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THE MARKET CYCLE & RESERVING CYCLE

Casualty Loss Reserve Seminar (CLRS) – September 19-20, 2016

Dave Clark
Munich Reinsurance America, Inc



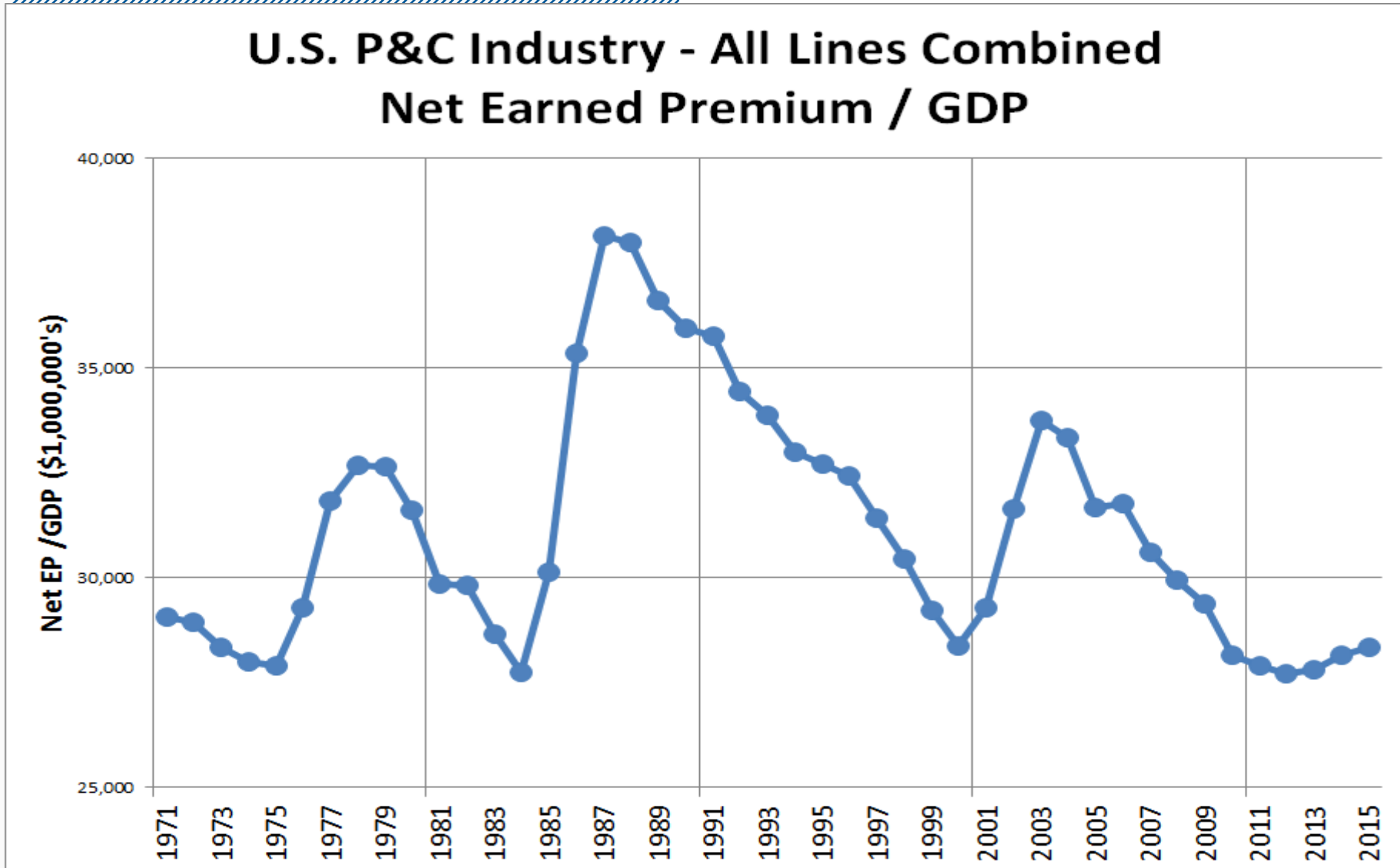
Agenda



1. High-Level View of the Market Cycle and Reserving Cycle
