~~Draft: 9/29/07~~

~~The NAIC solicits comments on this draft. Comments should be sent to Randall Stevenson, NAIC, at rstevens@naic.org.~~

VM-50 Experience Reporting Requirements

Drafting Note:
This Valuation Manual Statement contains ~~edits~~revisions to the September~~June~~ 2007 LHATF exposure of the experience reporting requirements~~. Edits~~Revisions ~~shown provide that these requirements are captured in a Valuation Manual statement~~ referred to as "VM-50 Experience Reporting Requirements~~."~~." ~~These revisions are~~ is edit was made to provide additional organization to the various Valuation Manual requirements. The former "Appendix B – Experience Reporting Formats" is now found in "VM-51 Experience Reporting Formats."

Additionally, ~~edit~~revisions~~s~~ based on a Subgroup 3 survey have not been made relative to the experience reporting requirements contained herein. A summary of the Subgroup 3 survey results ~~will be~~ were ~~provided for the~~presented at the September 2007 LHATF meeting.

Experience Reporting Requirements

I. Overview

a. Purpose of the Experience Reporting Requirements

The Experience Reporting Requirements address the collection, compilation and reporting of insurance experience information as prescribed by statute and regulation, They include consideration of the experience reporting process, the roles of the relevant parties, the intended use of and access to the data, the cost of compliance and who bears responsibility for such costs, as well as confidentiality and privacy considerations.

b. Value of Experience Data Collection

(i) Regulator Value Includes:

(1) Monitor companies' experience to assure that they will continue to meet statutory requirements for solvency;

(2) Perform a "reasonableness check" on the appropriateness of principles-based assumptions documented in the Actuarial Report on Principles-based reserves methods and assumptions;

(3) Perform a "reasonableness check" on documentation supporting premium rates for certain products (such as long term care); and

(4) Establish an independent threshold by which the quality of a company's experience data may be evaluated.

Life and health insurers are required by law and regulation to comply with regulatory responsibilities and prepare statistical and financial reports for state insurance departments.

(ii) External Stakeholder Value - Principles-Based reserving will require development of assumptions based on company experience, industry experience, or a credibility adjusted blend of the two. The experience reporting requirements will facilitate development of such assumptions and serve the following purposes:

(1) Provide a rich database for inter-company studies of experience in mortality, policyholder behavior, expense, and other relevant experience;

(2) Allow PBA reviewing actuaries and other interested parties to perform a "reasonableness check" on the appropriateness of principles-based assumptions disclosed by domiciled companies in the Actuarial Report documenting principles-based reserves, methods and assumptions;

(3) Provide companies with industry average data to blend with company data for credibility-adjusted principles-based assumptions. Such industry data will also be utilized by companies in situations where little or no company experience data exists; and

(4) Allow professional actuarial organizations to develop or update standard valuation tables (as needed) which can be utilized for statutory reserve purposes.

c. Financial Versus Experience Data

The requirements outlined in this Experience Reporting Section of the Valuation Handbook pertain to the collection of experience data. Requirements for the reporting of the financial data to be entered into the company's statutory statement are defined elsewhere.

d. Principles-Based Reserving and the Need for Aggregate Data

~~Principles-based reserving requires reliable data to use policy experience based assumptions and benefits for comparable policies~~The reliability of assumptions based on policy experience for principles-based reserving is founded on reliable historical data from comparable policies.~~.~~ As with all forms of experience data analysis, larger and more consistent statistical samples have a greater probability of producing accurate predictions than smaller

ones. To improve statistical credibility, it is necessary that insurers' experience data be combined into aggregate databases. To produce more reliable analyses of historic experience and predictions of future costs, both insurers and regulators must commonly look to pooled data.

To carry out this collection and pooling, insurers and regulators can rely on statistical agents. Statistical agents can be examined by state regulators. Pursuant to state requirements insurers shall provide, if required, their policy experience elements and insurance payout experience to the statistical agent. These statistical organizations then combine similar information from many reporting companies and give the aggregate information to the states.

