

COMMENTS ON NAIC'S PRODUCT FILING REVIEW HANDBOOK

Provided by Texas Department of Insurance
P&C Actuarial Division
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Table of Contents

- The formatting for the contents within a chapter, and even some of the chapters is very inconsistent, making it very hard to read.
 - Table of Contents shows that Data Adjustments, Premium Adjustments, and Current Rates are subcategories of Segregation of Data. Data Adjustment should be the higher level and then premium adjustments, etc. under it. Segregation of Data would be its own section under the basics of PC Rate Regulation.
 - Current Rates, Audit or Retro Premiums, and Premium Trends would be sub-categories under Premium Adjustments on Page 19-21
- Ex. Chapter Six is in italics, while none of the other chapters headings are in italics

Chapter 3 The Basics of P/C Rate Regulation

- General comment that the format for the topic headers seems random in terms of font and spacing – see page 34 for varying font size on subcategories of Individual Risk Rating
- A lot of words are capitalized that don't need to be throughout the entire document
 - Ex. page 22 exponential and linear
 - Ex. page 24 Loss development triangles in first sentence of paragraph directly above the Loss Development Method Example
 - Ex. Page 25 last sentence in paragraph at bottom of page above the Note – Losses does not need to be capitalized.
 - Etc.
- Page 16: Incurred Losses section, this could be organized better, perhaps something like the following:
 - Paid losses are the amounts already paid.
 - Incurred losses include:
 - Paid losses, and
 - An estimate of amounts remaining to be paid which include
 - Amounts for claims not yet reported
 - Additional amounts for reported claims expected to be greater than the current loss estimates.

Also, the way the 2nd sub-bullet under incurred losses reads, it could be interpreted that the IBNR is referring to the “additional amounts” which are stated as “amounts for reported claims expected to be greater than the current loss estimates”. This would be the development on case reserves which is sometimes included in IBNR. However, the true IBNR would be the claims not yet reported.

- Page 17 and then throughout – why continue using ALAE and ULAE? I think its fine to put the historical aspect of how the definitions changed in the late 90's but shouldn't we stick to the current definition of DCC and AandO?
- Page 17 – insert “net” before “cost of reinsurance”
- Page 18 – Number of Years of Historical Data Needed
 - First sentence: “There is a trade-off of “Stability versus Responsiveness” . . . change to “There is a trade-off between stability and responsiveness . . .
 - 4th line, last word “reported” – there wouldn't be estimates in the reported data, but in the estimates of the ultimate incurred losses
 - 3rd sentence: change the word “prediction” and insert “the estimation of the ultimate incurred losses”
- Page 19 – Premium Adjustments
 - End of 2nd sentence change “in place in past history” to “in place in the past.”

- Page 19 – Current Rates (On-level or current Level Premiums)
 - Inconsistent use of quotations around different current leveling methods in first paragraph
 - The box at the bottom of page 19 should be labeled. It would be helpful for the reader who isn't an actuary to see the dates at the bottom of the box
 - **An important assumption that is not revealed in the example used in this section is that the policy is a one year policy.** If the policy was a 6 month policy, the pictures would look different. May want to consider a 6 month policy example.
 - Page 20, inconsistent use of "*" and "x" to denote two numbers are multiplied together. I would suggest the "x".
 - Page 20 – the parallelogram should be cleaned up and show the dates (7/1) at the bottom of the parallelogram and "Year One", etc. can be shown at the top. A table showing the rate changes and their effective dates would also be helpful in reviewing the example.
- Page 21 – Losses and LAE
 - Eliminate the colon at the end of the title
 - Why keep referring to ALAE?
 - In first paragraph under Loss Trends, 3rd sentence – replace "prediction" with "estimation" similarly throughout handbook.
- Page 22 – parenthesis in first indented paragraph – losses could include DCC . . . drop the ALAE as its not the term or definition currently used
- Page 22, 2nd paragraph beginning "Trend can also be selected upon external data, . . ." Internal data is discussed before this in the discussion of historical data (starting page 21). Working in a reference to internal data may be helpful.
- Page 22, 2nd paragraph, delete "factor" from end of 2nd sentence and also from 3rd sentence so it should read:
". . . , but it is not the only consideration in selecting the trend. The selection of the trend should be reasonable and . . ."
- A lot of unnecessary capitalized words. I would lower case the words unless they begin a sentence such as "Trend factors are calculated for each historical period." (sentence in middle of page). Similarly with the next sentence "The time factor is the number of years ... " And also in the example, lower case policies, effective date, etc.
- Page 23 after end of example beginning on page 22, the exponential trend factor should also be shown in addition to the linear trend factor
- Page 23: is vice versa needed at end of first bullet?
- Page 23, last bullet before Loss Development section: I'm not sure if there needs to be an "s" on "impacts" – check with a grammar guru
- Page 23 Loss Development section
 - Bold the line under the dates to separate years from paid loss amounts to make easier to read
 - First bullet under table should read \$100 as of the accounting date 12/31/2011 and not "12/31/20 . . .", similarly at top of page 24
- Page 25, step 4, should say "Estimated" instead of "Estimate"
- Page 25, first sentence after the table in step 4 introduces the term "reserve need". I think this should read "This example used paid losses which can be a proper method to estimate the ultimate incurred losses."
- Page 25, last sentence in paragraph above the Note. ALAE should be replaced with DCC and the narrative in the parenthesis deleted.