2. Specialty Carriers
3. Commercial Auto Liability

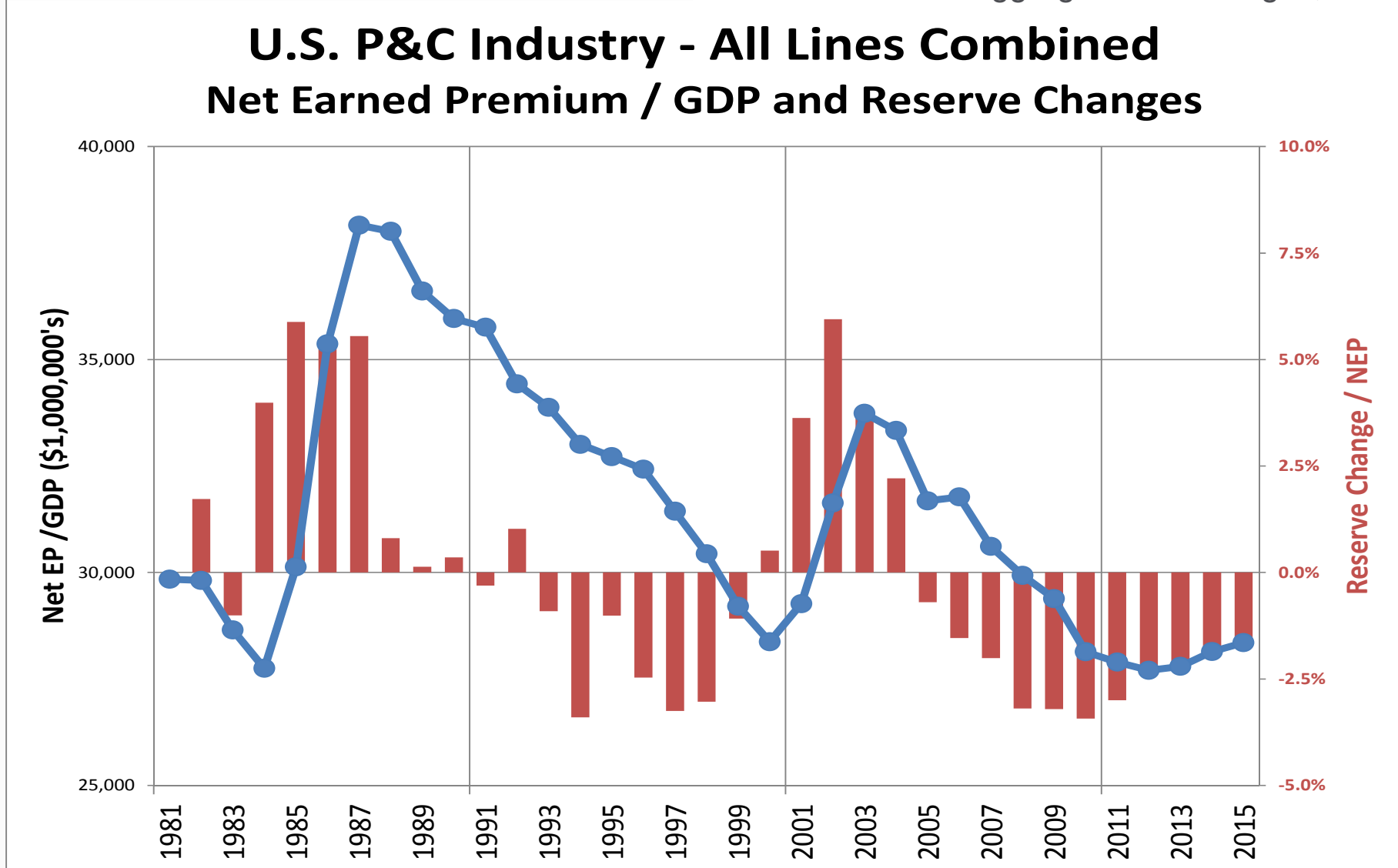
High-Level View of Market Cycle

Source: AM Best Aggregates & Averages, SNL



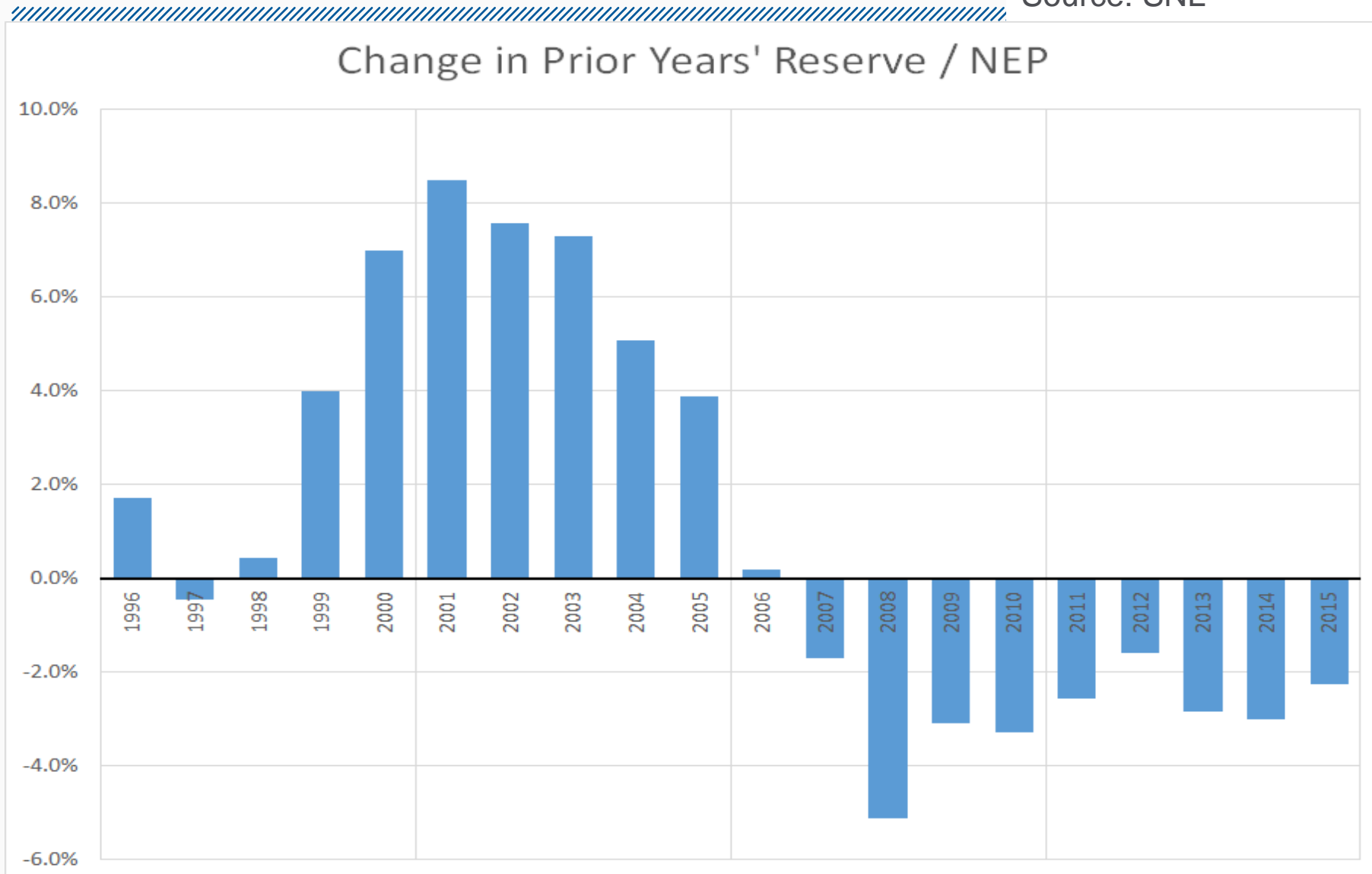
High-Level View of Market Cycle: Correlation with Reserve Changes