Section 11(I) of the Standard Valuation Law (SVL) states the following:

A company shall file experience as prescribed in the valuation manual in the form of statistical reports showing mortality, morbidity, policyholder behavior, expense experience, and other data for purposes of determining industry experience and trends, subject to the following:

(1) A company's statistical report is confidential by law and privileged, shall not be subject to [insert open records, freedom of information, sunshine or other appropriate phrase], shall not be subject to subpoena, and shall not be subject to discovery or admissible in evidence in any private civil action. However, the commissioner is authorized to use the documents, materials or other information in the furtherance of any regulatory or legal action brought as a part of the commissioner's official duties.

(2) Neither the commissioner nor any person who received documents, materials or other information while acting under the authority of the commissioner shall be permitted or required to testify in any private civil action concerning any confidential documents, materials or information filed under this section.

To assist relevant parties with these experience reporting requirements, the following guidance is provided with respect to the experience reporting process, roles of the relevant parties, intended use of and access to the data, cost of compliance and responsibilities for such costs, and confidentiality and privacy considerations.

The statutes and regulations requiring data reporting generally apply to all licensed life and health companies. These companies must file statistics with state insurance departments, either through a statistical agent, the NAIC, or directly to the department.

The Experience Reporting Requirements are intended to assist state regulators with the implementation of principles-based reserving under the revised Standard Valuation Law. This initial version will contain sections that will not be initially operational, such as the section of Appendix B dealing with health insurance. Furthermore, revisions to the Experience Reporting Requirements will occur to reflect knowledge acquired from its initial implementation.

II. Company Experience Reporting Requirements

a. Scope

The Standard Valuation Law provides authority for this Valuation Manual to set experience reporting requirements with respect to business and companies within the scope of the Standard Valuation Law. These requirements will specify the business and the companies for which experience is to be reported for a calendar year.

Drafting Note: Subgroup 3 seeks input from LHATF regarding the type of business and companies for which experience is to be reported for the calendar year after the operative date of the Valuation Manual. This input will play a key role in the development of the experience reporting requirements.

b. Calendar Year 20XX Experience To Be Reported

1. Life Business

i) Companies are required to report experience for their life insurance business pursuant to the life instructions contained in VM-51 Experience Reporting Formats. These instructions contain simplified reporting for certain companies based on their life insurance premium volume in calendar year 20XX

ii) Companies Exempted: Companies ~~doing business in~~licensed only in their state of domicile may be exempted from these experience reporting requirements if allowed by the domiciliary Commissioner.

iii) Business Exempted: Business exempted from the life experience reporting requirements for calendar year 20XX include the following:

- Credit Life Insurance

(Drafting Note: We seek input from LHATF regarding additional lines of business or types of companies to be exempted)

2. Annuity Business
Experience reporting for annuity business is not prescribed for calendar year 20XX.
(Drafting Note: These requirements are not developed at this time.)

3. Health Business
Experience reporting for health business is not prescribed for calendar year 20XX.
(Drafting Note: These requirements are not developed at this time.)

4. Reinsurance:
Reinsurance assumed is excluded to avoid double-counting of the original issuer and by the reinsurer. Experience reporting requirements for policies covered under such reinsurance assumed shall be the responsibility of the ceding company who is the direct writer of such business.
(*Drafting Note: Reinsurance assumed is excluded to avoid double counting by the original issuer and by the reinsurer.)*

An ~~exemption~~exception to this requirement is in case of reinsurance assumed which is novated to the assuming company – that is, the assuming company is legally responsible for all benefits and administration of such policies. For such novated policies, the assuming company would be responsible for the experience reporting requirements for such policies.

III. Roles and Responsibilities

a. Statistical Plans and The Role of Statistical Agents

In most situations, designated statistical agents will collect experience data based on statistical plans on behalf of state insurance departments.

