

**Title Insurance Financial Reporting (C) Working Group**  
**Draft Proposal to Revise Title Annual and Quarterly Statement Instructions for Note #25**

Please submit comments on the proposal to Aaron Brandenburg at

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The 2014 Title Annual and Quarterly Statement Instructions include the following, for Notes to Financial Statements #25:

**25. Change in Incurred Losses and Loss Adjustment Expenses**

Instruction:

Describe the reasons for changes in the provision for incurred claim and claim adjustment expenses attributable to insured events of prior years. The disclosure should indicate whether additional premiums or return premiums have been accrued as a result of the prior-year effects.

Illustration:

Reserves as of December 31, 2\_\_ were \$\_\_\_ million. As of \_\_\_\_, 2\_\_\_, \$\_\_\_ million has been paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$\_\_\_ million as a result of re-estimation of unpaid claims and claim adjustment expenses principally on yyy and zzz lines of insurance. Therefore, there has been a \$\_\_\_ million unfavorable (favorable) prior-year development since December 31, 2\_\_ to \_\_\_\_, 2\_\_. The increase (decrease) is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims. Included in this increase (decrease), the Company experienced \$\_\_ million of unfavorable (favorable) prior year claim development on retrospectively rated policies. However, the business to which it relates is subject to premium adjustments.

These instructions are identical to those for Property & Casualty Notes #25, but for Title insurance certain differences pertain:

- Title balance sheet liabilities include a known claims reserve, equal to the sum of bulk and case reserves from Schedule P Parts 3C and 3D.
- Normally, the Statutory Premium Reserve is the balance sheet liability replacing the usual Property and Casualty provisions for IBNR (both loss and ALAE) and the provision for unpaid ULAE associated with known claims and IBNR claims.
- In exceptional circumstances, the Schedule P Part 1 estimated liability exceeds the sum of known claims reserve and Statutory Premium Reserve. If this is so, a Supplemental Reserve makes provision in the balance sheet liabilities for the excess amount.
- Title insurers write only Title insurance, so development cannot be attributed to specific lines.
- Title insurers do not write retrospectively rated policies, and the Instructions for Notes #24 (Retrospectively Rated Contracts and Contract Subject to Redetermination) state “Title Companies should not complete this Note, not applicable.”

It is observed from the companies’ filed 2<sup>nd</sup> and 3<sup>rd</sup> quarter 2014 quarterly statements that the intended calculation and disclosure of reserve development is generally not achieved. In many

cases, Note 25 is missing or populated with such assertions as “not applicable,” “None,” “no significant changes,” or zero amounts. In some cases, the illustrative language is followed more or less closely, but the amounts document the calendar year-to-date reserve change rather than calendar year-to-date development. In no case does the company clarify whether the subject of the Note is the known claims reserve or the Schedule P Part 1 reserve.

**Therefore changes to the Instructions for Title Insurers’ Notes # 25 are proposed as follows:**

**25. Change in Incurred Losses and Loss Adjustment Expenses**

Instruction:

- A. Describe the reasons for changes in the liability for known claims and provision for incurred claim and claim adjustment expenses attributable to claims reported in insured events of prior years. The disclosure should indicate whether additional premiums or return premiums have been accrued as a result of the prior year effects.

Illustration:

The Known Claims Reserves as of December 31, 2\_\_ was ~~ere~~ \$\_\_\_ million. As of \_\_\_\_, 2\_\_, \$\_\_\_ million has been paid for incurred claims and claim adjustment expenses attributable to claims reported in insured events of prior years. Reserves remaining for claims reported in prior years are now \$\_\_\_ million as a result of re-estimation of unpaid claims and claim adjustment expenses, principally on yyy and zzz lines of insurance. Therefore, there has been a \$\_\_\_ million unfavorable (favorable) prior-year development on known claims since December 31, 2\_\_ to \_\_\_\_, 2\_\_. The increase (decrease) is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims. Included in this increase (decrease), the Company experienced \$\_\_\_ million of unfavorable (favorable) prior year claim development on retrospectively rated policies. However, the business to which it relates is subject to premium adjustments.

- B. Describe the reasons for changes in the Schedule P Part 1 net loss and LAE reserve for claims and claim adjustment expenses attributable to policies effective in prior years.

Illustration:

The Schedule P Part 1 net loss and LAE reserve as of December 31, 2\_\_ was \$\_\_\_ million. As of \_\_\_\_, 2\_\_, \$\_\_\_ million has been paid for incurred claims and claim adjustment expenses attributable to policies effective in prior years. Reserves remaining for claims attributable to prior years’ policies are now \$\_\_\_ million as a result of re-estimation of unpaid claims and claim adjustment expenses. Therefore, there has been a \$\_\_\_ million unfavorable (favorable) prior-year development on the Schedule P Part 1 reserve since December 31, 2\_\_ to \_\_\_\_, 2\_\_. The increase (decrease) is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims, and as the estimated provision for IBNR is reviewed.