March 5, 1998

Mr. Richard J. Roth, Jr.
Chief Property/Casualty Actuary
California Department of Insurance
300 South Spring St.
Los Angeles, CA 90013

RE: Schedule P - Proposed Revisions to Schedule P

Dear Dick:

Thank you 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 and provides the following comments for your consideration.

In general, we are of the opinion that the proposed changes will not significantly enhance the ability of users of Schedule P to perform better analysis of reserves. The proposed changes will generate significant tax and implementation costs without commensurate benefits.

Schedule P and the Statutory Annual Statement require standardized definitions that will not provide the needed flexibility to properly evaluate the reasonableness of a company's reserve levels. Continued increasing of the amount and level of data required for reporting in Schedule P does not improve the data to the point where Schedule P data can be used for a stand alone detailed analysis. The Statement of Actuarial Opinion and the supporting actuarial report are intended to meet this objective. Reserve reviews are generally conducted based on the types of business written in the company and the loss development characteristics of that business. This often does not correspond to either the existing or proposed Schedule P lines but rather involves data segmented on the basis of homogeneous, proprietary, competitive information. The actuarial report contains the analysis based on this more appropriate segmentation of information. In addition, the triennial state insurance department examinations include an analysis of the reasonableness of the carried reserves based on data segmented appropriately as provided by the company.

The proposed changes to Schedule P will lead to increased federal income taxes for the industry. This will have an adverse impact on surplus, weaken solvency, and potentially lead to higher insurance rates. The economic impact of a tax increase associated with the proposed changes to Schedule P, for workers' compensation only, has been estimated by a COPLFR member to be in

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excess of $450 million. As other lines are affected, the cost will be higher. COPLFR would be happy to meet with you to discuss the details of this analysis.

The following are more specific comments about the proposal:

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.

Elimination of the existing Part 7 (Loss Sensitive Contracts) could have a negative impact on the RBC for companies that write a significant amount of loss sensitive business since the RBC committee has been hesitant to use information that is not in the Annual Statement.

While the primary focus of the proposed Schedule P format appears to be on direct business, we believe that net rather than direct reserves are generally the focus of insurance exams and actuarial analysis. Sound reinsurance programs protect a company's solvency and provide stability in analyzing results. The determination as to whether it is more appropriate to perform a direct analysis or a gross analysis is based on the type of business written and the loss development characteristics of that business. For example, for many assumed pro-rata treaties, it may be more appropriate to analyze direct and assumed combined. The most appropriate basis is reflected in the analysis contained in the actuarial report.

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

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Committee on Property and Liability Financial Reporting

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c: COPLFR Members
David Rivera
Michael L. Toothman