

**2013 Casualty Loss Reserve Seminar  
Boston, MA**

# **A.M. Best Perspectives on Reserving and Reserve Adequacy**

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Vice President

16 September 2013



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# Agenda



- Historical Adverse Development
- Historical and Current Deficiencies
- Correlation of UW Cycle and Reserving Cycle
- Rating Perspectives

# Historical Adverse Development



## U.S. Property/Casualty - Incurred Loss & DCC Development (2002-2011)

One year development for calendar years, accident years as of Dec. 31, 2011

Excludes Mortgage Guaranty and Financial Guaranty Segments

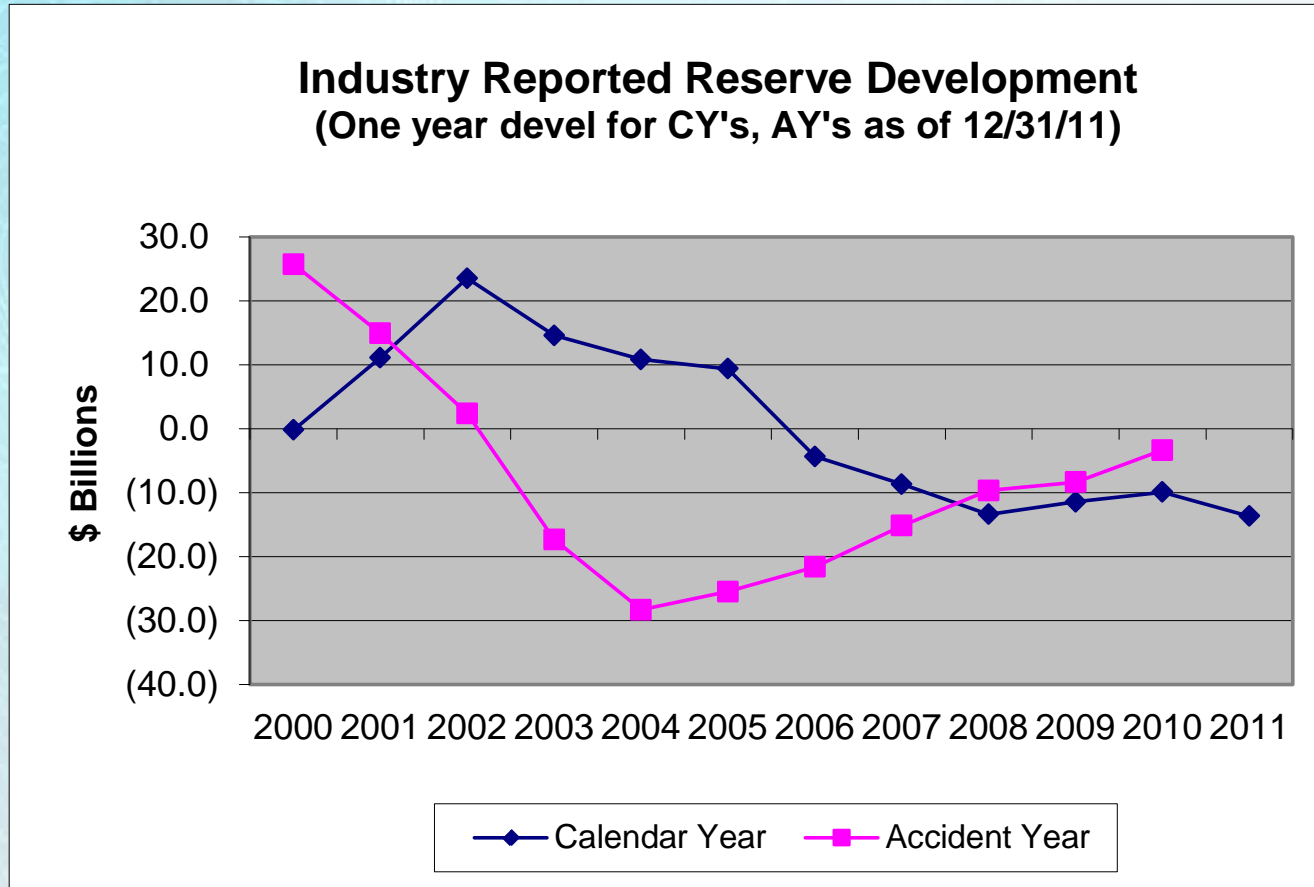
(\$ Billions)

Accident Year	<u>One-Year Reserve Development *</u>										Total AY Development Through 2011	
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>		
Prior	23.5											\$123.8
2002		(4.8)										\$2.4
2003			(10.7)									(\$17.3)
2004				(3.4)								(\$28.3)
2005					(13.6)							(\$25.5)
2006						(9.9)						(\$21.6)
2007							(8.5)					(\$15.2)
2008								(6.2)				(\$9.7)
2009									(4.1)			(\$8.4)
2010										(5.6)		(\$3.4)
2011											(3.4)	
Total in Calendar Yr	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>		
	23.5	14.6	10.8	9.4	(4.4)	(8.7)	(13.4)	(11.5)	(9.9)	(13.7)		

\* Positive values indicate adverse development; negative values are favorable.

EST.  
2012  
(13.0)

# Historical Adverse Development



# Current Deficiencies



## U.S. Property/Casualty - Estimated Year End Loss and DCC Reserve Deficiencies (2012) (\$ Billions)

Product Line	Excluding Discount	Statutory Discount	Total Deficiency
Workers' Compensation	9.6	18.2	27.8
Other/Products Liability	4.7	1.4	6.1
Reinsurance - Nonproportional Assumed	2.6	2.5	5.1
Commercial Multiple Peril	2.3	0.2	2.5
Commercial Auto Liability	0.4	0.5	0.9
Homeowners	-0.2	0.0	-0.2
Medical Professional Liability	-2.7	1.0	-1.7
Personal Auto Liability	-3.1	0.3	-2.8
All Other Lines	-3.2	0.2	-3.0
<b>Total Core Reserves</b>	<b>10.4</b>	<b>24.3</b>	<b>34.7</b>
Asbestos & Environmental	13.7	0.0	13.7
<b>Total</b>	<b>24.1</b>	<b>24.3</b>	<b>48.4</b>

Excludes mortgage guaranty and financial guaranty segments.

# Current Deficiencies



## Loss & DCC Reserve Adequacy By Line of Business

Product Line	Original Estimated Reserve Deficiency @ 12/11 (\$B)	Current Estimated Reserve Deficiency @ 12/11 (\$B)	Estimated Reserve Deficiency @ 12/12 (\$B)
Workers' Compensation	26.7	26.5	27.8
Reinsurance - Nonprop Assumed	6.0	4.3	5.1
Other/Products Liability	5.3	4.9	6.1
Commercial Multiple Peril	1.7	1.0	2.5
Commercial Auto Liability	0.5	0.4	0.9
Homeowners	-0.2	-0.4	-0.2
Personal Auto Liability	-1.5	-3.6	-2.8
Medical Professional Liability	-3.0	-3.0	-1.7
All Other Lines	-2.0	-3.5	-3.0
<b>Total Core Reserves</b>	<b>33.5</b>	<b>26.6</b>	<b>34.7</b>
Asbestos & Environmental	7.4	16.4	13.7
<b>Total</b>	<b>40.9</b>	<b>43.0</b>	<b>48.4</b>

Excludes Mortgage Guaranty and Financial Guaranty segments

# Current Deficiencies



<b>Loss &amp; DCC Reserve Adequacy</b>		
<b>Commercial Lines Composite</b>		
Source	Estimated Reserve Deficiency @ 12/12 (\$B)	Percent of Total Carried Reserves
Core Reserves	26.5	
Asbestos & Environmental	9.4	
<b>Total Composite</b>	<b>35.9</b>	<b>9.8%</b>
<b>Personal Lines Composite</b>		
Source	Estimated Reserve Deficiency @ 12/12 (\$B)	Percent of Total Carried Reserves
Core Reserves	1.2	
Asbestos & Environmental	1.4	
<b>Total Composite</b>	<b>2.6</b>	<b>2.0%</b>
<b>U.S. Reinsurance Composite</b>		
Source	Estimated Reserve Deficiency @ 12/12 (\$B)	Percent of Total Carried Reserves
Core Reserves	7.0	
Asbestos & Environmental	2.9	
<b>Total Composite</b>	<b>9.9</b>	<b>15.2%</b>



