# Financial Reporting of Portfolio Retroactive Reinsurance

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# Agenda

- Problem definition
- Current retroactive reinsurance accounting
  - Including gaps in the guidance
- What we observed given those gaps
- Resulting distortions
- Latest developments





### Problem definition

- The current statutory accounting guidance (SAP) is deficient with regard to retroactive reinsurance
- As a result, RBC results and Schedule P analysis can be distorted.





# Current treatment of retroactive reinsurance under SAP

- Ceded and assumed losses not in "losses"
- Retroactive Reins. Reserves are write-in liabilities
  - Hence retroactive reinsurance doesn't reduce:
    - Reported Net Loss Reserves
    - RBC Capital Requirement
  - Any surplus benefit recognized, but "restricted"
- In contrast, prospective reinsurance
  - Lowers reserves for cedant
  - Lowers required RBC, (generally) improves leverage ratios.

Prospective treatment more "favorable"

<u>Some retroactive reins can get Prospective treatment</u>



# Retroactive treatment versus Prospective treatment

 Balance sheet impact of transfer of \$1,000 in loss reserves

	BEI	FORE	Retro	TER - opective atment		Prospective atment
<u>Liabilities</u>	cedant	reinsurer	<u>cedant</u>	reinsurer	<u>cedant</u>	reinsurer
L&LAE o/s	7000	0	7000	0	6000	1000
write-in liab.	0	0	-1000	1000	0	0





# When can Retroactive Reins. get Prospective Reins. Treatment?

Per SSAP 62R, paragraph 36 (2019 version)

- Novations
  - When cedant's liability is "completely extinguished"
- Intercompany reinsurance agreements
  - Among companies 100% owned by common parent
  - As long as no surplus gain as a result
- "Runoff agreements" per paragraphs 102-105
- (2 other misc. situations not relevant to our discussion)





# What is required for a "Runoff Agreement" to get Prospective treatment?

- Transfer "essentially all the risks and benefits of a specific line ... or market segment <u>that is no</u> <u>longer actively marketed</u> by the [cedant]"
- Only applies to non-affiliate agreements.
- No profit sharing, retrospective rating, etc.
- Agreement can't include other lines.





### Accounting for "Runoff Agreements"

- Ceded premium recorded as a paid loss by both cedant and assuming company.
  - Cedant premium recorded as positive paid loss
    (presumably split to line, AY)
  - Assuming co. premium recorded as negative paid
- Assuming co. reports the business in same lines as ceding company.
- Result should eliminate distortion in loss development of cedant, industry.





### Market observation

- Recent agreements transfer prior accident years of existing lines, markets, while still active in those lines, markets. (retroactive reins. accting)
- Some seem to move the liabilities to runoff entities, sometimes for transfer outside the group or country (sale or reinsurance)
- Don't qualify for "Runoff Agreement" status if with non-affiliates
- No guidance on Schedule P treatment if with affiliates.

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# COPLFR 5/21/19 Letter

Pointed out the Inconsistent Treatment of Loss Portfolio Transfers in Schedule P reporting.



# Industry Inconsistency in Reporting Transactions





# Allianz 2015 Cessions

• In 2015 Allianz Global Risks US Insurance Company ("Allianz") ceded much of its 2012 & prior Workers Compensation ("WC") business to a US affiliate, San Francisco Reinsurance ("San Francisco Re"). San Francisco Re is now named Allianz Reinsurance of America, Inc. ("Allianz Re"). In doing so it treated all the consideration paid as calendar year (CY) 2015 ceded earned premium. Initially, as of December 31, 2015, Allianz included all of the ceded losses in accident year ("AY") 2015. However, for the following year (as of December 31, 2016), Allianz recorded the ceded losses across the subject AYs 2012 and prior.





# Allianz 2015 Cessions (continued)

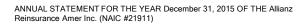
This approach distorted the 2015 CY and AY loss ratios and the loss development patterns for AYs 2015 and 2012 & prior. We have attached the relevant Schedule P excerpts from Allianz's 2015 and 2016 Annual Statements as Attachment A. Descriptions of the transaction are described in the Allianz Re Statement of Actuarial Opinion as of December 31, 2018, also a public document, in Attachment A1SAO. The Management Discussion and Analysis for Allianz Re as of December 31, 2018 is attached as Attachment A2MDA.





