

Disaster Reporting

**by
David Vacca,
Sr. Financial Analysis & Receivership Manager
NAIC Financial Regulatory Services Division**

Presentation Overview

- Background
- Reasons for Disaster Reporting
- Structuring A Data Call
- Data Collection Systems
- NAIC Disaster Reporting Framework
- Disaster Preparedness

Background

- Disaster reporting has taken place over the years on numerous occasions
 - Hurricane Andrew
 - Y2K
 - September 11, 2001 terrorist attacks
 - Hurricane disasters in 2004 and 2005 striking Gulf Coast (Katrina/Rita/Wilma)
 - Several single state disasters involving fires, flooding, tornados, earthquakes, etc.

10 Largest U.S. Insured Property CAT Losses

<u>(\$ Millions in 2007 dollars)</u>	<u>Year</u>	<u>Insured Losses</u>
Hurricane Katrina	2005	\$43,625
Hurricane Andrew	1992	22,902
World Trade Center, Pentagon terrorist attacks	2001	22,006
Northridge, CA earthquake	1994	17,485
Hurricane Wilma	2005	10,993
Hurricane Charley	2004	8,203
Hurricane Ivan	2004	7,803
Hurricane Hugo	1989	7,013
Hurricane Rita	2005	5,973
Hurricane Frances	4,595	\$5,043

*Per ISO

Reasons for Disaster Reporting

- Identifying solvency issues at an earlier date
- Identifying market conduct issues at an earlier date
- Collecting data to assist policymakers in a timely manner
- Assisting consumers, interested parties, insurers, and other regulators in understanding exposure

Reasons for Disaster Reporting

Financial and Banking Information Infrastructure

Committee (FBIIIC)

- Chartered under the President's Working Group on Financial Markets,
- Charged with improving coordination and communication among financial regulators, enhancing the resiliency of the financial sector, and promoting the public/private partnership
- Treasury's Assistant Secretary for Financial Institutions chairs the committee

Structuring A Data Call

Activation

- Single-state event - Activation will be at the discretion of the commissioner
- Multi-state event – Activation will occur based on coordinated discussions between commissioners
- No set trigger – No specific dollar amount or size of an event was established

Structuring A Data Call

Authority and Confidentiality

- Information and data that is required to be submitted for a data call is typically made pursuant to the statutory authority of each participating state under their examination laws
- Those laws typically provide that all information obtained or disclosed in the course of an examination are confidential and privileged
- State laws allow for the sharing of otherwise confidential information with other state, federal or international regulators
- A company's failure to report the required information may result in administrative action taken by a regulator

Structuring A Data Call

SEC Regulation FD (Reg. §243.100) – Fair Disclosure

- Provides that when an insurer discloses material nonpublic information to certain enumerated persons, it must make public disclosure
- SEC Highlighted three step process
 - 1) Assess materiality;
 - 2) Assess whether disclosure was made to enumerated person (e.g. broker dealer, investment adviser, investment company, holder of security); and
 - 3) Ensure recipient expressly agrees to maintain confidence.
- Rule 100(b)(1) states it should not interfere with communications to government agencies

Structuring A Data Call

Possible Reporting Phases

- Claims by territory and financial projections
- General information
- Line of business reporting
- General claims adjudication and aging
- Policy activity data

Structuring A Data Call

Possible Reporting Phases for P&C

- Phase I - Claims by territory and financial projection
- Phase I - General information
- Phase II - Line of business reporting
- Phase III - General claims adjudication and aging
- Phase IV - Policy activity data

Structuring A Data Call

Phase I - Claims by territory and financial projections and general information

- Number of claims estimated (modeling program or portfolio underwriting)
- Number of claims reported to date (possible by county or zip)
- Total dollars paid to policyholders
- Best estimate of expected gross loss
- Best estimate of net retention
- Location, contact information and hours of operation for mobile response units
- Contact information for individual responsible for submitting the information

Structuring A Data Call

Phase II – Line of business reporting

- Number of claims reported by line of business
- Number of claims estimated by line of business
(based on modeling programs and portfolio underwriting)
- Total claims payments made to policyholders by line of business
- Best estimate of expected gross loss by line of business