# Current Deficiencies



By-Line Reserve Adequacy (\$ Billions)  
@12/11

Reserve Line	Percent of Core Reserves	<u>Accident Years</u>				Discounted Reserve Deficiency/ (Redundancy)	Statutory Discount (A)	Total Reserve Deficiency / ( <u>Redundancy</u> )	
		2001 & Prior	2002 - 2005	2006 - 2009	2010 - 2011			Amount	%
Workers' Compensation	25.8%	\$3.0	\$1.6	\$2.2	\$1.9	\$8.6	\$17.9	\$26.5	17.7%
Other / Products Liability	22.7	1.6	1.7	(0.5)	0.7	3.5	1.4	4.9	3.3
Personal Auto Liability	16.8	0.5	0.1	(1.8)	(2.7)	(3.8)	0.3	(3.6)	(3.7)
Reins-Nonproportional Assumed	7.8	1.1	1.2	(0.3)	(0.1)	1.9	2.4	4.3	8.6
Commercial Multiple Peril	6.1	0.3	0.4	(0.1)	0.2	0.8	0.2	1.0	2.7
Medical Professional Liability	5.0	0.0	(0.3)	(2.1)	(1.7)	(4.0)	1.0	(3.0)	(10.5)
Commercial Auto Liability	4.2	0.1	(0.1)	(0.5)	0.4	(0.1)	0.5	0.4	1.6
Homeowners	4.3	0.1	0.0	0.0	(0.6)	(0.5)	0.0	(0.4)	(1.8)
<u>All Other</u>	<u>7.2</u>	<u>0.1</u>	<u>0.2</u>	<u>(0.7)</u>	<u>(3.4)</u>	<u>(3.8)</u>	<u>0.2</u>	<u>(3.5)</u>	<u>(8.6)</u>
Core Reserves (B)	95.2	6.7	4.9	(3.6)	(5.2)	2.7	23.9	26.6	4.5
<u>A&amp;E (C)</u>	<u>4.8</u>	<u>16.4</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>16.4</u>	<u>0.0</u>	<u>16.4</u>	<u>2.7</u>
Total Loss & DCC Reserves	100.0%	\$23.1	\$4.9	(\$3.6)	(\$5.2)	\$19.1	\$23.9	\$43.0	7.2%

(A) Includes both tabular and non-tabular statutory discount.

(B) Source: A.M. Best's proprietary loss reserve model.

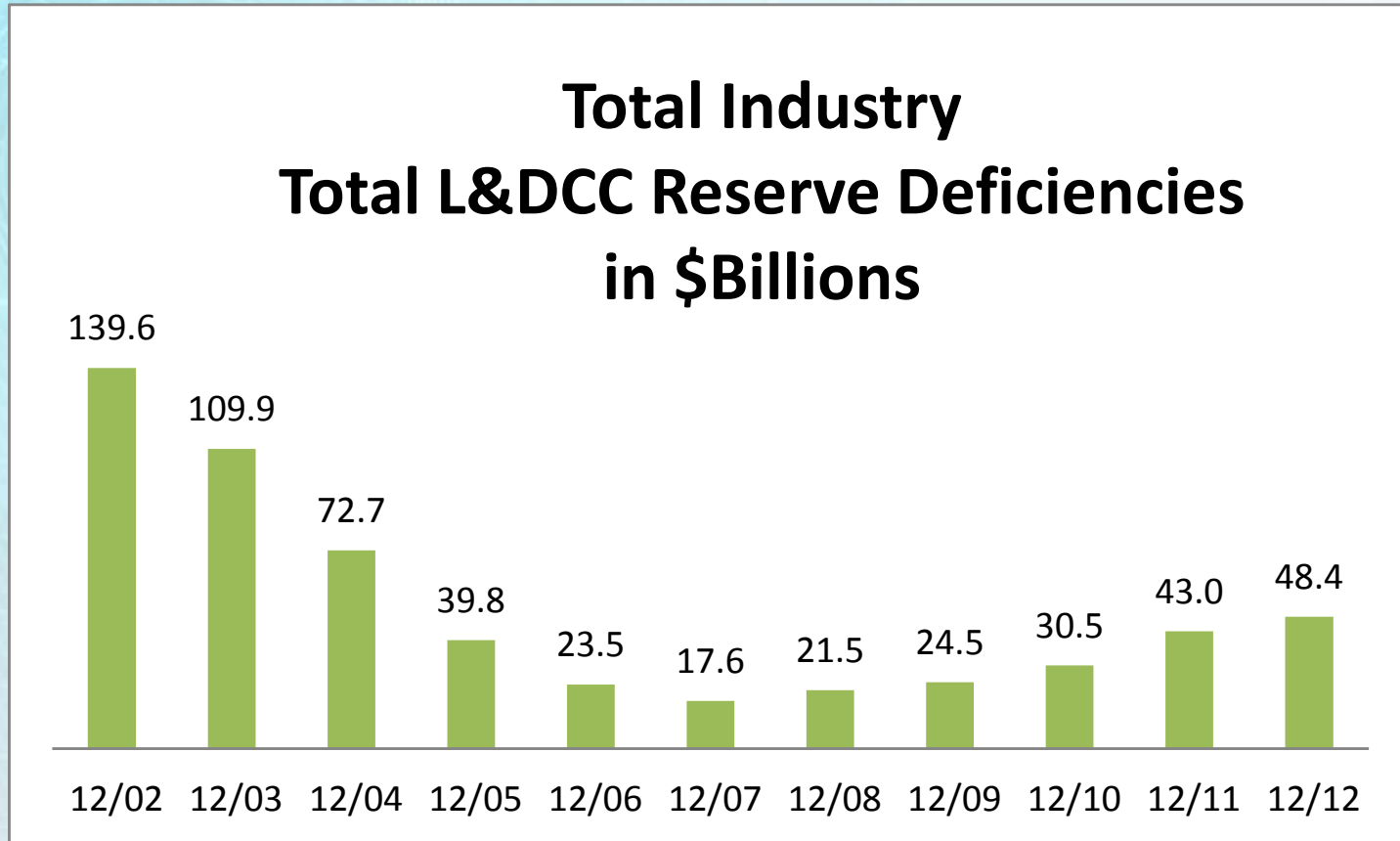
(C) Source: A.M. Best's internal A&E study.

