call. The Task Force had no questions about the form or memorandum.

The Task Force exposed the LCM form and associated memorandum for a 45-day public comment period ending Sept. 23.

5. <u>Adopted the Regulatory Review of Tree-Based Models Guidance</u>

At the Spring National Meeting, the Task Force adopted the appendix for the random forest models as regulatory guidance and noted that the plan would be to combine all similar appendices together for consideration as an attachment to the *Regulatory Review of Predictive Models* white paper.

At the July 14 meeting, Mr. Kloese proposed that the random forest guidance be replaced with guidance for all tree-based models. Mr. Slavich said the guidance did not need to change substantially. The Task Force exposed the regulatory review of tree-based model guidance for a 25-day public comment period ending Aug. 5. No comment letters were received.

Mr. Vigliaturo made a motion, seconded by Mr. Botsko, to adopt the regulatory review of tree-based models document (Attachment Nine) as a replacement for the random forest document. The motion passed unanimously.

Mr. Kloese said he plans to next draft generalized additive modeling (GAM) guidance for Task Force review and consideration.

6. Received a Report on the NAIC Algorithmic Bias Training

At the Spring National Meeting, Mr. Slavich said he gave a report about coordination with the Innovation, Cybersecurity, and Technology (H) Committee and the Special (EX) Committee on Race and Insurance Workstream Three. He said that coordination led to the NAIC hosting a Collaboration Forum on Algorithmic Bias in Kansas City, July 18–19. Ms. Andrews gave a brief report on the forum, saying the forum contained numerous sessions on bias, how bias can get into data, governance addressing bias, and data needed for bias detection.

7. Heard a Presentation on the openIDL Initiative

Mr. Slavich introduced Jefferson Braswell (openIDL) and said openIDL is the Linux Foundation project that is coordinating the development of a collaborative, open network of insurance carriers, analytical services, and state insurance commissioners to enable more efficient and timely access to insurance industry data on the part of commissioners. He said the Task Force is hearing the presentation because of the work at the Statistical Data (C) Working Group. Mr. Braswell gave his presentation (Attachment Ten).

8. Heard from Professional Actuarial Organizations

The Academy, the Actuarial Board for Counseling and Discipline (ABCD), and the Society of Actuaries (SOA) provided reports on current activities.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2022_Summer/CASTF/08-10 min.docx

Draft: 10/11/22

Actuarial Opinion (C) Working Group
E-Vote
September 26, 2022

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Sept. 26, 2022. The following Working Group members participated: Anna Krylova, Chair (NM); Miriam Fisk, Vice Chair (TX); Qing He (CT); Judy Mottar (IL); Julie Lederer (MO); Gordon Hay (NE); and Tom Botsko (OH).

1. Adopted the 2022 Regulatory Guidance

The Working Group conducted an e-vote to consider adoption of the *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year 2022* (2022 Regulatory Guidance) (Attachment ____). The motion passed unanimously.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2022_Fall/CASTF/AOWG/AOWG Sept 26 evote min.docx

Draft: 10/11/22

Actuarial Opinion (C) Working Group
Virtual Meeting
September 8 and September 15, 2022

The Actuarial Opinion (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met Sept. 8 and Sept. 15, 2022. The following Working Group members participated: Anna Krylova, Chair (NM); Miriam Fisk, Vice Chair, and Rebecca Armon (TX); Susan Andrews and Amy Waldhauer (CT); Chantel Long and Judy Mottar (IL); Sandra Darby (ME); Cynthia Amann and Julie Lederer (MO); Gordon Hay (NE); Tom Botsko (OH); Andrew Schallhorn (OK); and Kevin Clark and James DiSanto (PA). Also participating were: Arthur Schwartz (LA); and Kevin Dyke (MI).

1. Adopted a Comment Letter Regarding ASOP No. 36

Ms. Krylova said the most impactful change in the exposure of the revised *Actuarial Standard of Practice (ASOP) No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves Exposure Draft* is to expand the scope of the ASOP to include actuaries performing actuarial services with respect to written statements of actuarial opinion regarding property/casualty (P/C) loss, loss adjustment expenses (LAEs), or other reserves. She said this likely means ASOP No. 36 would apply to regulatory actuaries; although, the guidance says Section 3 should be used "to the extent practicable." She said it is unclear whether state insurance regulators are now required to prepare a document in support of all the regulatory reviews. Ms. Lederer said it is unclear what it means to comply with the ASOP as a reviewer because Sections 3 and 4 are geared toward preparers of the opinion. Ms. Armon said the definition of reviewer is unclear, and she noted that premium deficiency reserves should probably be included in the list of reserves. Ms. Lederer said the risk of material adverse deviation section should also be expanded to include other types of reserves.

