

Casualty Actuaries of the Southeast

ASOP 43 Property/Casualty Unpaid Claim Estimates October 22, 2010

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Disclaimers

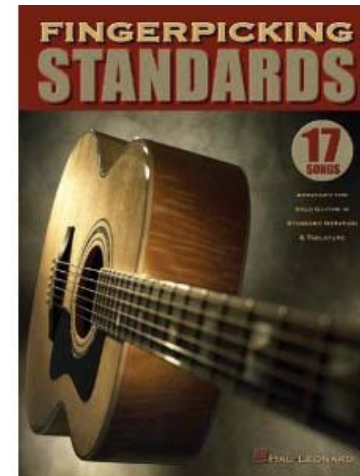
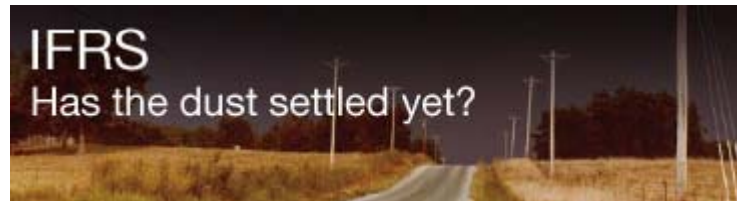
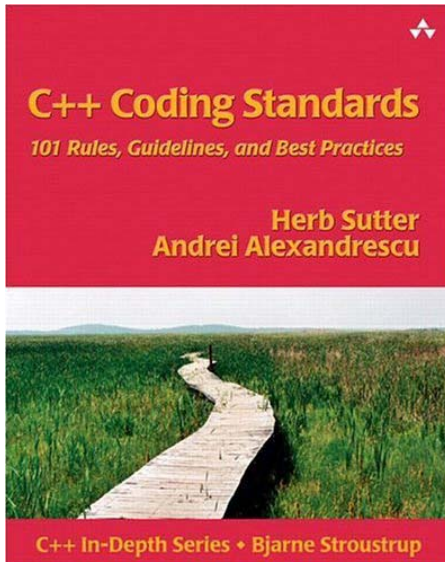


- Views here are not necessarily PwC's or CAS'.
- Actuaries still need to read (and re-read) ASOP 43.
- Use your own professional judgment and discretion.
- Discuss specific issues with peers.

ASOP 43 Property/Casualty Unpaid Claim Estimates Agenda

- General Background on ASOPs
- The Need for ASOP 43
- Overview of ASOP 43
- Section 1: Purpose and Scope
- Section 2: Definitions
- Section 3: Issues & Recommended Practices
- Section 4: Communications & Disclosures
- ASOP 43 Compliance Observations and Suggestions
- AAA Qualification Standards – Selected Items

General Background on ASOPs



General Background on ASOPs

- Developed by the Actuarial Standards Board.
- What actuary should consider, document and disclose.
- Precept 3 of the AAA Code of Conduct.
- Professional framework rather than prescriptive rules.
- What other ASOPs are relevant for unpaid claim estimates?

The Need for ASOP 43

- No prior ASOP for unpaid claim estimates or reserves.
- *CAS Statement of Principles* had been guidance.
- Publicity on adequacy of loss reserves.
- ASOP 43 effective September 1, 2007.

Overview of ASOP 43

- Section 1: Purpose and Scope
- Section 2: Definitions
- Section 3: Analysis of Issues and Recommended Practices
- Section 4: Communications and Disclosures

Section 1: Purpose and Scope

- Where does ASOP 43 apply?
 - Unpaid claims estimates for events that have occurred (as of a balance sheet date).
 - Property/Casualty coverages.
 - Written or electronic communication of “actuarial finding”.
 - External and internal work products.
 - Includes “prescribed” SAO’s, such as NAIC opinions.

Section 1: Purpose and Scope

- Where does ASOP 43 *not* apply?
 - Ratemaking
 - Unpaid amounts for events not yet occurred
 - Health benefit plans (ASOP 5)
 - Health & disability liabilities (ASOP 42)
 - Items that are a function of unpaid claim estimates

