



April 26, 2023

Christian Citarella
Chair
Casualty Actuarial and Statistical (C) Task Force (CASTF)
National Association of Insurance Commissioners (NAIC)

c/o: Kris DeFrain
kdefrain@naic.org

Re: NAIC Blanks Proposal from the Committee on Property and Liability Financial Reporting (COPLFR)

Dear Chair Citarella,

On behalf of the Committee on Property and Liability Financial Reporting (COPLFR) of the American Academy of Actuaries,¹ I appreciate this opportunity to propose a change to Schedule P for companies that file the Property and Casualty Annual Statement.

Currently, the Schedule P Summaries in the P&C Annual Statement provide loss and loss adjustment expenses (LAE) information for the most recent 10 accident years as well as a Prior row to capture data and/or development for all accident years older than 10 years. The individual Schedule P exhibits include detail for lines of business that provide 10 years of history for certain lines and other lines that only provide the two most recent years of experience plus a Prior row to reflect accident years older than two years. This letter will refer to the lines of business that capture 10 years' data as "long-tailed" (e.g., workers' compensation) and those that capture two years' data (e.g., auto physical damage) as "short-tailed."

COPLFR proposes a modification to the Annual Statement blank so that all Schedule P reports would list 10 years of experience beginning in 2024. This change would eliminate the distinction between "short-tailed" and "long-tailed" lines of business in Schedule P.

COPLFR premises its proposal upon the following factors:

- 1) A material amount of loss development is possible for the "short-tailed" lines after two years. A review of industry aggregate Schedule P—Part 2 results across these lines shows

¹ The American Academy of Actuaries is a 19,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted 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.

the Prior row with regularly 25% or more of the reported one-year loss development. COPLFR believes it would be useful to company management and analysts to disclose development beyond two years so this Prior development is detailed by accident year for all lines of business in the P&C Annual Statement blank.

- 2) P&C insurance companies already must capture 10 years of data for all lines of business to prepare the Schedule P Summaries. Hence, removing the need to convert short-tailed lines data from 10 years to two years in the Annual Statement would reduce the effort needed by companies to prepare the Annual Statement.
- 3) Given current technology, COPLFR believes there are no material time or cost savings derived by only showing two years of data.
- 4) The current reporting can easily result in errors related to what is reported in the “Prior” row, something COPLFR members have reported seeing in the past. The potential for these errors arises when insurers convert from the 10-year reporting to the 2-year reporting format currently required for some lines of business. If all lines of business reflect 10 years of data, COPLFR anticipates that these “conversion” errors would be eliminated.

Finally, COPLFR notes that exposure 2023-01BWG proposes changes to Schedule P to be effective for the 2024 Annual Statement. COPLFR acknowledges that its recommendation would impact this exposure by expanding the newly proposed pet insurance component of Schedule P from two years to 10 years. COPLFR believes that should both 2023-01BWG and our recommendation be adopted, an effective date for the 2024 Annual Statement would provide the smoothest transition for companies.

COPLFR appreciates this opportunity to provide this proposal to CASTF. COPLFR hopes these observations are helpful and would welcome further discussion. If you have any questions about our comments, please contact Rob Fischer, the Academy’s casualty policy analyst, at fischer@actuary.org.

Sincerely,

Stephen Koca, MAAA, FCAS
Chairperson
Committee on Property and Liability Financial Reporting
American Academy of Actuaries