Excludes Mortgage Guaranty and Financial Guaranty segments

# Historical Deficiencies



## Total Industry Total L&DCC Reserve Deficiencies in \$Billions

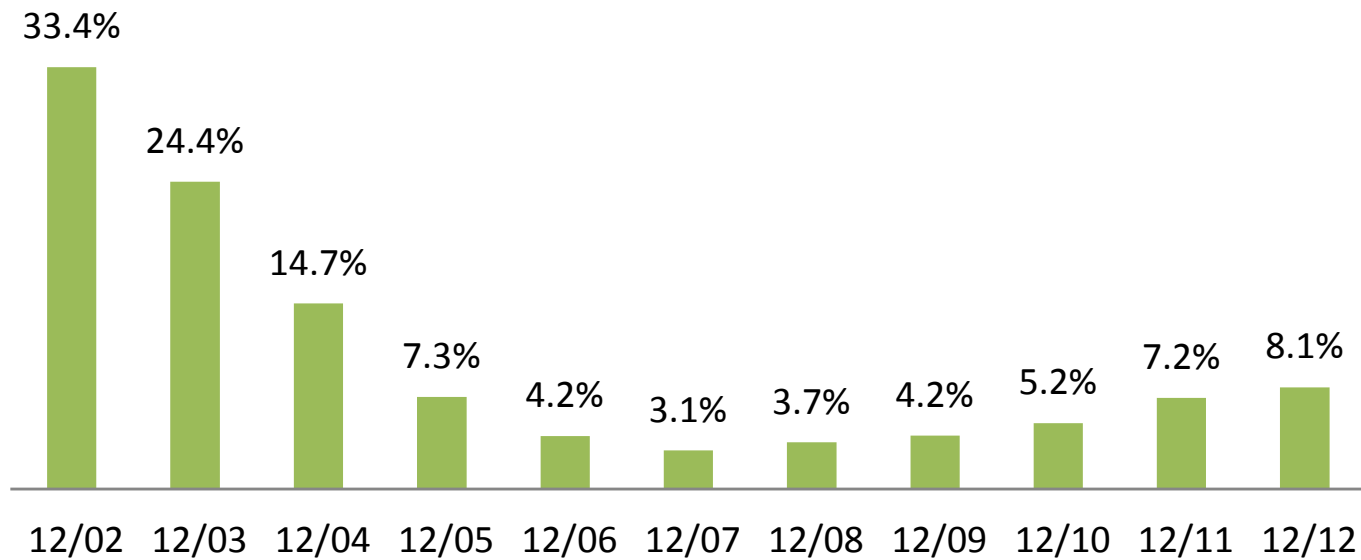


Excludes Mortgage Guaranty and Financial Guaranty segments

# Historical Deficiencies

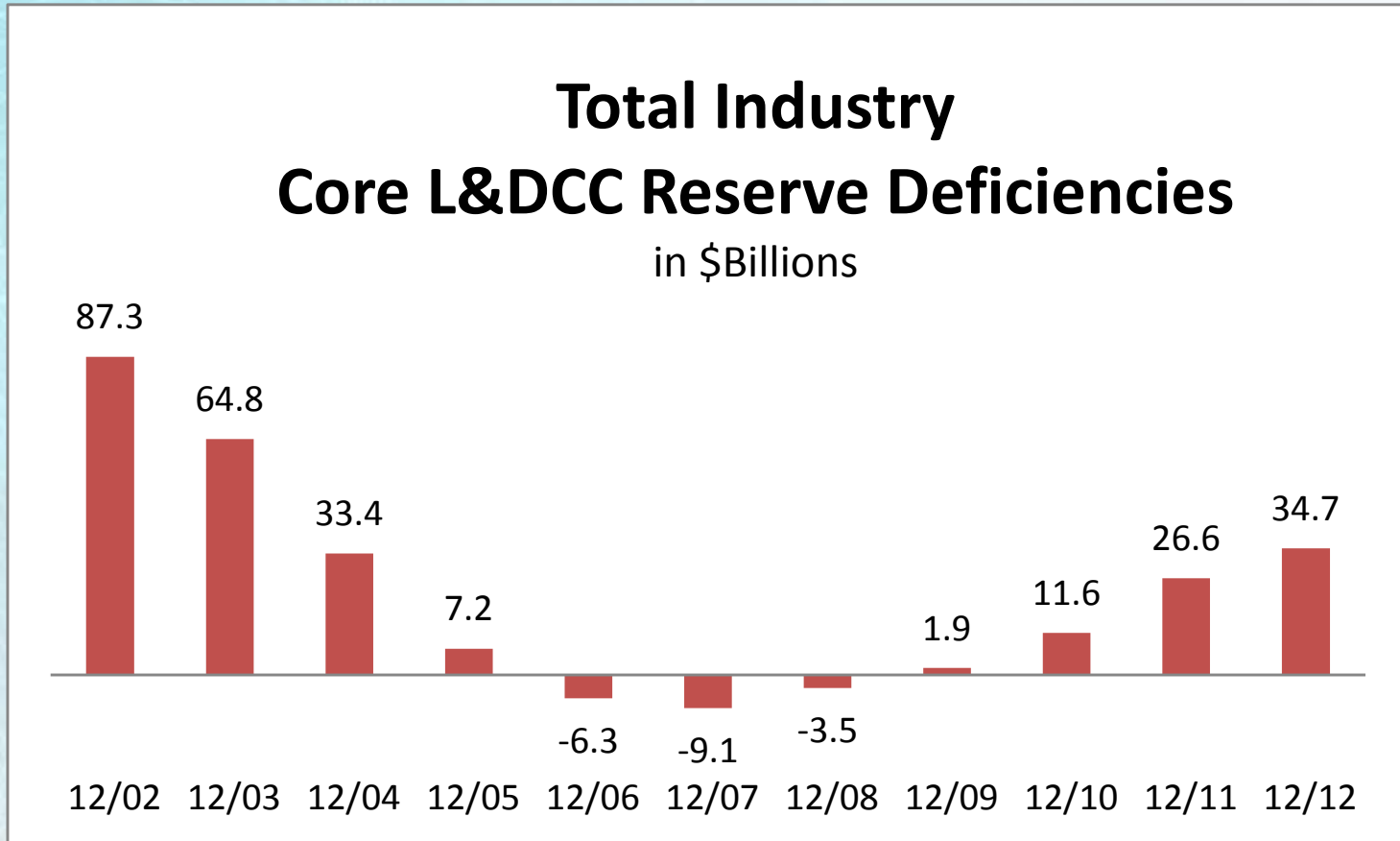


## Total Industry Total L&DCC Reserve Deficiencies



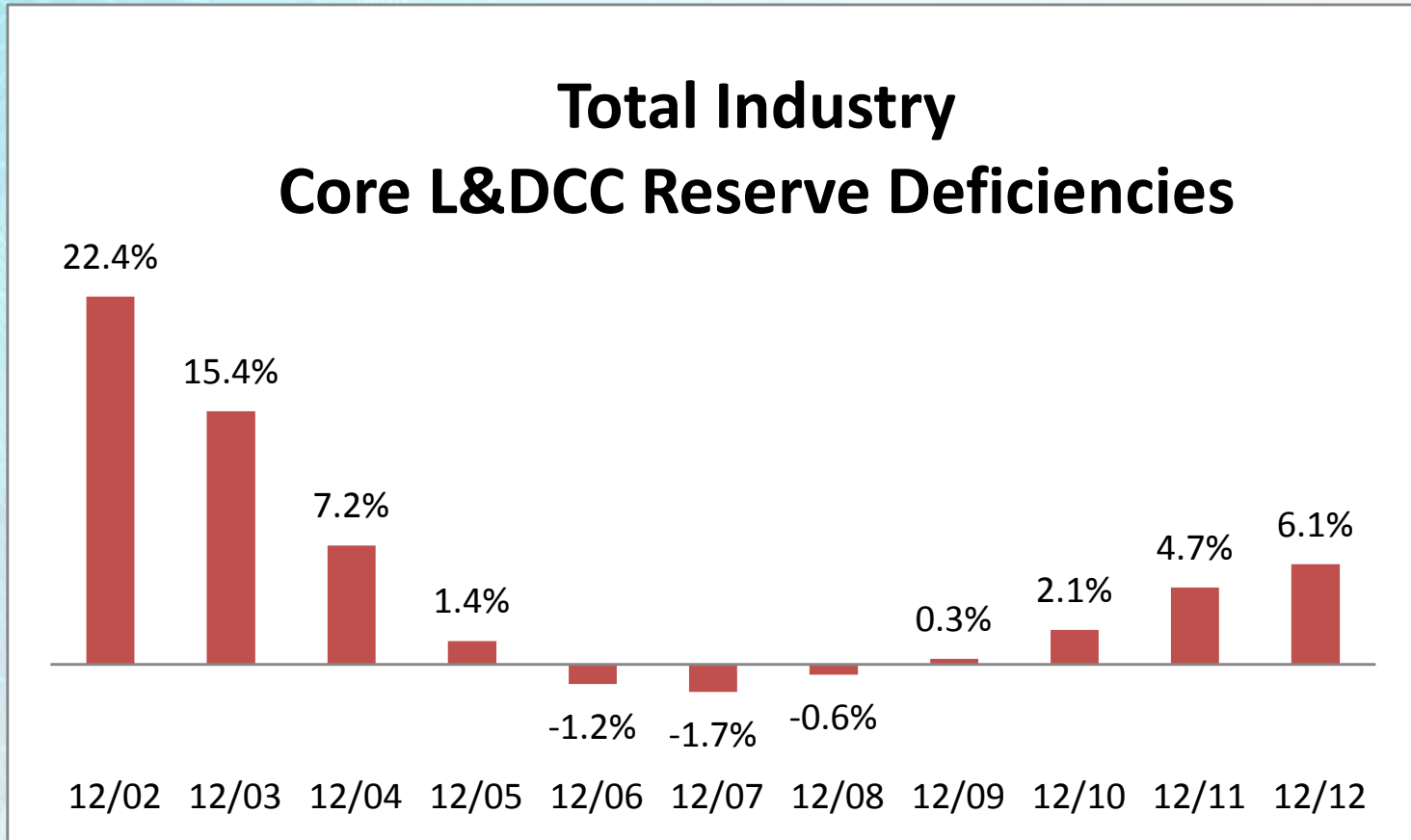
Excludes Mortgage Guaranty and Financial Guaranty segments

