



AMERICAN ACADEMY *of* ACTUARIES

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Via email to: mcaswell@naic.org

Jacob Garn
Chair, Blanks (E) Working Group
National Association of Insurance Commissioners

Kim Hudson
Vice Chair, Blanks (E) Working Group
National Association of Insurance Commissioners

c/o Mary Caswell, Data Quality Audit Manager
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Agenda Item #2012-33BWG
Proposed Changes to the 2012 Annual Statement Instructions for P&C Actuarial Opinion

Dear Mr. Garn and Ms. Hudson:

Based on a review of the proposed changes to the Annual Statement Instructions in Agenda Item #2012-33BWG, dated Sept. 19, 2012, the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries¹ respectfully submits the following comments for your consideration.

Blanks proposal #2012-33BWG would move all force-placed or lender-placed business from the current line (e.g., Fire, Homeowners, Auto Physical Damage) to the write-in line. We recommend that an alternative approach be used to track this business. Alternatives include adding a new item in the Notes to Financial Statements or a new Supplemental Exhibit similar to those existing for Medical Professional Liability or Financial Guaranty. Our rationale for this recommendation follows.

A presentation² by the Center for Economic Justice at an August 9, 2012 NAIC hearing on this topic attributed over 99.5 percent of “lender-based insurance” to just two insurers. Changes to the line-of-business structure in the Annual Statement Blanks should be based on industry-wide concerns and issues that are more widespread than those dominated by just two insurer groups.

¹ The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

²http://www.naic.org/documents/committees_c_120809_public_hearing_lender_placed_insurance_presentation_birnbaum.pdf.

Page 206 of the current NAIC Annual Statement Instructions states, “When preparing Schedule P, this business [i.e., Aggregate Write-ins for Other Lines of Business] should be included in the Other Liability sections.” This proposal would move all force-placed business from its current Schedule P line to the Other Liability Schedule P line. Schedule P is currently used for preliminary loss reserve and profitability/solvency analysis by many regulators. It is also used for the determination of federal income taxes. As such, the solvency analysis and income tax calculations will be impacted to some extent for affected insurers if this proposal is adopted as stated.

Force-placed business likely has more in common with the business with which it is currently grouped (for reserve, solvency, and runoff valuation purposes) than with items included in the Other Liability business line, as proposed. (Transition issues, like the treatment of force-placed business from prior periods in the historical Schedule P presentation, are also not addressed in the proposal.)

As an aside, we recommend that the guidance for the Schedule P placement of write-in lines be inserted into the Schedule P section of the Annual Statement Instructions. It currently exists only in the State Page section of the instructions.

The proposed changes may also have unintended consequences for the State Page presentation. (For example, some line-specific taxes, such as fire taxes, levied by certain states may be affected by this change. The State Page is also used in the allocation of certain state residual market plans, such as Fair Plans; those may be affected as well.) These consequences may only require changes to the process required to determine the relevant tax or assessment and not the tax or assessment itself. In any event, if this proposal is adopted, those involved in certain state-specific tax or residual market assessments (e.g., state taxing authorities, residual market agencies, individual insurers, etc.) should be notified so that they can make appropriate adjustments to procedures.

In conclusion, we recommend that the existing Blanks proposal #2012-33BWG be modified so that the only change proposed would be either the addition of a new Supplemental Exhibit or a new Note to Financial Statements. The latter is the approach originally used for warranty business, allowing for sufficient data and investigation before taking the more involved step of adding a new line of business and affecting Schedule P.

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We appreciate the opportunity to comment on the proposed changes to the Annual Statement Instructions in Agenda Item #2012-33BWG, and we hope you find these comments helpful. If you have any questions about our comments, please contact Lauren Pachman, the Academy’s casualty policy analyst, at pachman@actuary.org or (202) 223-8196.

Sincerely,

Dale F. Ogden, ACAS, MAAA
Chairperson, Committee on Property and Liability Financial Reporting
American Academy of Actuaries