CLRS Workshop 3:

Writing and Defending an Actuarial Opinion

Through the Lens of Management and the Board of Directors

Richard Gergasko, FCAS, MAAA
President & CEO
Texas Mutual Insurance Company

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Roles as Viewed by Management

- **Internal Actuarial Staff –** Complete analysis to defend company's financial position relative to carried reserves.
- **Appointed Actuary –** Independent review of Company's carried reserves and appropriateness of methods and assumptions used by internal staff.
- **Auditor –** Are carried reserves reasonable?
- **Regulator –** Will the company be able to meet its long term financial obligations?
- **Management –** Ultimately held accountable for financial performance of the company.

Considerations in Reserve Analysis

- **Prior Year-End Ultimates -** Should they serve as "a priori" estimates for current analysis?
- **Methodology Changes –** Why appropriate? How do they improve the results? What is the impact to prior year estimates?
- **Ranges vs. Point Estimates -** How sophisticated are the range estimates and what value do they add?
- **New CEO/CFO/Chief Actuary –** How do you account for different reserving philosophies? Prior year estimates vs. current year; Should the new guys run both old & new methods?

Considerations in Reserve Analysis

- New Data – How much weight is given to new data and when?
- Quarterly Reviews – An opportunity to identify potential emerging trends, both positive and negative.
- Mono-line vs. Multi-line Carrier – Is spread of risk between LOBs a consideration?
- New Products/LOBs/States – What is the best way to estimate future loss ratios? You can't duck the issue.
- Total Transparency – Internal staff must be able to communicate to Senior Management what they believe is the "best" estimate; you are part of the team, not an advisor.

Carried Reserve Levels

- Compared to the Appointed Actuary – if materially different you will be asked to explain why.
- Impact of Reforms – especially for WC
- Appropriate Use of Industry Data - Credibility considerations; case reserving practices; law differences
- Gross vs. Net Ultimates
- Exposure Rating vs. Experience Rating

Defending ELR For Current AYR

- First estimate needed in 3Q of prior calendar year for budgeting purposes – AYR 2015 needed by September 30, 2014
- First prior AYR still immature – AYR 2014 @ 6 or 8 months
- Rate change estimates incomplete – you have to estimate their effect anyway
- Consideration of future market conditions – how will competitive environment in 2015 compare to 2014
- Need to justify selection 15+ months later when AYR is @ 12 months – don't want to be low right out of the gate

INTERNAL CONSIDERATIONS

Internal actuaries should:

- have regular, ongoing dialogue with underwriting and claims management;
- be fully knowledgeable in all areas of underwriting including risk selection, pricing, authority levels and exception reporting;
- understand claims handling procedures and case reserving philosophy;
- review large claim files and offer opinion on adequacy of case reserves;
- participate in UW and Claim file audits whenever possible.

EXTERNAL/APPOINTED ACTUARIES

Discussions with Underwriting

- Review all reinsurance programs (both ceded and assumed; treaty and facultative).
- Discuss pricing and underwriting philosophy and changes including UW authority.
- Discuss all new programs, new coverages, new markets – geographic or source.
- Discuss their view of market conditions.
- Review authority, limit, and exceptions policy
- Review Branch office and MGA underwriting audits
- Review a fat sample of renewals with price & coverage changes.

External/Appointed Actuaries

Discussions with Claims

- Discuss philosophy with both the top guy and a key examiner, including limits to authority & mechanics of the process.
- Review each jumbo claim (jumbo depends on the company).
- Ask them to discuss and review claims that worry them (i.e. big & questionable issues).
- Review a sample of recent closures for history of reserves.
- Get a review, statistical and anecdotal, of reopens.
- Discuss all material changes in claims organization, guidelines, authority and staffing levels per case during the past 3 years

"Real World" Implications

- Prior year reserve releases are generally "dismissed" when evaluating company performance.

- Prior year reserve increases are generally viewed as a "doomsday" scenario – once they start they are never enough and will continue ad infinitum.

- Starting "High" for the current AYR and releasing reserves over time is therefore the desired outcome – actuarial work critical to support this position; also need to consider the IRS.

DEFINITIONS

- Calendar Year Underwriting Data
  (Income Statement and Underwriting Exhibits, Statutory Annual Statement, GAAP Income Statements)

– Premiums Written and Earned in Calendar Year

– Losses and Expenses Paid and Incurred in Calendar Year regardless of when accident occurred or policy was written.

