

Draft: 2/28/21

Casualty Actuarial and Statistical (C) Task Force
E-Vote
February 17, 2021

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Feb. 17, 2021. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo (MN); James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Tom Zuppan (AZ); Ricardo Lara represented by Lynne Wehmueller (CA); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhif and Angela King (DC); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann (MO); Troy Downing represented by Mari Kindberg (MT); Marlene Caride represented by Carl Sornson (NJ); Russell Toal (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Raymond G. Farmer represented by Will Davis (SC); Doug Slape represented by J'ne Byckovski (TX); Michael S. Pieciak represented by Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); and James A. Dodrill represented by Juanita Wimmer (WV).

1. Adopted the *Auto Insurance Database Report*

The Task Force conducted an e-vote to consider adoption of the *Auto Insurance Database Report*. The motion passed unanimously.

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

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Draft: 3/8/21

Casualty Actuarial and Statistical (C) Task Force
Virtual Meeting
February 9, 2021

The Casualty Actuarial and Statistical (C) Task Force met Feb. 9, 2021. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo (MN); James J. Donelon, Vice Chair, represented by Rich Piazza, Larry Steinert and Nichole Torblaa (LA); Lori K. Wing-Heier represented by Katrina Kelly and Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Vanessa Darrah and Tom Zuppan (AZ); Ricardo Lara represented by Ken Allen, Mitra Sanandajifar and Lynne Wehmuller (CA); Michael Conway represented by Mitchell Bronson and Eric Unger (CO); Andrew N. Mais represented by Susan Andrews and Wanchin Chou (CT); Karima M. Woods represented by David Christhlf and Monica Myers (DC); David Altmaier represented by Sandra Starnes (FL); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Reid McClintock and Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd and Heather Droge (KS); Kathleen A. Birrane represented by Ron Coleman and Walter Dabrowski (MD); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann and LeAnn Cox (MO); Troy Downing represented by Mari Kindberg and Ashley Perez (MT); Mike Causey represented by Kevin Conley and Arthur Schwartz (NC); Chris Nicolopoulos represented by Christian Citarella (NH); Marlene Caride represented by Mark McGill and Carl Sornson (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Judith L. French represented by Benjamin Beckman and Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Andrew R. Stolfi represented by David Dahl (OR); Jessica K. Altman represented by Kevin Clark, James DiSanto, and Michael McKenney (PA); Raymond G. Farmer represented by Will Davis and Michael Wise (SC); Doug Slape represented by Monica Avila, J'ne Byckovski, Brock Childs, Nicole Elliott, Eric Hintikka, Jason Lester, Brian Ryder and Bethany Sims (TX); Michael S. Picciak represented by Rosemary Raszka (VT); Mike Kreidler represented by Dan Forsman (WA); James A. Dodrill represented by Tonya Gillespie and Juanita Wimmer (WV); and Jeff Rude and Donna Stewart (WY). Also participating was: Gordon Hay (NE).

1. Adopted the Reports of the Actuarial Opinion (C) Working Group and the Statistical Data (C) Working Group

Mr. Vigliaturo announced the appointments of Ms. Krylova as chair and Miriam Fisk (TX) as vice chair of the Actuarial Opinion (C) Working Group, as well as Carl Sornson as chair and Mr. Chou as vice chair of the Statistical Data (C) Working Group.

Ms. Krylova said the Actuarial Opinion (C) Working Group has not met in 2021.

Mr. McGill said the *Report on Profitability by Line by State* (Profitability Report) was released publicly on Jan. 12. The *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report) was released publicly on Jan. 13. The *Competition Report* was posted on the NAIC website on Feb. 2. The *Auto Insurance Database Report* (Auto Report) will be considered for adoption via e-vote soon.

Mr. Piazza made a motion, seconded by Mr. Botsko, to adopt the reports of the Actuarial Opinion (C) Working Group and the Statistical Data (C) Working Group. The motion passed unanimously.

2. Discussed Project #2019-49: Retroactive Reinsurance Exception

Mr. Vigliaturo said the Statutory Accounting Principles (E) Working Group referred Project #2019-49: Retroactive Reinsurance Exception to the Task Force in January 2020. The project was initialized after receipt of a letter from the American Academy of Actuaries' (Academy) Committee on Property and Liability Financial Reporting (COPLFR). Mr. Vigliaturo said Mr. Hay, Ms. Fisk and Mr. Botsko have been working on this difficult project.

Mr. Hay said *Statement of Statutory Accounting Principles (SSAP) No. 62R—Property and Casualty Reinsurance* does not deal with every possible reinsurance agreement, but rather only the more commonly employed methods. Prospective exceptions to prescribed retroactive accounting appear in paragraphs 36 and 39. He said these exceptions emerged individually from historical circumstances, so unanticipated future circumstances are possible. For the identified exceptions, the default assumption is that prescribed prospective accounting, including Schedule P Instructions, will apply with no modification. In a few circumstances, the SSAPs (including SSAP No. 62R) require restatement of historical calendar years' earned premium and/or losses on

Schedule P. He said he, Ms. Fisk and Mr. Botsko need to reconcile the default assumption versus prescribed restatements, with examples of insurers and reinsurers' actual Schedule P presentation, including the two examples in the COPLFR letter that gave rise to Project #2019-49. He said in some important examples, state interpretations in real time, rather than company decisions, created precedents for divergent Schedule P presentation in subsequent years. He said he still hopes to recommend appropriate Schedule P presentation guidance for each exception identified in SSAP No. 62R paragraphs 36 and 39. Mr. Hay said he, Ms. Fisk and Mr. Botsko are working on a recommendation to improve prospective reinsurance accounting prescriptions in SSAP No. 62R paragraphs 30–32 and paragraphs 49–54 (cedants' accounting and credit taken) or paragraphs 42–48 (reinsurers' accounting).

