

# Does Your Actuarial Report Measure Up?

Presented by:

Scott Anderson, FCAS, MAAA, FCA

September 16, 2013



**GROSS CONSULTING**



# Antitrust Notice

- **The Casualty Actuarial Society is committed to adhering strictly to the letter and spirit of the antitrust laws. Seminars conducted under the auspices of the CAS are designed solely to provide a forum for the expression of various points of view on topics described in the programs or agendas for such meetings.**
- **Under no circumstances shall CAS seminars be used as a means for competing companies or firms to reach any understanding – expressed or implied – that restricts competition or in any way impairs the ability of members to exercise independent business judgment regarding matters affecting competition.**
- **It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.**

# The Ambiguous Audience (Who is this Report For)

- May or may not be the Statement of Actuarial Opinion prescribed by the NAIC
- Report for Management
- Report for Regulators/Auditors
- Technical Actuarial Report
- Need to bridge information for all audiences



# Disconnected Information

- Must be readable
- Does the report flow, both narratively and numerically
- Can you follow the report without the use of a calculator
- Does it convey the level of risk to the reader



# No Discussion of Ranges or Volatility

- NAIC prescribed SAO requirements
- Key in any actuarial communication
- Distributions
- Stress test scenarios
- More than multiple indications
- When all indications are “reconciled”
- Rate indications are an issue



# Source of Range of Reasonableness

- Reasonable range of values for “selected”
  - Range of indications
  - Based on distributions
- Reasonable expectation for the outcome
  - Understand volatility
  - After the fact, is the resulting variance within the parameters of the disclosed volatility



# Range of Materiality

- What is it based on
- How does this compare to the Range of Reasonableness
  - The two are often confused
  - How do they overlap
  - What does the overlap look like



# No Clear Comparison to Prior Analysis (Actual versus Expected)

- Should be disclosed
- Should be random +/-
- Should be explained
- Doesn't only apply to the Schedule P one and two year development tests





# The Numbers Don't Add Up (Dueling Segmentation)

- Do the segments total?
- Often A&E done separately, etc.



# Missing Source of Basic Assumptions

- LDFs
- Tail Factors
- Bornhuetter-Ferguson Seeds



# Lack of Definitions (Mean/Median/Mode)

- Prominent issue in high severity / low frequency lines
- Actuarial Central Estimate often identified as a “Mean” type of value – probability weighted across outcomes
- It can get you labeled “conservative” if the Mode is less than the Mean
- Management looking for “50/50” answer



# Poor ULAE Projections

- Some companies believe that ULAE is a “current” expense
- Need to convince them they need more
- What does it look like in “actual run-off”
- Depends on company cost/organization structure



# Not Reporting to the Board

- Required
- Documenting the offer
- What do they need to know
- Make the complete report available



# Added Note on Risk Focused Exams

- Focus on management's process
- Not simply scrutinizing the formal Actuarial Report
- Reserve management may be done by a different group than the AOS - what becomes the information to support the process





**GROSS CONSULTING**