

# Meeting Expectations

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**Casualty Loss Reserve Seminar**

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**By:**

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# OUTLINE OF PRESENTATION

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- Background on Herbers
- General Observations & NAIC CATF Guidance
- Others' Review of My Work
- My Review of Others' Work
- General Comments

## Background on Herbers

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- COPLFR Member since 1998
  - Faculty for AAA Seminar on Effective P/C Loss Reserve Opinions
  - Practice Note Subcommittee
- Appointed Actuary for 28 domestic P/C companies / RRG's in 2008
- Loss Reserve Specialist / AA for dozens of captives
- CAS paper on Materiality and SAOs (2004)

# Background on Herbers

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- 24 years consulting experience
- SAOs, feasibility studies
- Funding/reserve studies commonly reviewed by regulators, auditors, reinsurers, fronting carriers, competitors
- Audit Support experience
- Financial Examination feedback

# General Observations

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- Focus of my comments are on actuarial reports – not on SAOs or AOS
- NAIC CATF – Regulatory Guidance Memo on Actuarial Report noted three notable weaknesses in documentation of many actuarial reports:
  - Expected Loss Ratio
  - Actuarial Judgment
  - Entity

# General Observations

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- Report should contain exhibit summarizing changes in estimates from prior analysis, with extended discussion of significant factors underlying the changes – *in order to improve transparency of disclosures*
- Exhibit comparing held reserve amounts with actuarial indications
- Reconciliation exhibit between financial statement and data provided to actuary
- Added disclosures for “roll forward” type analyses

# Others' Review of My Work

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- Document judgments underlying important assumptions – “What are the soft spots”
  - annual trend rates
  - benchmark loss development patterns – source and reasonableness given situation at hand
  - implied loss ratios
  - ratios of ceded to direct
  - changes from prior years
- Schedule P Reconciliation

# Annual Trend Rates

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- -2.5% WC loss cost trend?
- 0% severity trend for nonstandard auto?
- +20% trend for nursing home professional liability?
- were exposure trends contemplated?
- Sources
  - Masterson Indices
  - Rate Filings
  - Special Studies
  - Fast Track



# Benchmark Loss Development Patterns

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- by Line / Subline [GL – OL&T/M&C/Products versus Prof. Liability]
- Primary v Excess
- by Sector (trucking, contractors, staffing, manufacturers)
- specialty lines (garage, D&O, warranty, professional liability)
- Sources

# Schedule P Reconciliation

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- paid amounts gross/net of salvage/subrogation
- loss v DCC
- reconcile A&O expenses by calendar year
- A&O as % of gross v net
- reconcile to held IBNR?
- by line v by program

# My Review of Other's Work

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- Document judgments underlying important assumptions
  - preponderance of optimistic v pessimistic assumptions
  - client confidential “benchmarks”
  - selected values compared with actuarial indications
  - perpetuation of “prior year” values when data shows movement
  - changes since prior year?

# My Review of Other's Work

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## ■ Independent Review

- Use same structure but use my own assumptions
- Truly independent review
- May impact only a portion of overall reserves

## ■ Peer Review

- ASOP 41 (Actuarial Communications) states

“(A)n actuarial report should identify the data, assumptions, and methods used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work as presented in the actuary’s report.”

# Review Template

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ASOP 41, section 3.1.2 states that “(t)he actuary should take appropriate steps to ensure that the **form** and **content** (emphasis added) of the actuarial communication are clear and appropriate to the particular circumstance, taking into account the intended audience.”

## **Form**

- Is the client requesting the performance of the actuarial analysis clearly identified?
- Is the actuary or actuaries responsible for the actuarial report clearly identified?
- Is the project scope clearly defined?
- Is the work product clear?

# Review Template

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## **Content**

- Are all assumptions and methods specified?
- Are the assumptions and methods reasonable for this assignment?
- Are the data sources identified and appropriate for their use in the analysis?
- Are the resulting calculations correct?
- Are the results, findings and recommendations reasonable and adequately supported by the analysis?
- Does the work product meet actuarial standards of practice or other professional standards?
- Are any reliances and limitations appropriate and clearly delineated?
- Is the potential variability of results adequately discussed?

# General Comments

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- Documentation of assumptions is often sparse
  - Background section of report with info on retentions, deductibles, unique program features is invaluable
  - Are LAE included in losses? Was A&O LAE considered?
- Footnotes to exhibits leave something to be desired
- Data limitations are often significant and need discussion
- Tables, charts and graphs can add immeasurably to understanding of report

Q & A

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