3. Discussed CAS Rescission of Statements of Principles

Mr. Vigliaturo said the Casualty Actuarial Society (CAS) notified the Task Force that it rescinded its collection of Statements of Principles, including the ratemaking principles that many states use when reviewing rate filings. He said after the CAS presentation, he would like to hear from state insurance regulators and interested parties about the impact on state regulation and whether state insurance regulators want to take any actions such as creating NAIC principles on ratemaking or leave such decisions to individual states.

Ken Williams (CAS) said the impact on states was intended to be minimal. He said all the statements of principles (ratemaking, reserving and evaluation) were written in the late 1980s before Actuarial Standards of Practice (ASOPs) were developed and were intended to be a foundation for the development of standards. With more than 50 ASOPs developed today, he said the ASOPs are now robust, enforceable and somewhat prescriptive. He said the view is that the principles have served their purpose to be a foundation for ASOPs. He added the principles often parallel the ASOPs, with any differences sometimes leading to confusion.

Mr. Williams said actuaries are held to professional standards within the U.S. and are required to follow the Code of Conduct, ASOPs, Qualification Standards and state regulations. Mr. Williams said the CAS is now a worldwide organization. He said every state has “not excessive, not inadequate and not unfairly discriminatory” language in their regulatory statutes. He said the CAS notified the three states with direct reference to the statement of principles in laws or regulations.

State insurance regulators expressed multiple views: 1) the Task Force was dissatisfied that the CAS did not request comment from its membership before rescinding, and there might have been some concerns; 2) states may use the principles for other purposes, including a data call which cited the principles; 3) lawmakers would look to the CAS as experts on ratemaking and may interpret rescission of the principles as a need to rewrite laws on rates; 4) state insurance regulators make the principles enforceable by referring to the principles in certain situations; and 5) the principles on ratemaking seemed to be more specific than ASOPs, and some concepts do not exist in the ASOPs. The CAS was asked to send the Task Force a comparison of the principles with the ASOPs to be able to evaluate the redundancy. Mr. Williams said he would prepare a comparison for distribution.

J. Robert Hunter (Consumer Federation of America—CFA) described his document sent to the Task Force for the meeting (Attachment __). He said the only public actuarial requirement that final rates be related to risk was rescinded. The Actuarial Standards Board (ASB) had tried to write an ASOP for the final rate and had to back off because of unfair discrimination. In the mid-2010s, there was a five-year debate on these issues, and then suddenly the CAS Board rescinded the principles. Initially, the principles were not going to be rescinded until the ASOPs covered the principles. There is now no final rate principle, so actuaries could use price optimization. Many documents refer to the statements of principles. Mr. Hunter suggested the Task Force urge the CAS to reverse its rescission at least long enough to seek input. If the CAS does not reinstate, then he suggested the NAIC create a bulletin for the states to delete references of sound actuarial principles in rate regulation and laws. He said another option would be for the Task Force to propose the four principles be codified into laws to define actuarial soundness of rates.

Birny Birnbaum (Center for Economic Justice—CEJ) said the CAS could un-rescind the principles without notice and with immediate effect. He said the flawed process suggests the state insurance regulators have some urgency on this matter. Actuaries in rate hearings often quote the statements of principles.

Ralph Blanchard (Travelers) said the CAS generally stays out of the public policy arena. He said Article 9 of the CAS constitution says any public policy action requires a three-quarters vote of the Board. Based on his experience at the CAS, he said he expected there was a fair amount of analysis before the Board acted.

Ms. Amann said that given the reliance on the principles, the Task Force could develop its own principles. She said the document would then be controlled by state insurance regulators. She said if comfortable with the principles and the CAS does not reinstate the principles, then state insurance regulators can adopt the principles themselves. Mr. Birnbaum said that has merit, but many states refer to “sound actuarial principles” of practice. He said there needs to be a solution in the short term. Mr. Stolyarov said “sound actuarial principles” do not rely on a document from an organization. He said the principles are concepts, and state insurance regulators can quote sources that have no power over the rates. He said there is no real short-term impact. He said similar content developed by the state insurance regulators could be effective guidance. Mr. McKenney and Mr. Citarella said principles developed at the NAIC are non-binding. Mr. Citarella said he quotes the principles when working with legislators, so rescission makes that process more difficult.

Some members of the Task Force will draft a letter to the CAS for the Task Force’s future consideration.