On the Sept. 15 call, a proposed response using the comment template was presented. The Working Group agreed to make an editorial change.

Ms. Darby made a motion, seconded by Ms. Lederer, to adopt the comment letter to the Actuarial Standards Board (ASB) (Attachment ___-A). The motion passed unanimously.

2. Discussed Proposed Changes to Regulatory Guidance and *Annual Statement Instructions*

The Working Group continued to discuss potential changes to the frequency of qualification documentation requirements and disclosures for the 2023 *Annual Statement Instructions*. Michelle L. Iarkowski (Deloitte Consulting LLP) asked whether the prior message to appointed actuaries saying state insurance regulators want more information in the qualification documentation should be modified. She said that message seems to contrast with current discussions about potentially changing the frequency requirement of submission of the qualification documentation to the ASB from annually to once every five years.

The Working Group agreed to modify the *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion* (Regulatory Guidance) to: 1) include a list of the changes to 2022 instructions and eliminate mention of prior changes; 2) replace a specific list of ASOPs in the Regulatory Guidance with reference to the ASB's applicability guidelines; 3) remove the description of 2018–2019 annual statement changes, including the Qualified Actuary definition; 4) add the example of "acquiring a book of business with significantly different loss exposure" to describe a "material change" in qualification; 5) remove the request for "expanded detail" in reference to the continuing education (CE) part of qualification documentation; 6) remove the categorization of

CE, given the elimination of that requirement in 2022 instructions; 7) modify the discussion about a potentially proposed deadline for the qualification documentation and replace it with the potential to change the frequency of the submission of qualification documentation from annually to once every five years; and 8) shorten reference to COVID-19.

The Working Group will conduct an e-vote once the document is revised.

3. Discussed a Financial Analysis € Working Group Referral on Predictive Analytics in Reserve Setting

The Working Group discussed a referral from the Financial Analysis (E) Working Group asking for discussion of the use of predictive analytics in reserve setting and consideration of drafting guidance. Ms. Lederer drafted some potential questions to ask about any type of model, which could be modified by the Actuarial Opinion (C) Working Group to add specific questions about reserving models. Ms. Krylova said the next step is to contact other regulatory actuaries and companies that have reviewed or created reserving models to search for help to develop the reserving questions.

The Working Group discussed the scope of which kind of reserves are being developed (e.g., case reserves). Mr. Hay said his typical financial examination investigates how a company tests and validates case reserves. He said the same types of questions could be used for predictive analytics that produce case estimates. Ralph Blanchard (Travelers) said so long as the case estimates are consistent, they do not have to be right. The actuarial methods will account for under-reserving. Ms. Long said there are not necessarily issues with the model; it is how managements uses that information when determining reserves. Mr. Dyke said state insurance regulators should be careful not to blame the wrong reason. He said one must understand the inputs and the algorithm, no matter how simple or sophisticated the reserving method is. The actuary must understand the model and data issues to evaluate reserves. Ms. Krylova said financial analysts might not need to get into the technical details and specifics of the model; but they should concentrate on how the company understands the model, how they are using it, and whether there is a change to the previous methodology.

The Working Group decided to provide a general response and mention the issues discussed.

Having no further business, the Actuarial Opinion (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2022_Fall/CASTF/AOWG/AOWG Sept 08 15 min.docx

Draft: 11/7/22

Statistical Data (C) Working Group
Virtual Meeting
October 26, 2022

The Statistical Data (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met October 26, 2022. The following Working Group members participated: Sandra Darby, Chair (ME); Wanchin Chou, Vice Chair, George Bradner, and Qing He (CT); Arthur Schwartz and John Sobhanian (LA); Jo LeDuc (MO); Christian Citarella (NH); Alexander Vajda (NY); Landon Hubbart (OK); David Dahl (OR); and Brian Ryder (TX). Also participating were: Luciano Gobbo (CA); Anthony Bredel (IL); Mari Kindberg (MT) and Shannen Logue (PA).

1. Adopted its September 28 Minutes

The Working Group met September 28 to: 1) discuss proposed changes to the *Report on Profitability by Line by State (Profitability Report),* and 2) discuss the current process of receiving statistical data to gain understanding of how regulators could modernize and improve the process.