# Historical Deficiencies



Excludes Mortgage Guaranty and Financial Guaranty segments

# Historical Deficiencies

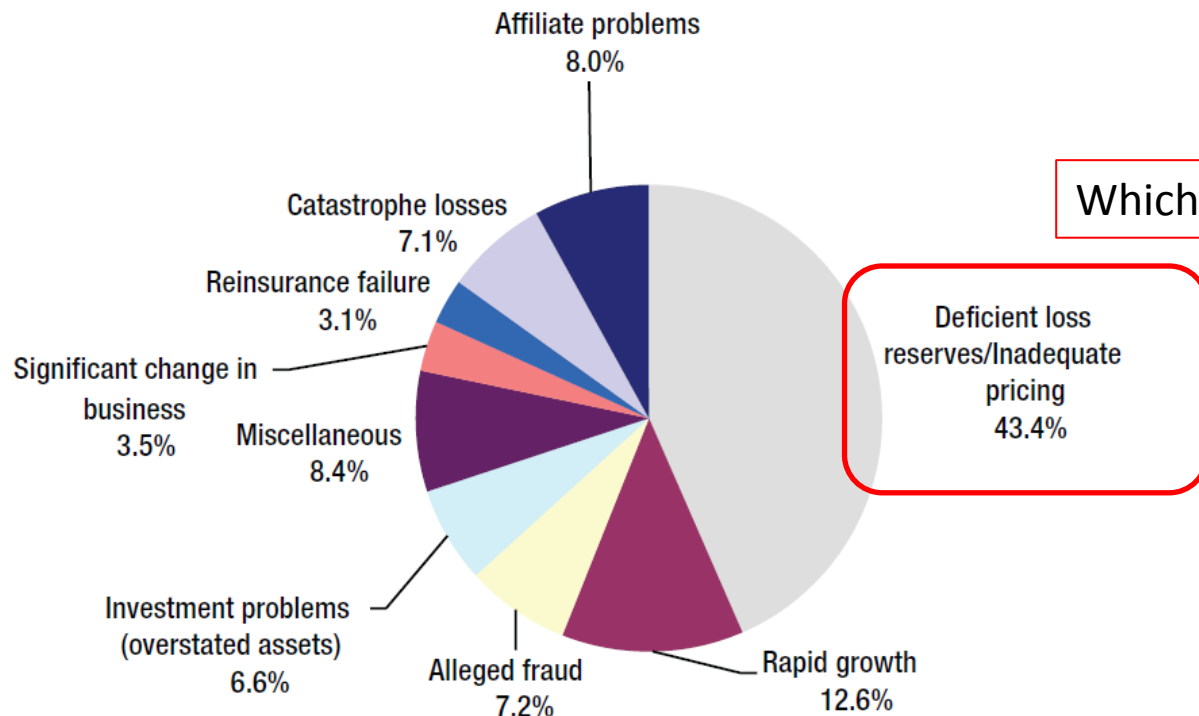


Excludes Mortgage Guaranty and Financial Guaranty segments

# UW Cycle and Reserving Cycle



## U.S. Property/Casualty – Primary Causes of Financial Impairment (1969-2012)

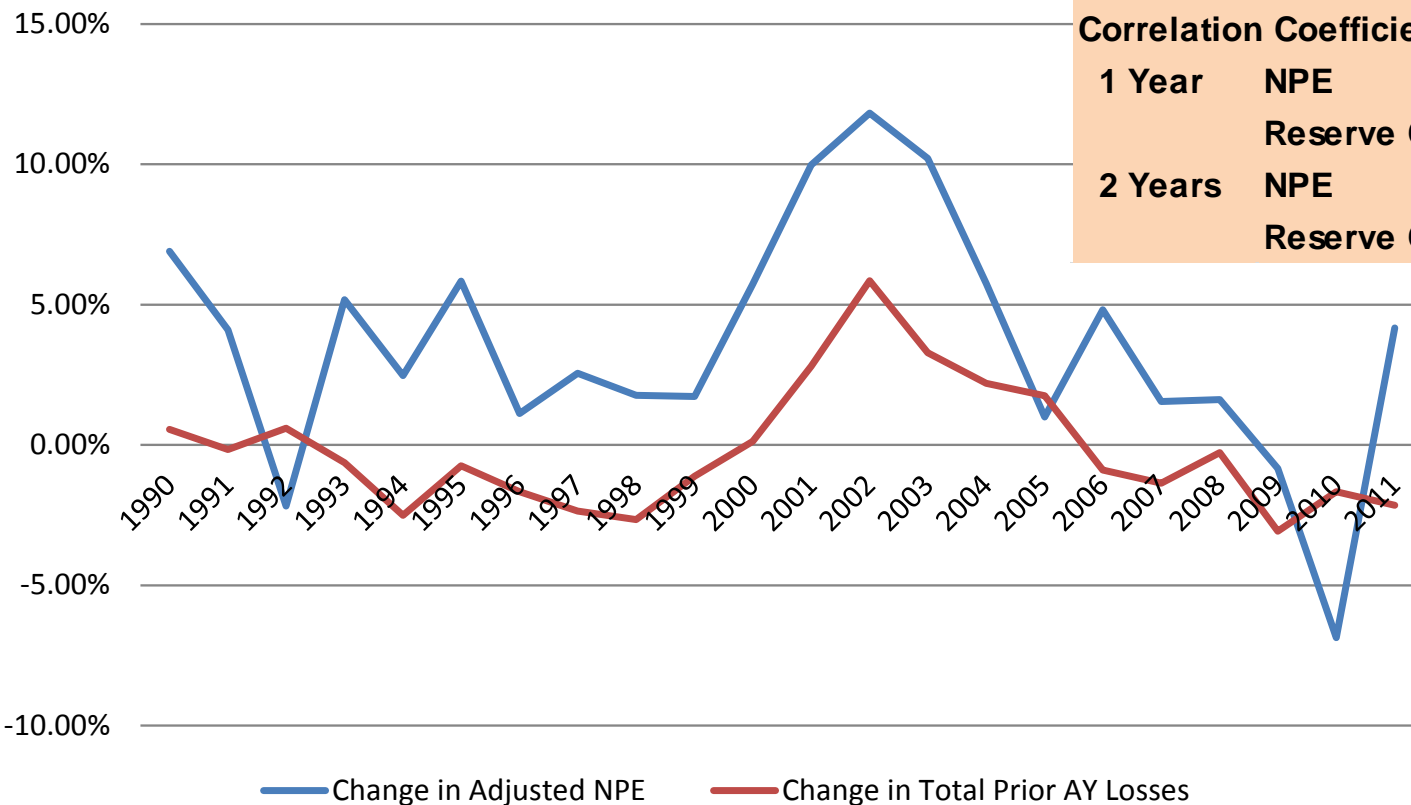


Note: Exhibit % are based on companies where the cause of impairment was identified.  
Source: A.M. Best data & research

# UW Cycle and Reserving Cycle



## Total US PC Industry

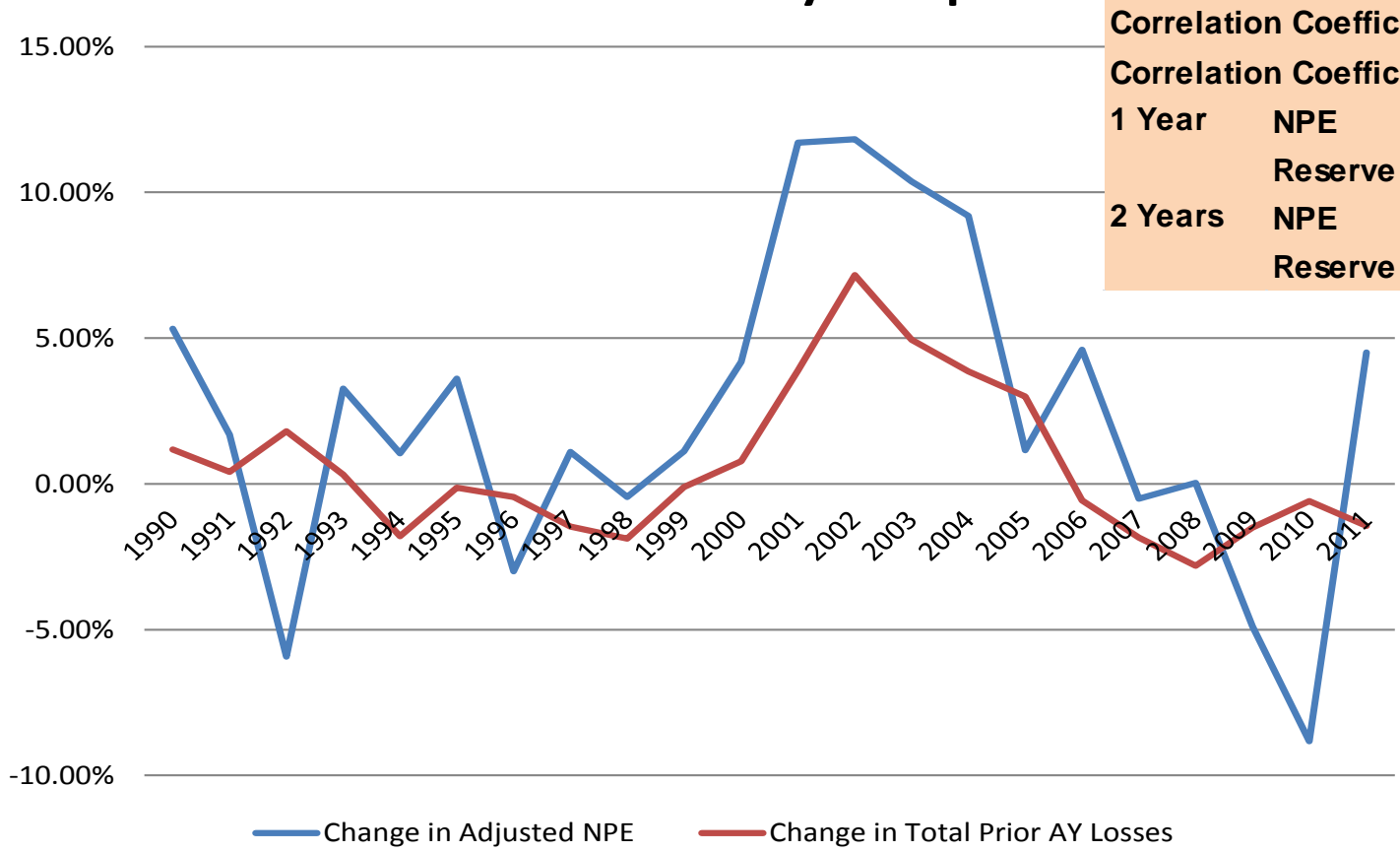


<b>Correlation Coefficient</b>	<b>0.669098</b>
<b>Correlation Coefficients with Lags:</b>	
<b>1 Year NPE</b>	<b>0.577922</b>
<b>Reserve Change</b>	<b>0.682524</b>
<b>2 Years NPE</b>	<b>0.173470</b>
<b>Reserve Change</b>	<b>0.601920</b>

