

Casualty Loss Reserve Seminar
P/C Insurance Company 10K Loss
Reserve Disclosures
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Section one

**10K P/C Insurance Company Reserve Disclosure
Requirements**
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Summary of 10K Disclosure Requirements for P/C Insurance Companies and Loss Reserves

Description of Business (Items 101-103 of Regulation S-K)

- Reserve reconciliation/roll forward
- 10-year reserve runoff table

Management Discussion & Analysis (MD&A) (Item 303 of Regulation S-K)

- Critical Accounting Estimates - explanation of methods/assumptions
- Explanation of results and incurred losses from prior periods
- Reserve variability

Financial Statements (ASC 944-40-50, formerly FAS 60)

- Significant accounting policies
- Reserve reconciliation/roll forward
 - Explanation of incurred losses from prior periods
- Carrying amount of discounted reserves including range of interest rates used to discount the reserve
- Methodologies for difficult to estimate liabilities (e.g. asbestos)



Sample Reserve Reconciliation/Roll Forward

| | 12/31/2009 | 12/31/2008 | 12/31/2007 |
|-----------------------------------|------------|------------|------------|
| Gross Reserves, Beginning of Year | 2,532,603 | 2,495,582 | 2,365,098 |
| Reinsurance Recoverable | 759,781 | 748,675 | 709,529 |
| Net Reserves, Beginning of Year | 1,772,822 | 1,746,908 | 1,655,569 |
| Incurred Losses, Current Year | 1,324,294 | 1,226,820 | 1,191,529 |
| Incurred Losses, Prior Year | 130,907 | -37,692 | 40,352 |
| Paid Losses, Current Year | 628,370 | 582,709 | 565,918 |
| Paid Losses, Prior Year | 694,867 | 580,505 | 574,624 |
| Net Reserves, End of Year | 1,904,787 | 1,772,822 | 1,746,908 |
| Reinsurance Recoverable | 816,337 | 759,781 | 748,675 |
| Gross Reserves, End of Year | 2,721,124 | 2,532,603 | 2,495,582 |



Sample 10-year reserve runoff table (3 years of it)

| Development | 2006 | 2007 | 2008 | 2009 |
|--|-----------|-----------|-----------|-----------|
| Net Liability Unpaid | 1,655,569 | 1,746,908 | 1,772,822 | 1,904,787 |
| Net Liability Re-estimated as of: | | | | |
| One Year Later | 1,695,920 | 1,709,215 | 1,903,729 | |
| Two Years Later | 1,693,560 | 1,796,828 | | |
| Three Years Later | 1,758,028 | | | |
| Cumulative Net Deficiency / (Redundancy) | 102,460 | 49,921 | 130,907 | |



10K Disclosure Requirements for P/C Insurance Companies and Loss Reserves - Guidance

Enhanced guidance directed by the SEC is primarily from the following sources:

- Industry Guide 6
- Current Accounting and Disclosure Issues in the Division of Corporation Finance, Item II – R
- Commission Guidance Regarding MD&A

Industry Guide 6

“Disclosures Concerning Unpaid Claims and Claim Adjustment Expenses of Property Casualty Insurance Underwriters”

(<http://www.sec.gov/about/forms/industryguides.pdf>, Guide 6)

Provides guidance to companies on disclosures:

- Description of business
 - Nature of changes to prior year estimates, impact of significant reinsurance transactions, significant assumptions and changes to such assumptions, etc.
 - Reserve reconciliation
 - Loss development table (10-year run off table)
 - Amount of discounting, differences statutory to GAAP

Current Accounting and Disclosure Issues in the Division of Corporation Finance, Item II - R

“Disclosure of Liability for Unpaid Claims and Claim Adjustment Expenses and Reinsurance Recoverables on Paid and Unpaid Claims” (2006)

(<http://www.sec.gov/divisions/corpfin/cfacctdisclosureissues.pdf>, pages 65-67)

Provides further guidance specifically to p/c insurance companies to disclose:

- Reserving policies, methodologies used, key assumptions
- Policy for having differences between recorded amounts and those determined by actuaries
- More detail regarding prior period development, changes in significant assumptions, and impact of reinsurance
- More detail on reserve variability and key assumptions

Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Estimates (<http://www.sec.gov/rules/interp/33-8350.htm,Section V>)

Provides guidance to companies across industries as regards critical accounting estimates – focuses on:

- Greater insight into the quality and variability of information regarding financial condition and operating performance.
- Greater insight on the variability that is reasonably likely to result over time, and how such changes might impact the financial statements
- Both qualitative and quantitative disclosure

Section two

10K P/C Insurance Company Reserve Disclosure Requirements
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Typical SEC Comment Letters over Past Several Years

SEC Comment letters typically request more disclosure

Common themes:

- Methods and assumptions
- Change in estimates (prior period development) – why did amounts change, and why in the current period and not in a prior period
- Variability – more insight on how sensitive the reserve amounts are to changes in key assumptions
- Management adjustments to actuarial estimates
- External actuaries

Typical Comments

Comment #1 – Methods and Assumptions

“Expand your disclosure describing methods used to determine your reserve for unpaid losses and loss adjustment expense as follows.