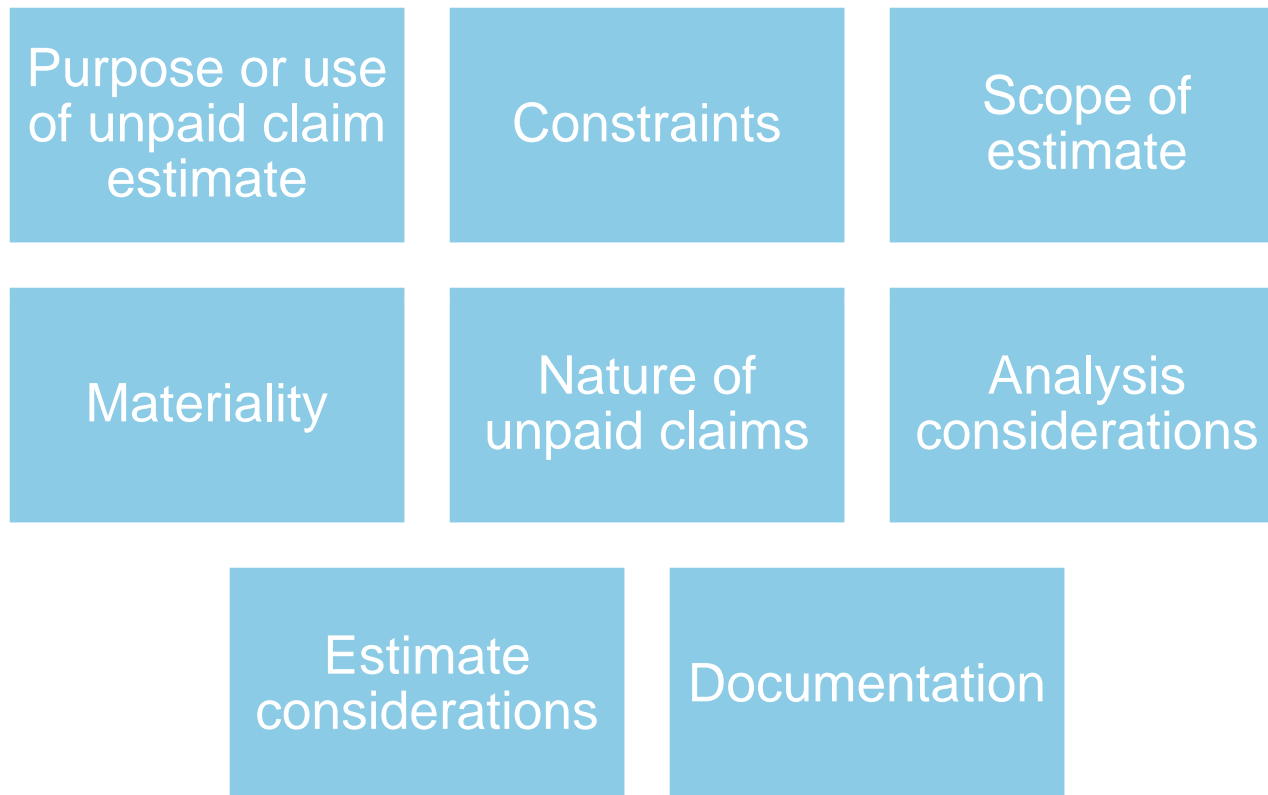
Section 1: Purpose and Scope

- 1) True/False:** ASOP 43 does not apply for the medical portion of workers' comp reserves b/c health is excluded from scope of ASOP 43.
- 2) True/False:** ASOP 43 does not apply to NAIC reserve opinions b/c ASOP 36 covers NAIC opinions.
- 3) True/False:** ASOP 43 applies to a U.S. based/credentialed actuary estimating reserves for a Brazillian insurance company's non-U.S. policies?

Section 2: Definitions

- 12 terms used in ASOP 43 are defined
- Two of these terms:
 - Unpaid claim estimate
 - Actuarial central estimate
 - “Estimate that represents an expected value over the range of reasonably possible outcomes”.
 - Does not include all *conceivable* outcomes.
 - Not a precise statistical measure.
 - Consider using the term in your reports.

Section 3: Issues and Recommended Practices



Purpose or Use of the Unpaid Claim Estimate

- Identify the intended purpose or use of the estimate.
- Examples:
 - Liability for external financial reporting.
 - Internal management reporting.
- Impacts other items such as:
 - Selection of intended measure.
 - Presentation of results.
 - Documentation and disclosures.

Constraints on the Unpaid Claim Estimate

- Examples:
 - Limited time
 - Data availability or quality limitations
 - Staffing

- Significant risk of materially different result?