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

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Draft: 2/4/21

Casualty Actuarial and Statistical (C) Task Force
E-Vote
February 2, 2021

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Feb. 2, 2021. The following Task Force members participated: James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Tom Zuppan (AZ); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhlf (DC); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann (MO); Troy Downing represented by Mari Kindberg (MT); Mike Causey represented by Kevin Conley (NC); Chris Nicolopoulos represented by Christian Citarella (NH); Marlene Caride represented by Carl Sornson (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Tynesia Dorsey represented by Tom Botsko (OH); Andrew R. Stolfi represented by David Dahl (OR); Jessica K. Altman represented by Michael McKenney (PA); Raymond G. Farmer represented by Will Davis (SC); Doug Slape represented by J'ne Byckovski (TX); Michael S. Pieciak represented by Rosemary Raszka (VT); Mike Kreidler represented by Eric Slavich (WA); James A. Dodrill represented by Juanita Wimmer (WV); and Jeff Rude (WY).

1. Adopted the *Competition Database Report*

The Task Force conducted an e-vote to consider adoption of the *Competition Database Report*. All voted in favor of adoption. The motion passed.

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

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Draft: 1/6/21

Casualty Actuarial and Statistical (C) Task Force
E-Vote
December 30, 2020

The Casualty Actuarial and Statistical (C) Task Force conducted an e-vote that concluded Dec. 30, 2020. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo (MN); James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by David Christhlf (DC); Doug Ommen represented by Travis Grassel (IA); Shannon Whalen represented by Anthony Bredel (IL); Vicki Schmidt represented by Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers and Cynthia Amann (MO); Chris Nicolopoulos represented by Christian Citarella (NH); Marlene Caride represented by Carl Sornson (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Tynesia Dorsey represented by Laura Miller (OH); Glen Mulready represented by Andrew Shallhorn (OK); Andrew R. Stolfi represented by David Dahl (OR); Jessica K. Altman represented by Michael McKenney (PA); Raymond G. Farmer represented by Will Davis (SC); Doug Slape represented by J'ne Byckovski (TX); Michael S. Pieciak represented by Rosemary Raszka (VT); and Mike Kreidler represented by Eric Slavich (WA).

1. Adopted the Profitability Report and the Homeowners Report

The Task Force conducted an e-vote to consider adoption of the *Report on Profitability by Line by State* (Profitability Report) and the *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report). All voted in favor of adoption. The motion passed.

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

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Draft Pending Adoption

Draft: 11/19/20

Casualty Actuarial and Statistical (C) Task Force
Virtual Meeting (*in lieu of meeting at the 2020 Fall National Meeting*)
November 10, 2020

The Casualty Actuarial and Statistical (C) Task Force met Nov. 10, 2020. The following Task Force members participated: Grace Arnold, Chair, represented by Phil Vigliaturo (MN); James J. Donelon, Vice Chair, represented by Rich Piazza (LA); Lori K. Wing-Heier represented by Michael Ricker (AK); Jim L. Ridling represented by Daniel Davis (AL); Evan G. Daniels represented by Tom Zuppan (AZ); Ricardo Lara represented by Lynne Wehmueller (CA); Michael Conway represented by Mitchell Bronson (CO); Andrew N. Mais represented by Wanchin Chou (CT); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Robert H. Muriel represented by Judy Mottar (IL); Vicki Schmidt represented by Nicole Boyd (KS); Eric A. Cioppa represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Cynthia Amann (MO); Mike Causey represented by Arthur Schwartz (NC); Marlene Caride represented by Mark McGill (NJ); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Glen Mulready represented by Landon Hubbard (OK); Jessica K. Altman represented by Kevin Clark and James DiSanto (PA); Texas represented by J'ne Byckovski (TX); Michael S. Peciak represented by Rosemary Raszka (VT); and James A. Dodrill represented by Joylynn Fix, Tonya Gillespie and Juanita Wimmer (WV). Also participating was: Gordon Hay (NE).

1. Adopted its Oct. 26, Oct. 13, Sept. 16, and Summer National Meeting Minutes

Mr. Vigliaturo said the Task Force met Oct. 26, Oct. 13, and Sept. 15. During these meetings, the Task Force took the following action: 1) adopted the white paper, *Regulatory Review of Rate Models*; 2) adopted its 2021 proposed charges; and 3) adopted a comment letter on U.S. Qualifications Standards. The comment letter was sent to the American Academy of Actuaries' (Academy's) Committee on Qualifications prior to its Oct. 31 deadline.

The Task Force also met Oct. 20 and Sept. 22 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 its Predictive Analytics Book Club conference calls Oct. 27, Sept. 29 and Aug. 25. During its Oct. 27 meeting, Greg Sollenberger (Horace Mann Insurance Companies) presented on building Gradient Boosting Machines and identified useful model support. During its Sept. 29 meeting, Geoff Werner (Werner Advisory) presented on telematics and future regulatory considerations. During its Aug. 25 meeting, Sam Kloese (NAIC) presented on generalized linear model (GLM) concepts implemented in the software EMBLEM.

Mr. Piazza made a motion, seconded by Mr. Stolyarov, to adopt the Task Force's Oct. 26 (Attachment One), Oct. 13 (Attachment Two), Sept. 15 (Attachment Three) and Aug. 5 (*see NAIC Proceedings – Summer 2020, 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 conducted an e-vote ending Oct. 30 and met Oct. 22, Sept. 24 and Sept. 10. During these meetings, the Working Group adopted proposed changes to the *Financial Analysis Handbook* and the *Financial Condition Examiners Handbook*. These changes were referred to corresponding groups for consideration. The Working Group also adopted the 2020 *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion* (Regulatory Guidance). Ms. Krylova said the Regulatory Guidance includes a reminder that the qualification documentation should be specific to the opinion being issued, an updated statement on continuing education (CE) logging requirements, and new guidance on expected COVID-19 disclosures in the Statements of Actuarial Opinion (SAOs).

