

June 15, 1998

Mr. Richard J. Roth, Jr.
State of California
Department of Insurance
300 South Spring Street
Los Angeles, CA 90013

Re: Schedule P - Proposed Revisions to Schedule P

Dear Dick:

Thank you once again for the opportunity to comment on the above-captioned proposal. The American Academy of Actuaries Committee on Property and Liability Financial Reporting has reviewed the proposed revisions to Schedule P contained in DRAFT 2.0 and provides the following comments for your consideration.

Conceptually, we are of the opinion that several of the proposed changes to Schedule P provide more or better matched information. However, we believe the proposed changes will generate significant tax and implementation costs that are not commensurate with the benefits of the additional information.

The following are more specific comments about the proposal:

◦ We support the proposed changes to the columns labeled "allocated" and "unallocated".

We support the elimination of the Schedule P penalty.

◦ From a practical point of view, this is not the time for a significant revision. Many companies have extensive work to do in order to implement statutory codification changes and to resolve year 2000 issues. Major changes to Schedule P should be deferred until after the year 2000.

◦ It is our opinion that expansion of the property lines from 2 years to 10 years will lead to increased federal income taxes by the industry. Having the payment information presented by line in Schedule P will cause the IRA formula calculation to increase the discount applied to property reserves. Some of this increase would probably be passed on to the policyholders.

-- While matching direct claim counts with direct loss dollars may be conceptually appealing, the value-added from the ability to perform an analysis on a direct basis in light of the recurring cost associated with adding 6 sections for 12 lines of business is questionable.

- The financial condition of the company does not depend solely on its direct liabilities, but also on its assumed liabilities and its ceded recoverables.
- Direct data including average claim severities can be easily distorted by the large losses.
- We believe that many companies would not have 10 years of historical, direct, accident year information readily available to recreate past triangles.
- The Statement of Actuarial Opinion and the supporting actuarial report are the most appropriate vehicles for providing regulators information supporting the reasonableness of a company's reserve levels. The determination as to whether to it is more appropriate to perform a direct analysis or a gross analysis is based on the type of the business written and the loss development characteristics of that business. The most appropriate basis is reflected in the analysis contained in the actuarial report.

-- In the proposed instructions for the new Part 8, in the next to last paragraph, there is the statement that "if there is any discounting, the development in Schedule P, Part 2 will be adversely affected". Part 2 is gross of discounting, therefore discounting has no impact on Part 2.

- We recommend that the CATF consider the foreign currency information requirements for Schedule Pin conjunction with its consideration of codification SSAP #81. Therefore, including a provision for the reporting of Foreign Exchange Adjustment should be deferred.

Thank you again for the opportunity to comment. If you have any questions or comments, please give me a call.

Sincerely,

J A. Lommele, FCAS, MAAA, FCA
Chair Committee on Property and Liability Financial Reporting

cc: Michael L. Toothman
Greg Vass
COPLFR Members