Source: AM Best Aggregates & Averages, SNL



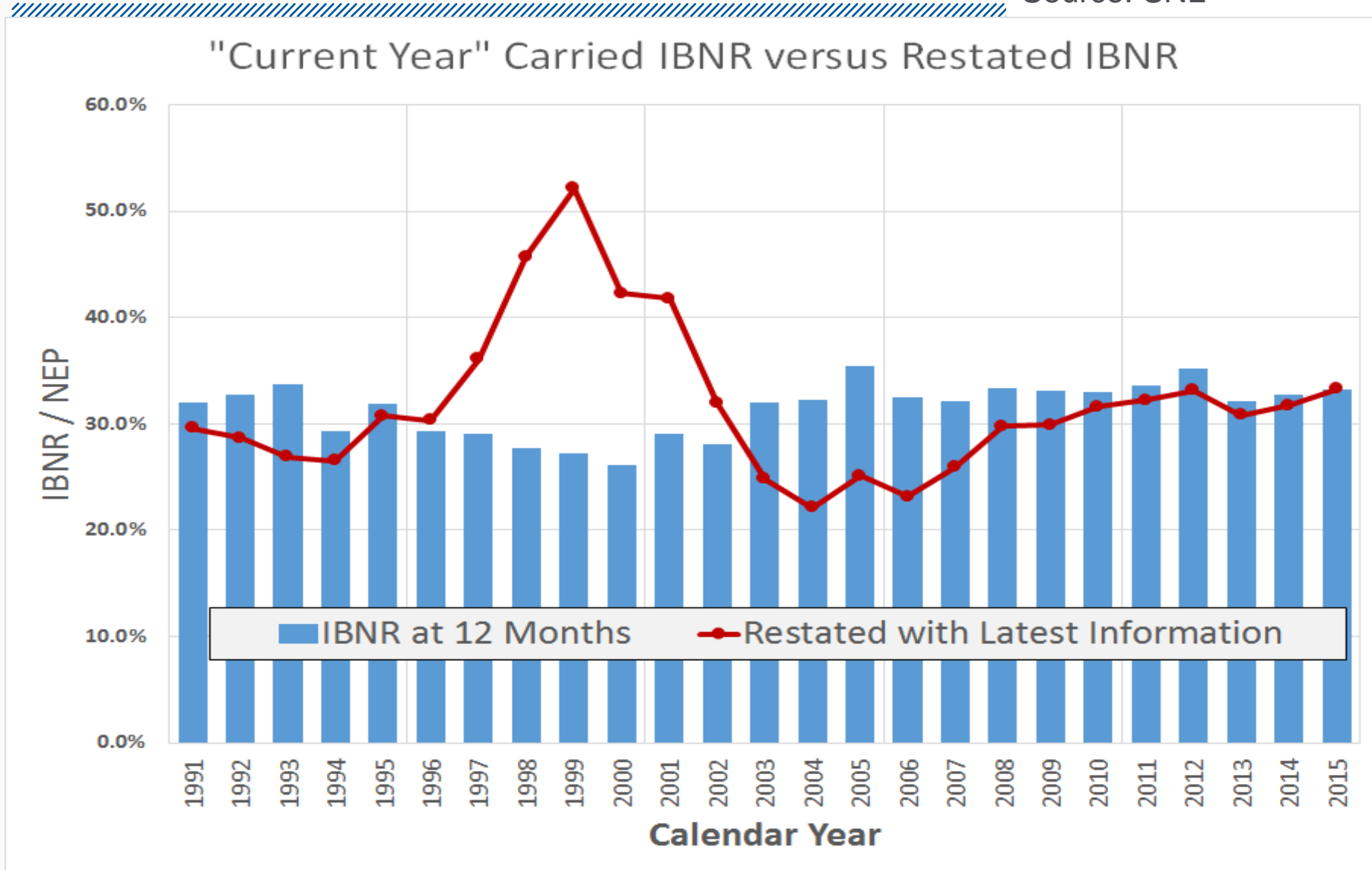
Example for Specialty Carriers

Source: SNL



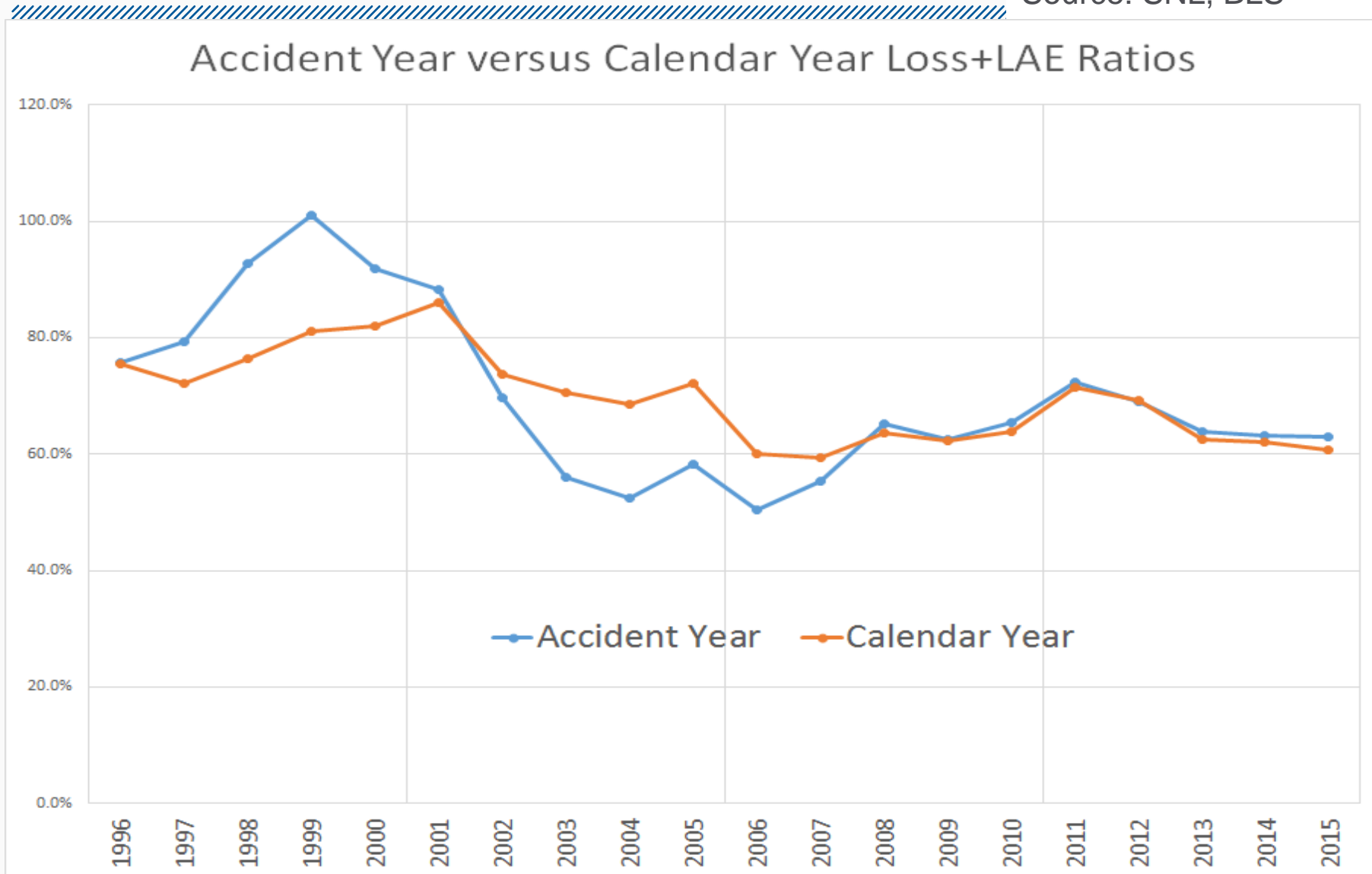
