From the President

Steven G. Lehmann

The trend in the insurance marketplace to greater customer segmentation and increased pricing accuracy continues. Pinnacle is at the forefront of this movement by presenting forward-thinking research papers, seminars and, most recently, speaking at the CAS Predictive Modeling Seminar. Our soon-to-be-released monograph reveals how Predictive Modeling can help insurers improve their rating plans by identifying mispriced risks and introducing new variables to more accurately segment and price their risks.

Pinnacle is actively tackling the tough issues surrounding the current medical malpractice insurance “crisis.” Several insurance departments and government entities have retained Pinnacle to conduct med mal research studies.

Finally, I’m excited to announce our new management consulting services to enhance Pinnacle’s actuarial services. By providing a source for reviewing clients operations and organizational structures and focusing on improving the bottom line, our consultants can add great value and new perspectives.

I am always interested in hearing from clients, so if you have any questions or need assistance, please contact me at slehmann@pinnacleactuaries.com.

Pinnacle News

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States Look To Pinnacle for Medical Malpractice Expertise

On the heels of Pinnacle’s successful Oregon medical malpractice study for the SAIF Corporation, Pinnacle has been selected to perform medical malpractice assignments for government agencies in Connecticut, Maine, Oregon and Virginia.

Pinnacle was selected by the Connecticut Insurance Department to review a key medical malpractice rate filing for one of the largest writers in the state. The Oregon Department of Consumer & Business Services has retained Pinnacle to review the loss and loss adjustment reserves of one of the leading medical malpractice insurers in the state. This study also includes a simulation analysis of the company’s Death, Disability and Retirement (free tail) reserves.

The Virginia Birth-Related Neurological Injury Compensation Fund, a no-fault patient compensation fund focusing on birth-related injuries, has asked Pinnacle to review its funding and reserving, perform a legislative costing analysis and assist the Fund in evaluating different funding alternatives.

Meanwhile, the Maine Bureau of Insurance has asked Pinnacle to perform a major analysis of an industry-wide closed claim database and the legislative impact of non-economic damage caps and “I’m sorry” legislation. “I’m sorry” laws allow a health care provider to express remorse and regret after a patient experiences a negative medical outcome without that apology being admissible as legal evidence.

“I’m sorry” legislation is receiving a great deal of interest in many states. Preliminary indications show this legislation may significantly reduce litigation and defense costs in smaller medical malpractice claims, thus reducing medical malpractice costs by up to 5%. “I’m sorry” legislation holds the potential for a more efficient insurance mechanism. It could also reduce the need for litigation because it fosters greater communication between health care providers and their patients.

In the last two years, Pinnacle also has provided its medical malpractice actuarial expertise in many other states including Florida, New Mexico, Kentucky and Ohio.

Begin Preparing for NAIC Rule Changes

The National Association of Insurance Commissioners (NAIC) has issued two new sets of rules for 2004 that will affect the Statements of Actuarial Opinion (SAO) “Appointed Actuaries” prepare for property/casualty insurance companies.

Effective for the 2004 Annual Statement, the rule changes are to give regulators more confidence in the quality of information provided in the SAO. The changes will affect the reporting relationships between insurance company management, their auditors and the Appointed Actuary.

The first change relates to new audit instructions. These instructions require collaboration between the auditor and company management to determine what historical data and methods were used to develop loss reserve estimates and whether the auditor will rely on the same data or other statistical data for evaluating the reasonableness of the loss reserve estimates. New and/or separate testing may be required.

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Possible New Jersey Auto Law Changes Would Raise Loss Costs, Premiums, Pinnacle Finds

Pinnacle Actuarial Resources has added top-notch insurance management consulting services to further help clients craft the best business decisions and face the toughest market challenges.

The legislation as proposed, would significantly increase the amount of claim losses eligible for tort recovery. The pending legislation is currently under evaluation by the Senate Judiciary Committee and has several different versions under review in the Assembly.

