Introduction to Reinsurance Reserving

Special Considerations

Casualty Loss Reserve Seminar

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Agenda

- Assigning Losses to Years
- Contract Types
- Line of Business Issues
- Sources of Business
- Exposure Bases
- Shares of Losses, Attachments and Limits
- ALAE Treatment
- WC Discounting
- Business Mix

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Assigning Losses to Years

Contract structure can be Losses Occurring (AY) or Risk Attaching (PY)

- Can also be occurrence or claims-made

Reinsurance triangles can be Accident Year or Underwriting Year

Assigning Losses to Years (cont'd.)

	Reinsurance Contract Structure		
Reserving Triangle Structure	**Losses Occurring**	**Risk Attaching**	**Both**
Accident Year	Matches dates, Can split individual contracts into two years	Need Accident dates as well as policy effective dates. Will split individual policies and contracts into multiple years.	Keeps most occurrences/events together. Exposure period is 12 months long.
Underwriting Year	Exposure period is 2 years long.	Exposure period is three years long	Can split single occurrences/events into two years. Triangle development can overstate ultimates for incomplete years.

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Contract Type Issues

Types of Contracts

- Quota Share (Proportional)
- Excess of Loss (Non-Proportional)
- Surplus Share
- Aggregate Stop Loss
- Mixed
- Can be:
  - Treaty
  - Facultative Certificate
  - Facultative Program

Contract Type Issues (cont'd.)

- **Quota Share**
  - Often ground-up business, but not guaranteed. (E.g. non-medical professional, umbrella) This will vary by contract
  - Limit will vary by contract
  - Share will vary by contract
- **XOL (Specific XOL)**
  - Attachment point and limit will vary by contract. Often want to split by attachment bands, at minimum.
  - Share will vary by contract.
- **Surplus Share**
  - Similar to QS
  - But share and limit will vary risk by risk within contracts, as well.

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Contract Type Issues

- **Aggregate Stop Loss (Agg XOL)**
    - Often ground-up business, but not guaranteed. This will vary by contract
    - Limit will vary by contract
    - Share may vary by contract
    - May be in same contracts with Specific XOL

- **Bottom Line:**
    - All the above can change from one year to the next
    - Know what is in the bucket you’re looking at
    - Split where necessary & credibility allows

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Contract Type Issues (cont'd.)

Other Contract Terms

- Caps
- Corridors
- Sunsets
- Sunrises
- Finite Structures
- Clash
- Swing Rate
- Commutations

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Line of Business Issues

LOB isn't always specified/clear/consistent

- Different companies will define it differently
- Umbrella may be done by underlying line or just "umbrella"
  - AL, GL components will have different development
- Contracts may have features that apply across lines
  - Aggregate limits
  - Basket retentions

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Direct business, broker business, MGAs, TPAs

- No clear rules. It depends on the contracts
  - Conventional wisdom is (was) that broker is slower. Not necessarily true
- The key is in the contracts
  - Loss reporting requirements
  - Special reporting for larger losses
  - Reporting chain
- TPAs will vary in their claims handling. Development can differ between different TPAs and between TPAs and carriers
- Development will vary by carrier
- Understand how the larger contracts work
- Can often consult with claims department. If they audit the cedents, then they may have views on quality of ceded reserves

Think “Ceded Premium”

- Other types of exposures typically unavailable
- Shares of contracts can confuse any other bases
- On-leveling can be challenging. Reinsurance rate changes don’t necessarily solve the problem
- Premium lags may differ from loss reporting lags

Shares of Losses, Attachments and Limits

This can get complicated

- Reinsurer typically will take a share of a contract. Will vary by contract.
- Underlying business may be a share of total loss/exposure.
- Example:
    - Reinsurance is proportional. 40% share of an excess umbrella book
    - Risk 1 in portfolio is $10 million part of $50 million xs of $40 million.
    - Risk 2 is $10 million part of $25 million xs of $20 million. But the $25 mil underlying limit is actually a 50% share of the total purchased in that layer by the insured. So the $10 mil limit is actually $10 part of $50 xs $20.
    - Risk 3 Same as risk 2, but the 25 x 20 could be a 50% share, so the reinsurer is $10 part of $50 xs $40.
    - The $40 in Risk 3 could actually be $40 part of $100mil xs $100mil.
- Large risk property business will be similar.

ALAE Treatment

Treatment will vary by contract

- On underlying policies
  - Typically outside limit, but not always
- Reinsurance
  - Can be:
    - Pro Rata in addition to the limit
    - Included in the loss
- Self insured retentions in business will complicate

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Workers' Compensation Discounting

Reserves reported by cedent may be explicitly discounted

- Request undiscounted?
- Consider in development/tail factor selection

Reserves reported by cedent are typically implicitly discounted

- Unless outstandings (especially medical) are inflated when claims department determines the case reserves
- Can be relatively consistent in triangles, but causes high tail factors, particularly for excess business

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Class mix can change from year to year in triangles

- Changes by ceding companies within a contract
- Change of contracts within the reinsurer’s portfolio
- Can cause development changes.

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