NYCIRB
New York Compensation
Insurance Rating Board
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# Meeting of the Actuarial Committee
# Actuarial Research
# Wednesday, October 28 and Thursday October 29, 2020
# Meeting Minutes

Mr. Ziv Kimmel presided

| Members | Represented by |
|---|---|
| Arch Insurance Company | Scott Burke |
| Continental Casualty Company | Julia Stenberg |
| Greater New York Mutual Insurance Company | Timothy Wang |
| Hartford Accident and Indemnity Company | Nicholas Papacoda |
| Liberty Mutual Fire Insurance Company | Sandra Kipust |
| New York State Insurance Fund | Timothy Koester |
| Public Actuary | Mark Priven |
| QBE Insurance Corporation | John Celidonio |
| Technology Insurance Company | Bryan Ware |
| Travelers Indemnity Company | Brian Clancy |
| Zurich North American Insurance Company | Mauro Garcia |

**Non-Voting Attendees**

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|---|---|
| American Home Assurance Company | Jose Couret / Marc Fournier<br>Amanda Medelsohn |
| North American Specialty Insurance Corporation | Dmitri Papush / Kristen Tripp<br>Craig Nelson |
| New York State Insurance Fund | Hang Fan |
| Pennsylvania Manufacturers' Assoc. Ins. Co. | Scott Curlee |

**Others Present**

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|---|---|
| NCCI | Tom Daley |
| New York Compensation Insurance Rating Board | Jeremy Attie / Ziv Kimmel<br>Brett King / Ben Witkowski<br>Guo Harrison / CJ Mohin<br>Robert Fogelson / Yan Lin<br>Peter Zhou / Amy Chen<br>Evgenia Segain / Ziyun Hu<br>Nicholas Wong / Tom Nowak<br>Taylor Boudwin-Jones |

Prior to the consideration of the agenda, Mr. Ziv Kimmel read the anti-trust compliance policy statement, which is annexed to these meeting minutes for reference.

## Class Ratemaking Research

Mr. Brett King, the Rating Board's Director of Actuarial Research, reminded the Actuarial Committee that it had previously agreed that loss development methodology research be expanded to review other aspects of the Rating Board's class ratemaking procedures. Mr. King presented the Committee with an update on the derivation and use of the proposed revised loss development groupings, the allocation of a limited tail factor to the different groups, and alternatives for calculating an excess load above the $500,000 limit to be used in the pure premium calculations. In addition, Mr. King presented a plan for completing the class ratemaking research. The presentation was included as Exhibit A to the agenda.

Referring to an exhibit showing the impact of the proposed methodology on the loss costs for the top 25 classes, a Committee member asked if the results would significantly differ if more classes were examined. Mr. King described the results for additional classes and explained that the impact of the new methodology on smaller classes may be diluted because of lower credibility assigned to these classes. He added that the exhibit shown illustrates the full impact of the methodology because the classes included in the analysis were highly credible.

Another Committee member asked whether there is a relationship between the impact of the proposed class ratemaking methodology on class loss costs and class size. Mr. King responded that the impact is independent of class size.

Mr. King then indicated that class pure premium credibility is an area that requires additional examination and asked whether Committee members would like examination into other areas. A Committee member suggested that the current loss limit of $500,000 should be reviewed, and the possibility of multiple limits should be explored. Another Committee member expressed concern that this may increase the number of limited loss development triangles that would need to be reviewed.

## Experience Rating Research

Mr. King reminded the Committee that during the April 2020 meeting of the Actuarial Committee, the Rating Board's proposed revisions to the experience rating formula were approved. Mr. King presented the Committee with an update on Rating Board activities relating to the implementation of the revised experience rating formula, including the re-write of the Experience Rating Manual, a transition plan, necessary system changes, and the implementation timeline. In addition, Mr. King presented several options for deriving the Expected Loss Rates

("ELRs"). The presentation containing the Rating Board's experience rating program update was included as Exhibit B to the agenda.

A Committee member explained that the experience rating mod is not applied in isolation, but is rather part of the entire rating process, which starts with the class loss cost and is adjusted by the mod to tailor the premium to the individual risk. The Committee member opined that a strong correlation should exist between ELRs and class loss costs because one purpose of experience rating is to offset any systemic inaccuracies in the class loss costs. If the ELRs are derived from a dataset different than the one used for the pure premium, the relationship might be broken.

Mr. King responded that the proposed alternatives, which utilize data from the experience period, are better predictors of the actual losses used in the mod calculation. He added that the data used for these methods is a subset of the data used to derive the loss costs, which more closely matches the experience period. This leads to a smaller estimation error in the derivations of the ELRs.

Another committee member reframed the question by asking whether the purpose of the mod is (i) to compare a risk's experience to other risks in the same class, or (ii) to also correct for any inaccuracies in the class loss costs. Mr. King responded that the hypothesis that ELRs are correcting inaccuracies in class loss costs can be further examined, but he expected the correlation to be rather low at the class level due to random variation in class experience.

The Rating Board committed to reaching out to regulators for their opinion on the matter before finalizing an ELR methodology. An update will be provided to the Committee following the Rating Board's discussion with its regulators.

<u>Construction Classification Premium Adjustment Program</u>

Mr. Kimmel explained to the Committee that the formula used to determine the Construction Classification Premium Adjustment Program ("CPAP") credit utilizes several parameters from the current experience rating formula, such as the weight and ballast values, and that under the proposed experience rating formula, these parameters would no longer be applicable. Mr. Robert Fogelson presented the Committee with an alternative CPAP calculation utilizing information from the proposed experience rating formula. The presentation was included as Exhibit C to the agenda.

A Committee member asked whether the CPAP and the limited payroll programs are required by statute, and whether the payroll reported for purposes of the CPAP program is also limited. Mr. Kimmel responded that both programs are statutory in nature and that the hourly wages reported by employers on the CPAP application are used to determine the CPAP credit, and that a maximum credit percentage applies above a certain hourly wage threshold. Mr. Kimmel added that the relationship between the programs can be examined in the future.

Another Committee member asked if there are any outliers in terms of the premium impact associated with the proposed procedures. Mr. Fogelson responded that over 98% of eligible CPAP risks would experience a premium impact of under 2%. Mr. Kimmel added that the maximum change is not significantly higher.

Other Business

A Committee member asked how COVID claims are treated in experience rating, and, if excluded, whether such exclusion was temporary. Mr. Kimmel responded that COVID-19 claims are excluded from the experience period, and that at this point, the exclusion is not temporary.

A motion was made to adjourn the meeting and the motion was approved.

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**New York Compensation Insurance Rating Board**
**Antitrust Compliance Policy Statement**

It is the policy of the New York Compensation Insurance Rating Board ("Rating Board") to comply with all laws applicable to its conduct and, specifically, with state and federal antitrust laws which govern its operations.

The basic objective of the antitrust laws is to preserve and promote competition and the free enterprise system. Broadly stated, the antitrust laws require that business people make independent business decisions without agreement with their competitors.

It is the policy of the Rating Board to comply with the New York State Insurance Law. Specifically, neither the Rating Board nor its members should interfere with the right of any insurer, to the extent permitted by the Insurance Law, to seek to make its rates or forms of policy independently, or to charge rates or to offer forms of policies different from those included in filings made by the Rating Board with the New York State Department of Financial Services.

The activities of the Rating Board are limited to those authorized by law and exchanges of information through the Rating Board should be for no other purpose. Meeting among members of the Rating Board who are competitors, even for a lawful purpose, could expose participants to the risk of an inference of unlawful agreement. It is therefore expected that you will confine your joint activities to those which are within the lawful purposes of the Rating Board.