Structuring A Data Call

Phase III – General claims adjudication and aging

- Total number of adjusted claims
- Average number of days to close claims
- Number of claims closed with no payment made
- Number of claims closed with payment made
- Number of claims in which litigation is involved or alternative dispute resolutions
- Number of claims open for more XX days or more, but less than XX days

Structuring A Data Call

Phase IV – Policy activity information

- Policies in force at prior and current quarter-end by line of business
- Policies renewed in current quarter by line of business
- Policies non-renewed in current quarter by line of business
- Policies canceled in current quarter by line of business
- New policies written in current quarter by line of business

Structuring A Data Call

Considerations with Reporting Requirements

- Frequency – Will be structured in a way that is reflective of the period of the time when the data would be available
- Duration – Will be structured in a way to complement each other and not create an unforeseen burden on insurers

Data Collection Systems

Goals of Any Data Collection System

- Technical architecture of any data collection system will usually provide for the following:
 - User-friendly data submission
 - Automated data validation
 - Flexible data repository and maintenance abilities
 - Functional analytical tools/reporting abilities

NAIC Disaster Reporting Framework

- Disaster Reporting Working Group of the Financial Condition (E) Committee was created in late 2005 to develop a framework that would guide state insurance departments on initiating a coordinated disaster reporting effort
- Chair - Commissioner Kevin McCarty (FL)
- Guidance in Framework is meant to be advisory, rather than to prescribe mandatory regulatory procedures
- Adopted by E Committee during December 2007 and Executive/Plenary during March 2008

NAIC Disaster Reporting Framework

Framework provides guidance on:

- Communication methods
- Forums for discussing and collaborating between states and interested parties
- Electronic applications that can be used
- Structuring the data call, including data elements
- Possible role of NAIC

NAIC Disaster Reporting Framework

Coordinated disaster reporting:

- Enhances the regulatory process by sharing resources among fellow states
- Reducing duplicative requests to insurers
- Providing key data for solvency and market regulation responsibilities
- Providing consistent assistance with interested parties

NAIC Disaster Reporting Framework

Possible NAIC roles:

- Facilitate a forum to discuss and collaborate
- Assist in the communication of a disaster reporting effort
- Design, develop and support technical solutions
- Provide technical and practical resource solutions, such as a Help Desk, to allow states to focus their resources on consumer assistance

Disaster Preparedness

- State Disaster Response Plan – Handbook serves as a guide for state insurance regulators as they develop and adopt comprehensive disaster response plans
- Catastrophe Computer Model Handbook (New Version in 2009) – Explores in some detail catastrophe computer models
- Government Accountability Office Report – Greater Transparency and Oversight of Wind and Flood Damage Determination Needed

Disaster Preparedness

CAT Risk Model Discussions

- Shortcomings of computer simulation modeling
 - Proprietary nature of models makes verification and validation by regulators impossible
 - 100% credibility is assumed by many insurers
 - Lack of data for modeling
 - Models in use produce drastically different results
 - Limited understanding of unique elements of certain disasters

Disaster Preparedness

Florida's Public Catastrophe Model

- Florida has funded and commissioned a Public Catastrophe model
- Not driven by political pressure, test results not necessarily the lowest level of losses
- Will be Available for Public Use shortly
- No “Black Box”
- A reference for regulators

Disaster Preparedness

NAIC Natural Catastrophe Plan - Catastrophe Insurance (C) Working Group

- The current plan has several layers and is designed following several guiding principles:
 - A national program should promote personal responsibility among policyholders;
 - A national program should support reasonable building codes, development plans, and other mitigation tools;
 - A national program should maximize the risk-bearing capacity of the private markets, and;
 - A national plan should provide quantifiable risk management to the federal government.
- Exposed on NAIC web site:

<http://www.naic.org/committees/catastrophe.htm>

Disaster Preparedness

Other Catastrophe Proposals

- Tax-deferred catastrophe reserves
- All-perils policy
- Federal reinsurance proposals
- Catastrophe savings accounts
- Favorable treatment of cat bonds

Questions?