The original language, evaluated by Pinnacle late last year, would raise Bodily Injury Liability and Uninsured Motorists/Underinsured Motorists loss costs in the range of 34 to 57 percent for policyholders selecting the verbal no-fault threshold. This loss cost increase translates to a premium increase of 30 to 50 percent. Drivers selecting the verbal no-fault threshold constitute approximately 92 percent of all New Jersey auto insurance policyholders.

Pinnacle’s conclusions were based on the passage of AB 3531 and SB 2533, which would eliminate the current judicial requirement that permanent injuries which do not meet other specific eligibility criteria for making a tort claim in no-fault cases must have a “serious impact” on the claimant’s life.

A Pinnacle analysis of the proposed changes to the New Jersey no fault law conducted in late 2003 is being published in the fall 2004 edition of the National Association of Insurance Commissioner’s Journal of Insurance Regulation. The article was co-authored by Pinnacle’s LeRoy Boison and Steve Lehmann. The study was commissioned by the Save Choices for New Jersey Drivers group, a coalition of insurance companies, agents, trade associations and business organizations.

Pinnacle determined the potential effect of the proposed legislation based upon a closed claims survey conducted for the purpose of evaluating the impact of the proposed law change. The survey was conducted based on claims closed in May 1 through June 30, 2003 as that data represented the current judicial and insurance environment.

For more information, contact LeRoy Boison by writing lboison@pinnacleactuaries.com or calling (516) 746-7149.

Pinnacle Adds Management Services to Meet Client Needs

Pinnacle Actuarial Resources has added top-notch insurance management consulting services to further help clients craft the best business decisions and face the toughest market challenges.

The addition of Pinnacle’s management consultants is a natural extension of Pinnacle’s existing services. Pinnacle’s actuaries have been guiding clients with practical management solutions for years; they understand that actuarial and modeling insights are important pieces of an overall business strategy. Adding management consulting affiliates stems from Pinnacle’s commitment to help its clients meet and surpass their business goals.

To provide these services, Pinnacle affiliated with Steve Groot (LLC) and Dave Harris (LLC)—two former insurance executives with a combined 60 years industry experience. Since they served 30 of those years at the executive level, Mr. Groot and Mr. Harris have seen and handled just about every insurance management challenge. By adding their expertise, Pinnacle’s management services include:

- Organizational Efficiency / Expense Analysis
- Marketing and Distribution Strategy
- Succession Planning and Management Depth Review
- Cession Strategies
- Underwriting Audits, and
- Non-Standard Auto Product Management

For more information, contact Steve Lehmann by writing slehmann@pinnacleactuaries.com or calling (309) 665-5010.
New Pinnacle Software Unleashes Power of Accurate Territorial Boundaries

Territorial boundaries are extremely important for ratemaking and when it comes to catastrophe management they are critical for underwriting and marketing decisions.

Too often insurers are relying on inaccurate and out-of-date territorial information. We have found territories are often based on factors, such as zip codes and streets or highways, which were never designed to segment insurance risks. Many still contain simple city and county definitions or use geographic boundaries, such as rivers.

The good news is matching geography to insurance risk is now easier and more efficient thanks to Summit™, a new Pinnacle software application that helps companies determine appropriate territorial boundaries. The software applies credibility techniques by using information from surrounding geographical areas and then determines territory boundaries by grouping areas of similar experience. This dual process, referred to as “smoothing” and “clustering,” is incorporated into our new software using a Visual Basic platform. It is specifically designed for zip codes but can also utilize more refined areas such as census blocks.

The smoothing feature is flexible and allows users to input the credibility standard and specify how far to “reach out” to surrounding zip codes. The clustering can be done using contiguous or non-contiguous areas and provides information for determining the optimum number of territories from a statistical standpoint.

This is must-have software if you want to properly segment your business and gain significant competitive advantage. Properly-configured territories using zip codes and other, smaller building blocks can also help to avoid misclassifications by agents and underwriters.

Recent studies by Proxix Solutions, Inc. indicate that the error rate for a company’s territorial classifications can be as high as 40%. To avoid these and other problems from inaccurate territories, contact Jeff Kucera by writing jkucera@pinnacleactuaries.com or calling (847) 566-9261.

