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AMERICAN ACADEMY *of* ACTUARIES

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February 15, 2018

Richard Piazza, chair  
Casualty Actuarial and Statistical Task Force (CASTF)  
National Association of Insurance Commissioners (NAIC)

Sent via email to Kris DeFrain

Re: Schedule P Foreign Exchange and Intercompany Pools: Results from a Survey of  
Property/Casualty Insurance Companies

Dear Mr. Piazza,

On behalf of the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries,<sup>1</sup> I am pleased to present the results of research performed on how companies treat certain transactions in foreign currencies and intercompany quotashare pools reported on Schedule P of the statutory annual statement. The research examines the treatment of claims denominated in currencies other than USD (FX), and change in pooling due to acquisitions or divestiture.

The impetus behind the research was to ascertain whether there is consistency in the way companies treat these transactions in Schedule P, given the Annual Statement Instructions.

Research was performed in the form of a survey. During the period July 12, 2017, through August 18, 2017, the American Academy of Actuaries surveyed 95 large US property/casualty insurance groups or unaffiliated insurers regarding their practices related to foreign exchange and intercompany quota share pools as it relates to preparing Schedule P in the US statutory annual statement. Completed surveys were received from 28 of the 95 companies (29%). Eighteen questions on these topics were asked, seven on foreign exchange and 11 on intercompany quota share pools to ascertain how these companies are preparing Schedule P.

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<sup>1</sup> The American Academy of Actuaries is a 19,000 member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

We provide this summary of the findings to the CASTF for consideration when approaching updates to Schedule P instructions.

Related to foreign currency, 89 percent reported having no material amounts in Schedule P in non-US currency. For those that responded with regard to amounts in non-US currency, questions were asked on two groupings, Canadian currency and all other currencies. With respect to Canadian currency, 60 percent converted into US dollars prior to preparing Schedule P, thus indicating that Schedule P amounts for those companies is all in US-dollar denominated currency. The remaining 40 percent do not convert the Canadian dollar denominated amounts into US currency for preparing Schedule P. With respect to non-Canadian currencies, 100 percent of the respondents indicated that they converted the foreign currency into US dollars.

For the portion of the survey related to intercompany pools, there were more respondents than for the foreign exchange questions. According to the NAIC Property & Casualty Annual Statement Instructions,

“The pooling percentage is to reflect the company’s participation in the pool as of year-end. When changes to pooling agreements impact prior accident years, historical data values in Schedule P Parts, 1 through 6 should be restated based on the new pooling percentage. This should be done to present meaningful development patterns in Schedule P. When pooling changes only impact future accident years, no restatement of historical values should be made. Any significant changes in the pooling arrangements should be reported in the Schedule P Interrogatories. ...”<sup>2</sup>

Survey respondents participating in intercompany pools noted restating Schedule P history under the following circumstances:

- The merger of a non-pool company into a pool company
- Sale of an entity or business whose reserves were previously in a pool such that the runoff of that entity no longer needed to be pooled
- A change in pooling percentages
- A company ceding 100 percent to the pool that previously did not cede to the pool
- Merger of two pool

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<sup>2</sup> NAIC 2016 Property & Casualty Annual Statement Instructions, page 293.

The following shows what proportion of the pools experienced these situations, and the portion of those that restated as a result:

	<i>% experienced</i>	<i>% restated</i>
<i>Non-pool merged into pool</i>	<i>33%</i>	<i>80%</i>
<i>Sale of previously pooled</i>	<i>27%</i>	<i>50%</i>
<i>Change in pool percentages</i>	<i>47%</i>	<i>100%</i>
<i>New 100% cedant to pool</i>	<i>47%</i>	<i>71%</i>
<i>Merger of two pools</i>	<i>27%</i>	<i>100%</i>

The complete survey results accompany this letter.

Thank you for the opportunity to share this piece of research with the CASTF. If you have any questions or would like to discuss the information in more detail, please contact Marc Rosenberg, the Academy's Senior Casualty Policy Analyst, at [rosenberg@actuary.org](mailto:rosenberg@actuary.org) or +1 202 785-7865.

