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June 12, 2015

Via email to: eyeung@naic.org

Ron Dahlquist
Chair, Catastrophe Risk Subgroup
National Association of Insurance Commissioners
c/o Eva Yeung, Senior Insurance Reporting Analyst
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: 2015-10CR: Proposed Factors for R6 and R7 on OEP Basis

Dear Mr. Dahlquist:

The American Academy of Actuaries¹ Catastrophe Risk Subcommittee of the P/C Risk-Based Capital (RBC) Committee is pleased to provide these comments to the National Association of Insurance Commissioners' (NAIC) Catastrophe Risk Subgroup on the proposal to revise the calculation of catastrophe risks R6 and R7 for the 2015 reporting year. The proposal would account for companies that calculate catastrophe risk using aggregate exceedance probability as well as those that calculate it using occurrence exceedance probability.

In the proposal, while most of the states that face earthquake risk are explicitly identified, the states that comprise the New Madrid fault line (“any location within the New Madrid Fault Zone”) are not. This affords a certain amount of flexibility but also presents considerable uncertainty. If individual insurance companies are permitted to define their own New Madrid states, regulators may be forced to compare inconsistently-defined “New Madrid” probable maximum loss areas. Therefore, to ensure consistency and avoid potentially troublesome ambiguity, we recommend that the New Madrid states be explicitly identified.

The Subcommittee would also like to offer two additional clarifications. First, the Florida Public Model is referred to as a “hurricane only” model. The Subcommittee suggests adding a clarification that it is a “Florida hurricane only” model. Second, the reference to “approved” models implies that a formal approval process exists. The Subcommittee is unaware of any such process and suggests referring to these models as “accepted” to avoid confusion.

¹ The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

If you have any questions about our comments, please contact Lauren Pachman, the Academy's casualty policy analyst, at pachman@actuary.org or (202) 223-8196.

Sincerely,

Thomas S. McIntyre, MAAA, FCAS, CERA
Chairperson, P/C Risk-Based Capital Committee
American Academy of Actuaries