



# Strategic Reserving

How to add more value beyond  
your traditional reserve review

Timothy J Pratt FIAA, FCAS, MAAA

CLRS, September 17<sup>th</sup>, 2013

1

# Agenda

- Key Phrases in the title
  - Strategic
  - Add More Value
  - Traditional Reserve Review
- Who is Liberty International Underwriters?
- What does the reserving actuary in LIU do?
- How does this add value?

# Definitions

- Title
  - Strategic Reserving – How to add more value beyond your traditional reserve review
- Key Phrases in the title
  - Strategic
    - relating to the identification of long-term or overall aims and interests and the means of achieving them
  - Tactical
    - conceptual action implemented as one or more specific tasks
  - Add More Value
  - Traditional Reserve Review

## Liberty International Underwriters

- Specialty Lines Writer
- Low Frequency / High Severity
- We typically see high value General Liability, E&O, D&O and property damage claims
- A sample of the claims that we have seen over the last few years ...

# Cyprus Power Plant Claim

WORLD NEWS



## Many killed in explosion at Cyprus military base

11/07/11 08:03 CET

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At least 12 people have been killed in a massive explosion at a military base in the south of Cyprus.

The blast, which ripped through the Evangelos Florakis naval base, has also knocked out the island's largest power plant.

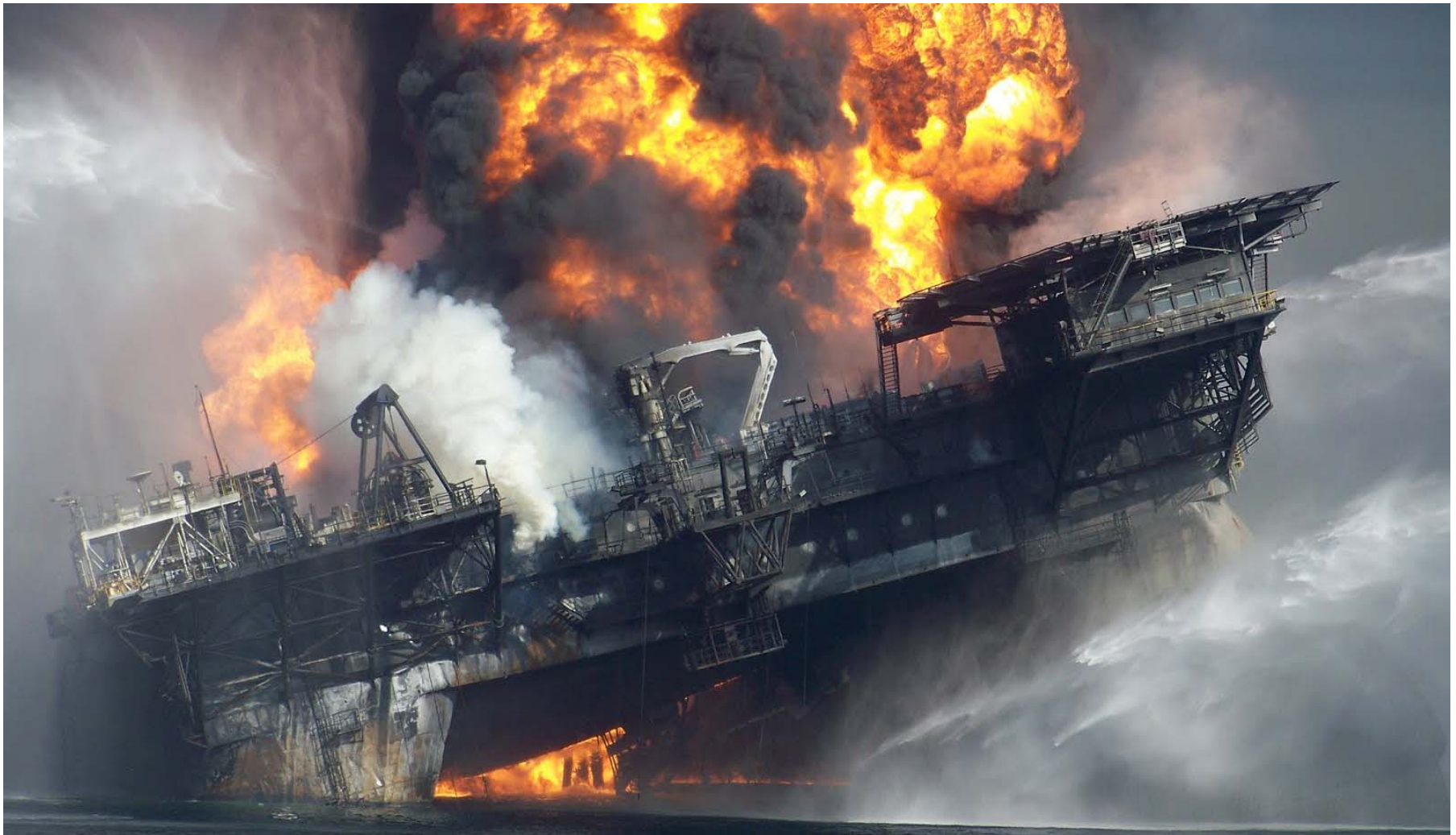
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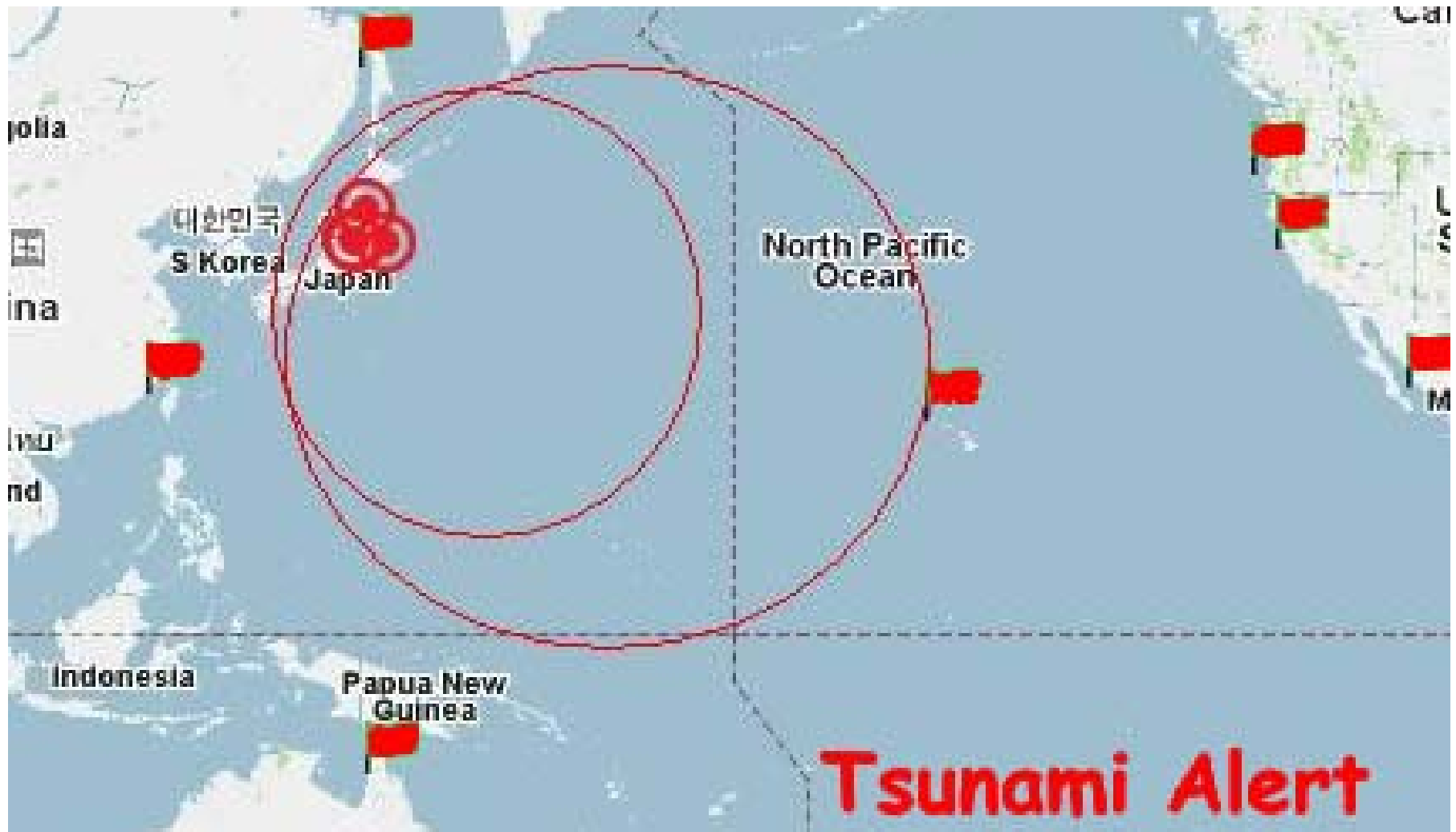
**Afghan helicopter crash kills 11, including foreign...**