Sincerely,

Kathleen C. Odomirok, MAAA, FCAS  
Chairperson, COPLFR



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AMERICAN ACADEMY OF ACTUARIES  
SURVEY OF INDUSTRY PRACTICE

Schedule P, Foreign Exchange and Intercompany Quotashare Pools:  
Results from a Survey of Casualty Insurance Companies

January 19, 2018

Report by: Steve Jackson, Assistant Director for Research (Public Policy)  
To: Committee on Property and Liability Financial Reporting, Casualty Practice Council

Relevant Pool of Companies: There were 123 P&C insurance groups with loss reserves greater than \$500 million as of December 31, 2015 according to the SNL database. These companies accounted for 88% of the net premiums written. Relatively large companies were expected to be more likely than smaller ones to report on transactions in foreign currencies, and/or intercompany quotashare pools. The 123 companies are listed in Appendix 1.

Sample: We contacted Academy members at 95 of the 123 companies (77%), requesting their participation in the survey. Those 95 companies accounted for 83% of the market based on net premiums written.

Survey Time Period: 7/12/2017 – 8/18/2017.

Response: We received completed surveys from 28 of the 95 companies (29%). Of those 28, 11 (39%) indicated that they neither reported transactions involving foreign currencies nor reported on intercompany quotashare pools as of December 31, 2016. Of the 17 companies which reported one or both, 5 (18% of all responding) companies reported on transactions involving foreign currencies, and 15 (54% of all responding companies) reported on intercompany quotashare pools.

Our 28 responding companies accounted for 33% of all net premiums for P&C insurance for 2015. These 28 companies represented 40% of all net premiums for P&C insurance of the 95 companies in our sample. The 17 companies which reported on one or both issues covered in the survey accounted for 22% of net premiums, 27% of the net premiums of the 95 companies in our sample.

(Continued)

On the following pages, two tables report the responses to the 18 questions asked about transactions in foreign currencies (7) and intercompany quotashare pools (11). All but two of the questions were Yes/No questions. For those Yes/No questions, the raw number of Yes and No responses are followed by the respective percentages of those answering each question. For the final question in Table 1, two answers appeared in the responses. The raw number of each response is followed by the percentage of those answering the question. For the final question in Table 2, there was only one response.

Table 1: Transactions in Foreign Currencies

	Yes	No
Do they include amounts reported in Canadian dollars?	5 (100%)	0 (0%)
Do you consider such amounts material?	3 (60%)	2 (40%)
Are these Canadian currency transactions converted/translated to US dollars before inclusion in Schedule P?	3 (60%)	2 (40%)
Do your non-US dollar transactions include amounts from currencies other than Canadian dollars?	3 (60%)	2 (40%)
Do you consider such amounts material?	2 (50%)	2 (50%)
Are these non-US, non-Canadian currencies converted/translated to US dollars before inclusion in Schedule P?	3 (100%)	0 (0%)
If amounts are translated, what are the translation rules?		
Payments are translated using FX rate on transaction date (including average transaction date for the period in question)	4 (80%)	
Payments are not translated.	1 (20%)	

(Continued)

Table 2: Intercompany Quotashare Pools

On Intercompany Quotashare Pools

	Yes	No
Have you experienced the merger of a non-pool company into a pool company such that the runoff of the merged company had to be pooled?	5 (36%)	9 (64%)
Was the Schedule P history for any pool members restated as a result?	4 (100%)	0 (0%)
Have you experienced the sale of an entity or business whose reserves were previously in the pool such that the runoff of that entity/business no longer had to be pooled?	4 (31%)	9 (69%)
Was the Schedule P history for any pool members restated as a result?	2 (50%)	2 (50%)
Have you experienced changes in pooling percentages?	7 (54%)	6 (46%)
Was the Schedule P history for any pool members restated as a result?	7 (100%)	0 (0%)
Have you experienced a company ceding 100% into the pool which was not previously ceding anything into the pool?	7 (54%)	6 (46%)
Was the Schedule P history for any pool members restated as a result?	5 (71%)	2 (29%)
Have you experienced the merger of two pools?	4 (31%)	9 (69%)
Was the Schedule P history for any pool members restated as a result?	4 (100%)	0 (0%)
Have you experienced other situations where the pool history was restated or distorted due to a merger/divestiture/acquisition that does not fit into one of the previously described scenarios (i.e., merger of a non-pool company into a pool company, sale of an entity/business previously in the pool, changes in pooling percentages, ceding 100% into the pool after not ceding anything, merger of two pools)? If so, please explain.		