Example for Specialty Carriers

Source: SNL



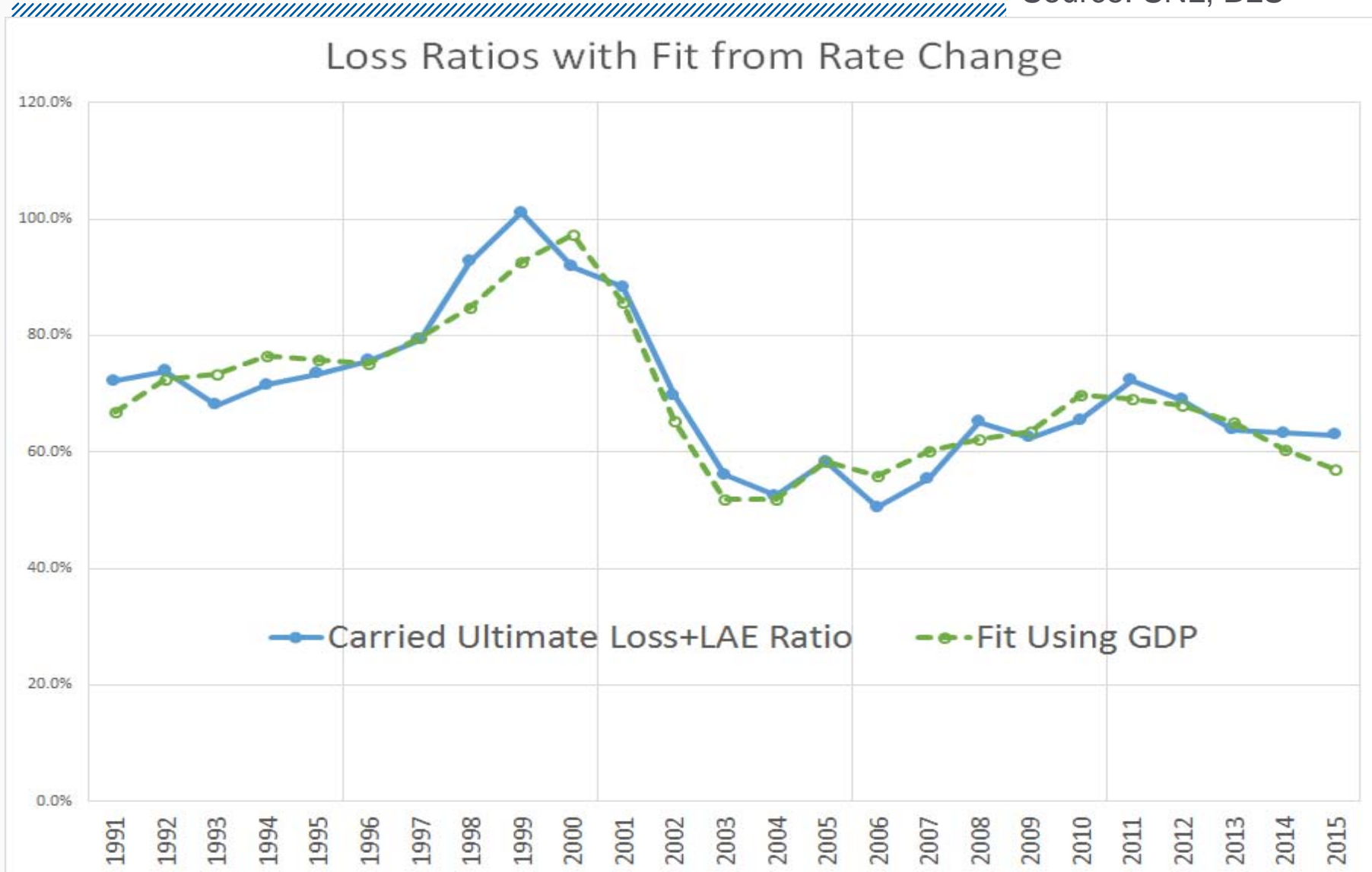
Example for Specialty Carriers

Source: SNL, BLS



Example for Specialty Carriers

