

Reserving War Stories 2017 Casualty Loss Reserve Seminar

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Commitment Beyond Numbers



Joseph A. Herbers, ACAS, MAAA, CERA
Managing Principal

War Story #1

Background

- Statutory SAO for Illinois domiciled insurer
- AA for several years
- Company used QS reinsurance to bolster surplus
- Commuted treaties after end of year
- Accounting for commutation transaction was funky
- Time constraints

A few more details

- Costs of commutation were booked as “paid ULAE” in past 2 years
- Adjustment to paid ULAE necessary to reflect this unusual accounting treatment
- Issues with internal peer reviewer
- Held reserves deemed inadequate

A bit more ...

- Projected a reserve deficiency of 17.5% of indicated reserves are about 1/3 of surplus
- “Inadequate Opinion”
- Management kept changing held reserves up through Friday Feb. 27
- Sent company my “Inadequate” SAO and draft report in support of opinion on Feb. 27

And more ...

- Delayed filing of Annual Statement and notified regulator
- Never filed my original SAO
- Increased held reserves and changed a few other figures in first week of March
- Amended SAO sent March 10 – held net reserves were reasonable but at low end of my range
- Included reasons for amended SAO and all other required disclosures

Here's where the problem arose

- Communication from IL DOI directly to me (not via the Company) to produce all work papers and all versions of reports and SAOs sent to the Company due to concerns about Company's delayed filing
- Per their request, I sent copy of my file to regulator
- Management was livid that I sent draft report and original SAO and accused me of being unprofessional
- Fee disputes ensued and I was subsequently fired

War Story #2

War Story #2 – thumbnail sketch

- Statutory financial exam for Florida domiciled insurer
- Personal lines carrier in SE, but with concentration in FL
- History of adverse loss development
- Statutory reforms / Court challenges
- Significant operational changes internal to Company
- Adverse conclusion by consultant
- Company “did not react well” to our findings

Prior Year Reserve Development

Reserve Development to Surplus (millions)

Cal. Year	1-year		2-year		Current Reserve Def. to Surplus
	\$ Amt.	% of Surplus	\$ Amt.	% of Surplus	
2012	41.5	43.6%	48.6	53.4%	72.7%
2011	23.7	26.1%	7.1	8.0%	
2010	(4.8)	-5.5%	(11.3)	-20.3%	
2009	(17.1)	-30.8%	25.7	25.7%	
2008	38.3	38.2%	103.2	100.1%	

- SAO indicates held reserves are “Reasonable”

A bit more ...

- Half of held reserves relate to FL PIP
- Statutory reform in FL PIP law (HB 119) passed in 2012
 - Treatment for injuries required within 14 days
 - Benefit limited to \$2,500 unless doc says “emergency medical condition”
 - Massage / acupuncture therapy costs no longer eligible for reimbursement
 - Follow-up services require referral from physician
- Injunction to limit implementation
- FL Supreme Court overturns injunction in late 2013

Limitations

- Limited time and budget per OIR
- No discussions with Company management, nor with Appointed Actuary
- AQ triangles by state by coverage provided in actuarial report
- At year-end 2012, many uncertainties regarding how to account for PIP reforms

Observations

Ratios of Held & Restated* Reserves to:

Cal. Year	Surplus		Net Earned Premium	
	Held	Restated	Held	Restated
2008	4.97	5.25	0.85	0.90
2009	2.35	2.66	0.82	0.92
2010	1.68	2.21	0.68	0.90
2011	1.32	1.76	0.54	0.72
2012	2.04	2.04	0.60	0.60

* restated to YE 2012 values

- Ave. case reserves per open claim very consistent
- Pervasive adverse loss development in past a harbinger of future adverse development?

Conclusions

- Reserve deficiency of \$78 - \$130 million
- Deficiencies exceed held surplus
- Company is technically insolvent

Follow-Up

- Report presented to regulator in Nov. 2013
- Regulator communicates results with Company
- Company disputes findings in light of:
 - Consultant did not communicate with Company nor AA
 - No consideration of operational changes
- Regulator agrees to have Consultant update study
 - Onsite interviews with Company personnel
 - Conduct more thorough review at YE 2013

Redux

- Loss Development in past 4 years on held reserves at YE 2012 has been approximately \$70 million (so far)

Cal Year	1-Year		2-Year	
	Dev. To Surplus	% of Surplus	Dev. To Surplus	% of Surplus
2013	\$15,750	24.8%	\$58,683	61.6%
2014	30,182	37.5%	40,826	64.2%
2015	28,087	36.8%	52,673	65.5%
2016	27,227	39.6%	43,357	56.8%

- What now?

Thank You for Your Attention

Joseph A. Herbers

(309) 807-2310

jherbers@pinnacleactuarial.com

