June 5, 2001

Ms. Anne Kelly
Chief Casualty Actuary
New York State Insurance Department
25 Beaver Street
New York, NY 10004

RE: **NAIC CASUALTY ACTUARIAL TASK FORCE**

PROPOSED CHANGES TO THE ANNUAL STATEMENT BEING CONSIDERED BY THE FINANCIAL REPORTING WORKING GROUP

As you requested, the American Academy of Actuaries[1] Committee on Property and Liability Financial Reporting ("COPLFR") has reviewed the proposed changes to the Annual Statement that are being considered by the NAIC Financial Reporting Working Group and which are scheduled to be discussed at the June 2001 NAIC Meeting. Our comments follow.

Item 1. **Extend the reporting of the two year lines of business to ten years in Schedule P**

This information is already required for Risk Based Capital calculations, so implementation costs should be neglible, if adopted. The accuracy of Schedule P summary loss and loss adjustment information may improve, with a consistent reporting timeframe for all lines of business.

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1 The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

However, as COPLFR has noted in the past, adoption of this change likely will increase the federal income taxes paid by the industry. Based on the extended payment information that would be presented in Schedule P, the IRS formula calculation would increase the discount applied to property reserves. Some of this increase in federal taxes would probably be passed on to the policyholders.

Item 2. Display only net amounts in Schedule P - Part 1

This proposal will:

- eliminate the only source of direct and assumed, and ceded loss and loss expense results in accident year detail, and, as such, will eliminate readily available diagnostic information about a company's reinsurance program
- eliminate the direct tie-in to the direct and assumed loss and loss expense reserve values in the scope section of the Statement of Actuarial Opinion (however, the overall direct and assumed loss and loss expense values can be derived from the net values presented in Schedule P and the ceded values displayed in Schedule F)

COPLFR further notes that when gross and ceded information was first added to Schedule P, it was done at great expense to insurance companies. The cost to companies to continue to provide this information is not substantial.

Item 3. Elimination of claim count information from Schedule P - Part 1

The claim count information currently required in Schedule P is of limited value as the information is often inaccurate, incomplete, or inconsistent. Further, the information is costly for companies to compile. Reasons for the data limitations include:

- There is a lack of claim count information for assumed business.
- Claim count information is typically not audited in a rigorous manner, since it is non-financial in nature.
- For companies that followed different claim counting procedures, claim count information following a merger is distorted.
- Changes in internal claim counting procedures (due to the installation of a new claim system, for instance) can render historical trends meaningless.

Given the data limitations, use of the claim count information currently displayed in Schedule P could lead to inappropriate conclusions.

If needed by the regulator, claim count information can be obtained directly from the company. The Appointed Actuary's Report may also provide claim count information and analysis.

Item 4. Eliminate the distinction between known claims and IBNR claims in Part 3, Loss and Loss Adjustment Expense Reserves Schedule of the quarterly statements

Typically when this information is analyzed, the reported and IBNR amounts are considered on a combined basis.

Item 5. Eliminate Schedule P - Part 5

See Item 3.

Item 6. Revise the wording of Schedule P, Interrogatory 7 to remove the reference to using Schedule P for estimating reserve adequacy

This proposed change is consistent with COPLFR's long-standing position that Schedule P is not an appropriate tool, in itself, for making a determination as to the adequacy of a company's reserves.

We offer no comments on the other changes under consideration.

The American Academy of Actuaries Committee on Property and Liability Financial Reporting appreciates the opportunity to comment on the proposed changes to the Annual Statement being considered by the Financial Reporting Working Group.

Sincerely,

Patricia A. Teufel, FCAS, MAAA
Chairperson