Statistical plans are detailed instructions which define the data elements as well as the formats and time frames for company reporting. Statistical plans are included in VM-51 of the Valuation Manual. These statistical plans vary by both experience type (mortality, policyholder behavior and company expense) and by product type ~~of life and health products. Since their contents are unlikely to change, statistical~~. Statistical plans are included in the Valuation Manual when they are ready to be implemented. Factors to be considered in determining ~~whether~~which statistical plans should be used~~,~~ include: prior use in intercompany studies, review by committees/task forces involved with principles-based valuation, review by regulators/NAIC/LHATF, and the process of implementing principles-based valuation. Reporting formats for additional data elements will be added as necessary, in subsequent revisions to the Valuation Manual.

Data must conform to common data definitions. Standard definitions provide for stable and reliable databases and are the basis of meaningful aggregated insurance data. This will be accomplished through a uniform set of suggested minimum experience reporting requirements for all insurers.

Based on requirements to be developed, statistical agents may design their data collection procedures to ensure that they are able to meet these regulatory requirements. Regulators may have the ability to aggregate the experience of all insurers using a common set of classifications and definitions, or they can request the statistical agents to do this for them.

b. Role and Responsibility of NAIC Task Force or Working Group

The NAIC, perhaps through creation of a Task Force or Working Group, will be responsible for the content and maintenance of the Experience Reporting Requirements. This Task Force or Working Group will monitor the data

definitions, quality standards, appendices and reports described in the Experience Reporting Requirements to assure that they take advantage of changes in technology and provide for new regulatory and company needs. As able, the Task Force or Working Group will also provide limited assistance for states and insurers relating to one-time requests for data ("special calls"). Such involvement will customarily involve situations where the state's interest or situation appears to have substantial applicability or importance to a number of states.

To ensure that the Experience Reporting Requirements will continue to be useful, the NAIC Task Force or Working Group will seek to update it regularly. The Task Force or Working Group should have regular dialogue, feedback and discussion with the broad range of data users (regulators, members of professional actuarial organizations, large and small insurers, and insurance trade organizations).

c. Role of Actuarial Professional Organizations

The professional actuarial organizations (defined here to include the Society of Actuaries (SOA) and the American Academy of Actuaries (Academy)), have historically participated in the review and analysis of life insurance experience studies. Prospectively, the NAIC will ask for these organizations to~~will~~ play a role for one or more of the following items that is comparable to the roles that they have played in the past.

The role(s) of the professional actuarial organizations ~~should~~may include but not be limited to: ~~(Drafting note: The regulators may wish to, or possibly need to , formally request of the organizations to perform the followingthese functions.)~~

(1) Consult with the statistical agent (as appropriate) in the design and implementation of the experience retrieval process;

(2) Become i~~I~~nvolve~~ment~~d in the data validation process of data intended to be used by the SOA to develop industry experience tables;

~~(4)Assist (if needed) the statistical agent to help secure data submissions from key companies;~~
~~(4)~~
~~(4)~~(3) Analy~~si~~ze~~s~~ ~~of~~ data provided by the statistical agent and any summarized data produced by the statistical agent;

~~(5)~~(4) Creat~~ion~~e ~~of~~ initial experience tables and any revised tables;

~~(6)~~(5) Work with the NAIC (if needed) in their development and evaluation of requests for proposal for services related to the reporting of experience requirement;

~~(7)~~(6) Creat~~ion~~ e ~~of~~ statutory valuation tables as appropriate and necessary;

~~(8)~~(7) Determine and produce additional industry experience tables or reports that might be suggested by the data collected;

~~(9)~~(8) Work with the NAIC in developing new reporting formats and modifying current experience reporting formats;

~~(10)~~(9) Support a close working relationship between all parties having an interest in the success of the experience reporting requirement. This will increase the value of the coordinated effort, improve the speed and efficiency of the process, and increase the value of the experience reporting deliverables.

IV. Data Quality for Insurers and Statistical Agents

The Experience Reporting Requirements include two intertwined sets of requirements – one for insurers and one for statistical agents. Statistical procedures used by the statistical agents cannot easily control for errors associated with underwriting. If an underwriter misjudges the proper classification for an insured, then the "statistical system" has little chance of detecting the error unless the classification is somehow implausible.