# Allianz Re 2015 Schedule P, **Assuming Company**





### SCHEDULE P - PART 1 - Workers' Compensation (\$000 Omitted)

		1	2	3	4	5	6	7	8	9	11	26	27	28	35	36
		Pi	emiums E	arned	L	oss and Los	s Expense	Payments								
Years i	n Which				Loss Payments		Di	CC	A&O Pavme		Total Net	Total Loss	es and Loss	Expenses	Net Re	serves
Pren	niums				LUSS Payments		Payn	nents	AQU Payiii	EIIES	TOTAL INEC	Incurred			After D	iscount
Were Ea	rned and	Direct and	Ceded	Net (Cols. 1-2)			Direct		Direct		Paid (Cols. 4 -	Direct				Loss
	s Were urred	Assmd		/	Direct and Assmd	Ceded	and Assmd	Ceded	and Assmd	Ceded	5+6-7+ 8-	and Assumed	Ceded		Losses Unpaid	Exp,
											9)					Unpaid
1	Prior	XXX	XXX	XXX	24,464	188	2,586	0	1,750	0	28,611	XXX	XXX	XXX	818,272	54,692
2	2006	0	0	0	834	0	88	0	49	0	971	19,770	0	19,770	17,205	1,594
3	2007	0	C	0	681	0	70	0	41	0	792	20,888	0	20,888	18,458	1,638
4	2008	0	0	0	893	0	135	0	46	0	1,074	16,185	0	16,185	13,492	1,619
5	2009	0	0	0	1,796	0	116	0	48	0	1,960	17,287	0	17,287	13,336	1,992
6	2010	0	C	0	1,562	0	282	0	63	0	1,906	28,451	0	28,451	22,981	3,565
7	2011	0	C	0	3,093	0	471	0	97	0	3,661	51,122	0	51,122	41,890	5,570
8	2012	0	0	0	4,899	0	595	0	106	0	5,600	48,172	0	48,172	35,576	6,995
9	2013	0	C	0	0	0	0	0	0	0	0	0	0	0	0	(
10	2014	0	C	0	0	0	0	0	0	0	0	0	0	0	0	0
11	2015	1,093,283	C	1,093,283	0	0	0	0	0	0	0	0	0	0	0	C
12	Totals	XXX	XXX	XXX	38,222	188	4,343	0	2,200	0	44,575	XXX	XXX	XXX	981,210	77,665



ANNUAL STATEMENT FOR THE YEAR December 31, 2015 OF THE Allianz Reinsurance Amer Inc. (NAIC #21911)

#### SCHEDULE P - PART 2 - Workers' Compensation

		1	2	3	4	5	6	7	8	9	10	11	12
			CURRED NE		ND DEFENS	E AND COS	T CONTAIN	MENT EXPE	NSES REPO	RTED AT YE	AR END	DEVELO	OPMENT
	Years in Which	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	One	Two
Losses W	ere Incurred											Year	Year
1	Prior	755	4,782	6,660	9,018	9,184	11,628	18,993	18,696	18,911	896,993	878,082	878,297
2	2006	0	0	0	0	0	0	0	0	0	19,346	19,346	19,346
3	2007	XXX	0	0	0	0	0	0	0	0	20,534	20,534	20,534
4	2008	XXX	XXX	0	0	0	0	0	0	0	15,788	15,788	15,788
5	2009	XXX	XXX	XXX	0	0	0	0	0	0	16,875	16,875	16,875
6	2010	XXX	XXX	XXX	XXX	0	0	0	0	0	27,910	27,910	27,910
7	2011	XXX	XXX	XXX	XXX	XXX	0	0	0	0	50,287	50,287	50,287
8	2012	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	47,260	47,260	47,260
9	2013	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	0	0
10	2014	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	XXX
11	2015	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	XXX	XXX
12	Total											1,076,082	1,076,297





ANNUAL STATEMENT FOR THE YEAR December 31, 2015 OF THE Allianz Reinsurance Amer Inc. (NAIC #21911)