# UW Cycle and Reserving Cycle



## Commercial Casualty Composite



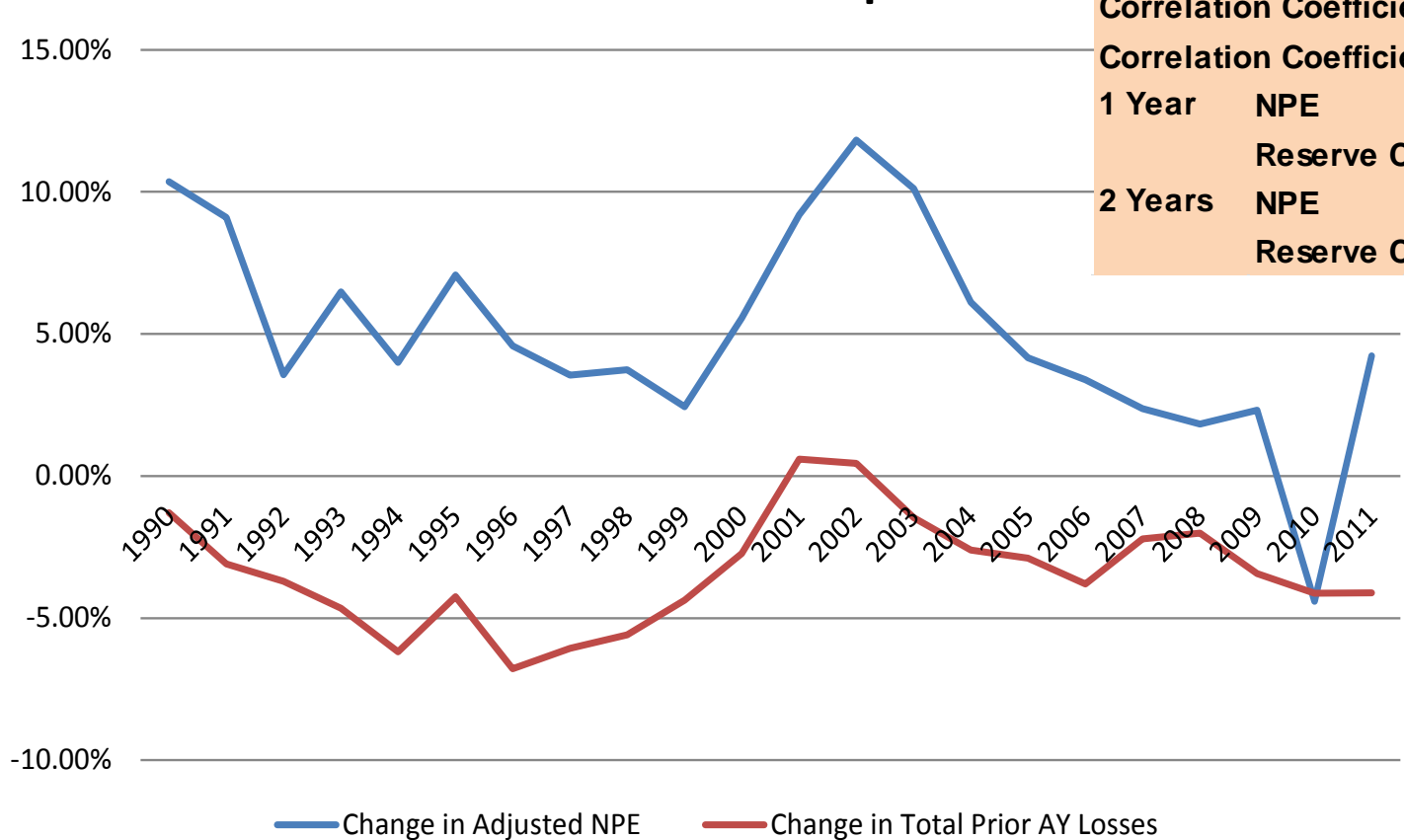
<b>Correlation Coefficient</b>	<b>0.664404</b>
<b>Correlation Coefficients with Lags:</b>	
<b>1 Year NPE</b>	<b>0.647235</b>
<b>Reserve Change</b>	<b>0.721852</b>
<b>2 Years NPE</b>	<b>0.479970</b>
<b>Reserve Change</b>	<b>0.557090</b>



# UW Cycle and Reserving Cycle



## Personal Lines Composite



<b>Correlation Coefficient</b>	<b>0.522364</b>
<b>Correlation Coefficients with Lags:</b>	
<b>1 Year NPE</b>	<b>0.407657</b>
<b>Reserve Change</b>	<b>0.247572</b>
<b>2 Years NPE</b>	<b>0.127222</b>
<b>Reserve Change</b>	<b>0.057181</b>

# Rating Perspectives



- Gross, Ceded, & Net Reserve Leverage
- Sched P historical runoff
- Loss Reserve Model estimated deficiency
- Company supplied reserve review
- Variability in strengthening/weakening
- Impact on
  - Balance Sheet Strength (BCAR)
  - Operating Performance
  - Business Profile (Management ability)

# Rating Perspectives



<----- Loss Reserve Ratios (p.12-13) ----->

Res/PHS	Res/NPE	Dev/Orig	Dev/PHS	AY Comb	(CY-AY)
126.4	133.3	-7.3	-9.3	104.5	0.7
111.6	138.0	-5.0	-5.6	101.8	-1.3
103.3	139.9	-3.6	-3.7	103.5	-0.9
107.1	138.7	-2.1	-2.3	109.0	-0.8
101.1	134.8	-	-	105.6	-2.5
101.1	134.8				

Growth Analysis (% Change)

Year	Premiums Written						Loss Reserves	LAE Reserves	Total Reserves	Unearned Premiums	All Other	Total Liab	PHS
	Direct	Assumed	Gross	Ceded	Net	NPE							
2008	-2.3	1.5	-0.7	0.7	-2.0	-0.6	4.5	1.5	4.0	-1.7	-6.8	0.3	-12.4
2009	-3.1	-2.8	-3.0	-1.7	-4.1	-4.0	-1.1	1.6	-0.6	-2.1	-1.5	-1.1	12.6
2010	0.3	-2.3	-0.8	-2.6	0.8	-0.6	0.5	1.9	0.7	0.9	1.9	1.0	8.8
2011	3.6	2.5	3.1	2.9	3.3	2.9	2.2	1.2	2.0	1.9	3.3	2.3	-1.6
2012	4.4	5.9	5.0	5.8	4.3	3.4	0.5	0.4	0.5	3.7	7.3	2.6	6.4
5 Yr:													
CAGR	0.5	0.9	0.7	1.0	0.4	0.2	1.3	1.3	1.3	0.5	0.7	1.0	2.4
Chg	2.7	4.6	3.5	5.0	2.2	0.9	6.7	6.7	6.7	2.7	3.6	5.2	12.5

Underwriting Leverage Ratios

Year	Premiums Written						Net Liabilities			Net & Gross Leverage		
	Direct	Assumed	Gross	Ceded	Net	NPE	Loss & LAE Reserves	UPR & Other	Net Liab	Net Leverage	Ceded (Pg 11)	Gross Leverage
2008	1.0	0.8	1.8	0.9	0.9	0.9	1.3	0.8	2.1	3.0	0.7	3.7
2009	0.9	0.7	1.6	0.8	0.8	0.8	1.1	0.7	1.8	2.6	0.6	3.3
2010	0.8	0.6	1.4	0.7	0.7	0.7	1.0	0.7	1.7	2.5	0.5	3.0
2011	0.9	0.6	1.5	0.7	0.8	0.8	1.1	0.7	1.8	2.6	0.6	3.1
2012	0.9	0.6	1.5	0.7	0.8	0.8	1.0	0.7	1.7	2.5	0.6	3.0
Ind	0.9	0.6	1.5	0.7	0.8	0.8	1.0	0.7	1.7	2.5	0.6	3.0

# Rating Perspectives



A.M. BEST COMPANY'S 2013 QUANTITATIVE ANALYSIS REPORT

PAGE 12 of 14

NAME: Total US PC Industry (99200)

GROUP: Total US PC Industry (99200)