These requirements only refer to data required by the Experience Reporting Requirements.

a. Intentionally Inaccurate Coding is Prohibited

Data coding and data reporting policies prohibit coding a policy, loss, transaction or other body of data as anything other than what it is known as for data routinely reported to statistical agents. This does not preclude an insurer from booking a transaction with incomplete detail or from reporting such transactions to statistical agents, but there can be nothing that is known to be inaccurate or deceptive in the reporting. An audit of an insurer's data submitted to statistical agent(s) under a statistical plan in VM-51 can include comparison of submitted data to other company files.

b. Edit Exceptions by Statistical Agents Must Be Studied for Systematic Errors

When the cause of an edit exception is noted to be a condition that could produce systematic errors, the insurer must correct the error and respond in a timely fashion, with priority given to errors that have the largest likelihood to affect a significant amount of data. When an error is found that has affected data reported to a statistical agent, the insurer shall report the nature of the error and the nature of its likely impact to the statistical agent receiving the affected data. Retrospective correction of data subject to systematic errors shall be done when the error affects a significant amount of data that is still being used for reports to the regulator and it is reasonably practical to make the correction through the application of a computer program or a procedure applied to the entire data set without the need to manually examine more than a small number of individual records.

c. Other Data Quality Standards and Requirements Applying to Insurers and Statistical Agents

Statistical agents are required to apply edits and checks to data received from insurers, and insurers are required to respond to the queries presented by statistical agents. More specific insurer and statistical agent requirements are as follows:

(i) Completeness – Control Totals Required

Each submission of data filed by an insurer with a statistical agent shall be balanced against a set of control totals provided by the insurer with the submission. At a minimum, these control totals shall include applicable record counts, claim counts, amounts insured, and claim amounts. Any submission that does not balance (with the exception of differences due to rounding errors for dollar amounts) to the control totals shall be referred to the insurer for review and resolution.

(ii) Validity Checks Required

Validity checks are designed to catch:

1. incomplete coding;
2. codes that are not contained within the set of possible valid codes; or
3. codes that are contained within the set of possible valid codes but are not valid in conjunction with another code.

It is possible that there will be incomplete coding as part of an insurer's internal data processing. It is important, however that the insurer's procedures provide for proper codes to be determined in a timely fashion so that records can be completed.

Where quality does not appear to be significantly compromised, statistical agents may use records with missing or invalid data if the errors do not involve a field relevant to the report. For insurers with a body of data for a state, line and year that fails to meet these standards, statistical agents shall use their discretion (but should still inform the regulator of key decisions made) regarding the omission of the entire body of data, including records with valid entries. Completeness of reports is desirable, but not at the risk of including a body of data that appears to have an unreasonably high chance of significant errors.

(iii) Reasonability Checking

Completeness and validity checks are straightforward and almost always, errors detected through these checks are, in fact, errors. However, if an insurer were to attribute all of a varied book of business to a single valid class code, it is quite likely that this data would pass all completeness and validity checks.

Errors of a consistent nature are referred to as "systematic." Incorrect coding instructions can introduce errors of a consistent nature as input. Programming errors within the data processing system of an insurer can also produce systematic miscoding as the system converts data to the formats required for experience reporting. Most systematic errors will produce data that, when reviewed using tests designed to reveal various types of systematic errors, will appear unreasonable and likely to be in error. In addition, some individual coding errors may produce erroneous results that show up when exposures and losses are compared in a systematic fashion. Such checking often cannot, however, provide a conclusive indication that data with unusual patterns is incorrect.

(1) Reasonability Checking Required by Statistical Agents

Statistical agents shall undertake reasonability checks that include the comparison of statistical agent aggregate and company experience for class and coverage data elements for the current reporting period to company and aggregate profiles from prior periods or the current period. When reporting instructions are changed, newly reported data elements shall be examined to see that they correlate reasonably with data elements reported under the old instructions. In addition, statistical agents shall compare major data elements to statistical agent aggregates in effect at the time of reporting.

