



CAMAR Spring 2010 Meeting Minutes

June 9, 2010

Conference Center at Penn State Great Valley – Malvern, PA

The Spring 2010 meeting of the Casualty Actuaries of the Mid-Atlantic Region (CAMAR) was held at the Conference Center at Penn State Great Valley in Malvern, PA, on June 9, 2010.

Executive Board:

Bill Carpenter
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Mike Blivess
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Past President

The business meeting commenced at 10:05 a.m. with President Bill Carpenter presiding. Bill noted that CAMAR's Board recently adopted a logo for the organization which is displayed on our giveaways (coasters) for this meeting. Bill displayed an electronic copy of the Treasurer's report and noted that it was also available on our webpage. He noted that CAMAR's current banking activities were less than in the past since CAMAR ceased offering exam seminars after the Fall 2009 exam offerings. There weren't any questions about the Treasurer's report. Bill also reminded attendees about CAMAR's antitrust policy.

Next, Bill presented the Board's proposal to amend CAMAR's Constitution. He noted that the proposal included corrections to CAMAR's geographical description and the addition of an Article for an Audit Committee and that the changes were posted on our webpage for more than one month before this meeting. Bill also shared that the Board plans to propose an additional revision to amend the Audit Committee staffing to establish further independence for this committee from the current Board. By voice vote, the proposal passed unanimously.

To begin our first session, Dan North, Chief Economist, Euler Hermes ACI, provided an overview of the U.S. economy. He discussed the forces that both started and ended the most recent recession. He predicted that inflation is likely on the way and that interest rates will increase. He discussed a variety of risks to the U.S. economy that included several types of inflation, aspects of current fiscal policy, and oil dependence. He also noted that GDP production is likely to shift significantly by country/region over the next 40 years to more closely align with population by country/region.

Chris Nyce, FCAS, KPMG Actuarial Services, noted that the insurance underwriting cycle and the general economic cycle don't always move together. He mentioned that property & casualty insurers generally have not been severely impacted by the current economic downturn, unless their product lines included mortgage insurance or other financial guarantees. He also discussed the impact of inflation on various lines of business.

Thomas Lee, FCAS, KPMG Actuarial Services, presented activities to be undertaken to assess and manage inflationary risk. He provided examples under three categories: stress testing the balance sheet, pricing discipline and hedging the inflation risk. He also provided a method to assess the impact of inflation on loss reserves.

A brief (20-minute) break was taken at about 11:45 a.m.

To begin our second session, Jason Russ, FCAS, Milliman, Inc., discussed proposed changes to Actuarial Standard of Practice 36 (Statement of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves) under the second exposure draft. He noted that this second exposure draft is open for public comment until June 30, 2010.

Chet Szczepanski, FCAS, Donegal Insurance Group, discussed proposed changes to Actuarial Standard of Practice 41 (Actuarial Communications) under the second exposure draft. He identified key changes from the original standard and in response to comments about the first draft. He also discussed critical questions that commentators identified on the second draft.

Lunch was provided from 1:10 p.m. to 2:10 p.m.

Tom Bayley, FCAS, Towers Watson, began our third session by providing some background information about the insurance underwriting cycle. He noted that peaks and troughs in combined ratios seem to occur about 9/10 years apart.

Spencer Gluck, FCAS, Guy Carpenter & Co., LLC, suggested that the insurance underwriting cycle is actually an information lag cycle. When testing workers' compensation loss development factors, he got the most accurate loss estimates when using either the last factor or the average of the last two factors. In other words, consideration of more factors actually produced less accurate estimates in his study. Having made this point, he said that this process does not eliminate cyclical errors and presented a Dynamic Reserve Model for this purpose.

Jeff Mango, CPA, A.M. Best, addressed underwriting cycles from a rating agency perspective. He said that characteristics of good cycle managers include:

- Focus on underwriting driving better results
- Increase premiums, on average, during soft markets
- Manage reserves conservatively
- Don't use investment returns to compensate for sub-par underwriting performance
- Don't allow underwriting reaction to multiple year premium declines.

For our fourth session, Yi Jing, FCAS, Towers Watson, posed several significant questions to reserving actuaries which included.

- What evidence supports your methods and weights?
- How do you decide when to change methods?
- What is the confidence range around estimates?

She noted the results of a study that found a tendency among actuaries to be overconfident in their estimates. She proposed that performance testing (of reserve methods and weights), via a formal control cycle, can help actuaries make reserve method and weighting choices in a rigorous manner.

A brief (20-minute) break was held at about 3:50 p.m.

For our final session, Bob Miccolis, FCAS, Deloitte Consulting LLP, discussed the actuarial profession's views on various aspects of systemic risk regulation. He also briefly mentioned the GAO's study of Credit Card Debt Protection products, federal health care reform and the ongoing Congressional review of statutory provisions that limit liability for oil spills. He especially noted concern with the potentially retroactive nature of the last two items.

Barry Llewellyn, ACAS, National Council on Compensation Insurance (NCCI), discussed the implications of the Byrd Amendment included in the Patient Protection and Affordable Care Act. He noted that it restores the "presumption" of coal miners who worked 15 or more years underground and provides a "presumption" to surviving spouses without a need to re-certify a claim. He also noted that NCCI has submitted revised workers' compensation loss cost filings related to these changes in WV, KY, and VA.

Tim Wisecarver, FCAS, Pennsylvania and Delaware Compensation Rating Bureaus, discussed issues related to Medicare Set-Asides and Employee Misclassification. Tim noted that Medicare is (and wants to be) a secondary payer, so claim payments must protect Medicare's interest in any potential future payments. Tim also noted that significant uncertainty exists for many individuals as to whether they are employees or independent contractors under various employment arrangements, but especially in the construction trades. He said that this issue continues to get attention at both the state and federal legislative levels.

The meeting adjourned at 5:20 p.m.

Chuck Romberger
Secretary