The Working Group also met Aug. 20 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss SAO reviews in risk-focused surveillance. Ms. Krylova said the Working Group discussed the regulatory review of appointed actuaries' qualification documentation and did not find any significant issues.

Ms. Krylova made a motion, seconded by Mr. Piazza, to adopt the report of the Actuarial Opinion (C) Working Group, including its interim minutes—Oct. 30 (Attachment Four), Oct. 22 (Attachment Five), Sept. 24 (Attachment Six) and Sept. 10 (Attachment Seven)—and the 2020 Regulatory Guidance (Attachment Four-A). The motion passed unanimously.

Draft Pending Adoption

3. Adopted the Report of the Statistical Data (C) Working Group

Mr. McGill said the *Report on Profitability by Line by State* (Profitability Report) and the *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report) will be considered for adoption during the next Statistical Data (C) Working Group meeting. The Working Group typically meets in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings. The *Auto Insurance Database Report* has been delayed, given NAIC staff focus on COVID-19 activities, but it should be provided for review on the next Working Group call. Mr. McGill said the call should be held before Nov. 26.

Mr. McGill made a motion, seconded by Mr. Grassel, to adopt the report of the Statistical Data (C) Working Group. The motion passed unanimously.

4. Heard an Update on Communication about the CAS/SOA Task Force's Appointed Actuary CE Log

Mr. Vigliaturo said the Task Force discussed the Casualty Actuarial Society (CAS)/Society of Actuaries (SOA) CE log for appointed actuaries and the related communication plan during its Sept. 15 and Oct. 12 meetings. The CAS and SOA provided copies of their member communication about the project. Mr. Vigliaturo said he expects no further Task Force action until it receives a report from the CAS and SOA summarizing their CE study.

5. Heard an Update on Proposal 2019-49 (Retroactive Reinsurance Exception)

Mr. Vigliaturo said the Statutory Accounting Principles (E) Working Group referred Project #2019-49: Retroactive Reinsurance Exception to the Task Force in January. He said this is the project initialized from a letter presented by the Committee on Property and Liability Financial Reporting (COPLFR) of the Academy. Mr. Vigliaturo said the volunteer group has not met since the Task Force's Oct. 10 meeting.

Mr. Hay described the current findings and expectations. He said *Statement of Statutory Accounting Principles (SSAP) No. 62R—Property and Casualty Reinsurance* does not explain every possible reinsurance agreement, and it includes the following wording: “[t]his statement deals with the more commonly employed methods.” Paragraphs 36 and 39 describe prospective exceptions to prescribed retroactive accounting. Mr. Hay said, historically, these exceptions emerged individually from circumstances at the time, so unanticipated future circumstances are possible. For the identified exceptions, the default assumption is that prescribed prospective accounting, including Schedule P Instructions, will apply with no modification. In a few circumstances, the SSAPs (including SSAP No. 62R) require restatement of historical calendar years' earned premium and/or losses on Schedule P.

Mr. Hay said the volunteer group needs to reconcile the default assumption versus prescribed restatements using examples of insurers and reinsurers' actual Schedule P presentation, including the two examples in the COPLFR letter that gave rise to Project #2019-49. The volunteer group hopes to recommend appropriate Schedule P presentation guidance for each exception identified in SSAP No. 62R paragraphs 36 and 39. Work may further imply some change to prospective reinsurance accounting prescriptions in SSAP No. 62R paragraphs 30–32 and paragraphs 49–54 (cedants' accounting and credit taken) and/or paragraphs 42–48 (reinsurers' accounting).

6. Discussed the ASB's Exposure Drafts on Catastrophe Modeling and Setting Assumptions

The Task Force discussed the Actuarial Standards Board's (ASB) exposure draft of *Actuarial Standard of Practice (ASOP) No. 38—Catastrophe Modeling (for All Practice Areas)* and the third exposure draft of a proposed ASOP, *Setting Assumptions*.

In the exposure letter, the ASB said the ASOP No. 38 proposal expands the scope to include actuarial services for catastrophe models to all lines of business, including natural and other catastrophes, such as terrorist acts and pandemics. ASOP No. 38 is expanded from applying to the use of catastrophe models to also the selection, review and evaluation of catastrophe models. ASOP No. 38 would now apply to regulatory review. Comments are due Jan. 15, 2021.

In the exposure letter, the ASB said the exposure draft ASOP, *Setting Assumptions*, is on its third exposure, and it was released for comment with a deadline of April 15, 2021. The ASOP includes setting assumptions but also review of other actuaries' assumptions.

The Task Force decided not to issue comment letters on these exposures.

Draft Pending Adoption

7. Heard a Presentation from the Academy

Lisa Slotznick (Academy) and Kathleen C. Odomirok (Academy) gave a presentation on activities of the Academy's Casualty Practice Council and the COPLFR, respectively (Attachment Eight).

8. Heard Research Reports from Professional Actuarial Organizations

Ann Weber (SOA) reported on the SOA's general insurance actuarial research (Attachment Nine).

