

Casualty of Spring

WHILE A GOOD DEAL OF THE CONTENT at the 2005 Academy Spring Meeting in Washington, D.C. (such as Treasury Secretary Snow's keynote speech), the Spring Meeting has consistently provided valuable content on state as well as federal issues. This year's content drew speakers and participants from all over the country to discuss issues relevant to property/casualty (P/C) actuaries.

Reserve Opinion and Financial Reporting

This session discussed some of the latest requirements to come out of the National Association of Insurance Commissioners' (NAIC) Casualty Actuarial Task Force affecting upcoming 2004 actuarial loss reserve opinions.

Kris Defrain, NAIC staff, noted that opining actuaries are always required to discuss whether there is a risk of



NAIC regulator Chris DeFrain speaking

material adverse deviation in the opinions. She also said that the "bright-line indicator" for this risk of deviation is a function of net reserves, total adjusted capital, and company action level in risk-based capital. Additionally, Defrain told attendees that they must now name a specific person who is relied upon for opinion data.

Rick Marcks of the Connecticut insurance department also discussed ranges and reasonableness of reserves.

Medical Liability Issues

This session addressed some of the underlying causes of litigation and how these causes can be mitigated. It also examined the political climate on Capitol Hill to pass medical malpractice insurance reform.

Jim Saxton of Stevens and Lee opined that actual medical malpractice doesn't cause all medical malpractice insurance claims. He explained how a lack of event

management, effective communication, and service are key drivers of the severity of claims and something that plaintiffs' attorneys can and do use to their advantage in court.

Saxton also explained how immediate management of a medical issue, as compared with addressing the event weeks later in litigation, is also key to reducing potential litigation. Finally, Saxton acknowledged that these types of proactive solutions do take time and resources but that they're economically effective in the long run.

Bruce Wilson of the Physician Insurers Association of America gave a detailed breakdown of the political appetite on Capitol Hill to enact comprehensive medical malpractice insurance reform, similar to California's Medical Industry Compensation Reform Act (MICRA) of 1975.

He also cited recent poll data from the Health Coalition on Liability and Access showing that 72 percent of Americans favor legislation that would limit noneconomic damages in medical malpractice awards. In addition, 55 percent of Americans think that litigation against health care providers is higher than justified.

Wilson also discussed the potential pitfalls in using only closed claims in studies of average medical malpractice awards. He cited a recent public statement by the Medical Malpractice Subcommittee that actuaries, acting in compliance with ASOP No. 9 on ratemaking, generally use more information than is available only in closed-claims databases. He also explained that closed-claims studies don't reflect loss adjustment expenses or expenses incurred by insurers in defending against claims, regardless of whether that claim results in actual damages or settlement.

Terrorism Risk Insurance Act

Dennis Fasking of Allstate, who moderated this session, discussed the insurability of terrorism coverage as well as some of the alternatives to the Terrorism Risk Insurance Act (TRIA) that was passed by Congress in 2002. He also noted that TRIA was intended to be a stopgap measure by Congress to give the private insurance industry time to develop new sources of capital or an alternative terrorism insurance mechanism to address these risks. But there hasn't been much progress in either of these areas.

Jack Seaquist of AIR discussed some of the recent advances in modeling terrorism losses for insurers. Seaquist

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described how modeling firms have made significant strides in the past four years on understanding both the frequency and the severity of potential terrorism events. He explained that the Delphi Method, which considers the objectives, resources, and history of terrorist groups, is still primarily used in models to predict frequency and severity of potential terrorism events. He also explained that AIR's current models continue to focus on high-profile cities but also address the threat to "soft" targets such as transportation facilities and religious landmarks.

Taking a Hard Look at Soft Fraud

John Lucker of Deloitte Consulting explained soft fraud as the conscious exaggeration of insurance claims, the sort of thing people perceive as OK because everybody does it. He said that 25 percent of Americans polled have indicated that such exaggeration is acceptable to

reduce their losses (such as offsetting deductibles).

Data mining with specific models can help insurers better understand and limit these type of losses. Lucker explained that improved insurer management of soft fraud can reduce overall claims costs from 2 percent to 5 percent. Lucker also stated that data mining is a possible way to identify potential claimants in advance who might be predisposed to soft fraud and allow for triage and intervention to affect the outcome of potential claims. He also noted that predictive models can address claims duration, litigation propensity, and medical usage.

FTC Credit Scoring and the NAIC

This session focused on the NAIC's recent efforts to explore the validity of using credit scores in personal lines ratemaking as well as a recent Federal Trade Commission (FTC) requirement to conduct a



From left: Dennis Fasking, Jack Seaquist, Ed Collins

study on this use of credit scoring.

John Pedrick of the Ohio Department of Insurance discussed credit scoring underwriting and its relation to actuarial risk classification standards and how it might be compatible with actuarial standards. Chet Szczepanski of the Pennsylvania Insurance Department detailed Pennsylvania's limited experience in allowing the use of credit scoring for initial underwriting but not for re-underwriting. Jesse Leary of the FTC explained his agency's efforts to produce a study determining if credit scoring risk classification has negative or discriminatory treatment of protected classes. Leary stated that the FTC will most likely rely on census and Social Security data, which often reports racial concentration on a block level rather than individually.

Sarbox and Mutuals

This session explored the passage of Sarbanes-Oxley by Congress and discussed what the act was designed to do. Mary Miller of the Ohio insurance department explained what the enhanced disclosure of the act is designed to achieve, including enhanced disclosure in Title IV requiring management to assess the effectiveness of its internal controls.

Doug Stolte and David Smith, both from the Virginia Bureau of Insurance, discussed the role of auditor independence and the move toward Sarbanes-Oxley disclosure for all mutuals as a more risk-based approach. They also noted that critics of this potential regulatory requirement say that it doesn't apply to all insurance companies because most policyholders aren't investors in their insurer and insurers more typically fail because of deficient reserves. ●

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