At a minimum, reasonability checks by statistical agents shall include:

a. When an insurer has reported all or an unusually large percentage of its data under a single or very limited number of categories.
b. When there are unusual or unlikely reporting patterns in an insurer's data.
c. When the amount of claims appear unusually high or low for the corresponding exposures.
d. When claims exist without corresponding policy values and exposures, or where loss frequencies or amounts appear unreasonable in comparison to ranges of expectation that recognize statistical fluctuation.
e. When unusual shifts in the distribution of writings occur from one reporting period to the next.

If an insurer's unusual pattern under test categories a, b or c is verified as accurate (that is, the reason for the apparent anomaly is an unusual mix of business), then it is not necessary that a similar pattern for the same insurer be reconfirmed year after year.

Individual statistical agents shall keep track of their experience with these tests and shall adjust thresholds in successive years to maintain a reasonable balance between the magnitude of errors being found and the cost to insurers.

Results which appear to indicate a significantly higher than average chance that a body of data may contain errors shall be reported to insurers with an explanation of the unusual finding and its possible significance. When the possible or probable errors appear to be of a significant nature, the statistical agent shall indicate to the insurer that this is a "critical indication." "Critical indications" are those that, if not corrected or confirmed, would leave a significant degree of doubt whether the affected data should be used in reports to the regulator. It is intended that statistical agents shall have reasonable flexibility to implement this. Statistical agents may grade the severity of indications or they may simply identify certain indications as critical (or equivalent terminology). While insurers are expected to undertake a reasonable examination of all indications provided to them, they are not required to respond to every indication except for those labeled by the statistical agent as "critical."

Statistical agents shall use their discretion regarding the omission of data from reports owing to the failure of an insurer to respond adequately to unusual reasonability indications. Completeness of reports is desirable, but not at the risk of including data that appears to have an unreasonably high chance of containing significant errors.

(2) Insurer Responses to Reasonability Queries Required

Insurers shall acknowledge and respond to reasonability queries from statistical agents. This shall include specific responses to all critical indications provided by the statistical agent. Other indications shall be studied for apparent errors as well as for indications of systematic errors. Corrections for substantial errors shall be provided to the statistical agent or, when a correction is not feasible, the extent and nature of the error shall be reported to the statistical agent

(Drafting note: Consideration should be given as to whether Actuarial Standards of Practice regarding Data Quality would or would not apply to this Section 2.3 and corresponding subsections).

d. Confidentiality of Experience Data

Nothing in the Experience Reporting Requirements is intended to require any disclosures of confidential data or materials that may violate any applicable federal or state laws, rules, regulations, or court orders applicable to such data or materials . ~~imply that states either must disclose statistical reports and/or data. Such determinations are made under individual state data reporting, public record and/or trade secret laws. In addition, if data identifies individual policyholders or claimants, it is possible that privacy laws may apply as well.~~

e. Access to Experience Data and Statistical Reports

~~The individual company data collected as the result of the provisions of this valuation manual is the property of the individual company.~~

~~The statistical agent has the right to access individual company collected data for the purpose of:~~
~~Creating individual company data summaries and individual company reports; and~~
~~Creating industry data aggregates and industry average reports.~~

~~Individual company data summaries and individual company reports prepared by the statistical agent according to the provisions of this valuation manual shall only be accessible to the following parties:~~

~~Company that submitted the data;~~

~~State Insurance Departments;~~

~~Company's independent auditor;~~

~~Company's independent PBA reviewing actuary;~~

~~Statistical Agent; or~~

~~By permission of the individual company to employees of the Society of Actuaries.~~

~~Industry aggregate data and industry average reports prepared by the statistical agent for regulators according to the provisions of this valuation manual shall only be accessible to the following parties:~~

~~Parties identified in (iii) above;~~

~~NAIC; or~~

~~Professional Actuarial Organizations (pursuant to 6. e. iii. above).~~

~~Access by the State Insurance Department to experience data is restricted to aggregates reports, studies, or analyses in which individual company information cannot be determined from such reports, studies or analyses, except for the following:~~

~~If company specific data is needed in conjunction with a statutory examination or other regulatory examination or review;~~

~~In circumstances required per Section 2b(C) of the SVL.~~

Access to experience data will depend on the data category and on the party accessing the data. In general, access is determined on a "need to know" basis~~,~~ while protecting the confidentiality of policyholder personally identifiable information.