Mr. Citarella made a motion, seconded by Ms. Vajda, to adopt the Working Group's September 28 minutes (Attachment). The motion passed unanimously.

2. Discussed Proposed Changes to NAIC Statistical Reports

Ms. Darby said the Working Group would continue the discussion of proposed changes to the Profitability Report and move on to discussing proposed changes for the Competition Database Report (Competition Report).

Ms. Darby said during the last meeting, the Working Group adopted the proposal to show a profitability metric for mutual and reciprocal insurers separately from stock insurers. She said the Working Group did not adopt the proposal to change the name of the report. She said the Working Group discussed the proposal to provide the report data in a comma-separated values (CSV) format and NAIC staff is currently looking into the best solution to provide that data to regulators.

Ms. Darby asked Mr. Schwartz to give clarifying information on his proposal to add a return on premium metric to the Profitability Report. Mr. Schwartz said he would like to hear from interested parties on their thoughts on the usefulness of the metric. Birny Birnbaum (Center for Economic Justice—CEJ) said he has not heard of return on premium as a metric for measuring profitability. He said there would be no basis for comparing it to any other industry and it would not make sense to compare across lines of business because each line of business has different amounts of investment income. Mr. Schwartz said when regulators review rate filings, a key component in those filings is a profit provision expressed as a percent of premium. He said short-tail lines of business such as homeowners may have less investment income than longer-tail lines of business, like workers compensation and title insurance. He said having this metric in the report would allow regulators to look at industry historical return on premium for a particular line of business and compare to neighboring states. Mr. Birnbaum said insurers do not earn a return on premium but they do earn a return on investments. He said he believes this proposal is combining two different concepts. He said the first concept is the combined ratio which is the margin left after expenses, which is essentially the profitability measured as a percentage of premium. He said the second concept is the profit provision. Mr. Schwartz said he would like to research the topic further and he agreed that the phrase "return on premium" may not be appropriate for what he is trying to show in the report. Mr. Birnbaum said the report already contains the elements needed to calculate the metric Mr. Schwartz is trying to show.

Ms. Darby said the final proposed change for the Profitability Report is to clearly state throughout the report whether a return metric is presented before or after federal taxes. Mr. Schwartz said making this clear throughout the report can avoid misunderstandings of the data. Mr. Schwartz said his preference would be to clarify in the column headings, but he would also be okay with adding a footnote to each page. Mr. Birnbaum said this information is already clearly stated in the report. Ms. Darby asked Mr. Schwartz to review the wording the is currently in the Profitability Report and to make a specific suggestion of where he would want that wording to be moved.

Ms. Darby said the first proposed changed to the Competition Report is to change the name to the NAIC Competition Database. She said this report is already labeled as the Competition Database Report so no change would be necessary.

Ms. Darby said the second proposed change to the Competition Report is to delete the two columns that show market growth. Mr. Schwartz said market growth, if based on premium, is not a useful element when looking at competition. He said looking at the number of new entrants in a market is more important than the growth based on premium. Mr. Birnbaum said adding an explanation of each column would be useful. Aaron Brandenburg (NAIC) said this information is available and will be added to the report and sent out to the group for review.

Mr. Schwartz said the Competition Report is not a well known source, but it contains a lot of useful information for regulators, industry and interested parties. He said his overall goal with the proposed changes is to modernize the report. He said he wanted to remove elements that are not relevant in the insurance market, such as the market share of the 4 largest sellers. He said he would also like to remove the term sellers and instead just refer to insurance companies or insurance groups. Mr. Birnbaum said most anti-trust and competition materials refer to the market share of the top 4 participants and the Herfindahl-Hirschman Index (HHI). He said the reason that the top 4 participants metric is used instead of top 10 or top 20 is that the market share percentage of the top 4 companies will tell you more about their ability to manipulate prices and whether there is a lack of competition. Mr. Brandenburg said the reason the term sellers is used is because the report shows both insurer groups and individual companies that are not a part of a group.

Mr. Birnbaum suggested adding title insurance and private flood insurance into the Competition Report.