#### SCHEDULE P - PART 4 - Workers' Compensation

	Years in W		BULK AND IE END (\$000 C		ES ON NET	LOSSES ANI	D DEFENSE A	AND COST C	ONTAINME	NT EXPENSE	S REPORTEI	O AT YEAR
	Incurred	CI C	1	2	3	4	5	6	7	8	9	10
			2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Pr	rior	395	0	500	392	-1,084	1,605	6,723	5,900	5,708	331,108
2	20	006	0	0	0	0	0	0	0	0	0	5,676
3	20	007	XXX	0	0	0	0	0	0	0	0	5,533
4	20	800	XXX	XXX	0	0	0	0	0	0	0	8,706
5	20	009	XXX	XXX	XXX	0	0	0	0	0	0	9,115
6	20	010	XXX	XXX	XXX	XXX	0	0	0	0	0	15,233
7	20	011	XXX	XXX	XXX	XXX	XXX	0	0	0	0	23,113
8	20	012	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0	26,990
9	20	013	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0	0
10	20	014	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0	0
11	20	015	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0









ANNUAL STATEMENT FOR THE YEAR December 31, 2016 OF THE Allianz Global Risks US Ins Co (NAIC #35300)

SCHEDULE P - PART 1 - Workers' Compensation (\$000 Omitted)

		1	- 1	- 1		-		-		0	10	- 11	26	27	28	35	36
		Prom	niums Earne	4	•	nes and Le	oss Expense	Paymon	te o	9	10	1.1	20	21	20	33	30
		rieii	iluliis Laille			uss and Lo			LS .								
Years	in Which				Loss Payments		DC	C	A&O Paym	ents		Total		ses and Lo	SS	Net Re:	serves
Prei	miums						Paym	ents				Net	Expenses	Incurred		After Di	scount
Were E	arned and	Direct and Assmd	Ceded	Net (Cols. 1-			Direct		Direct		Salv. and Sub.	Paid (Cols. 4 -	Direct				Loss
	es Were curred	Assiliu		2)	Direct and Assmd	Ceded	and Assmd	Ceded	and Assmd	Ceded	Received	5 + 6 - 7 + 8 -	and Assume d	Ceded	Net	Losses Unpaid	Exp,
												9)					Unpaid
1	Prior	XXX	XXX	XXX	60,328	55,605	5,347	5,261	1,922	1,952	0	4,779	XXX	XXX	XXX	-33,120	851
2	2007	180,051	849	179,202	82,235	2,489	6,736	146	48,686	31	454	134,991	154,018	8827	145,191	10,154	46
3	2008	140,259	795	139,464	68,516	2,009	5,917	212	43,170	70	1,186	115,312	141,629	12885	128,744	14,525	-1,092
4	2009	120,600	640	119,960	69,979	1,564	6,033	172	43,507	66	600	117,717	133,176	11983	121,193	3,601	-126
5	2010	127,176	856	126,320	80,871	2,184	8,186	440	11,236	107	586	97,562	124,613	19405	105,209	7,551	96
6	2011	139,307	812	138,495	90,678	6,935	10,187	840	14,517	142	654	107,465	151,493	27194	124,300	16,798	37
7	2012	139,822	573	139,249	69,447	26,850	9,626	3,365	13,628	199	288	62,287	130,702	59529	71,173	9,173	-287
8	2013	117,182	66	117,116	42,795	-1,616	6,645	-72	24,952	155	171	75,925	89,427	-30361	119,788	28,542	15,320
9	2014	95,298	-1	95,299	22,207	-2,432	3,669	582	26,280	158	3,041	53,848	89516	1858	87658	21496	12314
10	2015	84,691	1,096,983	-1,012,292	15,672	-182	2,254	-1	11,536	192	-34	29,453	30657	-38494	69151	36342	3356
11	2016	81,500	37,233	44,267	6,229	24	546	4	0	0	4	6,747	56004	-793	56797	41804	8245
12	Totals	XXX	XXX	XXX	608,957	93,430	65,146	10,949	239,434	3,072	6,949	806,086	XXX	XXX	XXX	156,866	38,760



ANNUAL STATEMENT FOR THE YEAR December 31, 2016 OF THE Allianz Global Risks US Ins Co (NAIC #35300)