(i) Data Categories -- Experience Data access will vary by the following categories:

(1) Individual policy records submitted in accordance with statistical plans in VM51.

(2) Company level combined data that aggregates at a company level the individual policy records of category 1. Drafting Note: The purpose is to exclude from ~~not have in~~ category 2 data individually identifiable information from policies.

(3) Repository of aggregated reported data that is a summarized subset of data category 2, but contains detail by State of Issue within NAIC Company Code. Drafting Note: The purpose of category 3 data is to support ongoing and special reports for regulators only.

(4) Aggregate industry research data that is a subset of ~~data~~ category 3 data that does not have detail by State of Issue or by NAIC Company Code. Drafting Note: The purpose of category 4 data is to support ongoing Actuarial Professional Organization~~Association~~ reports ~~and~~ requested~~s~~ by LHATF~~ to Actuarial Associations~~.

(5) Aggregate industry report data ~~which~~that is a summarized subset of ~~data~~ category 4 data for reports issued by actuarial societies and/or regulators. Drafting Note: The category 5 data is typically contained in attachments and/or Excel spreadsheets issued as parts of reports.

(ii) Access Rights by Data Category – Access rights to data, by category, are as follows:

(1) Individual policy records
- (a) Company submitting data
- (b) Statistical agent collecting data from company
- (c) Auditor of company or statistical agent requiring that data for its audit

(2) Company level combined data
- (a) Company submitting data
- (b) Statistical agent collecting data from company
- (c) Auditor of company or statistical agent requiring that data for its audit
- (d) Compiling statistical agent (for sole purpose of aggregating individual policy records from multiple statistical agents into aggregated regulator report data or aggregate industry research data)

(3) Repository of aggregated regulator report data
- (a) NAIC
- (b) State Regulators
- (c) Compiling statistical agent
- (d) Auditor of company or statistical agent requiring that data for its audit
- (e) SOA staff (for sole purpose of validating aggregate industry research data)

(4) Aggregate industry research data
- (a) NAIC
- (b) State Regulators
- (c) Compiling statistical agent
- (d) Auditor of company or statistical agent requiring that data for its audit
- (e) As authorized by state regulators and/or Actuarial Associations

(5) Aggregate industry report data
- (a) General public

(iii) When data submitted to the insurance department by a statistical agent:
(1) identifies individual insurers;
(2) appears likely to identify individual claimants or insureds;
(3) or is subject to protection from disclosure;

~~such~~
Such data shall not be publicly disclosed unless, prior to such disclosure:

(1) The department notifies the statistical agent and any insurer which has asserted the data to be subject to protection from disclosure of the request for disclosure;

(2) The department then provides a thirty (30) day period for any insurer that reported data to the statistical agent to assert that its data are trade secret or are otherwise protected from disclosure. The thirty (30) day period shall run from the time that the statistical agent receives notification from the department;

(3) The department then provides insurers that have asserted their data to be trade secret or otherwise protected from disclosure with the opportunity to support their positions, which shall be governed by the {insert statue reference}; and

(4) After the applicable adjudicative process is complete, there is a final decision that the data are not a trade secret and are not otherwise subject to protection from disclosure.

Drafting Note for this section. The NAIC may need to research the legal usefulness and appropriateness of this section. From one perspective,it seems the information either may not be disclosed, regardless of what the NAIC thinks, because it is prohibited by law (or a judge or some other government agency with such authority), or is not illegal to disclose and therefore may be disclosed.

f. Ownership and Maintenance of Experience Data and Statistical Reports

(i) Data records submitted by Companies to the statistical agent are owned by the Companies submitting such data records.