Mr. Schwartz asked if the Competition Report includes residual market data. He said the Louisiana Citizens Property Insurance Corporation writes a significant amount of homeowners insurance in Louisiana and he would want to know if that data is included in this report. He said personal auto and commercial auto residual markets may need to be included in the report as well. Mr. Birnbaum said he agrees that the residual market data should be added, but that it should be contained in a separate section since not all of the lines of business presented in the report have residual market business. He said he would also like to see the inclusion of lender-placed business. Mr. Birnbaum said PIPSO and AIPSO would be good resources for the residual market data related to homeowners and auto insurance. He said the lender-placed insurance data can be pulled from the Credit Insurance Experience Exhibit in the NAIC Annual Statement.

Ms. Darby said the Working Group will continue to discuss changes to these reports in future meetings.

Having no further business, the Statistical Data (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2022_Fall/CASTF/SDWG/StatDataWGmin_1026

Draft: 10/21/22

Statistical Data (C) Working Group
Virtual Meeting
September 28, 2022

The Statistical Data (C) Working Group of the Casualty Actuarial and Statistical (C) Task Force met Sept. 28, 2022. The following Working Group members participated: Sandra Darby, Chair (ME); Wanchin Chou, Vice Chair, and Qing He (CT); Arthur Schwartz, John Sobhanian, and Nichole Torblaa (LA); Cynthia Amann and Jo LeDuc (MO); Christian Citarella (NH); Alexander Vajda (NY); Landon Hubbart (OK); David Dahl (OR); and Brian Ryder (TX). Also participating were: Anthony Bredel (IL); Brenda Johnson (KS); David Dombrowski and Mari Kindberg (MT); Mike Andring and Chris Aufenthie (ND); Eric Lowe (VA); and Mary Block and Nick Marineau (VT).

1. Discussed Proposed Changes to NAIC Statistical Reports

Ms. Darby said Mr. Schwartz summarized his previously proposed changes to the NAIC statistical reports, and today's meeting would go over the summarized bullet points of the *Report on Profitability By Line By State* (Profitability Report).

Mr. Schwartz said his first proposed change is to rename the Profitability Report the Profitability Database Report. He said he sees the statistical reports as a database in which the user is encouraged to dig into the underlying data and use it for various types of analysis. Mr. Dahl said he understands a database to be something to run a report off of to summarize and manipulate the data. Ms. Darby said a database is what is used to produce the report, but the report itself is not a database in its current form. Mr. Vajda said there are calculations underlying certain fields within the Profitability Report that the user would not be able to derive without access to the entire database. Libby Crews (NAIC) clarified that the data contained in the Profitability Report is pulled from NAIC Financial Annual Statement filings and is then used to derive many of the data elements in the report. Mr. Lowe said whether the name of the report is changed, the ability to download the data provided in the report in a comma-separated values (CSV) format would be very useful for state insurance regulators. Mr. Schwartz said he would like to see all the statistical reports overseen by the Working Group to be available as a CSV download. Ms. Darby said even if the data is available to download, there would still need to be a portable document format (PDF) form report, and the name Profitability Database Report would not be in line with a PDF report. Mr. Schwartz said other databases, such as those provided by the federal government, have an option for a PDF report and an option to download the data into Microsoft Excel. Mr. Citarella said he thinks of a database as a living thing that can be changed and updated, and a report is a snapshot of a static moment in time. He said calling the report a database may give the wrong impression.

Ms. Crews said the data in the reports and the Financial Annual Statement data can currently be provided to state insurance regulators in the CSV format, but that data has a fee when it is requested by non-state insurance regulators. Mr. Lowe said a good option would be to provide the CSV files to state insurance regulators via StateNet or another regulator-only access point. Ms. Darby asked NAIC staff to investigate how to provide the data in a downloadable form to state insurance regulators.

Ms. Darby said the next proposed change to the Profitability Report is to show profitability metrics for mutual and reciprocal insurers separately from stock insurers. Mr. Schwartz said there is a clear difference in the profitability metrics of stock insurers because they are more focused on profits per share and the growth of profits over time. He said many mutual and reciprocal insurance companies will sacrifice short-term profits in favor of making longer term investments that may ultimately benefit the policyholders. He said if a state insurance regulator was using the profitability metrics in the context of a rate filing, they would want to have a distinction between the type of companies. Ms. Darby asked if the data was available broken out by the type of company. Mr. Lowe said the NAIC has the company type within its database, so the data should be able to be pulled and displayed in the Profitability Report by each company type.

Mr. Schwartz made a motion, seconded by Mr. Dahl, to break out the profitability metrics by stock insurer, mutual insurer, and reciprocal insurer. The motion passed unanimously.