SCHEDULE P - PART 2 - Workers' Compensation

		1	2	3	4	5	6	7	8	9	10	11	12
		INCL	JRRED NET LO	SSES AND DE	FENSE AND C	OST CONTAI	NMENT EXPE	NSES REPORT	ED AT YEAR I	END (\$000 Of	MITTED)	DEVELO	PMENT
	Years in Which	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	One	Two
Losses W Incurred	/ere											Year	Year
1	Prior	1,363,472	1,464,398	1,469,018	1,506,222	1,705,343	1,774,182	1,772,283	1,813,625	1,393,292	779,869	-613,423	-1,033,756
2	2007	96,498	98,577	98,810	115,352	107,525	117,505	118,394	117,295	107,759	96,490	-11,269	-20,805
3	2008	XXX	92,774	85,884	87,822	83,678	90,600	89,155	88,497	96,718	86,286	-10,432	-2,211
4	2009	XXX	XXX	72,007	83,965	77,066	87,258	89,632	90,983	91,622	77,877	-13,745	-13,106
5	2010	XXX	XXX	XXX	91,281	86,700	99,699	115,477	112,953	113,569	93,984	-19,585	-18,969
6	2011	XXX	XXX	XXX	XXX	116,821	119,114	143,200	135,068	136,858	109,898	-26,960	-25,170
7	2012	XXX	XXX	XXX	XXX	XXX	104,076	110,637	115,235	-504,584	58,031	562,615	-57,204
8	2013	XXX	XXX	XXX	XXX	XXX	XXX	75,542	85,604	92,304	90,977	-1,327	5,373
9	2014	XXX	XXX	XXX	XXX	XXX	XXX	XXX	62,935	68,190	57,715	-10,475	-5,220
10	2015	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	44,320	67,856	23,536	XXX
11	2016	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	51,517	XXX	XXX
12	Total											-121,067	-1,171,069



ANNUAL STATEMENT FOR THE YEAR December 31, 2016 OF THE Allianz Global Risks US Ins Co (NAIC #35300)

SCHEDULE P - PART 4 - Workers' Compensation

	Years in	Which	BULK AND I AT YEAR EN			T LOSSES A	ND DEFENS	SE AND COS	T CONTAIN	IMENT EXP	ENSES REP	ORTED
	Losses	Were	1	2	3	4	5	6	7	8	9	10
	Incurred	d	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1		Prior	317,103	317,821	251,603	217,303	355,281	381,466	358,102	377,962	12,591	-210
2		2007	50,160	27,859	20,236	23,857	9,244	19,248	15,838	13,735	8,454	0
3		2008	xxx	50,888	23,883	20,728	8,753	11,767	11,280	9,109	14,285	5,363
4		2009	XXX	XXX	37,460	24,602	8,924	13,316	13,882	12,162	12,096	0
5		2010	xxx	XXX	XXX	45,939	15,898	16,524	23,679	17,695	17,658	0
6		2011	XXX	XXX	XXX	XXX	60,402	24,431	38,698	22,723	22,258	26
7		2012	xxx	XXX	XXX	XXX	XXX	58,843	40,415	33,034	32,912	0
8		2013	XXX	XXX	XXX	XXX	XXX	XXX	45,641	36,464	35,609	31,146
9		2014	XXX	XXX	XXX	XXX	XXX	XXX	XXX	35,763	36,534	23,394
10		2015	xxx	XXX	XXX	XXX	XXX	XXX	XXX	XXX	22,846	36,913
11		2016	xxx	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	31,365



# **GEICO 2014 Cessions**

• In 2014 Government Employees Insurance Company ("GEICO") ceded half of its loss and Loss Adjustment Expense (hereinafter collectively referred to as "loss") reserves as of January 1, 2014 to its indirect parent, National Indemnity Company (NICO). In doing so it treated the consideration paid as ceded earned premium spread to prior CYs (based on the allocation of loss reserves by AY as of January 1, 2014), with the ceded losses also spread across prior AYs. This avoided distorting the CY/AY loss ratios but did distort the loss development patterns. We have attached the Schedule P and Note 21 excerpts from the 2014 GEICO Annual Statement as Attachment B.