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# Deep Water Horizon



# Japanese Earthquake & Tsunami



## New Zealand Earthquake

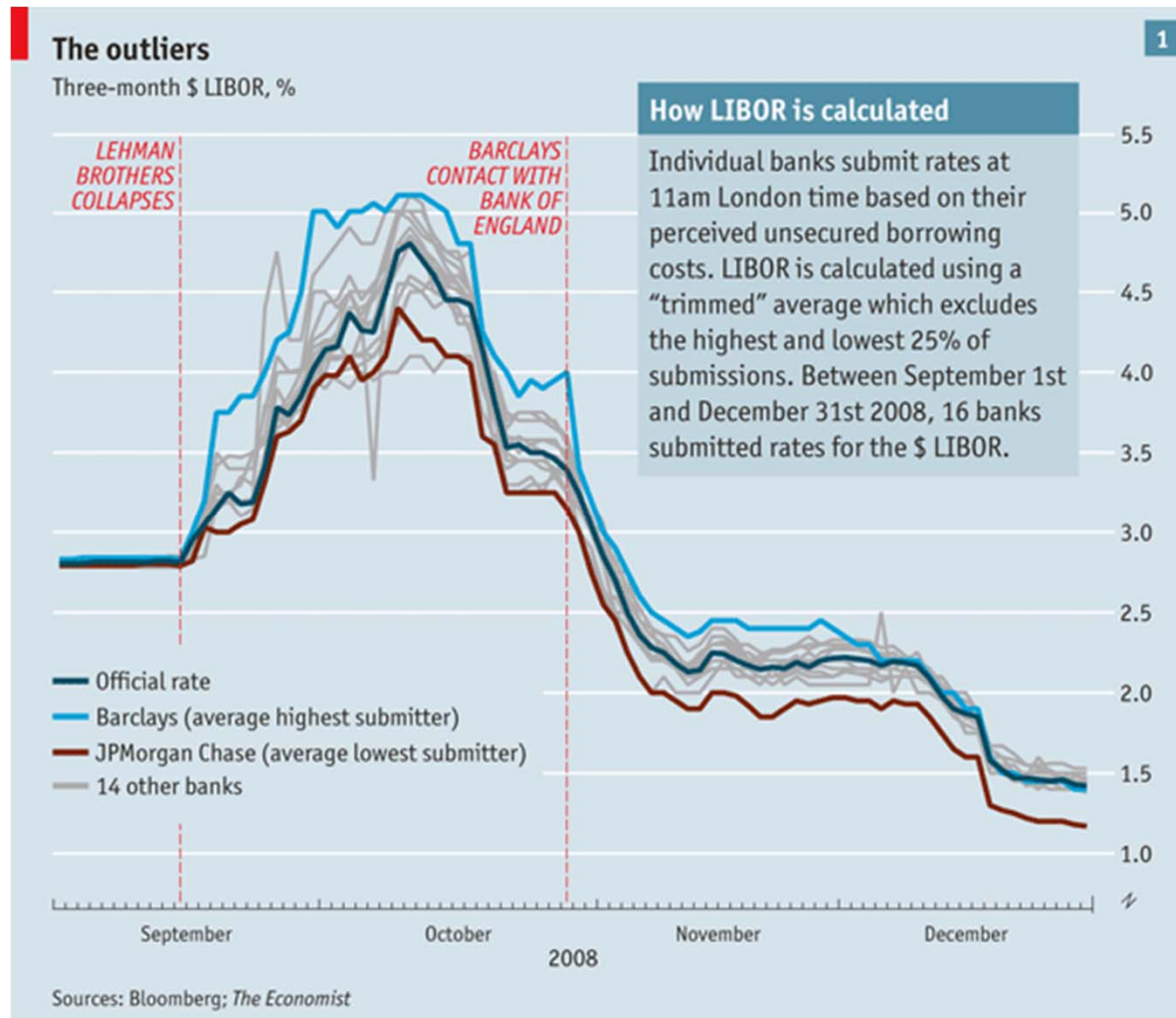




## San Diego Fire (2007)



# LIBOR Claims



# Facebook Claims (?)



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**Facebook and Mark Zuckerberg accused of misleading investors**

Law firm Robbins Geller co-ordinating class lawsuit alleging that Facebook and its bankers cut their revenue growth forecasts

11

# Liberty International Underwriters

- Reserving Approach
  - The Actuarial number is a ‘test’ of the management number
  - Quickly updated within 15 days of EOQ using roll-forward methods
  - Complete actuarial update using refreshed quarterly data & standard actuarial approaches ... acts as starting point for next quarters roll-forward
- We do NOT generate stochastic reserve ranges
- Main reserving aim is to provide timely and actionable management information

