



AMERICAN ACADEMY *of* ACTUARIES

Casualty Practice Council Cycle Report

Vice President: Bob Miccolis

Staff Liaison: Lauren G. Pachman

April 2008

EXECUTIVE SUMMARY

- In November, Shawna Ackerman, the co-chair of the Extreme Events Committee, and Sara Frankowiak, the vice-chair of the Flood Insurance Subcommittee, discussed with representatives of the Government Accountability Office (GAO) the actuarial implications of adding wind insurance coverage to the National Flood Insurance Program (NFIP).
- In September, the Extreme Events Committee's Flood Insurance Subcommittee submitted comments to the House of Representatives regarding H.R. 3121, a bill to modify the NFIP.
- In September, the Extreme Events Committee's Terrorism Risk Insurance Subcommittee submitted comments to the House of Representatives regarding H.R. 2761, the Terrorism Risk Insurance Revision and Extension Act of 2007.
- In early December, Marty Simons, the co-chair of the Natural Catastrophe Subcommittee of the Extreme Events Committee, spoke at a public hearing held by the Property & Casualty Insurance (C) Committee of the National Association of Insurance Commissioners (NAIC) on the use of catastrophe modeling by rating agencies.
- In October, the CPC's Committee on Property & Liability Financial Reporting (COPLFR) held its third annual Effective Loss Reserve Opinion Seminar in Chicago. Additionally, two of the sessions were recently presented by Chap Cook, Nicole Elliott, and Tom Ghezzi in a webinar format as part of a program jointly sponsored by the Academy and the Casualty Actuarial Society (CAS).
- At the end of September, COPLFR published its highly-anticipated overview on the importance of the relationship between actuaries, boards of directors, and audit committees. *An Overview for Audit Committee Members of P/C Insurers: Effective Use of Actuarial Expertise* is currently available on the Academy website.
- Under the auspices of COPLFR's Risk Transfer Work Group (RTWG), COPLFR chair Marc Oberholtzer presented a well-received session on risk transfer practices for regulators at the NAIC's Financial Summit in Atlanta in November.

- The RTWG is continuing to assist the P&C Reinsurance Study Group and the Casualty Actuarial and Statistical Task Force (CASTF) of the NAIC in addressing issues raised by regulators on risk transfer in finite risk reinsurance transactions. The RTWG, working with CASTF, in February reissued the industry survey completed in 2005 on finite risk reinsurance. COPLFR chair Marc Oberholtzer is expected to present the results of the updated survey to CASTF in June at the NAIC's Summer Meeting in San Francisco.
- In November, the P/C Risk-Based Capital (RBC) Committee provided the NAIC with an updated report on underwriting risk factors and a PowerPoint presentation to accompany the introduction of the report via conference call. The report was exposed for approximately a 30-day period. The Reinsurance Association of America submitted the only set of comments received during the exposure period.
- In March, at the request of the NAIC's P/C Risk-Based Capital Working Group, the RBC Committee issued a revision to its underwriting factors using a cap of 15% rather than 35%.
- In conjunction with chair Tim Wisecarver's appearance at July's National Conference of Insurance Legislators (NCOIL) meeting, the Workers' Compensation Subcommittee participated in NCOIL's Workers' Compensation Insurance Committee's interim meeting in Arlington, VA in October on its proposed model law governing the relationship between workers' compensation bureaus and Professional Employer Organizations (PEOs).
- Last month, the Terrorism Risk Insurance Subcommittee held meetings with both the GAO and the Congressional Budget Office to discuss the actuarial implications of financing insurance for terrorism and other extreme events.

In addition to the items set forth above, the CPC is actively pursuing the integration of the public policy initiatives outlined in the Academy's strategic plan.

* For more on CPC activities please refer to the full cycle report in the Appendix.



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CASUALTY PRACTICE COUNCIL HIGHLIGHTS