Ms. Darby said the next proposed change to the Profitability Report is to add a new return on premium metric. Mr. Schwartz said the return on premium metric is directly applicable to rate filings. Mr. Lowe clarified that this metric would not replace the return on net worth metric, but it would be a separate metric and an additional column. Ms. Darby asked if the data used to calculate return on premium are already available in the report. Mr. Lowe said all the data needed to calculate return on premium is already available. Rich Gibson (American Academy of Actuaries—Academy) said the return on premium calculation would be 1 minus the combined ratio or 1 minus the operating ratio. Mr. Schwartz said he would like to see the calculation with both the combined ratio and the operating ratio. Mr. Bredel said the profit on insurance transactions metric is available in the report, and it would not include the investment gain that is attributed to net worth. Mr. Schwartz said it may need to just be a change to the column name, as return on insurance transactions is not as clear as return on premium. Ms. Darby suggested that the Working Group look at this issue further to see if the requested metric is already accounted for in the report. She said the discussion on these changes will be continued during the next meeting.

2. <u>Discussed Current Statistical Data and the Need for the Modernization of Statistical Reporting</u>

Ms. Darby said she compiled reports from three different statistical agents to showcase the type of data state insurance regulators are currently receiving. She said the reports come to her in a PDF format, and she must spend time converting it into Microsoft Excel to do useful analysis with the data. She said each statistical agent files their statistical plan with the insurance department, and those plans are approved individually by the commissioner or another state insurance regulator. She said this creates issues when trying to aggregate data between statistical agents because the data is not presented in the same way and may not include the same data elements. She said some statistical agents use codes that would have to be mapped to corresponding data elements from other statistical agents.

Ms. Darby said there are many different ideas of how technology could change the future of statistical reporting. She said she would like the Working Group to look at making small changes to how the data is reported that would make it easier to aggregate data and see a larger picture of the market. She said the Working Group should look at what data elements state insurance regulators need, review the minimum standards that are set out, and revise those as needed.

Ms. Darby said the *Statistical Handbook of Data Available to Insurance Regulators* currently states, "Regulators may modify or enlarge their requirements for information to accommodate changing needs and environments." Mr. Schwartz said the data being provided today is the type of data that was required 20 years ago, but it is not the data of the future. He said state insurance regulators now, and in the future, need more data and data that is more refined. Ms. Darby agreed, and she said she would like to continue the discussion on making changes to the minimum standard of reported data for all the different lines of insurance.

Having no further business, the Statistical Data (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2022_Fall/CASTF/SDWG/StatDataWGMin_928.docx

LOSS COST FILING DOCUMENT
CALCULATION OF COMPANY LOSS COST MULTIPLIER

(EFFECTIVE 11/08/2022)

Company Name	**XYZ Insurance Co.**
NAIC Company Code	**00000**
Line, subline, coverage, territory, etc. combination to which this form applies	**Workers' Compensation (All classes)**
Does this form apply to all class codes? (Yes/No) (If no, list class codes in a specifically identified attachment.)	**Yes**
Loss Cost Reference Filing (Advisory Org. and Reference Filing #)	**NCCI Filing number 0000000000**
Expense constant(s) (0 if no expense constant is used) (Justify any expense constant(s) in a specifically identified attachment.)	**0**

Note: For new programs, "Current" and "% Change" values should appear as #N/A.

1. Declaration

The above insurer hereby declares that it is a member, subscriber, or service purchaser of the named advisory organization for this line of insurance and is filing the prospective loss costs shown in the captioned Loss Cost Reference Filing. The insurer's rates will be the combination of the prospective loss costs and the loss cost multipliers and, if utilized, the expense constants.

2. Rule of Application

Check one of the two options below with an "X"

[X] ***Current and future loss cost reference filings:***
The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable to future revisions of the advisory organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the advisory organization's prospective loss costs and the insurer's loss cost multipliers and if utilized, expense constants. The rates will apply to policies written on or after the effective date of the advisory organization's prospective loss costs. This authorization is effective until disapproved by the Commissioner, or until amended or withdrawn by the insurer. (Some states prohibit this option.)

[ ] ***Current loss cost reference filing only:***
The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable only to the above Loss Cost Reference Filing. (Some states prohibit this option.)

3. Loss Cost Modification/Deviation

See examples below. Provide supporting data and/or rationale for the modification(s) in a specifically identified attachment.