Source: SNL, BLS

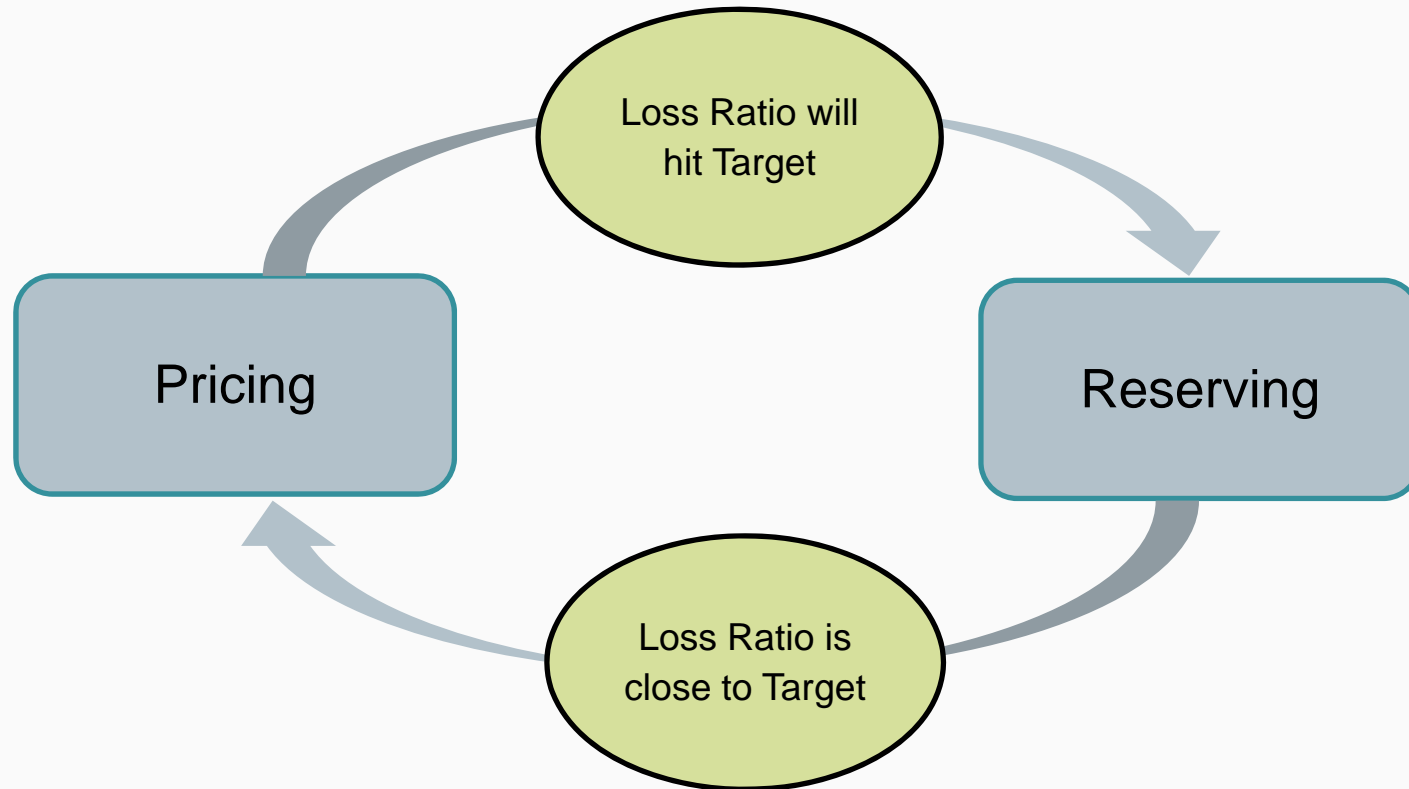


Comparison of Rate Change Surveys





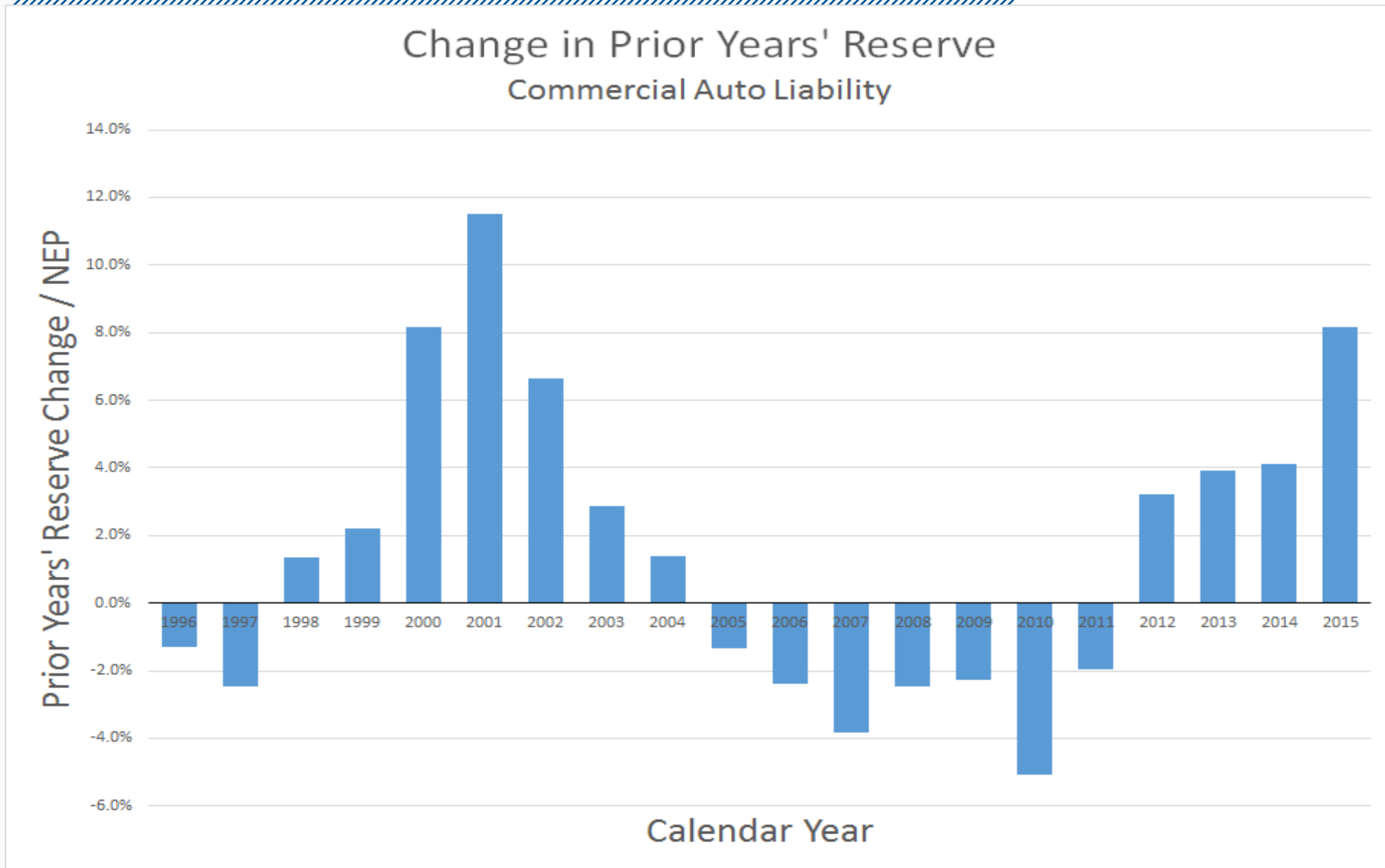
A Control Cycle or Operational Risk?