Ralph Blanchard (Travelers) provided a report on the CAS' property/casualty (P/C) actuarial research (Attachment Ten).

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

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TO: Casualty Actuarial Society (CAS) Board of Directors
Sent via email to Laura Stout

FROM: Phillip Vigliaturo, Chair
Casualty Actuarial and Statistical (C) Task Force

DATE: March ____, 2021

SUBJECT: Comments on the CAS Board of Director’s Decision to Rescind Statements of Principles

On December 22, 2020, the Casualty Actuarial Society (“CAS”) announced that its Board of Directors unilaterally rescinded the following Statements of Principles:

- Statement of Principles regarding Property and Casualty Insurance Ratemaking (May 1988)
- Statement of Principles regarding Property and Casualty Valuations (September 1989)
- Statement of Principles regarding Property and Casualty Unpaid Claims Estimates (November 2014)

Not only was the decision unilateral, it was seemingly made without any notice to the CAS membership. We are disappointed that this rescindment occurred without notice, open discussion or input from the membership. For the reasons set forth in this letter, the NAIC’s Casualty Actuarial and Statistical Task Force (“CASTF”) requests the reinstatement of the Statement of Principles (“SOP”) regarding Property and Casualty Insurance Ratemaking.

We are not aware of another document as concise and accessible as the Ratemaking SOP that so clearly and completely ties rates to risk. A generation of actuaries have reviewed, relied upon and cited the ratemaking principles since its adoption in 1988. While the document was not prescriptive or exhaustive, it provided clearly stated principles for any and all insurance professionals to consider with regard to ratemaking. For this very reason, many regulatory actuaries relied on the document for a common foundation in discussions with industry representatives whether or not they were credentialed actuaries.

The rescindment of the Ratemaking SOP provides the impression that the principles are no longer viewed as valid by the actuarial profession. We find this especially troubling in an environment in which characteristics used by insurers in pricing are being challenged, quite publicly, for their perceived lack of a relationship to risk. The Ratemaking SOP complimented state laws that require rates to be related to risk and which provide regulators their authority to challenge rates that are not. The rescindment might open the door to attacks on these rate regulatory laws.

While it has been argued that aspects of the Ratemaking SOP are repeated in various Actuarial Standards of Practice (“ASOPs”), parties that are not closely affiliated with the CAS are challenged to search, read through and comprehend multiple ASOPs, which are often issue-specific. Much of the utility of the Ratemaking SOP was in its simplicity and focus; it applied to all aspects of actuarial ratemaking – a true principles statement – and provided value even if duplicative of certain parts of different ASOPs. For example, when testifying before a legislative committee or explaining a concept to a consumer, referring to multiple ASOPs risks the audience’s attention and comprehension as opposed to a singular SOP document that is credible, concise and understandable to a layperson.

We recognize that there are opportunities to modernize the SOP for recent developments in ratemaking such as price optimization, artificial intelligence and predictive models. These developments can be addressed with amendments to the SOP rather than a wholesale rescindment of the document. In fact, these developments support the need for the rescinded ratemaking principles to ensure that non-actuaries leading these developments understand the actuarial profession’s position on the need for risk-based rating.

In closing, we submit that the Statement of Principles regarding Property and Casualty Insurance Ratemaking is too important of a document and too widely cited and relied upon to be rescinded at this time. We urge you to reverse the rescindment.



**Expertise. Insight.
Solutions.**

Jessica Leong, FCAS

President, Casualty Actuarial Society

January 7, 2021

To: Phil Vigliaturo, Chair, NAIC CASTF

CC: Kris DeFrain, FCAS, Director, Research and Actuarial Services, NAIC

Re: CAS Rescinds Statements of Principles

I am writing to inform you that the CAS Board of Directors recently approved rescinding the CAS Statements of Principles. As we believe this decision may be of interest to the NAIC CASTF, I wanted to contact you directly to share details of the CAS Board's decision.

In total, the rescinded statements include:

- Statement of Principles regarding Property and Casualty Insurance Ratemaking Statement of Principles regarding Property and Casualty Insurance Ratemaking (May 1988)
- Statement of Principles regarding Property and Casualty Valuations (September 1989)
- Statement of Principles regarding Property and Casualty Unpaid Claims Estimates (November 2014); this version replaced the original Statement of Principles regarding Property and Casualty Loss and Loss Adjustment Expense Reserves from May 1988

The original Statements of Principles were drafted before any Actuarial Standards of Practice were developed or promulgated by the Actuarial Standards Board. The adoption of the 50+ Actuarial Standards of Practice in the United States over the past 30 years, as well as the adoption of standards in many other jurisdictions, has resulted in considerable overlap between certain standards and the Statements of Principles. Therefore, the CAS Board determined that the Statements were no longer necessary and that rescinding them will eliminate any confusion that may have existed between actuarial principles and actuarial standards.

Also, please note that in the research we conducted prior to the CAS Board's action, we learned that the Statement of Principles regarding Property and Casualty Insurance Ratemaking is referenced in three states' laws: Alabama, California, and Michigan. I have contacted CAS members working in those states' insurance departments to inform them directly of the CAS Board's decision.