## Why no reserve variability?

- We don't (currently) show reserve variability because ...
  - Our claims are low frequency / high severity
  - There is significant variability in our claims
  - Our triangle history isn't fully complete
    - Some classes are missing limit losses
  - Most of our reserve variability comes from the data
    - Not from our actuarial reserving process

## Management Team

- Our management team gets sufficient actuarial exposure so that they have an understanding of ...
  - our approach
  - the drivers of profitability
  - conclusions to be drawn from reserving results
- This is good ...
  - Knowledgeable audience
  - Quick understanding of main points
  - Ask good questions
  - Keep us on our toes

## Management Information from Reserving ...

- Reserve Margin
  - Defined as Management IBNR less Actuarial IBNR
- Report in detail about why it changes over quarter
  - FX fluctuations
  - Actual claim reports v Expected claim reports
  - Difference in new quarter's loss ratios
  - Management and / or actuarial adjustments
  - Other

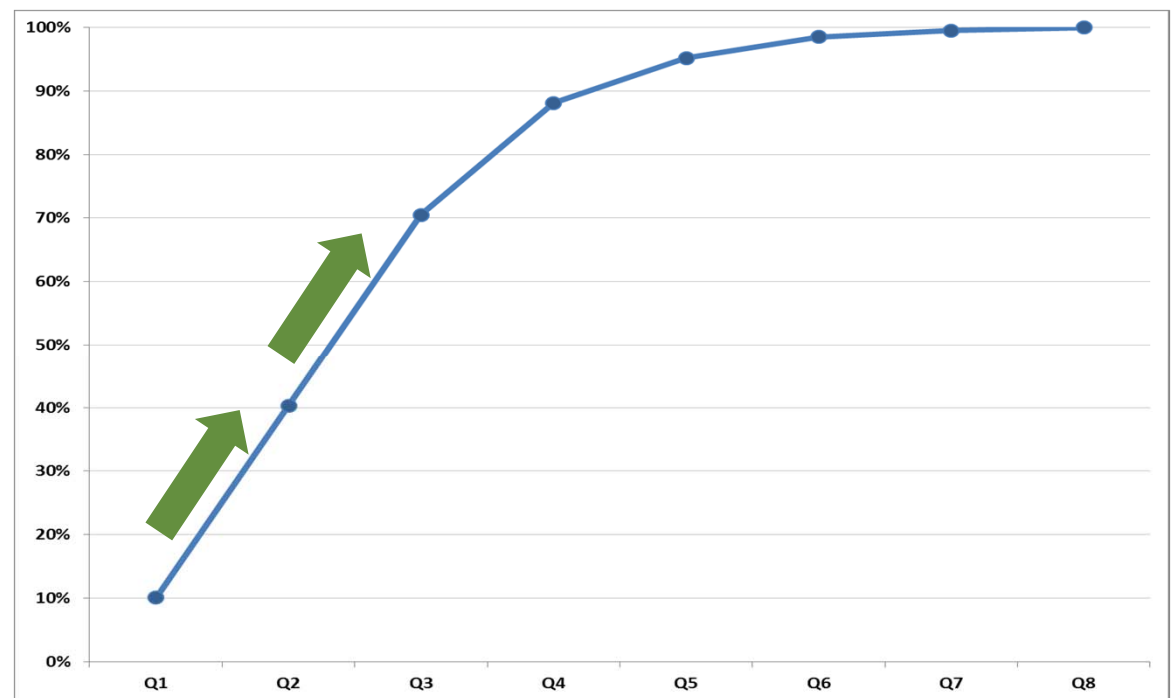
## Management Information from Reserving ...

- Change in Actuarial IBNR / Ultimate over quarter
  - Beginning IBNR / Ultimate
  - FX Impact
  - Data Changes
  - IBNR Release
  - Reported Claims
  - Change in Actuarial Assumptions
    - IELR
    - LDFs
    - Weights
    - Other
  - New Quarter's exposure
    - Ultimate
    - IBNR Release



## IBNR Release

- The standard actuarial methods automatically release IBNR
- They assume that this IBNR release will be 'soaked' up by reported claims
- The chart shows 30% of the initial estimate is expected to be reported in Q2
  - With a further 30% expected to be reported during Q3