(ii) Except for reasons of subpoena, court order, or audit of the statistical agent by a regulatory authority within the scope of relevant law or regulation, the statistical agent may not engage in any activities that result in disclosure of personal information relating to any policyholder or individual, or where such activity results in the disclosure of a company's proprietary information. However, a company may provide a waiver to the statistical agent relative to disclosure of its proprietary information (e.g., mortality ratio by plan of experience). The statistical agent is obligated to satisfy such requests for disclosure if the reason for disclosure is to facilitate inclusion of a company's experience in intercompany studies conducted under auspices of a staff member of the Society of Actuaries. Except as limited by this section, the statistical agent has the right to use validated data to produce aggregate reports which are the property and responsibility of the statistical agent.

(iii) The statistical agent will be responsible for maintaining data, error reports, logs and other intermediate work products, and reports for use in processing, documentation, production and reproduction of reports provided to regulators in accordance with the valuation manual. The statistical agent will be responsible for demonstrating such reproducibility at the request of the NAIC in its audit capacity over the statistical agent.

~~f.~~g. Reports to the State from the Statistical Agent

Each statistical agent shall provide reports which comprise the entire set of companies that report data to the statistical agent:

(i) A listing of companies whose data is included in the compilations: and

(ii) A historical report listing those insurers whose data for the statistical agent was excluded from the compilation because it fell outside of the statistical agent's tolerances for missing or invalid data, or because the insurer was unable to reconcile its statistical and financial data within the statistical agent's tolerances, or for any other reason. The report will list such excluded companies by year for the current and the two prior annual reports and will include an indication of the exposures, number of claims, and amount of claims for comparable groups of policies.

(Drafting Note: This section will be updated as appropriate to include other data elements such as expenses and policyholder behavior for all policies, and morbidity for health insurance related policies.)

~~g.~~h. Failure to Meet the Standards Contained in this Section

The purpose of the statistical agent reporting requirements contained in this section are to provide information that will identify whether an insurer has~~appears to be~~ provided~~ing~~ data of a substandard quality with such frequency as to indicate a general business practice that involves insufficient attention to data quality. A single reporting instance would be actionable only if, upon examination, it was found to indicate a flagrant and conscious disregard for the data quality standards contained in this section.

Drafting Note for this section. The NAIC may need to research the legal usefulness and appropriateness of this section. What would be "actionable" in accordance with who? The NAIC, the company or the statistical agent? Whether something is actionable or not is a legal threshold, regardless of the NAIC using the standard it has proposed here of "flagrant and conscious disregard for the data quality standards contained in this section". Also, what does it mean it would be "actionable", is the NAIC making itself the party to sue or bring action against a statistical agent or company for violating this section or would the statistical agent sue the company?

~~h.~~i. Granting of Exceptions for Individual Statistical Agents

If, using a different set of procedures, a statistical agent can reasonably demonstrate the likelihood of performance that is equal or superior to the set of procedures contained herein, the applicable NAIC Working Group or Task Force may waive or amend requirements contained herein or take other action to assure equivalent or better data quality.

V. Reports Available From Statistical Agents: Summary

a. Introduction

Using the data collected under statistical plans, as adopted by the states, the statistical agents produce aggregate reports. Regulators and others use these reports to review insurer experience, consistent with the coverages and classes of insurance.

Data compilations are evaluated according to four distinct, and often competing, standards: quality, completeness, timeliness and cost. In general, quality is a primary goal in developing any statistical data report. The priorities of the other three standards vary according to the purpose of the report.

Regulators may modify or enlarge their requirements for information to accommodate changing needs and environments. However, in most cases, changes to existing data reporting systems will be feasible only to provide information on future transactions. Requirements to submit new information may require that companies change their systems. Also, the statistical agents may need several years before they can generate meaningful data meeting the new requirements with matching claims and insured amounts. The exact time frames for implementing new data requirements and producing reports will vary depending on the type of reports.