- In November, Shawna Ackerman, the co-chair of the Extreme Events Committee, and Sara Frankowiak, the vice-chair of the Flood Insurance Subcommittee, discussed with representatives of the GAO the actuarial implications of adding wind insurance coverage to the NFIP.
- In September, the Extreme Events Committee's Flood Insurance Subcommittee submitted comments to the House of Representatives regarding H.R. 3121, a bill to modify the NFIP.
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- In early December, Marty Simons, the co-chair of the Natural Catastrophe Subcommittee of the Extreme Events Committee, spoke at a public hearing held by the Property & Casualty Insurance (C) Committee of the NAIC on the use of catastrophe modeling by rating agencies.
- In October, the CPC's COPLFR held its third annual Effective Loss Reserve Opinion Seminar in Chicago. Additionally, two of the sessions were recently presented by Chap Cook, Nicole Elliott, and Tom Ghezzi in a webinar format as part of a program jointly sponsored by the Academy and the CAS.
- At the end of September, COPLFR published its highly-anticipated overview on the importance of the relationship between actuaries, boards of directors, and audit committees. *An Overview for Audit Committee Members of P/C Insurers: Effective Use of Actuarial Expertise* is currently available on the Academy website.
- Under the auspices of COPLFR's RTWG, COPLFR chair Marc Oberholtzer presented a well-received session on risk transfer practices for regulators at the NAIC's Financial Summit in Atlanta in November.
- The RTWG is continuing to assist the P&C Reinsurance Study Group and the CASTF of the NAIC in addressing issues raised by regulators on risk transfer in finite risk

reinsurance transactions. The RTWG, working with CASTF, in February reissued the industry survey completed in 2005 on finite risk reinsurance. COPLFR chair Marc Oberholtzer is expected to present the evaluated results of the updated survey to CASTF in June at the NAIC's Summer Meeting in San Francisco.

- In November, the P/C RBC Committee provided the NAIC with an updated report on underwriting risk factors and a PowerPoint presentation to accompany the introduction of the report via conference call. The report was exposed for approximately a 30-day period. The Reinsurance Association of America submitted the only set of comments received during the exposure period.
- In March, at the request of the NAIC's P/C Risk-Based Capital Working Group, the RBC Committee recently issued a revision to its underwriting factors using a cap of 15% rather than 35%.
- In conjunction with chair Tim Wisecarver's appearance at July's NCOIL meeting, the Workers' Compensation Subcommittee participated in NCOIL's Workers' Compensation Insurance Committee's interim meeting in Arlington, VA in October on its proposed model law governing the relationship between workers' compensation bureaus and PEOs.
- Last month, the Terrorism Risk Insurance Subcommittee held meetings with both the GAO and the Congressional Budget Office to discuss the actuarial implications of financing insurance for terrorism and other extreme events.

In addition to the items set forth in this report, the CPC is actively pursuing the integration of the public policy initiatives outlined in the Academy's strategic plan.

STRATEGIC DIRECTIONS

2.1. Strengthen our reputation as the major source of unbiased technical advice to Congress and the executive branch, on matters within our expertise.

A COPLFR subgroup, under the leadership of Kristi Carpine-Taber, is continuing its work on a white paper addressing the interpretation of reserve ranges.

The Flood Insurance Subcommittee is continuing its work on a white paper that will discuss the origins, structure, and purpose of the NFIP. It will also address the ongoing viability of the NFIP and provide recommendations for its continued efficacy.

Under the leadership of chair Dale Ogden, a subgroup within COPLFR hosted a stand-alone seminar at the Hilton Chicago O'Hare Airport on October 17 and 18 for P/C actuaries currently writing statements of actuarial opinion on reserves. The P/C Effective Loss Reserve Opinion Seminar, a repeat of a highly successful event for the Academy in 2005 and 2006, discussed all of the standards and regulations applicable to these opinions and addressed some of the evolving regulatory issues regarding what constitutes good practice and compliance. The Effective Loss Reserve Opinion Seminar subgroup is currently in the early stages of planning the 2008 seminar.

Additionally, two of the Effective Loss Reserve Opinion Seminar sessions were presented by Chap Cook, Nicole Elliott, and Tom Ghezzi in a webinar format as part of a program jointly sponsored by the Academy and the CAS. Tom Ghezzi's webinar was held at the end of November; the Cook/Elliott webinar was held at the beginning of December.

Finally, the Mass Torts Subcommittee published its monograph on asbestos litigation last summer.

Outlook: The CPC has made substantial efforts in seizing and developing opportunities to educate public policymakers and the public and expects to make further progress this year.

The NAIC has asked the P/C RBC Committee to revisit its comments on a possible trend test for property/casualty risk-based capital. That project is currently underway. The RBC Committee also provided the NAIC with an updated report on underwriting risk factors and a corresponding presentation to the NAIC's Property Risk-Based Capital Working Group in November. At the request of the NAIC's P/C Risk-Based Capital Working Group, the RBC Committee recently issued a revision to its underwriting factors using a cap of 15% rather than 35%.

