

## Draft Pending Adoption

Draft: 8/25/23

Casualty Actuarial and Statistical (C) Task Force  
Seattle, Washington  
August 12, 2023

The Casualty Actuarial and Statistical (C) Task Force met in Seattle, WA, Aug. 12, 2023. The following Task Force members participated: D.J. Bettencourt, Chair, represented by Christian Citarella (NH); Chlora Lindley-Myers, Vice Chair, represented by Jo LeDuc (MO); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Mark Fowler represented by Sanjeev Chaudhuri (AL); Ricardo Lara represented by Ken Allen and Lynne Wehmuller (CA); Andrew N. Mais represented by Wanchin Chou and Qing He (CT); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by Julie Rachford (IL); Vicki Schmidt represented by Nicole Boyd (KS); James J. Donelon represented by Nichole Torblaa (LA); Kathleen A. Birrane represented by Ron Coleman (MD); Timothy N. Schott represented by Sandra Darby (ME); Anita G. Fox represented by Kevin Dyke (MI); Grace Arnold represented by Phil Vigliaturo (MN); Mike Causey represented by Richard Kohen (NC); Eric Dunning represented by Michael Muldoon (NE); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Andrew Schallhorn (OK); Andrew R. Stolfi represented by Raven Collins (OR); Michael Humphreys represented by Shannen Logue (PA); Michael Wise represented by Will Davis (SC); Cassie Brown represented by Miriam Fisk (TX); Kevin Gaffney (VT); Mike Kreidler represented by Eric Slavich (WA); and Allan L. McVey represented by Tom Whitener (WV).

### 1. Adopted its June 13, May 2, and Spring National Meeting Minutes

The Task Force met June 13 and May 2 to discuss the monitoring of other NAIC committee groups, the review of future actuarial papers, the loss cost multiplier (LCM) form implementation, the Director and Officer (D&O) Insurance Coverage Supplement, and the Cyber Insurance Supplement.

Chou made a motion, seconded by Dyke, to adopt the Task Force's June 13 (Attachment One), May 2 (Attachment Two), and March 7 (*see NAIC Proceedings – Spring 2023, Casualty Actuarial and Statistical (C) Task Force*) minutes. The motion passed unanimously.

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

Fisk said the Actuarial Opinion (C) Working Group met three times since its last report to the Task Force on June 13. The Working Group met June 14 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings, to discuss the 2022 Statement of Actuarial Opinion (SAO). No serious issues or trends were identified during that meeting.

The Working Group met July 12 to adopt its response to the Financial Analysis (E) Working Group's referral on predictive analytics in reserving, which had been exposed for a public comment period through June 26. The Actuarial Opinion (C) Working Group voted unanimously to adopt the response. The Working Group also began discussing potential changes to the *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year 2023* (2023 Regulatory Guidance) and the 2024 Opinion instructions during the July 12 meeting.

The Working Group also met Aug. 2 to continue the discussion of the 2023 Regulatory Guidance and 2024 Opinion instructions. A draft of the 2023 Regulatory Guidance document is exposed for public comment through Sept. 1. The draft includes changes to better reflect the instruction's language about what to do when a material error is found and to remove the section on guidance related to COVID-19. The most significant change discussed by the Working Group for the 2024 Property/Casualty (P/C) Opinion instructions would be to modify the requirement for

## Draft Pending Adoption

qualification documentation to be provided by appointed actuaries only upon initial appointment and eliminate the requirement to provide qualification documentation annually thereafter.

Fisk made a motion, seconded by Muldoon, to adopt the report of the Actuarial Opinion (C) Working Group, including its Aug. 2 (Attachment Three); July 12 (Attachment Four); and May 25 (Attachment Five) minutes, which adopted a Financial Analysis (E) Working Group referral on predictive analytics in reserving, discussed actuarial opinion instructions, and exposed the 2023 Regulatory Guidance for a 30-day public comment period ending Sept.

1. The motion passed unanimously.

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

Darby said the Statistical Data (C) Working Group has not met in open session since the Spring National Meeting.

The Working Group approved the adoption of the 2021 *Auto Insurance Database Report* (Auto Report) Average Premium Supplement, which is now at the Task Force for review and adoption. Darby mentioned that the Working Group will conduct an e-vote shortly after the Summer National Meeting to consider adoption of the 2021 *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report). Darby mentioned that data requests for 2022 data for both reports will be sent at the end of August.

Darby said that the full 2020/2021 Auto Report, as well as the *Report on Profitability by Line by State* (Profitability Report) and *Competition Database Report* (Competition Report), will be sent to the Working Group for review, and they are on track to be adopted and released by December.

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

### 4. Considered Comments on the Proposed ERM ASOP

The Actuarial Standards Board (ASB) of the American Academy of Actuaries (Academy) approved an exposure draft of a new Actuarial Standard of Practice (ASOP) on enterprise risk management (ERM) in the spring of 2023. Regulators met informally on June 22 for an optional, regulator-to-regulator call regarding this proposed ASOP, and it determined that it would be reasonable to consider submitting written comments to the ASB. Julie Lederer (MO) drafted comments after the call for submission to the Task Force. The Task Force chair exposed the comments July 3, with feedback due July 21. No feedback was received by the Task Force via written or oral comment.

Chou made a motion, seconded by Botsko, to submit the comments on the proposed ERM ASOP (Attachment \_\_\_\_). The motion passed unanimously.