This section summarizes, generally, the data that statistical agents must maintain and produce. Subsequent sections provide the specific detailed requirements for reporting on the various lines of insurance.

b. Design of Reports Linked to Purpose

Fundamental to the design of each report is an evaluation of its purpose and use. The NAIC Task Force or Working Group should specify model reports responding to general regulatory needs. These model reports will serve only the basic informational needs of state regulators. To address a particular issue or problem, a regulator may have to request special reports in addition to these model reports. These requested reports may be for submission of financial-based data where the insurers submit calendar year data (which can be produced with the least delay or for submission of additional experience data compiled on either a calendar or policy year basis as is most appropriate).

c. Basic Report Designs

The NAIC Task Force or Working Group needs to designate basic types of reports to meet differing needs and time frames. Sections of VM-51 Experience Reporting Formats provide more detailed descriptions of these reports for each specific line of insurance. Annual Statistical Compilations are anticipated to be the primary reports.

Annual Statistical Compilations – Annual statistical compilations are aggregate reports that generally match appropriate insurance amounts and claims to evaluate the historic experience for various lines of insurance, detailed by coverage and class. Although termed annual statistical compilations the timing of these reports depends on the specific line of insurance. The annual statistical compilations can be either industry-wide or vary by state of domicile.

In addition to annual statistical compilations, regulators can specify additional reports based on elements in the statistical plans in VM-51. Regulators can also use ~~both~~ annual statistical compilations and additional reports to evaluate ~~principles-based reserves~~non-formulaic assumptions.

The NAIC Task Force or Working Group will specify the reports to be provided to the professional actuarial associations to fulfill their roles as specified in section 3(c), Role of Actuarial Professional Organizations. In general, the reports are expected to include the industry-wide annual statistical compilations. The number and types of reports can vary from year to year. The NAIC Task Force or Working Group will specify the data periodically obtained from the statistical plans to be provided to the SOA to fulfill its role as specified in section 3(c), Role of Actuarial Professional Organizations.

d. Annual Statistical Compilations

Annual Statistical Compilations are detailed annual reports that generally match appropriate insurance amounts and claims to evaluate the historic experience of various lines of insurance. Regulators can use Annual Compilations to evaluate ~~principles-based reserves~~non-formulaic assumptions.

(i) Time Frames

The timing of annual reports depends upon the basis on which data are compiled, which in turn depends on the line of insurance. Sections of VM-51 discuss specific time frames for annual reports for each line of insurance.

(ii) Uses of Annual Statistical Compilations

Regulators can use the annual reports to review the experience for broad categories and for individual coverages. Regulators can compare the policy experience elements and insurance payouts appearing on the reports for different coverages. Annual reports also allow regulators to review long-term trends. Aggregate results may indicate areas warranting additional investigation.

e. Supplemental Reports

For specific lines of business and coverages, regulators may request additional reports from statistical agents. Regulators may also request custom reports, which may contain specific data or experience not regularly produced in other reports.

The regulator and the statistical agents must negotiate time schedules for producing supplemental reports. The information in these reports is limited by the amount of data actually available and the manner in which they have been reported.

f. Reports to Actuarial Professional Organizations

The NAIC Task Force or Working Group needs to designate basic types of reports to the Society of Actuaries to meet differing needs and time frames. These reports will be comparable to reports provided to regulators as described in Section 6.V.d above. Annual Statistical Compilations are anticipated to be the primary reports. Other reports may be requested on an as needed basis, and will be referred to as Special Reports.

Annual Statistical Compilations – Annual statistical compilations are aggregate reports that generally match appropriate insurance amounts and claims to evaluate the historic experience for various lines of insurance, detailed by coverage and class. Although termed annual statistical compilations the timing of these reports depends on the specific line of insurance. The annual statistical compilations can be either industry-wide or vary by state of domicile.

In addition to annual statistical compilations, regulators can specify additional reports based on elements in the statistical plans in VM-51. Regulators can use both annual statistical compilations and additional reports to evaluate ~~principles-based reserves~~non-forumulaic assumptions.

