



March 6, 2020

Representative Richard H. Smith
Chair, Property & Casualty Insurance Committee
National Council of Insurance Legislators
C/O NCOIL National Office
2317 Route 37 S, Suite 2B
Manasquan, NJ 08736

VIA EMAIL

Re: Discussion on NAIC Casualty Actuarial and Statistical Task Force (CASTF) Initiatives

Dear Chair Smith:

This statement to NCOIL's Property & Casualty Insurance Committee for its discussion of the "NAIC's Casualty Actuarial and Statistical Task Force (CASTF) Initiatives" is submitted by the American Property Casualty Insurance Association (APCIA). APCIA had intended to appear before the committee, but recent developments related to the COVID -19 virus caused an association-wide change in travel plans.

Representing nearly 60% of the U.S. property casualty insurance market, APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers. APCIA represents the broadest cross-section of home, auto, and business insurers of any national trade association. APCIA members represent all sizes, structures, and regions, which protect families, communities, and businesses in the U.S. and across the globe.

Introduction

APCIA supports CASTF's efforts to foster beneficial upfront dialogue between the filing company and regulator that supports an efficient and effective review appropriately focused on ensuring compliance with applicable regulatory rating standards.

We caution, however, against developing best practices that could create new standards or establish information elements that extend the statutory scope of the rate review process. Our goal is not to hinder the development of a white paper, but rather to have the process result in a deliberate and practical approach that can provide foundational guidance to regulators and the industry that will be informative and utilized for years to come.

Unfortunately, as drafted the white paper has two key flaws: (1) the information elements are unnecessarily granular and abundant; and (2) it establishes new subjective rating standards not found in long-standing actuarial standards of practice or in state law.

The Information Elements are Unnecessarily Granular and Abundant

APCIA continues to work collaboratively with regulators advocating for a practical and rational approach that would establish a manageable and well-vetted template of “information elements” that would be responsive to the regulators’ core needs but not overly burdensome to both the filing company and regulator.

Unfortunately, the current 40-page document with nearly 80 information elements could exacerbate the resource problems that regulators seek to address. Many states may not have the resources, expertise or directive to engage in such a demanding review.

APCIA believes, the white paper would benefit from field testing that could provide more practical guidance in applying the key best practices and any related information elements and thereby help assure a useful and efficient outcome. Field testing is a tried and true practice that will help identify needed revisions to the White Paper. Without general field testing, each state would be left to its own devices to determine its own lessons learned. The result could be less uniformity in best practices and information elements.

Field testing will also help aid companies in understanding what documentation would be required to comply. The details of the field testing would need to be built out, but key pillars would include: (1) starting with a condensed version of approximately 30 data elements based on existing actuarial standards; (2) confidentiality protections; and (3) prohibitions against any regulatory action related to the data.

The Establishment of New Subjective Rating Standards Not Found In Current Law Is Deeply Troubling

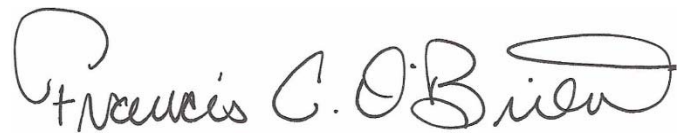
The white paper lacks references to long-standing actuarial standards of practice. This poses significant risk that new more subjective rating standards will be imposed, creating a disincentive for carriers to employ predictive modeling techniques, hindering their ability to achieve the potential benefits for both consumers and the market. For example, the discussion on correlation vs. causality introduces newly defined standards. The implication that all characteristics and rating variables can be isolated and related to the risk of insurance loss in a manner that is intuitive to any regulator is a highly subjective standard, potentially unworkable and not referenced in any law as far as we know.

The white paper suggests that the best practices “merely provide guidance,” but it also identifies a number of benefits for utilizing the best practices to include: “providing a framework for states to share knowledge and resources to facilitate the technical review of predictive models” and they “help a regulator identify elements of a model that may influence the regulatory review as to whether modeled rates are appropriately justified.” Additionally, the intent is to incorporate the white paper into the Product Filing Review Handbook. As a result, it would appear that the best practices may in reality begin to be treated as a regulatory standard without having been formally adopted under established legal procedures.

Conclusion

APCIA appreciates the committee’s forbearance in allowing us to provide these comments instead of, as scheduled, being present as a member of the panel. We look forward to continuing this discussion with the committee and hope to be able to do so at NCOIL’s next meeting.

Very truly yours,

A handwritten signature in black ink that reads "Francis C. O'Brien". The signature is written in a cursive style with a large initial 'F' and a distinct 'O'Brien' ending.

Francis C. O'Brien
Vice President, State Gov't. Relations