  Incurred = all payments in calendar year plus change in reserves during year

- Accident Year Underwriting Data
- *(Schedule P, Statutory Annual Statement)*

– Premiums Written and Earned in Calendar Year

– Losses and Expenses Paid and Incurred Tracked by Year of Occurrence

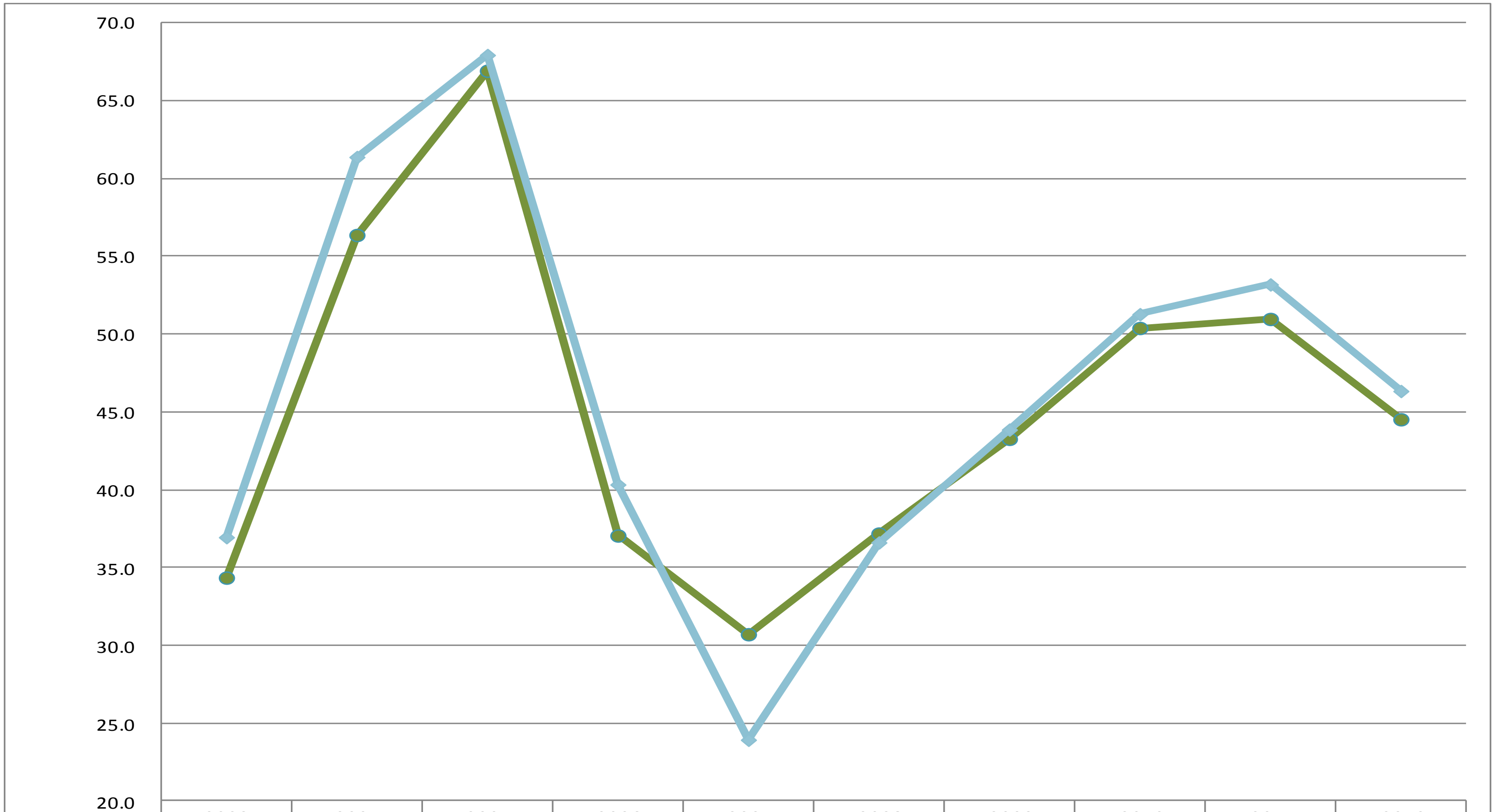
- Policy Year Underwriting Data
- *(Not in Statutory Annual Statement, but XXX and YYY analyze business and loss reserves this way)*

– Premiums Written and Earned Tracked by Year Policy Written

– Losses and Expenses Paid and Incurred Tracked by Year Policy Written

– Familiar "book of business" approach

Gross & Net Loss Ratios by Policy Year



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GROSS	34.4	56.4	66.9	37.1	30.7	37.2	43.3	50.4	51.0	44.5
NET	37.0	61.4	67.9	40.3	23.9	36.6	43.9	51.3	53.2	46.3

MBA analyzes data by Policy Year in depth.

SUMMARY OF CALENDAR YEAR 2012 LOSS EXPERIENCE

Calendar Year 2012 Earned Premium:	$15,649	100.0%	
Incurred Loss & LAE:			***Last Yr.***
Accident Year 2012:	8,890	56.8%	*50.9%*
All Prior Accident Years:	(607)	-3.9%	*-3.5%*
Calendar Year 2012:	$8,282	52.9%	*47.4%*