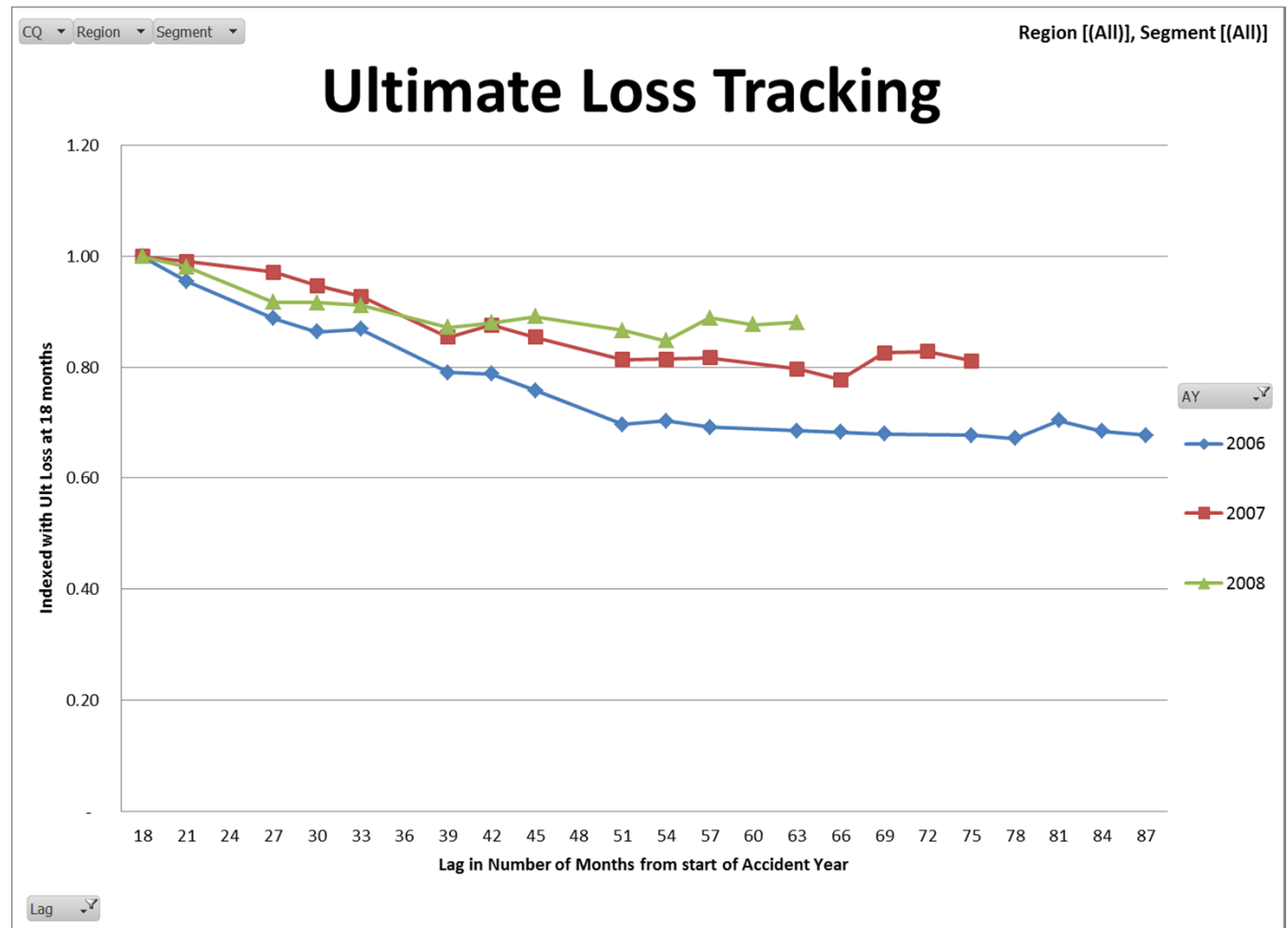
17

## Other Standard Reports

- Actual v Expected
  - For the current quarter, updated quarterly
- Actual v Indicative
  - ‘Indicative’ is earned premium x IELR x expected percentage reported in quarter
  - Don’t refer to this as ‘expected’ as our ‘expected’ is based on the prior IBNR study ...
  - Indicative is purely based on selected IELR & LDFs
  - Measured over 8 quarters
    - Trying to get a longer term view on emerging experience

# Other Standard Reports

- Ultimate Loss Tracking
  - What has happened over time to our view on a particular accident year's ultimate?



## Main Aim of Reserving at LIU?

- Main Aim?
  - Get the actuary out of the way
  - Let the data speak for itself
  - Balance stability of assumptions against need to update
- Indicators of ‘success’?
  - Reserve changes driven by data changes
  - Reserve changes driven by actuary recognizing data changes
- Indicators of ‘failure’?
  - Reserve changes driven by actuary changing opinion or approach



**Liberty**  
International  
Underwriters



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