- Page 26, 2nd paragraph under Catastrophe or Large Loss Provisions Section: the “excess” catastrophe amounts used with underlying non-catastrophe amounts implies there is another group of losses that are the non-excess catastrophe amounts; this terminology also used in the Note in the parenthesis. The word “excess” should be deleted. The note may be too detailed for purposes of this handbook.
- Page 26, 2nd paragraph in same section as above, last sentence, I don't think the “Now” to begin the sentence is necessary.
- Page 26, 3rd paragraph, last sentence in catastrophe section: replace “more indicative” with “better reflect”
- Page 26, first sentence under LAE section: the term “underwriting data” is introduced. I would replace “underwriting” with “loss”
- Page 26, last paragraph, last two sentences are confusing and incorrect. Suggested wording:

A common method to add the AandO expenses is to look at the ratio of historical amounts of AandO expenses to incurred losses and DCC for several calendar years. For example, if the average historical ratio was 0.05, the AandO factor would be 1.05. The AandO factor would then be multiplied by the projected loss and DCC amounts to achieve the projected loss, DCC, and AandO amount.

- Page 27, last paragraph under the profit and contingency provision section: This needs to be carefully reviewed in light of Actuarial Standard of Practice No. 30 and probably rewritten.

Some excerpts from ASOP NO. 30:

2.2 Contingency Provision – A provision for the expected differences, if any, between the estimated costs and the average actual costs, that cannot be eliminated by changes in other components of the ratemaking process. (Page 1)

3.7 Contingency Provision – The actuary should include a contingency provision if the assumptions used in the ratemaking process produce cost estimates that are not expected to equal average actual costs, and if this difference cannot be eliminated by changes in other components of the ratemaking process.

While the estimated costs are intended to equal the average actual costs over time, differences between the estimated and actual costs of the risk transfer are to be expected in any given year. If a difference persists, the difference should be reflected in the ratemaking calculations as a contingency provision. The contingency provision is not intended to measure the variability of results and, as such, is not expected to be earned as profit.

- Page 27, last sentence, replace “definable” with “defined”
- Page 28, 2nd paragraph, 4th sentence in Credibility section: delete “then” before “there would be . . . “
- Page 28, last sentence in the Credibility section: the term “rating factor indication” is introduced but there's no discussion about what that is. I would suggest including this sentence in the discussion of rating factors.
- Page 29, lots of capitalized words that don't need to be.
- Page 31, suggest varying the loss ratio by vehicle rating group (VRG) so only VRG 3 has the loss ratio of 70% which may help readers follow the example better if they are not familiar with these kinds of calculations.
- Page 33, calculation of deductible factor: line separating the numerator from the denominator is missing
- Page 36, the apostrophe is missing on the section title and throughout the Workers' Compensation Special Rules section. Do a search as also missing an apostrophe on page 40
- Page 40, 2nd to last bullet – what are “solid insurance rates”? Replace with “their company” or something else