While the Principles have been rescinded, the CAS Board continues to believe that Actuarial Standards of Practice play a crucial role in upholding the professionalism of actuaries. Please let me know if you have any questions about the CAS Board's decision.

Casualty Actuarial Society 4350 North Fairfax Drive, Suite 250, Arlington, VA 22203
office@casact.org 703.276.3100 tel 703.276.3108 fax
www.casact.org

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. Leong', with a long horizontal flourish extending to the right.

Jessica Leong, FCAS
President, Casualty Actuarial Society

Comparison of ASOP 53 and CAS Principles of Ratemaking

Considerations and definitions discussed in both documents

Statement of Principles Consideration (Section III)	ASOP 53 Analysis of Issues (section 3)	
Exposure Unit	3.6	Exposure Base
Data	3.4	Data Quality
	3.8	Use of Historical Data
Organization of Data	3.3	Organization of Data
Credibility	3.11	Credibility
Trends	3.8.3	Trends
Catastrophes	3.12	Treatment of Catastrophes
Change in Mix of Business	3.8.4.b	Adjustments to Historical Data
Reinsurance	3.14	Reinsurance
Operational Changes	3.8.4.e	Adjustments to Historical Data
Other Influences	3.8.4.a	Adjustments to Historical Data
Classification Plans	3.7	Risk Classification System
Risk Load	3.2	Intended Measure
Investment and Other Income	3.15	Profit and Contingencies and the Cost of Capital
Expense Definitions (Section I)	3.9	Expenses

Considerations covered in other ASOP's

Homogeneity	ASOP 12	Risk Classification 2.5 Homogeneity 3.3.2 Actuarial Considerations
Actuarial Judgment	ASOP 1	Introduction to ASOPS 2.9 Professional Judgement 3.1.3, 3.1.4

Other considerations in ASOP 53 not mentioned in Statement of Principles

- Methods, Models and Assumptions
- Considerations for New Coverages
- Infrequent Events other than Catastrophes
- Additional Funding Sources (refers to assessments)

Items in Statement of Principles considerations not specifically covered by ASOP 53 or related ASOPs

- Loss Development
- Individual Risk Rating

TWO GLARING OMISSIONS IN DOCUMENT ATTACHED TO CASTF MATERIALS REGARDING ITEM 3 OF THE UPCOMING MARCH 9, 2021 CALL

The document, “Comparison of ASOP 53 and CAS Principles of Ratemaking” ignores the most important part of the rescinded SOP and, as the subtitle indicates, only looks at the less important “considerations and definitions” sections of the rescinded SOP.¹

The comparison in this document could be confused to some readers as showing that ASOP 53 and other ASOPs are almost be a complete substitute for CAS Statement of Principles Regarding Property and Casualty Insurance Ratemaking. That is simply not true. The document only addresses lesser aspects of the CAS SOP on Ratemaking and does not address two central purposes of the rescinded CAS SOP: the Principles themselves and the linkage of final rates to cost-based indications.

1. The Document Ignores the Central Purpose of the Rescinded SOP on Ratemaking:

The heart and soul of the now rescinded CAS SOP is in the Principles section where four Principles of Ratemaking are delineated. They are:

Ratemaking is prospective because the property and casualty insurance rate must be developed prior to the transfer of risk.

Principle 1: A rate is an estimate of the expected value of future costs. Ratemaking should provide for all costs so that the insurance system is financially sound.

Principle 2: A rate provides for all costs associated with the transfer of risk.

Ratemaking should provide for the costs of an individual risk transfer so that equity among insureds is maintained. When the experience of an individual risk does not provide a credible basis for estimating these costs, it is appropriate to consider the aggregate experience of similar risks. A rate estimated from such experience is an estimate of the costs of the risk transfer for each individual in the class.

Principle 3: A rate provides for the costs associated with an individual risk transfer.

Ratemaking produces cost estimates that are actuarially sound if the estimation is based on Principles 1, 2, and 3. Such rates comply with four criteria commonly used by actuaries: reasonable, not excessive, not inadequate, and not unfairly discriminatory.

¹ That ASOP 53 covers the “considerations” section of the rescinded CAS SOP on Ratemaking is no surprise. As ASB said, in transmitting ASOP 53 to actuaries, “It should be noted that this ASOP incorporates all of the Considerations contained in the CAS *Statement of Principles* and addresses issues related to the estimation of costs for risk transfer and risk retention not currently addressed in existing ASOPs. This ASOP also references other existing ASOPs that include relevant issues related to the estimation of future costs for prospective risk transfer and risk retention.”

Principle 4: A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.

