



AMERICAN ACADEMY *of* ACTUARIES

March 10, 2000

Ms. Karen Suter
Acting Commissioner
State of New Jersey
Department of Banking and Insurance
P. O. Box 325
Trenton, NJ 08625-0325

Dear Commissioner:

This letter is written on behalf of the American Academy of Actuaries¹, in response to Commissioner LaVecchia's December 1, 1999 letter ("Letter") to domestic fire and casualty insurers concerning actuarial reports.

That Letter states that, pursuant to N.J.S.A. 17:23 et seq., each domestic fire and casualty insurer is to file a copy of the actuarial report with the Department of Banking and Insurance ("the Department") no later than May 1 each year. Further, it notes that, pursuant to N.J.S.A. 17:23-24 (f), copies of the reports filed with the Department shall be kept confidential and shall not be subject to public inspection or copying pursuant to the "Right-to-Know" law, N.J.S.A. 47:1A et seq.

The purpose of this letter is two-fold. First, the American Academy of Actuaries wishes to applaud the Department in its recognition of the value of actuarial workproducts for the regulation of fire and casualty insurance companies. Second, we would like to highlight certain issues regarding the confidentiality of the actuarial report for your consideration.

Currently, a statement of actuarial opinion on loss and loss adjustment expense reserves prepared by a qualified actuary is required to be filed annually with the insurer's Annual Statement. In accordance with NAIC Annual Statement Instructions, the actuary's opinion on loss and loss adjustment expense reserves must be supported by an actuarial report.

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.

The preparation and content of the actuarial report is governed by an Actuarial Standard of Practice promulgated by the Actuarial Standards Board entitled *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations*. That standard requires that "Documentation should be sufficient for another actuary practicing in the same field to evaluate the work." The actuarial report documents the methodology and assumptions used by the actuary in reaching his or her conclusion on loss and loss adjustment expense reserves. As such, the report may contain detailed historical and/or prospective information on the Company's operations.

In many circumstances, the actuary's evaluation of loss and loss adjustment expense reserves will involve evaluating segmentations finer than the line of business detail shown in the NAIC Annual Statement. When that occurs, the actuarial report likely would contain proprietary information of the company that is not otherwise available to the public.

In other circumstances, the actuary might decide to review experience for certain specialty programs or classes of business separately rather than aggregate the data by Annual Statement line of business, particularly if the programs had distinct loss reporting or payment characteristics. In those cases, the actuarial report likely would display data and information separately by program. If this program information were available to competitors, they could then use it to evaluate and develop rates for a competing product.

The confidentiality of the actuarial report is therefore a matter of great concern. As noted in the NAIC Annual Statement Instructions, the actuarial report is to be made available to regulators as part of the financial examination process, and its confidentiality in this context is well established. We are gratified to note that review of the actuarial report by Insurance Department examination staff has become an integral component of the statutory examination process for fire and casualty companies in many states. Because of the issues noted above, comparable protection is needed when the report is provided outside of the examination process.

We will leave to other professionals the evaluation of whether such protection would be provided under the circumstances imposed by your Letter. However, we caution the Department that confidentiality concerns on the part of company management could have a chilling effect on the information provided to the actuary for review.

The American Academy of Actuaries wishes to thank you for your consideration. If we can be of further assistance to you on this or any other matter affecting actuaries, please do not hesitate to contact us.

Sincerely,

Patricia A. Teufel, FCAS, MAAA
Chairperson, Committee on Property and Liability Financial Reporting