

The Key Professional Documents for Loss Reserving – Evolution and Interaction

David Powell ACAS, MAAA

A Bit of History

- *Fundamentals of Fire & Casualty Insurance Strength* Roger Kenney 4th edition 1967
- “...loss reserves are the heart of a casualty statement”
- Referring to IBNR ---“And on the latter, no standard rule of appraisal seems to prevail.”
- There is no mention of the CAS or even the word *actuary* in the book

Agenda

- CAS Statement of Principles
- COPLFR Practice Note
- ASOP #36
- ASOP #43
- ASOP #36 revision

Time Line

- 1972 *The Actuary and IBNR*
- 1978 CAS Statement of Principles
- 1980s SAO required in some states
- Mid 1980s wave of insolvencies (Mission, Transit Casualty etc.)
- 1988 CAS Statement of Principles revised
- 1990 *Failed Promises*
- Year-end 1990 SAO required in all states
- 1993(?) First COPLFR Practice Note
- 2000 ASOP #36
- 2007 ASOP #43
- 2010 (hopefully) ASOP #36 revised

The Trend in Standards



CAS Statement of Principles

- Groundbreaking effort – contains material that, today, does not feel like principles
 - Significant educational content
 - Some definitions are now out of date – allocated and unallocated loss adjustment expense

From the Original Statement of Principles

“There is not universal agreement on the proper categorization of all of the five reserve elements between known claims and IBNR. For the purpose of this statement, *the reserve for known claims will be considered to consist of case reserves, the provision for development on known claims and the reopened claims reserve.* The *IBNR reserve* will be considered to consist of the remaining elements.”

The 1998 Revision

- “The *IBNR reserve* represents the amount that must be provided for future payments on insured losses that have occurred but that have not been reported.”
- “This approach results in an estimate of the loss reserve without segregation of claims incurred but not reported. **The estimated loss reserve is then apportioned between reserves for IBNR and known claims on a suitable basis.**”
- “...statutory accounting may prohibit a deduction (of salvage and subrogation) from loss reserves.”

COPLFR Practice Note

- Important, if not vital, document
 - may only be used by small portion of actuaries, but Statements of Actuarial Opinion reflect on all of us
- Technically non-binding, but
 - actuaries should be state-of-the-art
 - Practice Note is the state-of-the-art

ASOP #36 and #43 for Dummies

- If you know the number – it's #36
- If you are asked to supply the number it's #43

Evolution of the Standards

- The practice of reserving covers a wide spectrum of professional activity
 - Back-of-the-envelope
 - Rigorous analysis
- ASOP #36 was deliberately limited to opinions
- ASOP #43 then filled the gap
- ASOP #36 is now being revised to be consistent with #43 and to remove educational type material

ASOP #36 Was a Significant Standard

- In my view it was the first standard to have significant requirements that may not follow from actuarial common sense
 - qualified opinion
 - risk of material adverse deviation

ASOP #36 and the Practice Note

ASOP #36

- Binding
- Applies to all opinions
- Does not rely on other documents
- Contains required elements

Practice Note

- Technically non-binding
- Only applies to NAIC
- Interprets NAIC Annual Statement Instructions
 - sample wordings
- Contains required elements

Revised ASOP #36

Second Exposure Draft

- In keeping with my theme of evolution, focus on three areas
 - second opinions
 - use of other's work
 - overlap with accounting

Current ASOP #36

“An actuary may be called upon to review the opinion and supporting analyses of another actuary in order to render an opinion on the loss and loss adjustment expense reserves. (This review of the work of another actuary and an opinion given based on that review is also known as a *second opinion*.)”

Use of Other's Work

- Workers compensation residual market pools
- Broadly held reinsurance treaties
- Atypical (for the company) types of claims
 - asbestos
 - pollution
 - construction defect

Use of Other's Work

Current

“The actuary who issues the statement of actuarial opinion assumes responsibility for it, except to the extent to which the opinion indicates reliance on the work of others.”

Proposed

“The actuary should only make use of another's analyses or opinions when, in the actuary's professional judgment, it is reasonable to do so.”

Accounting and the Casualty Actuary

“The actuary should identify the stated basis of reserve presentation, which is a description of the nature of the reserves, usually found in the financial statement and the associated footnotes and disclosures.”

Concerns

“The subcommittee believes it is appropriate for the actuary to be aware of the applicable accounting standards when providing a reserve opinion. The subcommittee does not intend for the actuary to opine on the accounting standards themselves or on whether reserves are booked in accordance with the accounting standards.”

I love a finished speaker,

I do, I really do.

I don't mean one who's polished,

I just mean one who's through