Converting overseas branches into separate subsidiaries, large commutes of reinsurance, aggregate stop-loss reinsurance

## Appendix 1

### Casualty Insurance Companies with Loss Reserves Greater than \$500M, December 31, 2015

ACUITY A Mutual Insurance Co.  
AF Group  
Alleghany Corp.  
Allianz Group  
Allied World Assurance Co.  
Allstate Corp.  
Ambac Financial Group Inc.  
American Family Insurance Grp  
American Financial Group Inc.  
American International Group  
American National Insurance  
Ameriprise Financial Inc.  
AMERISAFE Inc.  
Amerisure Mutual Insurance Co.  
Amica Mutual Insurance Co.  
AmTrust Financial Services  
Arch Capital Group Ltd.  
Argo Group International  
Armour Group Holdings Ltd.  
Arrowpoint Capital Corp.  
Assured Guaranty Ltd.  
Auto Club Exchange Group  
Auto Club Insurance Association  
Auto-Owners Insurance Co.  
AXIS Capital Holdings Ltd.  
Berkshire Hathaway Inc.  
BrickStreet Mutual Ins Co.  
Chubb Ltd.  
Church Mutual Insurance Co.  
Cincinnati Financial Corp.  
CNA Financial Corp.  
CompSource Mutual Ins Co.  
CopperPoint Mutual Ins Co.  
COUNTRY Financial  
Coverys Insurance Group  
CSAA Insurance Exchange  
Doctors Co. An Interinsurance  
Dorinco Reinsurance Co.  
Employers Insurance Group  
Employers Mutual Casualty Co.  
Endurance Specialty Holdings

Enstar Group Ltd.  
Erie Insurance Group  
Everest Re Group Ltd.  
Fairfax Financial Holdings  
Farm Bureau Mutual Holding Co.  
Farmers Insurance Group of Cos  
FCCI Mutual Ins Hldg Co.  
Federated Mutual Group  
Financial Guaranty Ins Co.  
FM Global  
Fosun International Holdings  
General Electric Co.  
Genworth Financial Inc.  
Grange Mutual Casualty Co.  
GuideOne Insurance  
Hanover Insurance Group Inc.  
Hartford Financial Services  
Hospitals Insurance Co.  
ICW Group  
Infinity P&C Corp.  
ISMIE Mutual Insurance Co.  
Kemper Corp.  
Kentucky Employers' Mutual Ins  
Liberty Mutual  
Main Street America Group  
MAPFRE SA  
Markel Corp.  
MCIC VT (A Reciprocal RRG)  
Medical Liability Mutual Ins Co.  
MEMIC Group  
Mercury General Corp.  
MetLife Inc.  
MGIC Investment Corp.  
Motorists Insurance Group  
MS&AD Insurance Grp Hldgs Inc.  
Munich-American Holding Corp.  
National General Holdings Corp  
Nationwide Mutual Group  
Navigators Group Inc.  
NJ Manufacturers Insurance Co.  
NORCAL Mutual Insurance Co.  
Old Repub International Corp.  
PA National Mutual Cas Ins Co.  
PartnerRe Ltd.  
Pinnacol Assurance  
Plymouth Rock of New Jersey

PMI Group Inc.  
PRI Insurance Group  
ProAssurance Corp.  
Progressive Corp.  
ProSight Specialty Ins Grp Inc  
QBE Insurance Group Ltd.  
Radian Group Inc.  
Renaissance Re U.S. Inc.  
RLI Corp.  
SCOR  
Selective Insurance Group Inc.  
Sentry Insurance a Mutual Co.  
Shelter Mutual Insurance Co.  
Sirius International Group Ltd  
Sompo Holdings Inc.  
Southern Farm Bureau Casualty Insurance Group  
Starr International Co.  
State Auto Insurance Companies  
State Farm Mutual Automobile Ins  
State Volunteer Mutual  
State Workers' Insurance Fund  
Swiss Re Ltd  
Texas Mutual Insurance Co.  
Toa Reinsurance Co. of America  
Tokio Marine Group  
Travelers Companies Inc.  
United Fire Group Inc.  
USAA Insurance Group  
Utica National Insurance Group  
W. R. Berkley Corp.  
West Bend Mutual Insurance Co.  
Westfield Group  
White Mountains Insurance  
Workers Compensation Fund  
XL Group Ltd  
Zurich Insurance Group