DATE: 07/30/13

## Loss Reserve Analysis

### Loss & LAE Reserve Composition (\$000,000)

Year	Case Loss	IBNR Loss	Case Alae	IBNR Alae	Loss&ALAE	Ulae	Sch P Discount& Other	Net Loss&LAE Reserves
2008	273,354	252,085	15,219	54,296	594,954	32,524	-25,123	602,355
2009	263,687	251,644	15,063	55,296	585,690	33,264	-20,260	598,694
2010	264,887	252,358	16,361	55,712	589,318	33,486	-19,625	603,179
2011	270,225	255,533	16,111	55,904	597,773	34,905	-17,381	615,297
2012	269,416	255,735	16,052	56,100	597,302	35,139	-14,232	618,208

Year	Reserve Allocation (% of Reserves)								Reserves	
	Case Loss	IBNR Loss	Case Alae	IBNR Alae	Loss&ALAE	Ulae	Sch P Discount& Other	to PHS (%)	to NPE (%)	
2008	45.4	41.8	2.5	9.0	98.8	5.4	-4.2	126.4	133.3	
2009	44.0	42.0	2.5	9.2	97.8	5.6	-3.4	111.6	138.0	
2010	43.9	41.8	2.7	9.2	97.7	5.6	-3.3	103.3	139.9	
2011	43.9	41.5	2.6	9.1	97.2	5.7	-2.8	107.1	138.7	
2012	43.6	41.4	2.6	9.1	96.6	5.7	-2.3	101.1	134.8	

# Rating Perspectives



## Loss Reserve Mix and Growth Analysis

Rank	Reserve Line:	<-- Loss & LAE Reserves (\$000,000)			% of Total Reserves			<-2012 % Change ->		Res/NPE (%)	
		2012	2011	2010	2012	2011	2010	Reserves	NPE	2012	2011
1	Workers' Comp	150,614	148,273	144,769	24.4	24.1	24.0	1.6	8.4	370.1	395.1
2	Other Liab	123,302	122,668	124,613	19.9	19.9	20.7	0.5	4.1	324.9	336.7
3	PP Auto Liab	96,598	95,378	93,624	15.6	15.5	15.5	1.3	2.9	94.4	96.0
4	Comm M.P.	38,381	37,602	36,982	6.2	6.1	6.1	2.1	3.6	125.1	126.9
5	Rein-NPA Liab	34,120	35,003	34,390	5.5	5.7	5.7	-2.5	7.6	498.0	549.8
6	Medical Mal	28,971	28,939	29,154	4.7	4.7	4.8	0.1	-0.3	327.6	326.2
7	Comm Auto Liab	24,482	24,014	24,470	4.0	3.9	4.1	2.0	2.3	144.4	144.9
8	Homeowners	23,317	23,534	21,660	3.8	3.8	3.6	-0.9	3.5	35.3	36.8
9	Product Liab	16,003	17,056	16,636	2.6	2.8	2.8	-6.2	6.7	664.4	755.9
10	Mort Guaranty	14,964	15,911	17,240	2.4	2.6	2.9	-6.0	-10.6	404.0	384.1
	All Other	67,722	66,980	59,662	10.9	10.9	9.9	1.1	2.6	47.6	48.3
	Total	618,474	615,358	603,200	100.0	100.0	100.0	0.5	3.4	134.8	138.7

# Rating Perspectives



## Reserve Allocation (% of By Line Reserves)

Rank	Reserve Line:	Case Loss Reserves				IBNR Loss Reserves				LAE Reserves		
		2012	2011	2010		2012	2011	2010		2012	2011	2010
1	Workers' Comp	48.0	48.2	47.8		39.3	38.9	39.8		12.8	13.0	12.4
2	Other Liab	27.1	24.8	23.5		52.1	54.2	55.3		20.8	21.1	21.2
3	PP Auto Liab	59.7	60.2	59.9		20.8	20.8	21.2		19.5	19.0	18.9
4	Comm M.P.	40.8	39.9	38.4		32.1	32.1	33.0		27.1	28.0	28.6
5	Rein-NPA Liab	37.0	38.3	39.4		54.1	53.0	50.7		8.9	8.7	9.9
6	Medical Mal	48.3	47.8	47.7		24.8	24.7	25.0		27.0	27.4	27.3
7	Comm Auto Liab	51.5	51.0	50.6		33.1	33.7	34.0		15.4	15.3	15.4
8	Homeowners	45.5	46.2	46.8		34.6	34.5	33.4		19.8	19.3	19.9
9	Product Liab	23.1	22.6	22.7		45.5	46.2	46.4		31.4	31.1	30.9
10	Mort Guaranty	77.8	78.7	78.8		20.1	18.9	18.0		2.1	2.4	3.2
	All Other	49.6	53.1	52.8		38.8	35.6	35.4		11.6	11.3	11.8
	Total	44.9	44.9	44.3		37.8	37.8	38.3		17.2	17.2	17.4

# Rating Perspectives



NAME: Total US PC Industry (99200)

GROUP: Total US PC Industry (99200)

DATE: 07/30/13

## Loss Reserve Analysis (Cont'd)

### Loss & Alae Reserve Development (By Calendar Year) (\$000,000)

Calendar Year	Original Reserves	Developed Reserves	<----- Calendar Year Development ----->					Developed Reserves To NPE(%)
			Through 2011	In 2012	Through 2012	To Orig(%)	To PHS(%)	
2003	447,226	510,767	61,407	2,134	63,541	14.2	17.7	129.4
2004	488,515	512,362	22,269	1,577	23,846	4.9	5.9	120.3
2005	531,716	527,341	-5,298	924	-4,375	-0.8	-1.0	122.7
2006	542,655	521,958	-20,452	-244	-20,696	-3.8	-4.1	115.8
2007	568,999	540,651	-26,618	-1,729	-28,347	-5.0	-5.2	118.9
2008	601,664	557,481	-37,686	-6,496	-44,183	-7.3	-9.3	123.5
2009	592,747	562,973	-22,631	-7,143	-29,774	-5.0	-5.6	129.8
2010	597,142	575,451	-13,381	-8,310	-21,691	-3.6	-3.7	133.6
2011	605,473	592,464	XXX	-13,009	-13,009	-2.1	-2.3	133.6
2012	606,677	606,677	XXX	XXX	XXX	-	-	132.3

# Rating Perspectives



## Loss & Alae Reserve Development (By Accident Year) (\$000,000)

Accident Year	Original Reserves	Developed Reserves	<----- Accident Year Development ----->				Unpaid at Year-End 2012
			Through 2011	In 2012	Through 2012	To Orig(%)	
2003	146,380	129,167	-16,830	-382	-17,212	-11.8	10,533
2004	159,154	130,855	-27,743	-557	-28,299	-17.8	11,581
2005	168,827	143,329	-24,844	-654	-25,498	-15.1	13,921
2006	155,093	133,134	-20,791	-1,168	-21,959	-14.2	16,811
2007	168,653	154,077	-13,091	-1,485	-14,575	-8.6	23,241
2008	188,154	171,841	-11,546	-4,768	-16,314	-8.7	34,124
2009	165,605	157,254	-7,704	-647	-8,351	-5.0	47,648
2010	162,569	159,912	-1,490	-1,167	-2,657	-1.6	66,740
2011	171,919	167,220	XXX	-4,699	-4,699	-2.7	99,231
2012	171,441	171,441	XXX	XXX	XXX	-	171,441



# Rating Perspectives



Year Loss Inc'd	Unpaid Loss & A.L.A.E. Ratio At End Of:									
	12 M	24 M	36 M	48 M	60 M	72 M	84 M	96 M	108 M	120 M
2003	37.1	21.9	14.9	10.4	7.5	5.5	4.5	3.7	3.1	2.7
2004	37.4	21.5	14.9	10.2	7.1	5.1	4.0	3.3	2.7	XXX
2005	39.3	22.8	15.4	10.3	7.0	5.1	4.0	3.2	XXX	XXX
2006	34.4	21.2	15.8	9.7	6.5	4.8	3.7	XXX	XXX	XXX
2007	37.1	23.4	14.6	10.0	7.1	5.1	XXX	XXX	XXX	XXX
2008	41.7	24.9	17.2	11.7	7.6	XXX	XXX	XXX	XXX	XXX
2009	38.2	23.2	15.5	11.0	XXX	XXX	XXX	XXX	XXX	XXX
2010	37.7	22.5	15.5	XXX	XXX	XXX	XXX	XXX	XXX	XXX
2011	38.8	22.4	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
2012	37.4	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
IND	38.1	22.5	15.8	10.6	6.8	4.9	3.9	3.3	2.9	2.7

# Rating Perspectives



Year Loss Inc'd	Bulk & IBNR To NPE Reported At Year End									
	12 M	24 M	36 M	48 M	60 M	72 M	84 M	96 M	108 M	120 M
2003	22.5	11.8	7.3	5.0	3.7	2.8	2.3	1.9	1.6	1.3
2004	23.0	12.4	8.1	5.4	3.9	2.8	2.2	1.8	1.4	XXX
2005	23.5	13.0	8.5	5.6	3.8	2.7	2.2	1.7	XXX	XXX
2006	21.3	12.4	8.0	5.4	3.8	2.8	2.2	XXX	XXX	XXX
2007	21.3	12.0	7.8	5.4	3.8	2.8	XXX	XXX	XXX	XXX
2008	22.3	12.1	8.0	5.3	3.7	XXX	XXX	XXX	XXX	XXX
2009	21.7	11.9	7.8	5.1	XXX	XXX	XXX	XXX	XXX	XXX
2010	21.2	11.7	7.4	XXX	XXX	XXX	XXX	XXX	XXX	XXX
2011	21.9	11.6	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
2012	21.9	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
IND	21.8	11.6	7.5	5.1	3.6	2.8	2.2	1.7	1.5	1.3

