

ABSTRACT OF THE DISCUSSION OF PAPERS READ  
AT THE PREVIOUS MEETING

A SYSTEM OF PREPARING RESERVES ON WORKMEN'S COMPENSATION

CLAIMS—A. N. MATTHEWS

VOL. XIV., PAGE 244

WRITTEN DISCUSSION

MR. JOSEPH LINDER:

The loss reserves of a casualty company may roughly be divided into the following two groups:

Group I. *Reserves for Financial Purposes.* These consist of aggregate reserves for the purpose of interpreting by line of insurance the position and progress of the company as a whole or certain geographical divisions thereof.

Group II. *Reserves for Experience Purposes.* These consist of individual case reserves for the purpose of preparing experience summaries for individual risks or groups of risks.

The financial reserves may be arrived at by taking the aggregate of the experience reserves or by an independent statistical method of computation. Under the method outlined in the paper under discussion, the company obtains its financial reserves as the aggregate of its experience reserves. This necessitates the recording of loss payments and periodic estimates of incurred cost so as to make readily available the outstanding reserve for each claim. At the end of accounting periods a card is cut for each open claim and the required distributions are made. As Mr. Matthews points out, this method makes for a duplicate recording of all loss payments as between the home office claim department and the reserve division. (In most companies that follow the practice of obtaining financial reserves as the aggregate of experience reserves, there would usually be a third recording in the branch office claim department.)

When consideration is given to the distribution of compensation claims by duration of claim, it will be noted that more than 90% of all reported notices become closed cases within a relatively short period. Under a method such as the one under discussion, no distinction is made according to duration of claim; at the end of an accounting interval a card is cut for *each* open claim,

recording the incurred cost and accumulated payments, the net being the amount of outstanding reserve.

If during the early period of claim duration financial reserves are obtained by a statistical method of computation rather than as the aggregate of experience reserves, the outstanding reserve for *each* claim would not be of importance. It would, therefore, not be necessary to record payments against the individual claims. During the early period of claim duration, when the number of outstanding cases is large, the incurred cost on individual claims is usually all that is required for experience purposes. During the later period of claim duration, when the number of outstanding cases is small and the segregation between paid and outstanding is desired, such segregation may be secured from the home office claim department.

In brief, if a statistical method is utilized for obtaining financial reserves during the early period of claim duration (individual estimates being used for the later period of claim duration), it is possible to eliminate the additional posting of loss payments and to accomplish a considerable reduction in the number of cards cut for open cases (since no cards would be cut during the early period of claim duration.)

#### AUTHOR'S REVIEW OF DISCUSSION

MR. A. N. MATTHEWS:

Mr. Linder states in his discussion that there are two kinds of compensation loss reserves, namely financial reserves and experience reserves, and also that the financial reserves need not necessarily be the total of the experience reserves. It is undoubtedly true that this is usually the case. However, if the experience reserves are less than the correct outstanding losses the incurred losses which are used for rate-making purposes will be underestimated and the resulting rates will be inadequate. On the other hand if the experience reserves are correct, and the financial reserves are less than the sum of the experience reserves it is apparent that the reserves as actually carried on the liabilities page of the annual statement will be inadequate. In other words while it is probably true that the financial reserves are not usually the aggregate of the experience reserves, this is not the ideal condition.

It is possible that the method outlined in my paper will produce outstanding losses which are not absolutely correct because of incorrect estimates on the part of adjusters and also on account of the fact that there is a certain period between the time the accidents actually occur and when they are brought into the reserve system. These items of course should be taken into consideration in the calculation of both the financial reserves and the experience reserves of the company.

As Mr. Linder points out a large proportion of the total number of compensation cases are closed within a short time after date of accident and if these cases could be eliminated from our reserve system a large part of the work involved would be saved. Unfortunately under the procedure used it would be impossible to eliminate these short term cases and still be absolutely certain of receiving all of the long duration claims.

One of the principal advantages of this system is that every step must balance, which eliminates errors to a very large extent. This balance could not be maintained unless every case were used. Furthermore, if a system were devised which took into consideration only the long term cases it would be similar to our old system of obtaining claim files whenever it was necessary to calculate outstanding losses. It is true that the mechanics of the system would be somewhat different, but still there would be the objection that there would be no control on the work.

I am taking this opportunity to add that since my paper was presented this system has been extended to include liability in order to furnish the additional information required for Part I of Schedule "P" in the 1928 annual statement. While this system has been in effect for only about six months, the results appear to be entirely satisfactory.