Under the leadership of its chair, Tim Wisecarver, and with substantial help from the rest of the group, the Workers' Compensation Subcommittee of the Products, Pricing and Market Committee submitted a comment letter to the Self Insurance Committee of the

IAIABC over the summer regarding a draft set of loss reporting forms intended for use by self-insured entities.

Wisecarver also traveled to Seattle in July to participate in NCOIL's Summer Meeting. Wisecarver discussed the contents of a recent comment letter submitted to NCOIL by the Subcommittee on NCOIL's proposed model law governing the relationship between workers' compensation bureaus and PEOs.

The NAIC's CASTF asked the Workers' Compensation Subcommittee to propose a data reporting construct that could be used on an elective basis in states that want to understand the effects of large deductible policies on premiums for purposes of certain premium-based assessments (specifically excluding premium taxes) and/or want to acquire additional information about the extent of large deductible business and its effect on the workers' compensation marketplace. The Subcommittee's work on this project is ongoing, and the Subcommittee hopes to present its results by or before the Summer NAIC meeting in June.

The RTWG, under COPLFR, is continuing to assist the P&C Reinsurance Study Group and the CATF of the NAIC in addressing issues raised by regulators on risk transfer in finite risk reinsurance transactions. Marc Oberholtzer of the RTWG presented a newly developed course for regulators and financial examiners on risk transfer testing at the NAIC's Financial Summit in Atlanta in November. Additionally, the CATF and P&C Reinsurance Study Group recently reissued its risk transfer survey to property/casualty insurance companies. Once the NAIC has removed all confidential information from the data, the RTWG will provide data analysis to the NAIC.

In May, Academy member Kevin Thompson, Policy Analyst Lauren Pachman, and terrorism risk modeler Jack Seaquist met with a Senate Banking Committee staffer to discuss the value and limitations of risk modeling for terrorist attacks.

In September, the Terrorism Risk Insurance and Flood Insurance Subcommittees of the Extreme Events Committee sent comment letters to the House of Representatives regarding H.R. 2761 and H.R. 3121, respectively.

In October, the Terrorism Risk Insurance Subcommittee sent a comment letter to the Senate regarding its version of the bill to extend the Terrorism Risk Insurance Extension Act. In early November, the Subcommittee responded to a specific request from a staff member of Sen. Nelson regarding the effect of terrorism risk on insurance coverage for stadiums.

In August, the Workers' Compensation Subcommittee submitted a comment letter to Superintendent Eric Dinallo of the New York State Insurance Department addressing the specific portion of a recently-passed New York law intended to prohibit data sharing of statistical information for workers' compensation insurance by rating organizations.

On November 7, Extreme Events Committee co-chair Shawna Ackerman and Flood Insurance Subcommittee vice-chair Sara Frankowiak discussed with representatives of the GAO the actuarial implications of adding wind insurance coverage to the NFIP.

Outlook: HR 2761, which extends the Terrorism Risk Insurance Program for seven years, was signed by the president on December 26, 2007. Congress had passed a TRIA replacement/renewal law at the end of 2005; that two-year extension was a stopgap measure intended partly to give Congress more time to consider a permanent solution. In 2006, the President's Working Group on Financial Markets issued a report that included considerable citation of Academy analysis, following its study of the considerations relating to long-term solutions to capacity issues in terrorism insurance.

2.3. Promote awareness of and participation in public policy issues by our members.

In September, COPLFR issued *An Overview for Audit Committee Members of P/C Insurers: Effective Use of Actuarial Expertise* for the purpose of educating audit committees and corporate boards of directors on the role of the appointed actuary. The work product is designed to provide insight to boards and audit committees as to what they can and should expect from their actuaries.

In January, A.M. Best published an article by COPLFR Chair Marc Oberholtzer outlining the main points of the *Overview*.

Last month, the Medical Malpractice Insurance Subcommittee produced the first in a series of one-page informational fact sheets on a variety of topics relating to medical malpractice insurance. The first fact sheet addressed policy types.

PEOPLE ISSUES:

- Claire Mickelson has joined the Academy as a Senior Policy Analyst.
- Nicole Elliott has joined COPLFR.
- Lauren Cavanaugh has joined the Mass Torts Subcommittee.
- Robert Aldoriso has joined the Financial Soundness/Risk Management Committee.
- Terri Dalenta has joined the Casualty Practice Council.
- Roberta J. Garland, Kimberley A. Ward, and Victoria A. Gomez have joined the Terrorism Risk Insurance Subcommittee.