### 5. Discussed its Work Plan Regarding the D&O and Cyber Supplements

Citarella said there appeared to be consensus in prior Task Force meetings for the transition of the Director and Officer (D&O) supplement from calendar year to accident year reporting, and he asked if anyone is willing to take leadership regarding a formal presentation to the Blanks (E) Working Group. No members came forward to volunteer. Citarella said the item can be revisited in a future meeting.

Citarella mentioned that there is an ad hoc group working with the Working Group on a proposal for changes to the Cyber Liability Supplement. The ad hoc group, led by Sara Robben (NAIC), includes some members of the Task Force, other state insurance regulators, and interested parties. A small group of Task Force members met recently to discuss this proposal. That conversation centered on what types of information state insurance regulators want

## Draft Pending Adoption

and/or need in the supplement. Citarella said these conversations will continue as the Task Force considers the ad hoc group's goal for exposure in October. He reiterated that the individual regulators are not acting on behalf of the Task Force; rather they are interested regulators acting on their states' behalf. He mentioned that members interested in joining these discussions should contact Robben, Michael McKenney (PA), Chou, or himself.

Citarella mentioned that the changes to the Cyber Liability Supplement proposal do not address the issues raised by Irwin Goldfarb (American International Group [AIG]–Retired) during the Task Force's May meeting. During that meeting, Goldfarb suggested that cyber be pulled out of the Other Liability line (and any other lines) in Schedule P of the annual statement. Alternatively, short of inclusion as a separate line in Schedule P, he proposed that the Cyber Supplement be reported on an accident-year basis, similar to his D&O Supplement proposal.

Citarella asked if any Task Force members had thoughts on how to move these proposals forward. No comments were received. Citarella mentioned that this item will be revisited in the future.

### 6. Received a Report on the Capital Adequacy (E) Task Force's Risk Evaluation Ad Hoc Group

Botsko gave an update on the Capital Adequacy (E) Task Force's Risk Evaluation Ad Hoc Group. He mentioned that the Ad Hoc Group is designed to evaluate risk-based capital (RBC), both from a holistic view, as well as considering any other factors that should be added or removed. He mentioned that three subgroups were created: 1) Geographic Concentration, which serves to identify localized companies; 2) Guidelines & Education, which serves to re-educate about the purpose of RBC and identify minimalized capital for companies; and 3) Asset Concentration, which serves to evaluate the need to have asset concentration factors.

Botsko asked if any members were interested in joining. No members came forward to volunteer.

### 7. Heard a Presentation from the Academy on its *Approaches to Identify and/or Mitigate Bias in Property and Casualty Insurance White Paper*

Mike Woods (Academy) gave a presentation titled "Methods to Identify and/or Mitigate Bias." Initially, ASOPs and definitions of unfair discrimination and disproportionate outcomes were discussed (Attachment \_\_\_\_). Woods then outlined principles for approaches to identify and address unfair discrimination, and he discussed data collection, classification, and other considerations. Afterward, he listed and discussed methods for identifying, preventing, and addressing potential bias.

There were several questions posed. Citarella asked Woods to walk through how different methods would adjust rates given the following scenario: The industry has long known that people who drive 4-door cars have fewer and less expensive losses than those who drive 2-door cars. In one company's book of business, only People of Color drive 2-door cars. This would then show that in the end result, People of Color have higher rates than white policyholders for this company, even though industry-wide it has been proven to have nothing to do with race. Which methods would accept that differential as an acceptable rating and which would adjust rates so there is no difference in rates between 4-door and 2-door cars for this one company? Is there a different result if the People of Color group drive the 4-door cars and others drive the 2-door cars in this company?

Woods went through the six methods given for identifying bias and described whether each one would accept the rate differential as follows:

- Disproportionate Impact Analysis: The company would fail (i.e., Method indicates that rates need to be adjusted) since the method does not consider whether the losses are in proportion to the premiums.
- Fairness Metrics: The company would pass (i.e., Method indicates that rates don't need to be adjusted) since predicted losses are equal to actual losses.

## Draft Pending Adoption

- Insurance Data Disclosure: The public will see that protected classes are being charged higher premiums.
- Loss Ratio Test: The company would pass since the method looks at whether premiums are being charged in relation to expected losses.
- Proxy Test: The company would fail because the door variable is a proxy for protected class.
- Rational Explanation: Company would pass because 4-door cars have lower expected losses.

For the second question, Woods mentioned that the results would be similar but whoever is administering the test needs to determine whether it is appropriate for a protected class to receive a lower premium.

He then reiterated the importance of looking at different methods. There was also a discussion regarding the collection of protected class data by insurance companies and the effectiveness of the methods proposed for the purposes of identifying bias. The predictive power of protected characteristics for rating purposes and their potential use was also discussed by multiple parties.

### 8. Heard Reports from Professional Actuarial Organizations

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

### 9. Heard a Report from the SOA on Exam Changes

Stuart Klugman (SOA) gave a presentation titled “The Evolution of the FSA Pathway” (Attachment \_\_\_\_). He mentioned that a current exam pathway challenge is that in-depth U.S. and Canadian regulatory material lacks relevance to global markets. To address this challenge, he mentioned that the SOA proposes to move detailed regulatory material outside of fellowship requirements and offer stand-alone, optional regulatory certificates. He further mentioned that the SOA is in contact with regulatory bodies to ensure that new fellows who complete the necessary certificates are qualified to sign SAOs in the U.S. No time was available for discussion.

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

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