See “An Introduction to Insurer Operational Risk” by Mango & Venter

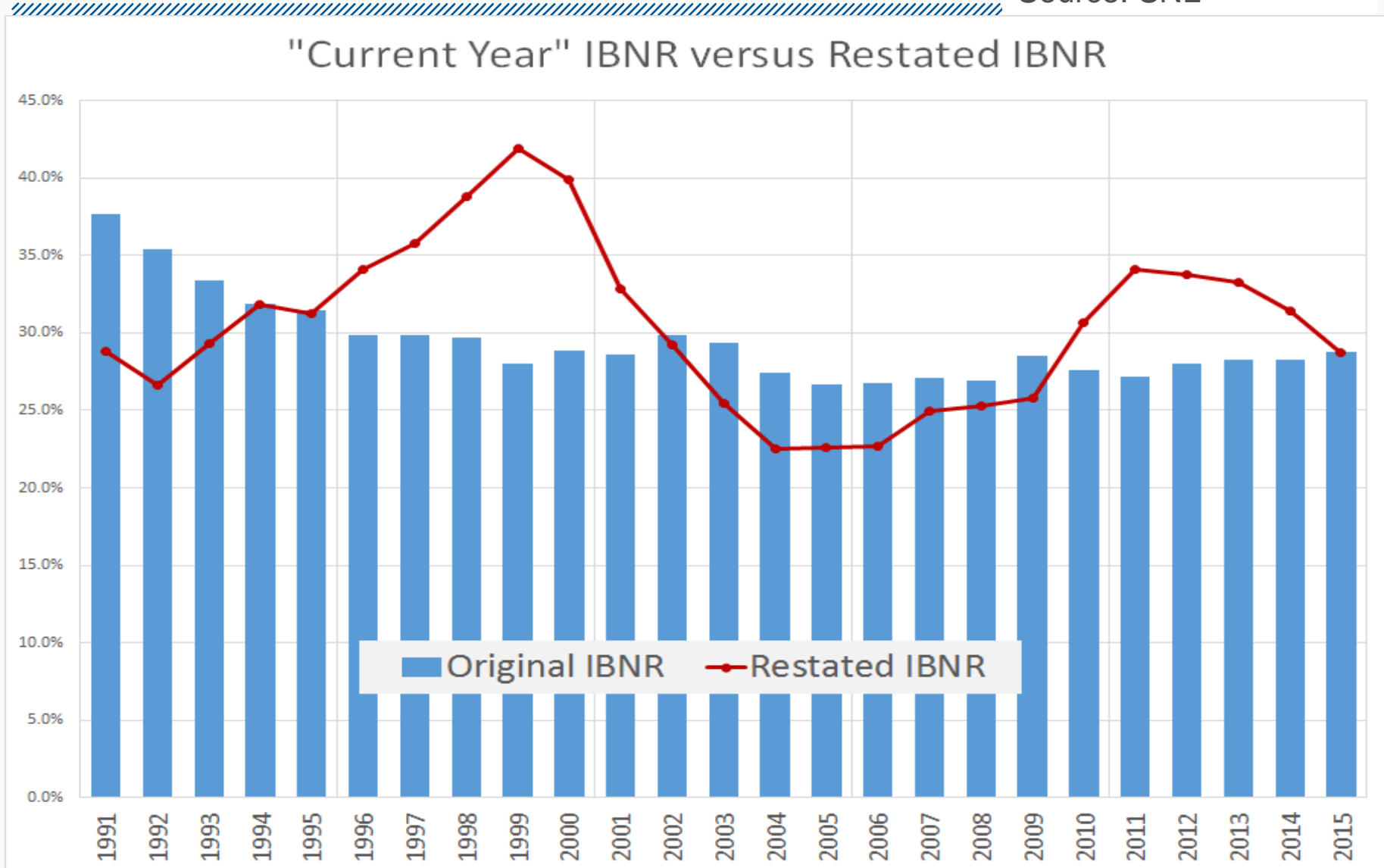
Example for Commercial Auto Liability

Source: SNL



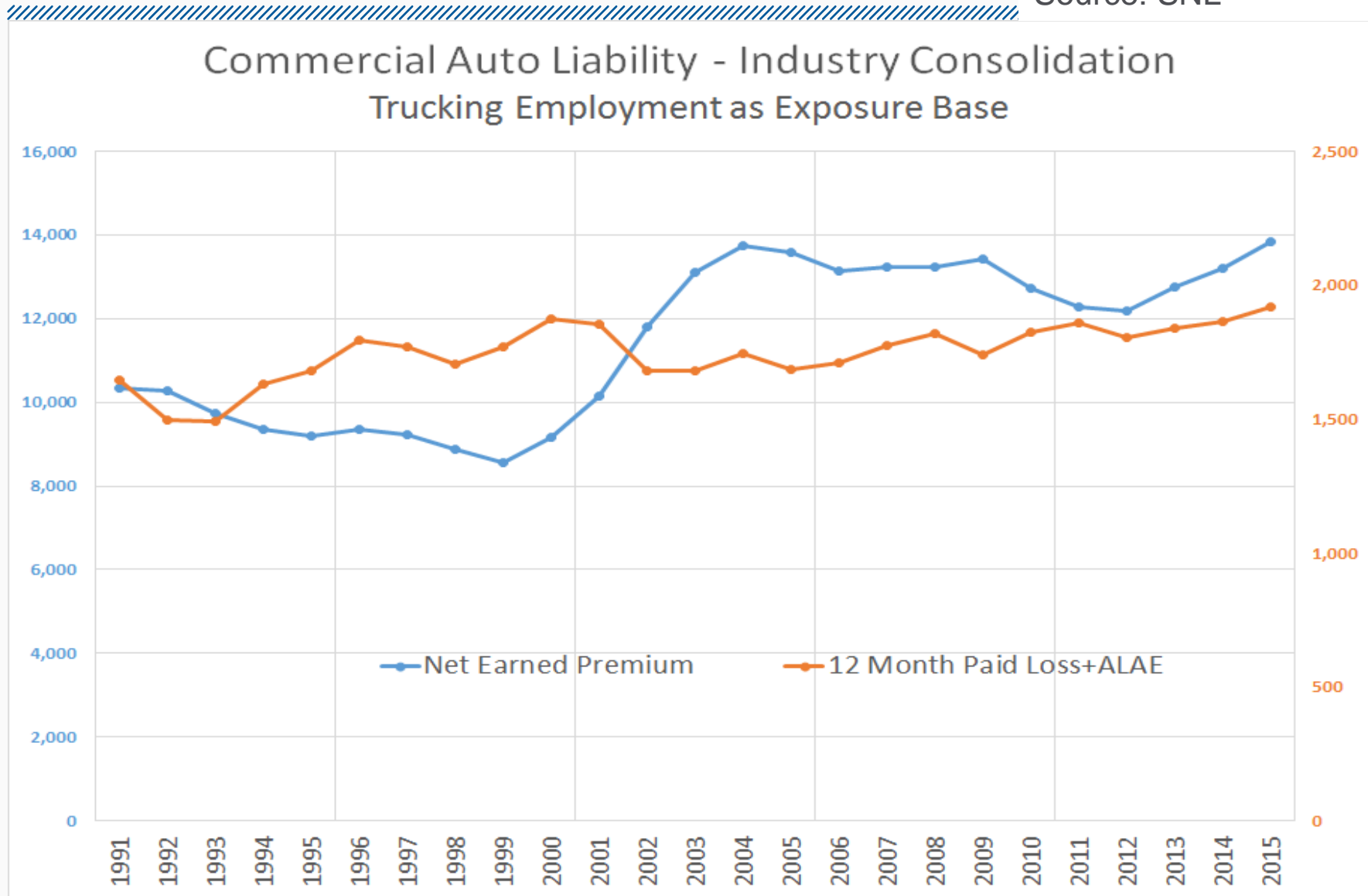
