


**Reserving After the Underwriters Leave Town**

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**Underlying Issues**

- Often there are no staff with account knowledge other than accounting and claims
- Reporting to management on the risks where there may be little potential for upside
- Some stakeholders underestimate the variability – provide clear communication and pertinent diagnostics
- Product/line in runoff while the company is a going concern versus an entire organization



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**Impact on Reserve Analysis**

- Underwriting was ceased for a reason, adverse trends and volatility may be more pronounced than ongoing portfolios
- Monitoring the reserve adequacy without the nuance of added exposure years (unforgiving)
- Tail factor becomes more material when there are no reserves on recent accident years
- Credibility of pricing assumptions



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### Pattern Changes

- Commutation/Novation
- Case reserve adequacy
  - Process changes
  - Sitting idle for longer periods
- Payment differences
  - Aggressiveness of negotiations
  - Desire to close claims
  - When to recognize “paid” if in dispute
- Potentially you have discount “unwind”



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### Additional Diagnostics and Methods

- Mass Tort (Jason covered this)
- Individual claim (such as lifetime benefit WC)
- Tail factor analysis
- Counts and dollars:
  - Closure rates
  - Severities, average case reserves
  - Monitor IBNR counts
- Directly monitor the reserve portfolio on an “apples to apples” basis between periods
- Track and compare IBNR/Case ratios
- Adjust segmentation to maintain volume and have better homogeneity



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### ULAE

- In theory, there should be no difference on a statutory basis
- Some organizations have no internal distinction of ULAE for current accident year versus priors – based on actuarial allocations
- Is ULAE only the “Claims” department or does it include an allocation from Executive, Finance, etc.
- An allocation to run-off division versus entire organization dedicated only to run-off



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### General Expense

- No premium
- Potential premium adjustments resulting in negative premium
- Investment income on UW (reserve) cash flows and/or surplus a sufficient offset?



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### When Does it End?

- Some organization has to take over the risk
- Commutation
- Novation
- Loss portfolio transfer
- Shell companies that have a legacy exposure



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