NNUAL STATEMENT FOR THE YEAR December 31, 2014 OF THE Government Employees Ins Co. (NAIC #22063)

#### SCHEDULE P - PART 1 - Private Passenger Auto Liability

								(\$000 Omi	itted)					
			1	2	3	4	5	6	7	8	9	10	11	12
				Premiums Earn	ied			Loss and Loss	Expense Paym	ents				
	Years	s in Which						Defense						Number of
		miums				LossP	syments	Containmer	ntPayments	Adjusting and C	ther Payments		Total Net	Claims
2		Earned and										Salvage and	Paid (Cols. 4 -	Reported
		ses Were	Directand			Directand		Direct and		Direct and		Subrogation	5+6-7+8-	Direct and
L	Inc	curred	Assumed	Ceded	Net (Cols. 1-2)	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded	Received	9)	Assumed
F	1 Pric		XXX	XXX	XXX	6,801	4,168	1,156	578	426	213	268	3,424	XXX
- 12	2 200		4,413,391	51,549	4,361,842	2,694,546	26,169	133,676	1,018	329,428	397	56,384	3,130,066	774,022
- 1	3 200		4,759,059	35,763	4,723,296	2,981,984	14,433	154,847	1,974	353,659	659	65,744	3,473,423	839,849
- 14	1 200		5,006,304	36,903	4,969,401	3,271,743	10,818	180,497	2,249	380,206	1,187	72,693	3,818,193	913,990
- 1	5 200		5,163,686	69,727	5,093,959	3,351,743	22,260	189,317	3,629	380,529	2,254	70,741	3,893,446	909,611
- 10	3 200		5,552,631	154,606	5,398,025	3,750,156	52,206	212,681	8,540	397,905	4,240	76,217	4,295,756	1,008,431
- 1:	7 201		5,938,546	315,049	5,623,498	4,061,145	112,545	210,709	18,930	468,173	7,623	92,678	4,600,929	1,085,323
- 1	3 201		6,433,627	538,357	5,895,270	4,284,153	191,056	177,812	30,146	513,627	13,442	92,653	4,740,948	1,155,621
- 1	201		6,905,908	896,581	6,009,327	4,042,541	318,667	121,700	33,509	498,614	26,595	81,028	4,284,085	1,169,921
- 1	10 201		7,156,036	2,700,656	4,455,380	3,582,867	741,705	68,439	25,836	554,349	122,202	56,598	3,315,911	1,156,944
	11 201		7,353,036	2,815,450	4,537,586	2,267,067	1,142,524	18,430	9,242	185,042	92,521	20,910	1,226,253	1,119,353
- E	12 Tota	tals	XXX	XXX	XXX	34,294,746	2,636,550	1,469,265	135,651	4,061,956	271,333	685,917	36,782,434	XXX

_														
		13	14	15	16	17	18	19	20	21	22	23	24	25
1			Losses			De	fense and Cost	Containment Ung	oaid	Adjusting & C	Other Unpaid			Number
1		Case	Basis	Bulk	+IBNR	Case	Basis	Bulk	+ IBNR				Total Net	ofClaims
1												Salvage and	Losses and	Outstanding
1		Directand		Direct and		Direct and		Direct and		Direct and		Subrogation	Expense	Direct and
1		Assumed	Ceded	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded	Assumed	Ceded	Anticipated	s	Assumed
1													Unpaid	
1	Prior	32,282	24,236	162,184	117,651	2,160	1,597	10,952	7,764	1,660	830	0	57,162	777
2	2005	6,093	3,047	414	207	516	258	639	319	1,212	606	0	4,436	1,021
3	2006	10,979	5,490	4,400	2,200	917	458	1,237	618	1,925	962	0	9,729	1,521
4	2007	17,279	8,640	2,973	1,487	1,455	727	2,760	1,380	2,836	1,418	0	13,652	2,001
5	2008	37,981	18,990	2,697	1,349	3,241	1,621	4,527	2,263	5,454	2,727	0	26,950	3,900
6	2009	81,064	40,536	7,383	3,693	6,907	3,453	8,651	4,326	10,758	5,379	0	57,375	6,811
7	2010	177,952	89,026	10,220	5,114	15,767	7,888	15,775	7,891	20,048	10,024	0	119,818	10,629
8	2011	345,748	173,078	40,715	20,379	31,922	15,981	32,267	16,151	40,114	20,057	0	245,119	16,246
9	2012	629,594	315,967	99,521	49,861	59,143	29,682	61,459	30,804	76,018	38,009	0	461,414	26,318
10	2013	1,095,688	550,760	281,806	141,374	103,165	51,852	106,236	53,370	153,825	76,913	0	866,450	47,973
111	2014	2.306.610	1.157.950	565.589	284.362	188.522	94.636	152,150	76,549	523,778	261.889	0	1.861.263	346.286
12	Totals	4,741,270	2.387.720	1,177,904	627.677	413.714	208.154	396.652	201,435	837.628	418.814	0	3.723.368	463,483