Example for Commercial Auto Liability

Source: SNL



Example for Commercial Auto Liability

Source: SNL

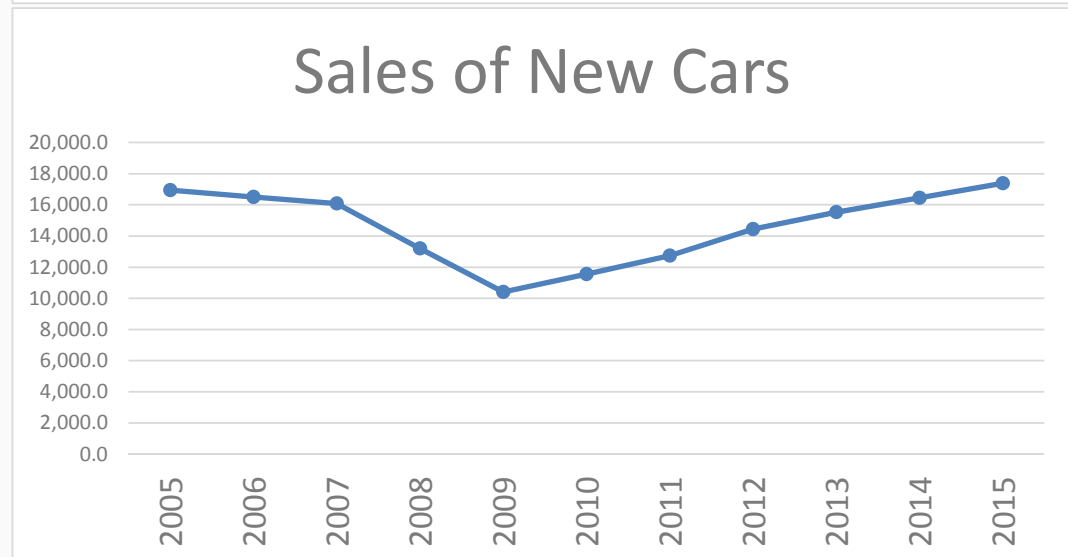
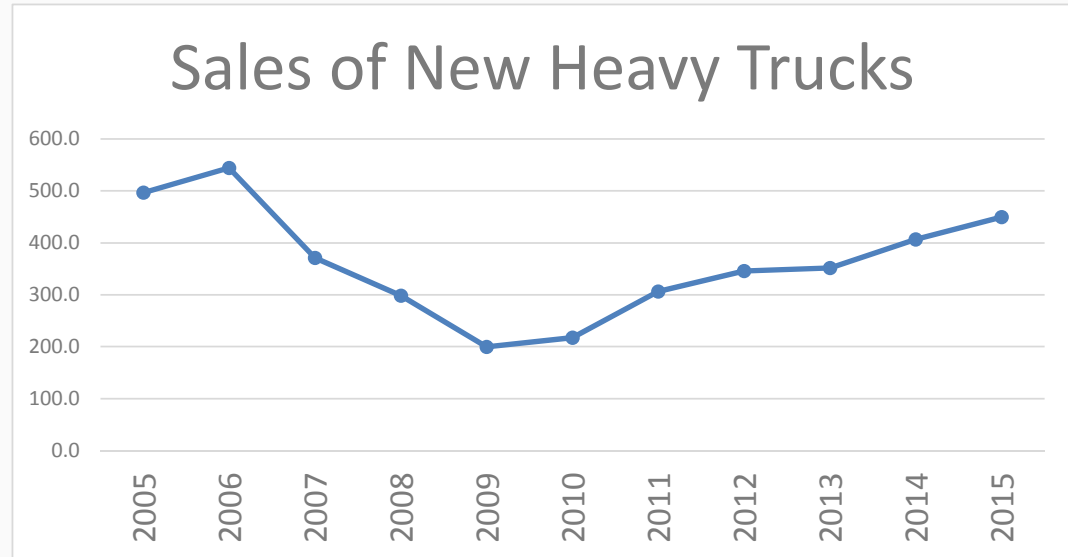


