

Embedded Value

Reserving Actuary's role

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Reserving Actuary's Role in the Implementation of Embedded Value

- Technical Input
- Sensitivity Testing/Modeling
- Communication
- Governance



Technical Input - Segmentation

- New versus Renewal
- Time step – Annual vs. Quarterly vs. Monthly
- Product type
- Distribution Channel
- Geography



Technical Input - Assumptions

- Variables – related to cash flows
- History and future assumptions

Premium Pattern

Payout Pattern

Loss Ratios

Expense Ratios

Retention

Rate Changes

Inflation

Reinsurance

Investment Income

Discount Rate

Capital and Runoff

Taxes



Technical Input - Allocations

- Direct data as much as possible
- Allocations = simple to execute and explain
 - Capital, Expenses
- Assume no variation in many variables
- May revisit Segmentation decisions
- Iterative approach



Sensitivity Testing

- Which variables?
- Single year versus multi-year changes
- How much variation?



Communication

- Keep it simple
- What is actionable by management?
- Short term versus Long term views



Modeling

- New Products
- Enhancements/Changes to Products
- Management Actions



Governance

- Fair method to compare products
- May become basis for performance measures
- Trust in assumptions/variables used
 - “keep the strike zone consistent”



Conclusion

- Leverages many actuarial concepts
- Expertise applies directly to the business
- Bridges the gap between past history and future opportunities