External Contacts:

- NAIC
- NCOIL
- GAO
- CBO

PUBLICATIONS:

The following Casualty Practice Council public statements have been issued in the past year:

<u>Publication</u>	<u>Audience</u>	<u>Publication Date</u>
<ul style="list-style-type: none"> • Comment letter submitted to NCOIL on proposed Model Act regarding the application of workers' compensation regulations to PEOs. 	State Sen. Carroll Leavell (R-NM), chair of PEO Working Group, NCOIL	April 2, 2007
<ul style="list-style-type: none"> • COPLFR, comment letter: proposed ASOP, <i>Property/Casualty Unpaid Claim Estimates</i> (second exposure) 	Actuarial Standards Board	May 1, 2007
<ul style="list-style-type: none"> • Monograph on asbestos litigation by the Mass Torts Subcommittee of the Extreme Events Committee 	Casualty actuaries, policymakers, the public	August 3, 2007
<ul style="list-style-type: none"> • Comment letter by the Workers' Compensation Subcommittee on a draft set of loss reporting forms intended for use by self-insured entities 	IAIABC	August 6, 2007
<ul style="list-style-type: none"> • Comment letter by the Casualty Practice Council regarding development of statements reflecting its position on principles-based reserving 	Consistency Work Group of Life Practice Council	August 15, 2007
<ul style="list-style-type: none"> • Comment letter by the Workers' Compensation Subcommittee on revisions to NCOIL's proposed Model Act regarding the application of workers' compensation regulations to PEOs 	State Sen. Carroll Leavell (R-NM), chair of PEO Working Group, NCOIL	August 17, 2007
<ul style="list-style-type: none"> • Comment letter by the Workers' Compensation Subcommittee to Superintendent Eric Dinallo of the New York State Insurance Department addressing a recently-passed New York law intended to prohibit data sharing of statistical information for workers' compensation insurance by rating organizations 	Superintendent Eric Dinallo and the New York State Insurance Department	August 22, 2007
<ul style="list-style-type: none"> • Comment letter by the Terrorism Risk Insurance Subcommittee to the House of Representatives regarding H.R. 2761, the Terrorism Risk Insurance Revision and Extension Act of 2007 	House of Representatives	September 19, 2007
<ul style="list-style-type: none"> • Update of risk-based capital underwriting factors submitted to Anne Kelly, the chair of the P/C RBC Working Group 	NAIC (Property Risk-Based Capital Working Group of Capital Adequacy Task Force)	September 25, 2007
<ul style="list-style-type: none"> • Comment letter by the Flood Insurance Subcommittee to the House of Representatives regarding H.R. 3121, a bill to modify the National Flood Insurance Program 	House of Representatives	September 26, 2007
<ul style="list-style-type: none"> • Overview for Audit Committee Members of P/C 	Audit Committees and Boards of	September 29, 2007

Insurers: Effective Use of Actuarial Expertise	Directors of insurance companies	
<ul style="list-style-type: none"> • PowerPoint presentation to NAIC's P/C RBC Working Group on the Academy's P/C RBC Committee's update to the risk-based capital underwriting factors 	NAIC (Property Risk-Based Capital Working Group of Capital Adequacy Task Force)	October 9, 2007
<ul style="list-style-type: none"> • Comment letter by the Terrorism Risk Insurance Subcommittee to the Senate regarding its draft extension of the Terrorism Risk Insurance Extension Act 	Senate	October 15, 2007
<ul style="list-style-type: none"> • Response letter to staffer of Senator Nelson (D-NE) regarding the effect of terrorism risk on insurance coverage for athletic stadiums 	Senator Nelson and staff	November 2, 2007
<ul style="list-style-type: none"> • Presentation on risk transfer practices for regulators 	Attendees of NAIC's Financial Summit	November 5, 2007
<ul style="list-style-type: none"> • Presentation on use of catastrophe modeling by rating agencies 	Attendees of public hearing hosted by NAIC's Property & Casualty Insurance (C) Committee	December 1, 2007
<ul style="list-style-type: none"> • Presentation of draft updated finite risk reinsurance survey 	CATF	December 4, 2007
<ul style="list-style-type: none"> • 2007 Property and Casualty Practice Note for Statements of Actuarial Opinion on P&C Loss Reserves 	Casualty actuaries writing SAOs	January 16, 2008
<ul style="list-style-type: none"> • 2007 Property & Casualty Loss Reserve Law Manual 		January 17, 2008
<ul style="list-style-type: none"> • Fact Sheet on Medical Malpractice Policy Types 	Actuaries and the public	March 11, 2008