There is nothing in ASOP 53 or in any ASOP that addresses these key Principles, even remotely. (Please note that the rescinded Principle 4 contains language similar or identical to that which appears in the insurance rating laws of almost every state)

2. The Document Ignores the Fact that Final Rates Charged to Consumers are no Longer Covered by any Actuarial Standard or Principles:

Where the rubber hits the road when it comes to ratemaking are the final rates charged to consumers of insurance. ASOP 53 and all other ASOPs currently in place have no impact on final rates charged to policyholders. As ASB said in December 2017, in transmitting ASOP 53 to actuaries and to the public, *“the ASB quickly realized that there are significant differences of opinion within the profession regarding certain aspects of ratemaking, including pricing, price optimization methodologies, and rate filing requirements, that would need to be reconciled before a comprehensive standard of practice on ratemaking could be developed. Therefore, to create a standard of practice for the core aspects of ratemaking that could be issued in a reasonable amount of time, the ASB has chosen to develop this ASOP to pertain solely to the development or review of future cost estimates for prospective property/casualty risk transfer and risk retention.”*

The sudden and unexpected rescission of the CAS SOP on Ratemaking leaves actuaries with no actuarial standards or Principles as respects final rates, the only rates that really matter to the public and to regulators. Today, an actuary could make a filing with the state, fully complying with current ASOPs and, at the end, pick any rate to file the actuary wanted, including rates adjusted by a price optimization, consumer lifetime value or other algorithms or just picked out of the air. The actuary could then properly confirm to the regulator that this rate, untethered from any cost-based indication “meets all actuarial standards.” This puts the regulator in an untenable position and, in some cases at least, unable to determine exactly what is going on with the filed rates being reviewed since disclosure of the uses of new algorithms in rate filings is often obscure or even completely missing.



Consumer Federation of America

March 8, 2021

**CFA SUPPORTS THE CASTF DRAFT LETTER CALLING UPON CAS TO
REVERSE THE RESCISSION OF THE PRINCIPLES OF P&C RATEMAKING**

To CASTF Members:

As your draft letter makes clear, the heart and soul of the now rescinded CAS SOP are in the Principles section where the Four Principles of Ratemaking are delineated. Both as a matter of process and substance, the decision by CAS to unceremoniously and without warning drop the ratemaking principles that have served as the foundation of regulatory practice for 30 years is unacceptable. The draft letter CASTF has presented speaks clearly to the importance of these Principles as key actuarial guidance and as a clear and concise tool for explaining the standards and parameters of our profession.

CASTF has a vital role to play to assure that these standards remain in place in one form or another. Without them, the movement away from cost-based rates, in violation of state rating laws, will accelerate. This would open the door to abuse, particularly of the poor and people of color. Your draft letter is a great step in the direction of maintaining cost-based prices. Should CAS refuse to reinstate the SOP, CASTF must stand ready to act to make the four Principles a regulatory standard for actuaries to continue to rely upon.

Sincerely,

J. Robert Hunter, FCAS, MAAA
Director of Insurance

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

March 2021

Society of Actuaries (SOA) Actuarial Research and Education Update

- Highlights of Recent Research Reports
- *Catastrophe & Climate Strategic Research Program Newsletter*
 - January 2021 edition
 - <https://www.soa.org/publications/catastrophe-climate/>
 - Overview of SOA's 2021 Environmental Risk Series of reports
 - Summary of key catastrophe risk articles
 - Relationship between Residential Losses and Hurricane Winds: Role of the Florida Building Code
- *Actuarial Weather Extremes*
 - Monthly reports that identifies and examines unusual or extreme single-day or multi-day weather events across North America
 - <https://www.soa.org/resources/research-reports/2019/weather-extremes/>
 - January 2021: Precipitation / Snow / Ice extremes; Persisting Drought
 - February 2021: Extreme cold
- *Tool for Mapping and Graphing Google's Mobility Dataset*
 - Large focus on change in mobility and movement across all insurance lines of business
 - Google mobility data packed in an easy to use, view and graph format
 - <https://www.soa.org/resources/research-reports/2020/google-mobility-data/>

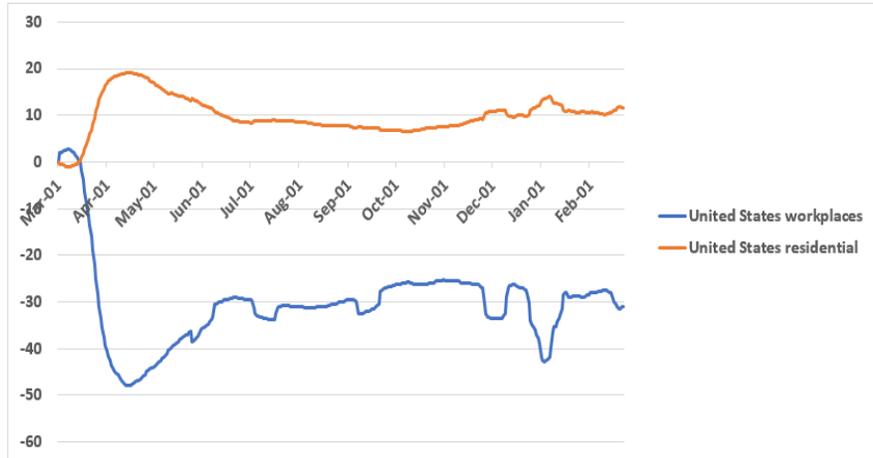
Graph of Country-Level Google Mobility Data: % Change Relative to Baseline Period