		26	27	28	29	30	31	32	33	34	35	36
					Loss and	Loss Expense F	ercentage				Net Balance S	heet Reserves
		Total Losses	and Loss Expen	ses Incurred	(Incur	red/Premiums E	arned)	Nontabul	arDiscount	Inter-Company	After E	iscount
										Pooling		Loss
		Directand			Direct and				Loss	Participation		Expenses
		Assumed	Ceded	Net	Assumed	Ceded	Net	Loss	Expense	Percentage	Losses Unpaid	Unpaid
	Prior	XXX	XXX	XXX	XXX	XXX	XXX	0	s	XXX	52.580	4.581
l'a	2005	3.166.523	32.020	3.134.503	71.7	62.1	71.9	l ,		0.0	3.253	1.183
l.	2006	3,509,946	26.794	3,483,152	73.8	74.9	73.7			0.0	7.690	2.039
3	2006	3,509,946	26,794	3,483,152	77.1	74.9	77.1			0.0	10.126	3.525
6	2007	3,859,750	55.093	3,831,845	77.0	75.6	77.0			0.0	20.339	3,525 6.611
le l	2009	4.475.505	122.374	4.353.131	80.6	79.2	80.6	l ,		0.0	44.218	13.157
17	2010	4,979,789	259.041	4,720,748	83.9	82.2	83.9	l š	l ő	0.0	94,032	25.786
Ŕ	2011	5.466.358	480,291	4.986.067	85.0	89.2	84.6	l ŏ	l ő	0.0	193,005	52,113
9	2012	5.588.592	843.093	4.745.499	80.9	94.0	79.0	آ آ		0.0	363,288	98.126
10	2013	5.946.375	1.764.013	4.182.361	83.1	65.3	93.9	l õ	l ö	0.0	685,360	181.090
11	2014	6,207,188	3,119,673	3,087,515	84.4	110.8	68.0	0	0	0.0	1,429,886	431,377
12	Totals	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	2,903,778	819,590



ANNUAL STATEMENT FOR THE YEAR December 31, 2014 OF THE Government Employees Ins Co. (NAIC #22063)

#### SCHEDULE P - PART 2 - Private Passenger Auto Liability

		1	2	3	4	5	6	7	8	9	10	11	12
		II	NCURRED NET	LOSSES AND DE	FENSE AND COS	T CONTAINME	NT EXPENSES RE	PORTED AT YE	AR END (\$000 C	MITTED)		DEVELO	PMENT
	Years in Which											One	Two
Losses W	ere Incurred	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Year	Year
1	Prior	1,658,527	1,548,990	1,527,340	1,484,273	1,465,990	1,466,584	1,391,681	1,389,176	1,376,838	1,315,566	-61,272	-73,610
2	2005	3,112,946	2,925,892	2,866,433	2,847,546	2,828,882	2,829,485	2,813,509	2,810,988	2,809,954	2,804,866	-5,088	-6,121
3	2006	XXX	3,363,214	3,204,427	3,188,870	3,186,093	3,166,048	3,142,109	3,136,646	3,136,598	3,129,190	-7,408	-7,456
4	2007	XXX	XXX	3,603,759	3,558,334	3,537,939	3,511,675	3,481,734	3,473,536	3,472,147	3,451,407	-20,740	-22,129
5	2008	XXX	XXX	XXX	3,809,222	3,696,632	3,658,872	3,639,131	3,604,863	3,589,746	3,539,395	-50,351	-65,468
6	2009	XXX	XXX	XXX	XXX	4,326,922	4,146,370	4,135,650	4,088,760	4,058,439	3,954,088	-104,351	-134,672
7	2010	XXX	XXX	XXX	XXX	XXX	4,612,803	4,564,959	4,499,672	4,491,672	4,250,173	-241,499	-249,499
8	2011	XXX	XXX	XXX	XXX	XXX	XXX	5,076,898	4,913,166	4,898,511	4,465,824	-432,687	-447,342
9	2012	XXX	XXX	XXX	XXX	XXX	XXX	XXX	5,068,519	4,988,762	4,235,471	-753,291	-833,048
10	2013	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	5,266,416	3,673,302	-1,593,114	XXX
11	2014	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	2,733,105	XXX	XXX
12	Total											-3,269,802	-1,839,345



