

# Cat Reporting & Reserving – NAIC RBC & US GAAP

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## Outline

- NAIC RBC
  - Current formula – what’s missing
  - What’s being added
  - What’s being removed – new reporting
    - Perils, timeframes, geographies
- US GAAP
  - Impetus for change
  - Example of one new disclosure

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## Current Formula

Authorized Control Level = one half of

$$R0 + \sqrt{R1^2 + R2^2 + R3^2 + R4^2 + R5^2}$$

NOTE: This is a minimum capital standard.  
Companies are expected to hold multiples of this.

## Current Formula

Formula Risk Components:

R0 = off-balance sheet + insurance subs

R1 = Fixed Income (invested) asset risk

R2 = Equity (invested) asset risk

R3 = Misc. receivables + 1/2 Ceded Bal. credit risk\*

R4 = Loss Reserve risk + 1/2 Ceded Bal. credit risk\*

R5 = Premium risk

**What's Missing? - CAT RISK!**

## Current Formula – What's Being Added (in red)

Authorized Control Level = one half of

$$R0 + \sqrt{R1^2 + R2^2 + R3^2 + R4^2 + R5^2 + R6^2 + R7^2}$$

R6 – Earthquake Risk

R7 – Hurricane Risk

*Currently in Testing Mode –  
will go live in a few years*

## R6, R7 (cat risk) proposals

- Based on 1-in-100 annual aggregate VaR
- Using approved 3<sup>rd</sup> party model
  - (e.g., AIR, RMS, EQECAT)
- As used for internal ERM (attestation)
- Some customization may be okay
  - *That is what the attestation is for – regulators want to know how the model(s) used.*

## Potential double-counting with Premium Risk (R5)

- Current R5 charge (Premium Risk)
  - By Schedule P line
  - Based on 10 years experience in Schedule P
  - Incurred L&LAE experience
- Some cat losses could be included in R5 calc.
  - Need to remove them from the R5 data
  - How? – New Reporting

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## New (RBC) Cat Reporting Schedule

AY	Catastrophe Experience - Net Losses			
	US Unpaid	US Incurred	Non-US Unpaid	Non-US Incurred
2004				
2005				
2006				
2007				
2008				
2009				
2010				
2011				
2012				
2013				
Totals				

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## New (RBC) Cat Reporting Schedule - Details

- By Schedule P line (for most lines)
- For hurricanes and earthquakes only
- US and non-US (e.g., cyclones)
- List of events given by NAIC

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## New (RBC) Cat Reporting Schedule – Details (cont.)

- No “prior” bucket
- Focus is on incurreds, not paid.
- Only losses, no LAE
- Started year-end 2012

*Part of confidential RBC filing – not public*

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## New (RBC) Cat Reporting Schedule – context

- Focus is solely the elimination of double-counting within RBC formula
  - *Current R5 vs. proposed R6 and R7*
- Not done as a reserving test
- Only two perils for now
  - *If models for other major perils become more accepted, then maybe those perils will be added in the future*

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## New (RBC) Cat Reporting Schedule – Issues

- Not everyone tracks cat claim activity
- Not all cats may be tracked
- Not everyone reserves by cat event
- Only part of the company may track cats
  - *Assumed reinsurance*
  - *Residual markets pools*
  - *International*

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## New (RBC) Cat Reporting Schedule – Issues (cont.)

- Not everyone exposed to cats
- Reinsurers vs. primary companies
- Small companies vs. large companies
- For now – focus is on substantial compliance
- Testing for first several years “to get the bugs out”

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## US GAAP Reporting - Cats

Four ways new disclosures arise

- FASB accounting standard
- SEC requirement (affects SEC registrants only)
- Investor requests
- Company volunteers (get ahead of the curve)

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## US GAAP Reporting - Cats

Locations for SEC registrant disclosures

- 10Ks (and 10Qs) – annual (qtrly) reports
- Earnings press releases and webcasts
- Supplemental disclosures
- 8Ks – interim disclosures of major events

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## US GAAP Reporting - Cats

Current disclosures:

- Major drivers of earnings (can include a cat)
- Major risks (may include cat PMLs)
- Major causes of reserve development
  - *May include changes in cat event estimates*
    - *From prior years or prior quarters*

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## US GAAP Reporting – Cats Recent 10K disclosure

(for the year ended December 31, in millions, pretax and net of reinsurance)

	2013	2012	2011
<b>2011</b>			
PCS Serial Number:			
35—Severe winter storms	\$ (6)	\$ 1	\$ 100
42—Severe thunderstorms and tornadoes	(2)	(5)	130
43—Severe thunderstorms and tornadoes	(1)	2	149
44—Severe thunderstorms and tornadoes	(9)	(10)	121
46—Severe thunderstorms and tornadoes (including Tuscaloosa, AL)	2	(76)	648
48—Severe thunderstorms and tornadoes (including Joplin, MO)	(14)	(24)	430
59—Hurricane Irene	(17)	(47)	375

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## US GAAP Reporting - Cats

What's driving the new disclosures:

- Size of recent cats
- Trends in cats
- “Climate Change” concerns

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Questions?

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## Cat Reporting & Reserving – NAIC RBC & US GAAP Appendix 1

What's driving the RBC activity

- FSAP (Financial Sector Assessment Program)
- FSAP (review of financial sector regulation)
- FSAP used to be applied only to countries borrowing from World Bank/IMF
- FSAP applied to G-20 countries since 2008 crisis
- For insurance, benchmark is IAIS – ICPs
  - ICP – Insurance Core Principle

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## Cat Reporting & Reserving – NAIC RBC & US GAAP Appendix 1 (cont.)

What's driving the RBC activity (cont.)

- FSAPs for G-20 countries now done every 5 years
- Last FSAP on US done in 2009 (finished 2010)
- ICPs changed since the last US FSAP
- Next FSAP on US is in progress (will finish 2015)
- RBC changes being done to be ready for FSAP

## Cat Reporting & Reserving – NAIC RBC & US GAAP Appendix 2

What's in the NAIC's Cat Attestation?

- Are you using same assumptions for internal ERM and for RBC reporting? (if not, explain)
- What model(s) are you using, how?
- Data quality controls for model input?
- Split of data by geocodes vs. zip codes vs. other
- Name of person completing/attesting