Loss Cost Modification Factor examples:

* If your loss cost modification is 0%, the Loss Cost Modification Factor is 1.00.
* If your loss cost modification is -10%, the Loss Cost Modification Factor is 0.900. The calculation is (1.000 - 0.100).
* If your loss cost modification is +15%, the Loss Cost Modification Factor is 1.150. The calculation is (1.000 + 0.150).

		Current	Proposed	% Change
A.	Loss Cost Modification Factor	**1.050**	**1.100**	**4.8%**

LOSS COST FILING DOCUMENT
CALCULATION OF COMPANY LOSS COST MULTIPLIER

4. Expense Provisions

Projected expenses should be relative to charged premium (for non-workers' compensation lines) and standard premium (for workers' compensation) using the company's rates in effect. (Provide an exhibit detailing insurer expense and profit data, investment income, impact of premium discount plans, and/or other supporting information in a specifically identified attachment.)
(If necessary, combine two line item values into one and explain in Section 9.)

		Current	Proposed
A.	Commission and Brokerage	**15.0%**	**15.0%**
B.	Other Acquisition	**5.5%**	**6.5%**
C.	General Expenses	**8.0%**	**10.0%**
D.	Taxes, Licenses & Fees	**2.5%**	**2.5%**
E.	Underwriting Profit & Contingencies (with consideration of investment income)	**5.0%**	**5.0%**
F.	Average Premium Discount (i.e., for workers' compensation)	**4.0%**	**4.0%**
G.	Other 1 (If used, explain in Section 9.)	**0.0%**	**0.0%**
H.	Other 2 (If used, explain in Section 9.)	**0.0%**	**0.0%**
I.	Total (sum A through H)	**40.0%**	**43.0%**

5. Calculation of Permissible Loss (and Loss Adjustment Expense) Ratio

		Current	Proposed	% Change
A.	Permissible Loss Ratio (PLR) (100.0% - 4I)	**60.0%**	**57.0%**	**-5.0%**
B.	Expense Multiplier (1.000 / 5A)	**1.667**	**1.754**	**5.3%**

6. Additional Adjustments

(Use 1.000 where not applicable.)

		Current	Proposed	% Change
A.	Loading Factor Relative to Loss (when LAE and/or loss-based assessments are not included in loss costs)	**1.000**	**1.000**	**0.0%**
B.	Overall Impact of Expense Constant and Minimum Premiums (e.g., a 2.3% impact would be expressed as 1.023)	**1.023**	**1.024**	**0.1%**

7. Calculation and Selection of Loss Cost Multiplier

(Explain any differences, other than rounding, between 7A and 7B in Section 9.)

		Current	Proposed	% Change
A.	Company Formula Loss Cost Multiplier [(3A x 5B) x (6A / 6B)]	**1.711**	**1.885**	**10.2%**
B.	Company Selected Loss Cost Multiplier	**1.700**	**1.820**	**7.1%**

8. Percent Change (from Current to Proposed)

		% Change
A.	Percent Change in Loss Cost Multiplier [(7B Proposed / 7B Current) - 1.000]	**7.1%**
B.	Percent Change in Loss Costs (Weighted on company's own book and not the advisory organization unless company has zero premium volume)	**-3.0%**
C.	Percent Change in Other Rating Items (As identified in Section 9)	**0.0%**
D.	Total Percent Change [(1.000 + 8A) x (1.000 + 8B) x (1.000 + 8C) - 1.000]	**3.8%**

9. Additional Comments

(If needed, provide a specifically identified attachment.)

Comments can be placed here ….............. …..............

Adopted: ____, 2022, by the Casualty Actuarial and Statistical (C) Task Force

NAIC LOSS COST MEMORANDUM
ALL LINES OF PROPERTY & CASUALTY INSURANCE

Loss Cost Filing Procedures

This memorandum specifies the framework under which advisory organizations and insurers participating in advisory organizations operate in a loss cost system.

Loss Cost Environment

In general, a rating system for property & casualty insurance includes the rates to be charged along with rating relativities, rules, and supplementary rating information. Such supplementary rating information may include any manual or plan of rates, classification, rating schedule, minimum premium, policy fee, rating rule, rate-related underwriting rule, experience rating plan, statistical plan, and any other similar information needed to determine the applicable rate to be charged.

For many states and lines of business, insurers elect to be a participating insurer of an advisory organization, whether it be as a member, subscriber, or service purchaser. (Such advisory organizations can also serve as the insurer's statistical reporting agent.)