# Impact on Schedule P and RBC of Different Reporting Treatments



# Impact on Schedule P

Both transactions had the potential to materially distort industry totals with regard to loss development. They also most likely did distort data used in the RBC calculations for those companies. We note that neither SSAP 62R nor Schedule P instructions provide guidance as to what should be done in these cases. Whether to record ceded earned premium all to one CY (Allianz 2015), or to all the CYs with impacted Ays (Geico Schedule P Part 2 CY 2014), appears to be up to the individual company's option (possibly subject to regulatory approval and/or direction). We also note that these transactions can distort other schedules on the Annual Statement such as Page 3, the Underwriting and Investment Exhibits, and Schedule F.





For those agreements meeting the definition of "Run-Off Agreements" in SSAP 62R (paragraph 81), the required accounting is clear. The ceded earned premium from such agreements is to be recorded as a negative paid loss, so as not to distort the incurred development data by AY. But neither the GEICO nor Allianz agreements were "run-off" agreements, as they transferred only a portion of the prior book (and the ceding companies were still writing new business for that line/market). In addition, the "run-off" agreement accounting guidance in SSAP 62R does not apply to affiliate transactions (per SSAP 62, paragraph 102, last sentence).



## How was RBC impacted?

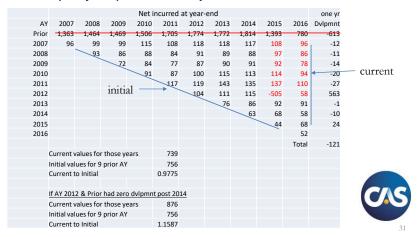
- Premium Risk (R5) Impacts
  - Charge by line based on NWP for that line
    - If NWP<0, charge is zero, despite ongoing writings
    - · Under "runoff agreement" method, charge would still exist.
  - Overall premium charge adjusted for diversification
    - Premium Concentration Factor (PCF) distorted
    - PCF = largest line NWP / Total all lines NWP (incl. <0 lines)</li>
  - Company Experience adjustment
    - · Average loss ratio for 10 AYs, company compared to industry
    - · Years with negative premium removed from the average
    - · For company, that CY/AY may be removed
    - What happens to the industry number? Distortion remove or kept in?

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# How was RBC impacted?

- Reserve Risk (R4) Impacts
  - Company Experience adjustment distorted





# How was RBC impacted?

- Reserve Risk (R4) Impacts, cont.
  - Prior slide shows how company avg dvlpmnt distorted.
  - Company value is divided by industry value.
  - How is industry value impacted?
    - That is one reason why we asked NAIC P&C RBC Working Group to look into the issue.
  - If industry value is impacted, everyone's RBC is affected that wrote that line.



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## **Other Distortions**

- Line of business mix for transaction year
- Leverage ratios based on NWP
- Average development data for company, industry(?)
- IRIS ratio tests based on loss development





### Latest news

- COPLFR letter sent to NAIC:
  - CASTF normal source of Schedule P instructions
  - Statutory Accounting Working Group (SAPWG)

     source of SSAPs
  - Cc'd to P&C RBC Working Group source of P&C RBC formula
- CASTF and SAPWG have this on their future working agendas.
- On a related note, new NAIC Working Group -Restructuring Mechanisms Working Group