Add to Graph

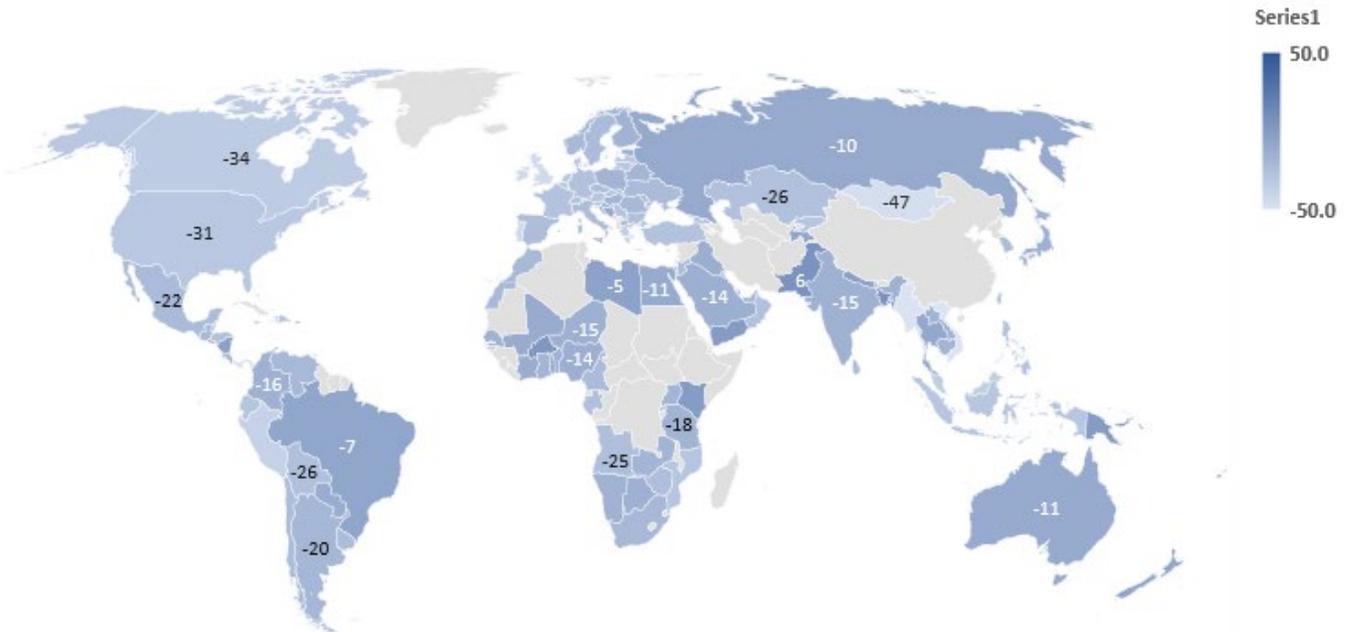
United States residential	Data Label to Show on Graph
United States	Select Country
residential	Select Mobility Data
14	Days in Moving Average (*)
2020-03-01	First Day to Graph
2021-02-23	Last Day to Graph

Erase Graph

(*) If you set "Days in Moving Average" equal to "5", for example, then the time series plotted on the graph will be a lagged 5-day moving average. The value shown for May 15 will be equal to the average computed from May 11 through May 15. You may set the moving average parameter to any value between 1 and 14. A value of 1 indicates that the time series is not a moving average, but rather is simply the data itself, without any averaging period.



- 2021-02-21 +



Current Research

Project	Status	Expected publication
Uninsurable risk with a focus on BI	Copy editing	Q1 2021
Demand for Microinsurance	Final draft awaited	Q2 2021
The peer-to-peer insurance market	First draft imminent	Q2 2021
Credibility for excess insurance layers	First draft reviewed	Q2 2021
Flood models using public data	First draft reviewed	2021
Cannabis legislation and auto loss frequency (joint project with CIA)	Contract signed	2021
Guide to IFRS 17 for US actuaries	Working group underway	Q3 2021
Claims analysis of social inflation	Working group underway	Q4 2021



Future Research

Although the CAS is considering a number of future research projects, there are no open calls for authors or researchers at present.



Recent CE

Item	Type	When
CAS Annual Meeting	Seminar	Nov. 10-11
GIRO Session: Effective actuarial communication through storytelling	Webinar	Nov. 12
CIA Session: Regularization techniques for actuaries	Webinar	Nov. 13
Underwriting Collaboration Seminar	Seminar	Nov. 18
CAS Webinar: Disparate Impact and Rate Differentiation: A New Paradigm	Webinar	Nov. 19
Revisiting the Methodology of Actuarial Science	Webinar	Dec. 1
Casualty Actuaries of Greater New York (CAGNY) 2020 Virtual Fall Meeting Webinar	Seminar	Dec. 9
Casualty Actuaries of the Bay Area (CABA) 2020 Virtual Fall Meeting	Seminar	Dec. 10
Southern California Casualty Actuarial Club (SCCAC) 2020 Virtual Fall Meeting	Seminar	Dec. 10
Autonomous Trucking	Webinar	Dec. 17

Upcoming CE

Item	Type	When
<u>Ratemaking, Product and Modelling Virtual Seminar</u>	Seminar	Mar 15-17
<u>Predictive Modelling – A Regulator’s Perspective</u>	Webinar	March 25
<u>Social Inflation and Emerging Mass Torts – Now, Next and Beyond</u>	Webinar	March 31
<u>Telematics – the Future for Auto Insurance?</u>	Webinar	April 22
<u>Professionalism Challenges for Innovative Actuaries</u>	Webinar	May 13
<u>Data Visualization</u>	Webinar	May 18
<u>Seminar on Reinsurance</u>	Seminar	June 8-9