Starting in the early 1990's, most advisory organizations ceased promulgating advisory final rates and moved to a loss cost environment. Under this system, advisory organizations do not develop or file advisory final rates, but instead develop advisory prospective loss costs (hereinafter "loss costs"). The advisory organization files these loss costs and supporting data with the department of insurance (hereinafter "DOI") for the state or jurisdiction in which the loss costs will be used. Advisory organizations also develop and file rating relativities, rules, and most supplementary rating information on behalf of its participating insurers. Based on these loss costs, each participating insurer must use its own decision-making processes to determine and file with the DOI the final rates that it will charge.

Loss Cost Components

The rating organization's loss costs represent the expected claims costs per exposure unit, exclusive of expenses and profit. Here, "expenses" generally include:

- Commission and brokerage
- Other acquisition, field supervision, and collection expenses
- General expenses
- A provision for taxes, licenses, and fees (TL&F)

"Profit" here is more specifically underwriting profit. It generally includes a provision for contingencies and considers expected investment income.

For most states and lines of business, the advisory organization's loss costs include loss adjustment expenses (LAE), so that LAE is excluded from the above list of expenses. When LAE is not included in the advisory organization's loss costs, it must be loaded in by the insurer along with the other expenses and profit. In addition, for workers' compensation, some states have loss-based assessments (LBA's) and these may or may not be included in the loss costs. As with all portions of the rate, the provisions that are not included in the loss costs must be loaded in by the insurer, and the provisions that are included in the loss costs should not be considered by the insurer, or a double-count will result.

Advisory Organization's Reference Filing

Using standard actuarial techniques, the advisory organization uses past loss experience to develop its loss costs to an ultimate value over time, considering changes to known claim values or incurred but not reported claim values. The advisory organization also uses trend adjustments to project the developed ultimate losses to the average date of loss for the period during which the policies are to be effective.

Advisory organizations develop and file for approval (or acknowledgement) with the DOI, a loss cost reference filing (hereinafter "reference filing"). The reference filing contains the advisory organization's proposed loss costs along with supporting actuarial and statistical data.

After the advisory organization has filed its reference filing with the DOI and received approval, the advisory organization provides its participating insurers with notice of such approval. The advisory organization normally prints and distributes a manual of loss costs as well as rules and other supplementary rating information. However, such supplementary rating information provided by the advisory organization normally does not include expense constants or minimum premiums. (In workers' compensation, the advisory organization often promulgates premium discount table alternatives from which the insurer can select to reflect differing expense levels by size of risk.)

Loss Cost Multiplier

Based on the advisory organization's loss costs, the insurer needs to develop final rates, and does so using multiplicative factors. The overall multiplicative factor to get from a loss cost to a rate is the "loss cost multiplier" or LCM. (In many states, such LCM's can vary by subline, coverage, class, territory, tier, etc.) The LCM is generally the product of two factors which are themselves multipliers with distinct purposes. These two multipliers are the "loss cost modification factor" and the "expense multiplier."

The loss cost modification factor represents any needed adjustment to the advisory organization's loss cost to reflect the quality of business and past experience which the insurer finds necessary to reflect. For example, if no adjustment is needed, this factor is 1.000; if the insurer anticipates better-than-average experience by 10%, the factor is 0.900 (= 1.000 – 0.100).

The expense multiplier provides for the expenses enumerated above (commission, other acquisition, field supervision, collection expenses, general expenses, TL&F) as well as the needed profit provision. For example, if these expenses and profit total 33.3% relative to premium, the expense multiplier is 1.500 (= 1.000 / (1.000 – 0.333)).

If the loss cost modification factor were 0.900 and the expense multiplier were 1.500, the LCM would be 1.350 (= 0.900 x 1.500). This is the multiplier relative to loss costs that would result in the needed rate. When 33.3% of that rate is taken for expense and profit, 90% of the advisory organization's promulgated loss cost is left to pay claims.

As stated above, if LAE or LBA's are not already in the advisory organization's loss costs, the insurer must factor them into the LCM calculation as well. In addition, if an expense constant and/or minimum premium provisions are to be used, the insurer will probably want to adjust the final LCM accordingly for off-balance, so that the proper amount of revenue is collected.

Automatic Adoption

In many states, the insurer may request to have its LCM remain on file and to automatically adopt all subsequent reference filings made by the advisory organization. As a new reference filing is approved by the DOI, the insurer will do one of the following:

No action. If the insurer wishes to use the advisory organization's effective date and does not wish to change its LCM, it does not need to make a filing with the DOI. (In addition, in most states, the insurer need not develop or file its final rate pages with the DOI.) The insurer's rates will be the combination of the new loss costs and the insurer's LCM already on file with the DOI.