# Rating Perspectives



A.M. BEST COMPANY'S LOSS RESERVE EQUITY  
 COMPANY NAME: Total US PC Industry

(AMB #: 99200)

LINE OF BUSINESS: WORKERS' COMPENSATION

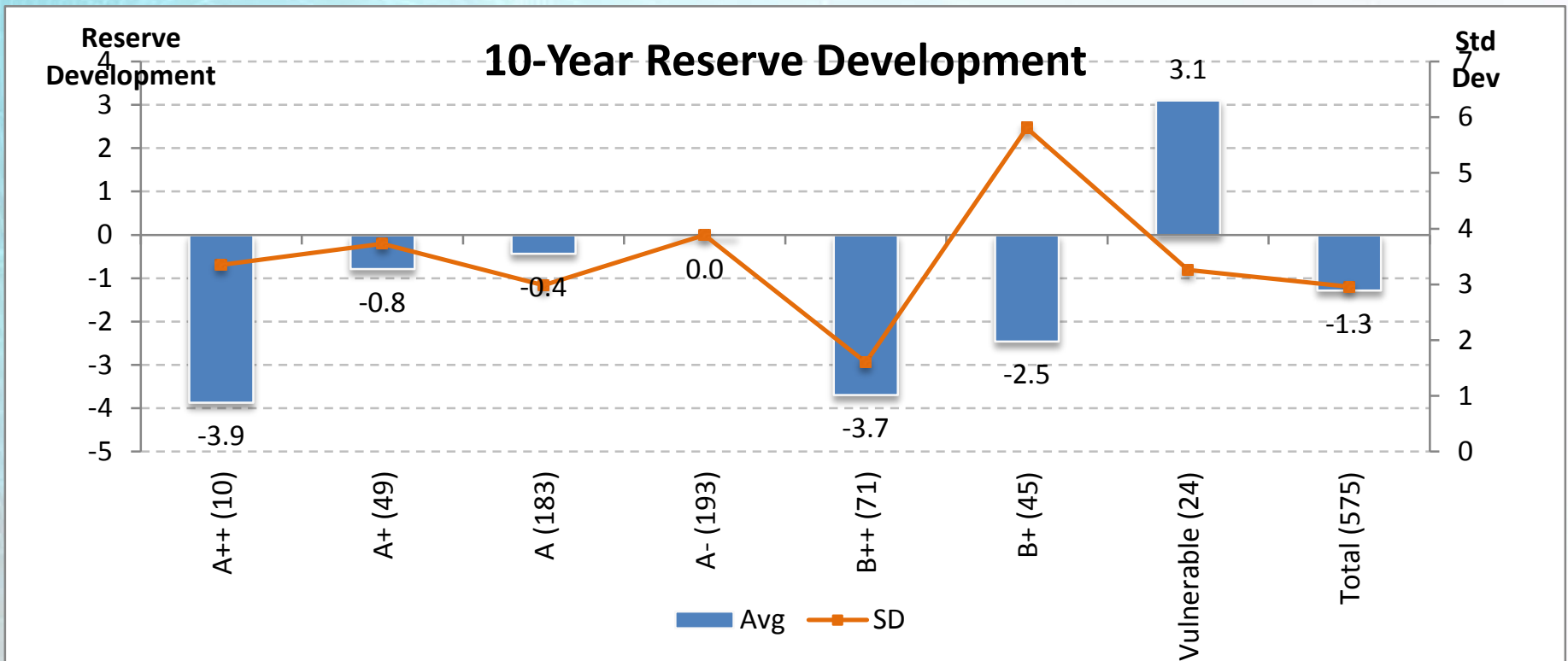
	----- COMPANY PAID -----		--- COMPANY INCURRED ---		--- INDUSTRY METHOD ---		EST. DEFIC./ REDUNDANCY	PURE/ALAE RESERVES
	PROJ. BASED	PT.2 BASED	PROJ. BASED	PT.2 BASED	PAID DEV	INC DEV		
PRIOR	4,099	0	4,099	0	7,462	7,462	4,099	49,746
2003	399	0	399	0	679	679	359	5,655
2004	384	2	456	73	581	492	344	5,868
2005	587	205	587	170	770	616	467	6,208
2006	423	-61	521	10	671	574	273	7,615
2007	841	326	852	276	1,117	976	574	8,565
2008	1,100	434	976	274	1,380	1,109	627	9,772
2009	891	153	655	-73	1,098	767	260	10,650
2010	1,525	599	1,192	387	1,780	1,314	666	13,011
2011	1,398	210	1,050	100	1,666	1,160	262	17,461
2012	2,830	1,672	-386	-1,368	159	3	152	25,478
TOTAL	14,478	3,541	10,400	-152	17,363	15,152	8,083	160,030