- i. Explain the strengths and weaknesses of each method.
- ii. Explain the factors that you consider in selecting one method over another method.
- iii. Discuss and quantify the impact of changes in method for each period presented.”

- Companies have expanded disclosures to provide much more information on the basics of actuarial reserving

Typical Comments

Comment #2 – Changes in Estimates

“Please provide a detailed discussion addressing the specific reasons for the change in estimate of claims occurring in prior years, as the current explanation of such changes solely attributes them to lines of business, and does not provide insight into the underlying causes for the changes.”

- Company reactions have included:
 - More description – accident years, identification of specific claims or adverse/favorable rulings, industry effects

Typical Comments

Comment #3 – Changes in Estimates

“Your discussion of the prior period development movements on pages ***, in the segment operating results starting on page *** and in other parts of your document does not appear to address in all cases the underlying reasons for the prior period reserve developments. Explaining developments as due to “lower than expected reported loss activity and favorable reserve development in *** lines of business as a result of favorable claim development” or to “a reduction in estimated ceded IBNR following reserve reviews in these lines” does not appear to be sufficiently informative. Please revise your disclosure to discuss the underlying reasons for the adverse and favorable prior period reserve developments. Ensure your disclosure clarifies the timing of the change in estimate such as why recognition occurred in the periods that it did and why recognition in earlier periods was not required.”

Typical Comments

Comment #4 – Reserve Variability

“Since you state that it is possible that actual claims will materially exceed your reserves and you have incurred significant losses beyond your estimates, please revise your disclosures to describe and quantify the reasonably likely changes in your key assumptions.”

- Company reactions have included:
 - Providing ranges, or
 - Identifying several assumptions and showing the amount of change to reserves from changes in the assumption

Typical Comments

Comment #5 – Reserve Variability

“In order to show investors the potential variability in the most recent estimate of your loss reserve, quantify and present preferably in a tabular format the impact that reasonably likely changes in the key assumptions identified may have on reported results, financial position and liquidity. Explain why management believes that scenarios quantified as reasonably likely.”

- Company reactions have generally been the same as for Comment #4, with an added explanation as to why the different scenarios are reasonably likely

Typical Comments

Comment #6 – Reserve Variability

“Please identify and describe those key assumptions such as frequency and severity that materially affect the estimate of the reserve for loss and loss adjustment expenses. In addition, please disclose the following:

- a. For each of your key assumptions quantify and explain what caused them to change from the assumptions used in the immediately preceding period. Please note that this discussion should supplement, rather than duplicate the disclosure provided responsive to Industry Guide 6.
- b. Explicitly identify and discuss key assumptions as of latest balance sheet date that are premised on future emergence that are inconsistent with historical loss reserve development patterns and explain why these assumptions are now appropriate given the inconsistency identified.”

- Company reactions have generally been the same as for Comment #4

Typical Comments

Comment #7 – Management Adjustments

"Describe management's policy, if any, for adjusting the liability for unpaid losses and loss adjustment expenses to an amount that is different than the amount determined by its actuaries.

- If such a policy exists, describe the method used by management to determine the adjustment and the extent to which it relies on objective versus subjective determinations. Such adjustments may include, but not be limited to, an incremental provision, a reduction in the liability, or a reversal of a previously recorded adjustment.

- When such adjustments or reversals are made, include MD&A disclosure that identifies the amount of the adjustment or reversal, the method used by management to determine it, and the specific underlying reasons that explain why management believes the adjustment or reversal is necessary."

- Company reactions have included added details on such adjustments, including in descriptions of the various factors considered by management

Typical Comments

Comment #8 – External Actuary

"You make reference to an "outside actuary." While you are not required to make this reference, when you do, you must also disclose the name of the outside actuary. If you include or incorporate by reference this disclosure into a 1933 Securities Act filing, you will also need to include the consent of the outside actuary."

- Companies have had varied responses

Section three

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Panel Q&A

Moderator – Marc Oberholtzer, PwC

Panel:

- Michael E. Angelina, ACAS, MAAA
Chief Actuary
Endurance Specialty Holdings, Ltd.
- Ken Dubbs, CPA
Senior Manager
PwC SEC Services

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Questions and Comments

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