File with the DOI. If the insurer wishes to delay or non-adopt the reference filing, or modify its LCM on file, it must make a filing with the DOI. This should generally be before the effective date of the advisory organization's reference filing.

Insurer Filing

As discussed above, the advisory organization is responsible for filing the following with the DOI:

- Loss costs
- Rating relativities
- Rules
- Supplementary rating information, except for:
  - Expense constant
  - Minimum premium
  - Premium discount table (for workers' compensation)
    (The advisory organization often promulgates multiple premium discount table alternatives)

As such, the insurer is responsible for filing the following with the DOI:

- Effective date (if different from the advisory organization's)
- LCM
- Expense constant
- Minimum premium
- Premium discount table selection (for workers' compensation)
- Automatic adoption (intent to use or not use)
- Any other exceptions or deviations it wishes to use

Loss Cost Filing Document

The NAIC's "Loss Cost Filing Document" is a form in Excel and PDF which performs the LCM calculations described above. This multistate form, or a similar state-specific form, should be included in the insurer's own filing which it submits to the DOI. Many states will also require support in the form of data, actuarial analysis, and an explanatory memorandum.

The "Loss Cost Filing Document" form can be used for workers' compensation as well as most other property & casualty lines. For workers' compensation, where an expense constant and premium discount table are normally used, the form accommodates these. For other lines, where these values are often not applicable, the expense constant and average premium discount values can simply be zero so as to have no effect on the calculations.

Further Information

All inquiries concerning this memorandum should be directed to the property and casualty division of the particular DOI in which the insurer intends to file.

American Property Casualty
Insurance Association
INSURING AMERICA apci.org

September 16, 2022

Norman Niami
Vice President, Actuary

Kris Defrain
Director, Research and Actuarial
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: NAIC Casualty Actuarial and Statistical (C) Task Force Proposed Loss Cost Multiplier Form and Instructions

Dear Ms. Defrain:

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to comment on the loss cost multiplier form and instructions for all Property/Casualty lines.[1]

General and Other Acquisition Expenses
In section 4 of the form (Expense Provisions), General and Other Acquisition expenses are explicitly split apart in two components. Not all companies break down General and Other Acquisition expenses into the two components. A clarification that it would be acceptable to combine the two categories (with a note from the company indicating this approach) when a company's system and accounting does not have the two individual components available separately would be helpful for to such companies.

Thank you again for the opportunity to comment, and please contact me if you have any questions.

Sincerely,

Norman Niami, FCAS, MAAA, Affiliate IFoA
Vice President, Actuary

[1] APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

NAIC EXPENSE CONSTANT SUPPLEMENT

CALCULATION OF COMPANY LOSS COST MULTIPLIER WITH EXPENSE CONSTANTS

(EFFECTIVE: March 31, 2008)

(This form must be provided ONLY when making a filing that includes an expense constant)

This filing transmittal is part of Company Tracking #	
This filing corresponds to form filing number (Company tracking number of form filing, if applicable)	

Development of Expected Loss Ratio. (Attach exhibit detailing insurer expense data and/or other supporting information.)

Selected Provisions

4.			Overall	Variable	Fixed	
	A.	Total Production Expense				%
	B.	General Expense				%
	C.	Taxes, License & Fees				%
	D.	Underwriting Profit & Contingencies*				%
	E.	Other (explain)				%
	F.	TOTAL				%
		*Explain how investment income is taken into account.				

5.	A.	Expected Loss Ratio: ELR = 100% - Overall 4F		%
	B.	ELR in decimal form = 5A ELR in Decimal Form		

	C.	Variable Expected Loss Ratio: VELR=100% - Variable 4F		%
	D.	VELR in Decimal Form = 5C VELR in Decimal Form =		

6.	A.	Formula Expense Constant: [(1.00 divided by 5B) – (1.00 divided by 5D)] times [Average Underlying Loss Cost]	
	B.	Formula Variable Loss Cost Multiplier (3B divided by 5D)	

7.	A.	Selected Expense Constant =	
	B.	Selected Variable Loss Cost Multiplier =	

8. Explain any differences between 6 and 7:

9.	**Rate level change for the coverage(s) to which this page applies**		%

PC IRF

W:\Mar08\TF\Casualty Actuarial\03-31 LCM WC filing form.doc