Begin Preparing for NAIC Rule Changes (continued)

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The auditor should also make inquiries of the company’s Appointed Actuary for identifying relevant data; obtaining an understanding of controls related to the completeness, accuracy and classification of loss data; and performing tests as appropriate.

Other Changes The second set of changes relates to the SAO itself. The NAIC instructions have been completely rewritten from prior years and include re-ordering sections and deleting several inconsequential paragraphs. There are numerous new requirements for the SAO. The new Exhibit A provides all of the loss and premium reserve amounts subject to the SAO and Exhibit B covers numerous disclosures.

For the first time, the Appointed Actuary must also identify in the “Opinion” paragraph the type of Opinion being issued. The five opinion options are: reasonable, inadequate/deficient, excessive/redundant, qualified or no opinion.

There are new regulatory expectations regarding the interaction between the Appointed Actuary and the insurer’s Board of Directors. First, the actuarial report supporting the SAO must be provided to the Board. The Appointed Actuary is expected to convey the risks and uncertainties underlying the exposures in that report. The Board is to be informed of the differences between the actuary’s loss and loss adjustment expense reserve estimates (point or range) and the company’s held reserves. Lastly, regulators will be reviewing the Board minutes for documentation that the Actuarial Report was presented or made available.

For more information, email Joe Herbers at jherbers@pinnacleactuaries.com or call (309) 665-5010.
**Pinnacle News Briefs**

**Pinnacle Welcomes Kiera Doster**

Kiera Doster joins our Geneva, Illinois office from a large international insurer where her primary responsibilities were related to commercial large account pricing. Her background also includes previous consulting experience focused primarily on commercial lines loss reserving for insurers and self-insured entities. Ms. Doster will support our clients in areas such as loss reserve analyses, self-insurance funding and commercial lines underwriting, tiering and classification practices.

Holding a Bachelor of Science degree in Mathematics from Indiana University, Ms. Doster is a Fellow of the Casualty Actuarial Society, member of the American Academy of Actuaries and has nine years of actuarial experience in the property/casualty insurance industry.

Ms. Doster can be reached by writing kdoster@pinnacleactuaries.com or calling (630) 262-0954.

**Lehmann Speaks at Congressional Briefing Session**

Steve Lehmann appeared at a Congressional Briefing Session on Capital Hill to provide background to senior legislative staff regarding potential insurance regulatory reforms proposed by House Financial Services Committee Chairman Michael G. Oxley (R-Ohio). Speaking on behalf of the American Academy of Actuaries last June, Lehmann discussed the pros and cons of price controls and rate regulation on the property/casualty insurance market.

**Pinnacle Presents Market Segmentation Seminar in Nation’s Capital**

Pinnacle hosted a seminar entitled, “Market Segmentation: What Executives Need to Know” in September. The seminar was presented prior to the National Association of Mutual Insurance Companies meeting in Washington, D.C. Pinnacle’s actuarial and management consultants discussed techniques for successful development and implementation of market segmentation strategies. Topics included a top-down analysis of key drivers of results, predictive modeling, underwriting, different types of customers and different distribution channels.

For further information regarding Pinnacle’s management consulting services, contact Steve Lehmann by writing slehmann@pinnacleactuaries.com or calling (309) 665-5010.

**Auto, Homeowners Texas Seminar Presented**

A recent seminar highlighted changes to homeowners and private passenger auto insurance laws in Texas. Presenters from Pinnacle, LeRoy Boison, Roosevelt Mosley and Jeff Kucera, discussed changes to the homeowners and private passenger auto class plans, use of credit in Texas, tiered pricing strategies, potential for symbol changes and possible territory issues in Texas. The new law went into effect December 1.

For additional information on these issues, please contact Jeff Kucera by writing jkucera@pinnacleactuaries.com or calling (847) 566-9261.

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**Pinnacle wishes you a safe and happy holiday season!**