COMPANY CREDIBILITY = 100

# Rating Perspectives



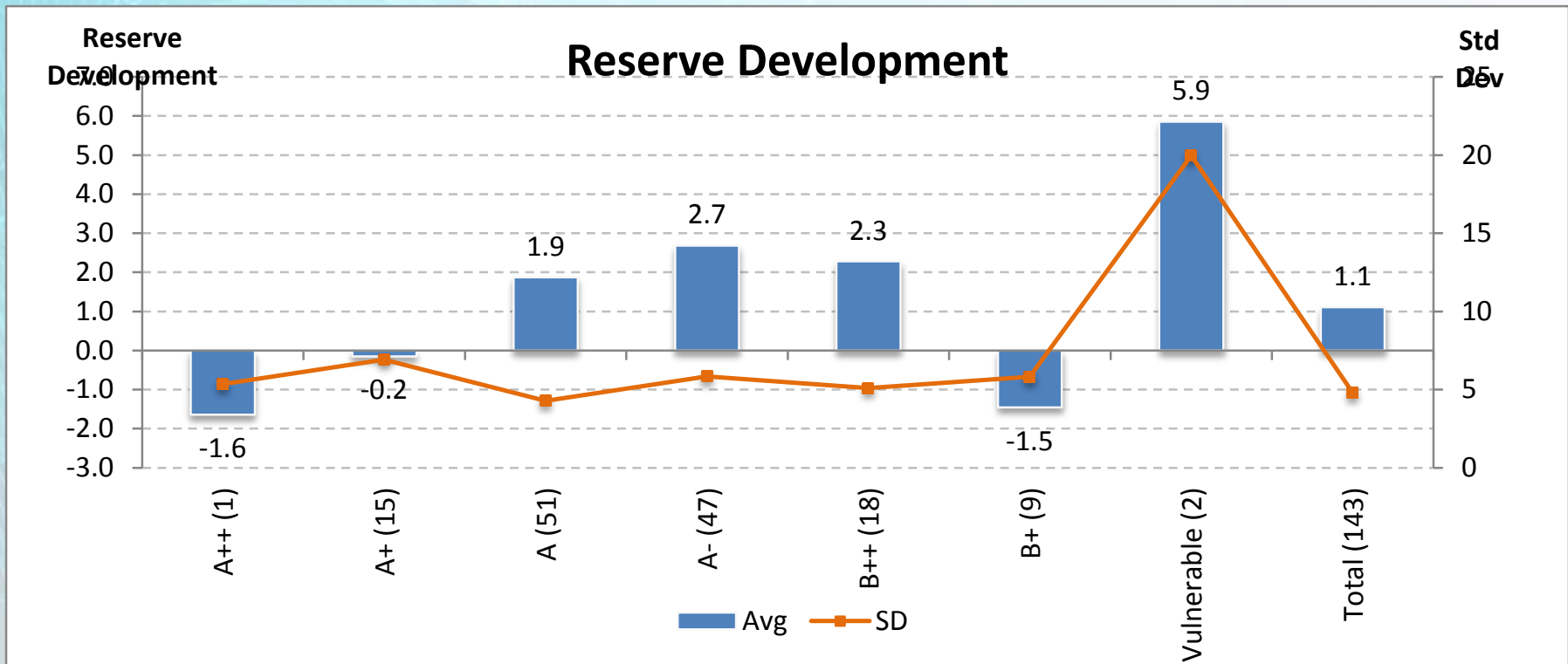
Total Industry  
By FSR



# Rating Perspectives



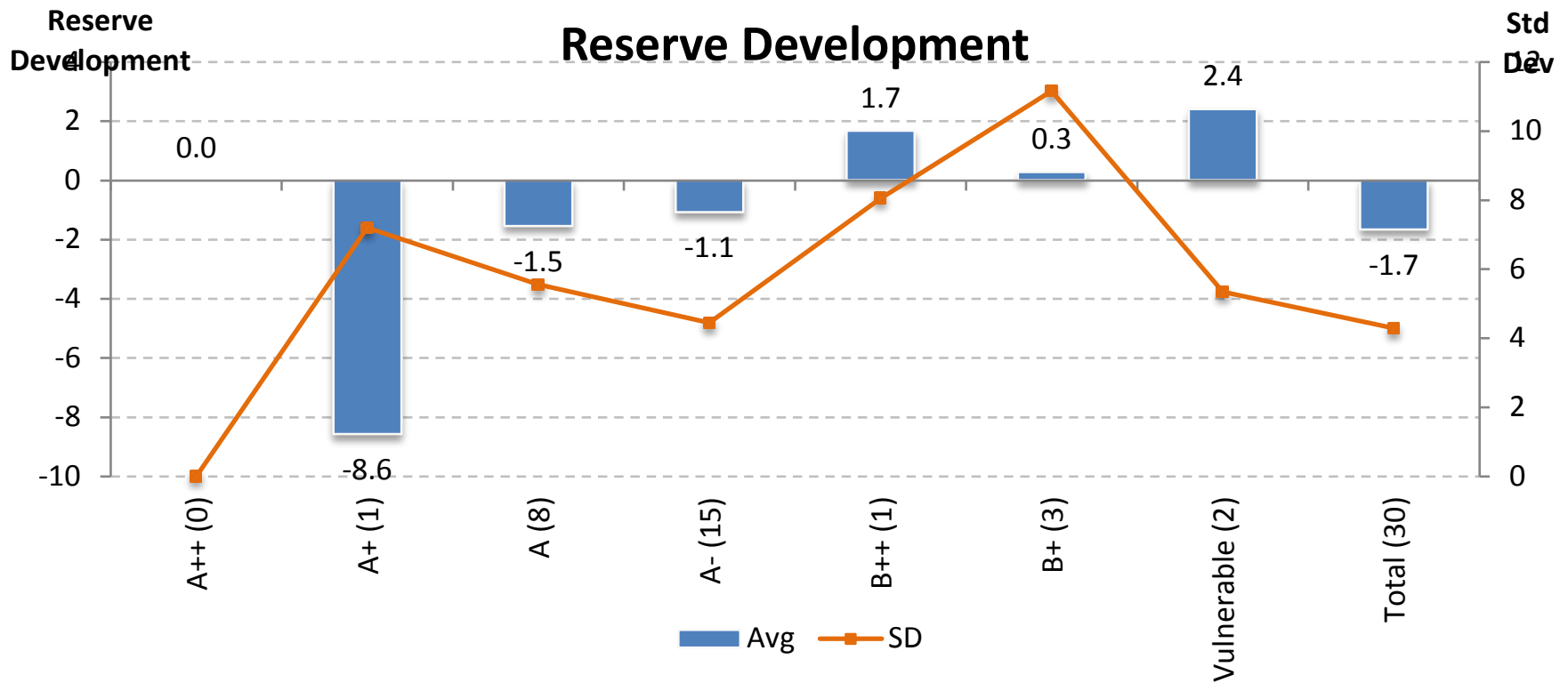
## Commercial Casualty By FSR



# Rating Perspectives



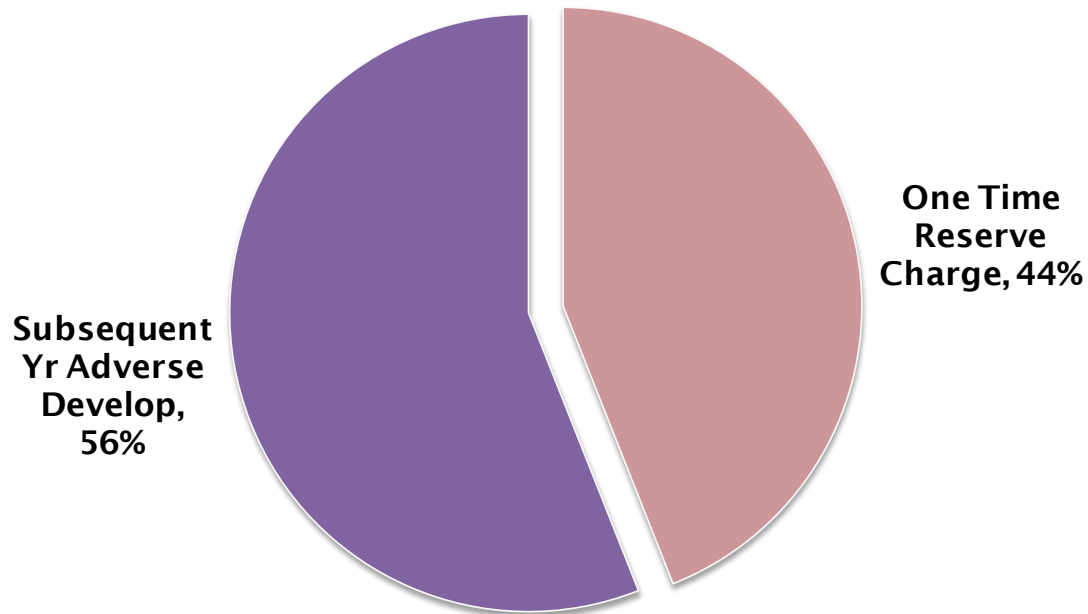
## Workers' Compensation By FSR



# Rating Perspectives



## Reserve Strengthenings 2001-2009

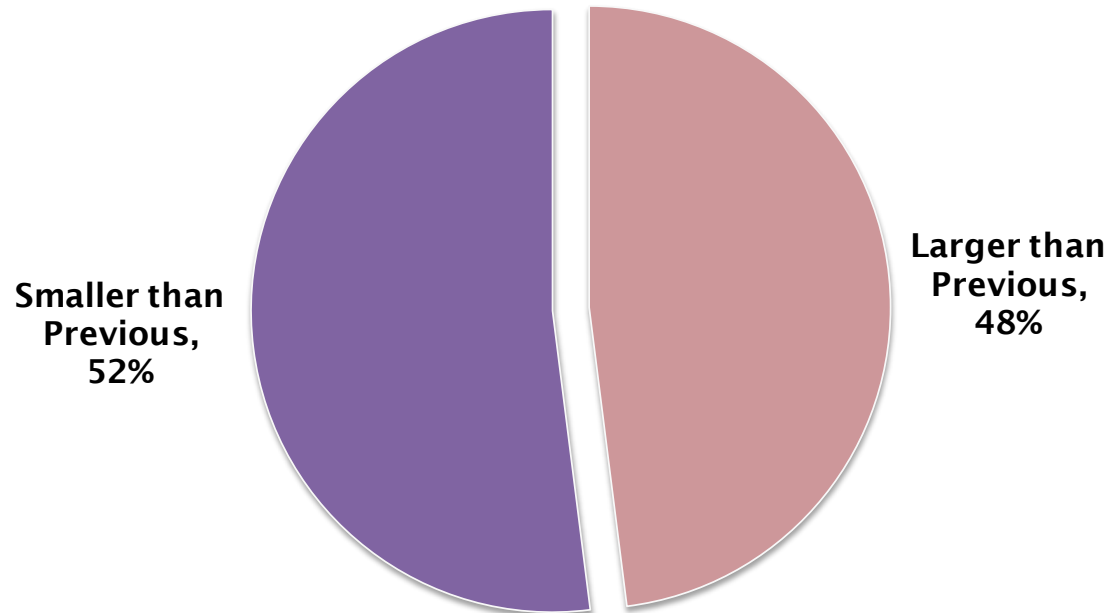


Sch P Part 2 by company

# Rating Perspectives



## Reserve Strengthenings 2001-2009



Sch P Part 2 by company



# Rating Perspectives



Loss and loss-adjustment expense (LAE) reserves are typically the largest liability on a P/C insurer's balance sheet. Any underestimation of those liabilities can result in a material negative impact on the insurer's reported surplus, potentially resulting in adverse rating action.

Reserve changes not only affect the balance sheet, but also A.M. Best's view of an insurer's operating performance and management team if they differ from expectations.

Adverse reserve development is one of the leading causes of insurer insolvency, and reserve adequacy remains a critical rating issue for A.M. Best.

Companies that have demonstrated a history of conservative reserving throughout the underwriting cycle should not be materially affected in the analysis of their capital strength.

However, for companies that have shown a volatile history of reserve adequacy, or have focused more on market share recently than on rate adequacy, significant reserve deficiencies may have accumulated, and a charge for that deficiency will be warranted.

A.M. Best's view of an insurer's reserve position can have a material impact on the assessment of an insurer's capital strength.

**2013 Casualty Loss Reserve Seminar  
Boston, MA**

**Thank You**

**Thomas M. Mount, ACAS,MAAA,CERA**  
Vice President

16 September 2013