Scope of the Unpaid Claim Estimate

- Gross or net (w.r.t what recoverables)?
- Collectibility risk – to what extent considered?
- What claim adjustment expense types are included?
- What types of claims (eg. LOB, year, state)?
- Intended measure
 - “Best estimate” or “point estimate” – insufficient!
 - Actuarial central estimate
 - Mean
 - 75th percentile
 - Others

Materiality

- Actuary may disregard items that are not material to unpaid claim estimate.

- Materiality evaluation considerations:
 - Intended purpose/use of estimate.
 - Requirements of applicable law.

Section 3: Issues and Recommended Practices

Materiality

Policy Year	Unpaid Estimate (\$ Millions)	Insurance Carrier
2001	5	XYZ Co.
2002	6	XYZ Co.
2003	7	DEF Co.
2004	9	ABC Co.
2005	10	ABC Co.
2006	15	ABC Co.
2007	20	ABC Co.
2008	25	ABC Co.
2009	65	ABC Co.
Total	162	

Nature of Unpaid Claims

- Actuary should understand nature of unpaid claims being estimated.

- Common examples:
 - Insurance coverage giving rise to the claims.
 - Cost drivers.
 - Claim adjustment process.
 - Potential recoverables.

Analysis Considerations

- Methods and models
 - Select appropriate methods.
 - Disclose rationale if not use multiple methods.
- Assumptions
 - Consider reasonability.
 - Consider sensitivity to alternatives.
 - Ok to use employer/client's assumptions – but provide appropriate disclosure with the resulting estimate.
- Data – refer to ASOP 23, *Data Quality*

Analysis Considerations

- Recoverables
- Gross vs. Net (approach)
- External conditions (eg. economic)
- Changing conditions
 - Data may not sufficiently reflect recent change
- Uncertainty
 - Consider whether to measure.
 - Consider types, sources and correlation.

Estimate Considerations

- Reasonableness
 - Benchmark tests of resulting estimates.
- Consistency of multiple components
 - eg. DCC vs loss ratio if separately estimated.
- Presentation of estimate
 - Consider the intended purpose/use of estimate
 - Single point vs. range vs. distribution, etc.

Documentation

- Consider intended purpose/use of the estimate.
- Refer to ASOP 41
 - Especially section 3.6 on documentation.
 - Documentation should identify the data, assumptions, and methods...such that another actuary could evaluate the reasonableness of the work.
 - Documentation should be available to company/client unless sufficiently covered by actuarial report.

Section 4: Communications and Disclosures

- Items to disclose in the actuarial communication:
 - Intended purpose/use of estimate.
 - Significant limitations.
 - Scope of estimate.
 - Key dates (see next slide for details)
 - Significant events, assumptions or reliances.
 - Specific significant risks and uncertainties.
 - Basis of a range (if range provided)
 - Changes in assumptions, methods, etc.

Key Dates

- Accounting date:
 - Date used to separate paid vs. unpaid amounts.
- Valuation date:
 - Date through which transactions are included in data.
- Review date:
 - Cutoff date for including information known to actuary in the analysis.

- Each date should be disclosed.

Key Dates

Example:

“The unpaid claim estimate as of December 31, 2010 was based on data evaluated as of November 30, 2010 and additional information on several claims provided to me through January 15, 2011.”

Accounting
Date



Valuation
Date

Review
Date

Deviation From Standard

- Alert reader that a material deviation exists.
- If deviation is law driven:
 - Indicate that work product may not be appropriate for other purposes.
- If deviation is not law driven:
 - Consider if disclosing the reasons is appropriate and practical.
 - Be prepared to explain/justify the deviation.

ASOP 43 Compliance Observations & Suggestions

- Compliance Observations
 - Consider -- generally sound fundamental work.
 - Document -- ?
 - Disclose -- mixed reviews.
- Suggestions
 - Designate someone to be the ASOP 43 guru.
 - Build ASOP 43 compliance into report templates.
 - Peer reviewer to note ASOP 43 compliance.

AAA Qualification Standards – Selected Items

- Applicability
 - Not just NAIC actuarial opinions.
 - Includes ratemaking and reserving.

- Continuing education
 - 30 “hours” per year completed & documented.
 - Requirements on distribution of the 30 hours.

AAA Qualification Standards – Selected Items

- Acknowledgement of qualification (example):
 - I, Joe Smith, am a Vice President for XYZ Insurance Company. I am a member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society and I meet the Qualification Standards of the AAA to render the actuarial opinion contained herein.

AAA Qualification Standards – Selected Items

“Opinions all provided, the future pre-decided”

Geddy Lee, Rush, from “Subdivisions”



Questions