Economics may also contribute to severity



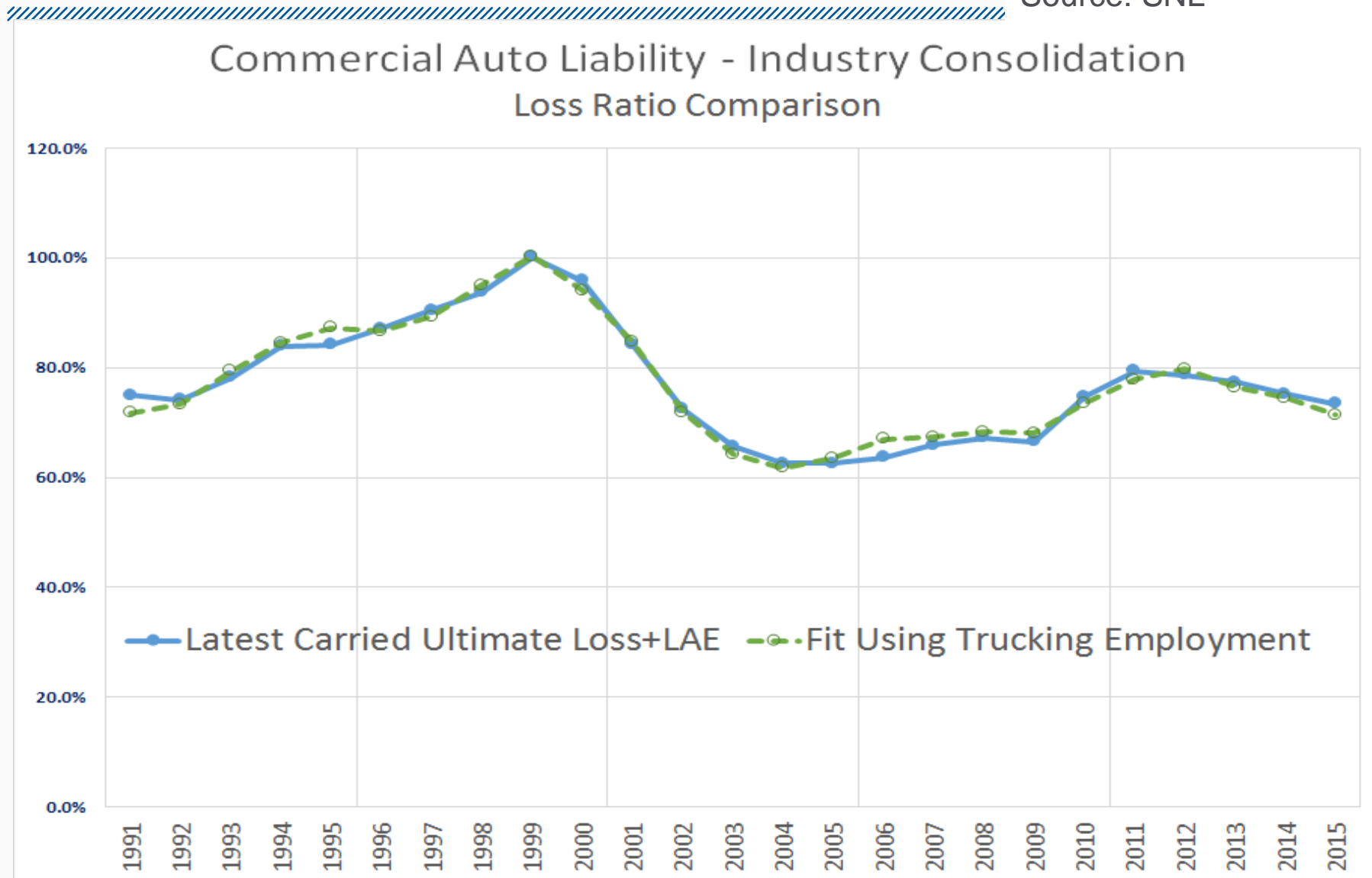
Sales of new vehicles also follow the economy.

This may contribute to greater property damage cost severities when more new vehicles are on the roads.



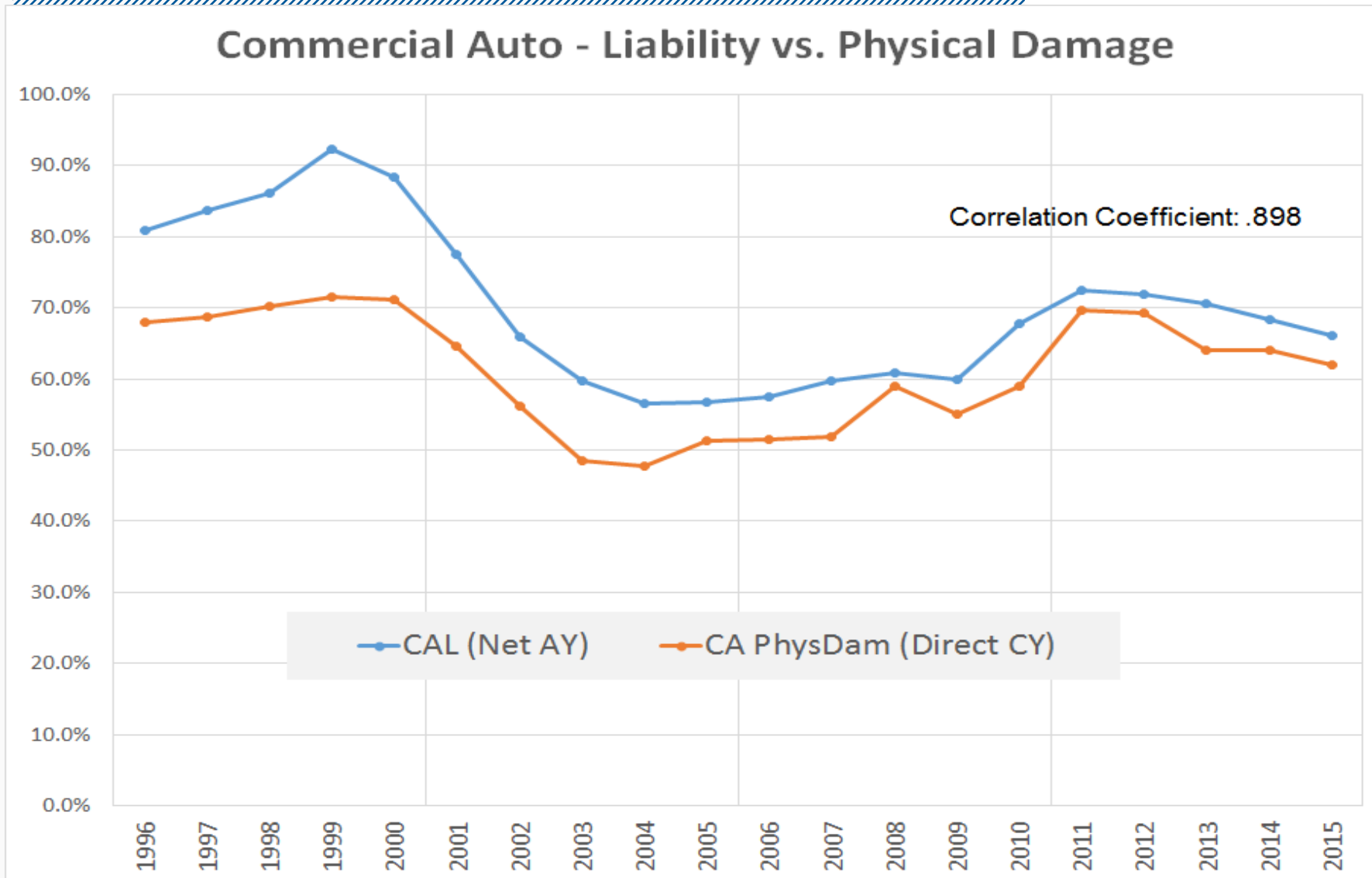
Example for Commercial Auto Liability

Source: SNL



Example for Commercial Auto Liability

Source: SNL





- We see both a pricing cycle and a reserving cycle, which are inter-related.
- Main driver appears to be failure to capture accurate rate changes and/or exposure base. That is, **operational risk**.



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