Short Duration Contract Disclosures
What did the New Requirement Look Like in Practice?

Casualty Loss Reserve Seminar
September 11, 2017

Learning Objectives

- Understand the new disclosure requirements
- Preparer perspective: major and minor issues
- Insights from the first year and possible uses of the disclosure

2

Understand the new disclosure requirements

- FASB ASU 2015-09 – what is it?
- Differences between NAIC / prior SEC and new FASB disclosures
- Claim development table
- Reconciliation

3

FASB ASU 2015-09 – what is it?

Accounting Standards Update (ASU) 2015-09, *Disclosures about Short-Duration Contracts*:

- Enhance the disclosure requirements for short-duration contracts issued by insurers
- Intended to provide users with more transparent information about an entity's liability estimates, including: initial claim estimates and subsequent adjustments; the methodologies and assumptions utilized when calculating the liabilities; better understanding regarding the timing, frequency, severity, and uncertainty of cash flows.
- Require interim claim liability rollforwards for long and short-duration contracts
- With the exception of the rollforward guidance, the additional disclosures pertain to short-duration insurance contracts only
- For annual periods ending 12/31, effective 12/31/2016 for public business entities and 12/31/2017 for all other entities.

4

Differences between NAIC / prior SEC and FASB SDC requirements

Item	NAIC	SEC	FASB SDC
Claim development table			
Basis	AS LoB / by entity	Consolidated	Disaggregated
Organized by	Accident year	Financial reporting year	Accident year with reconciliation
Annual payout percentage	Not required	Not required	Annual requirement
Narrative disclosures	Limited	Limited	Increased transparency
Claim liability rollforward	Annually	Annually* (per Guide 6)	**Interim** & Annually

*Information for any additional interim periods should be provided to the extent necessary to keep the annual information from being misleading, such as where a material change in the information presented or the trend evidenced thereby has occurred.

5

Annual disclosure requirement – claim development table

- Disaggregated basis
  - Present in a manner "so that useful info is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have significantly different characteristics".
- Tabular amounts by accident year [the year in which a covered event (as defined by the terms of the contract) occurs]
  - Incurred claims and allocated claim adjustment expenses
  - Cumulative paid claims and allocated claim adjustment expenses
- By accident year
  - The sum of IBNR and bulk (e.g., expected development on reported claims, IBNER); FASB uses the term "IBNR+"
  - Claim frequency (unless impracticable) along with a description of how it's measured
- Undiscounted basis / net of reinsurance

6

Example – claim development table

Homeowners' Insurance ($000's)

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance / **As of 12/31/2016**

Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR+	Cum # of Rpt Claims
					For the Years Ended December 31,							
2007	$ 10,000	$ 9,900	$ 9,700	$ 9,800	$ 9,750	$ 9,750	$ 9,600	$ 9,650	$ 9,575	$ 9,550	$ 5	39
2008		10,950	11,000	10,500	10,750	10,850	10,600	10,250	10,150	10,250	30	37
2009			12,000	11,750	11,500	10,900	10,900	10,850	10,750	10,500	90	38
2010				12,250	12,500	12,550	12,400	12,200	12,150	12,000	300	36
2011					12,300	12,500	12,650	12,750	12,800	12,850	900	35
2012						12,800	12,900	12,750	12,700	12,700	1,100	34
2013							13,000	13,250	13,100	13,150	1,500	31
2014								13,150	13,250	13,300	2,100	29
2015									13,500	13,250	3,100	26
2016										13,750	5,000	22
									Total	$121,300		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
					For the Years Ended December 31,					
2007	$ 3,000	$ 5,000	$ 5,500	$ 6,000	$ 6,800	$ 7,500	$ 8,500	$ 9,000	$ 9,050	$ 9,075
2008		3,500	5,750	6,500	7,500	7,750	8,250	8,500	9,000	9,500
2009			3,750	6,000	6,500	7,500	7,900	8,250	8,950	9,700
2010				3,750	6,250	7,250	7,750	8,900	9,700	9,950
2011					4,250	5,500	6,750	8,000	8,950	9,250
2012						4,125	5,250	7,000	8,000	9,000
2013							4,500	5,750	7,250	7,750
2014								4,600	6,000	6,950
2015									4,750	6,125
2016										4,850
									Total	$ 82,150
								All outstanding liabilities before 2007, net of reinsurance		1,400
								Liabilities for claims and claim adjustment expenses, net of reinsurance		$ 40,550

Excerpt from ASC 944-40-55-9E

7

Annual disclosure requirement – reconciliation

Reconciliation of the Disclosure of Incurred and Paid Claims Development to the Liability for Unpaid Claims and Claims Adjustment Expenses

		December 31, 2016
Net Outstanding Liabilities		
Homeowners' Insurance	$	40,550
Other short-duration insurance lines		1,976
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance		42,526
Reinsurance recoverable on unpaid claims		
Homeowners' Insurance		13,880
Other short-duration insurance lines		283
Total reinsurance recoverable on unpaid claims		14,163
Non-short duration items		
Insurance lines other than short-duration		3,315
Unallocated claims adjustment expenses		2,420
Other		10
Subtotal - non-short duration unpaid claims		5,745
Total gross liability for unpaid claims and claim adjustment expense	**$**	**62,434**

Excerpt from ASC 944-40-55-9E

8

Preparer perspective: major and minor issues

- Major issues
  - Segmentation ("disaggregation")
  - Claim counts
- Lesser issues
  - Number of years to show
  - Foreign Exchange
  - Mergers/Acquisitions/Divestitures
  - Disclosure of IBNR/Bulk method

9

Background

- No total triangle, and not all lines/claims need to be in a disclosed triangle
  - Don't need triangles for "insignificant categories" of losses.
- Audit requirement tightens the timeframe
- Triangles don't separately include IBNR/Bulk nor ULAE
- ASU says "claim frequency", but guidance looks more like claim counts
  - "Frequency" implies an exposure measure – not in the ASU.
- SEC seemed to favor approaches that restated history, rather than having AY development distorted by various changes (e.g., FX, mergers, etc.)
- Required to disclose method for counting claims, setting IBNR/Bulk.

10

Major issue – segmentation
i.e., for what lines do you show a triangle

- How many lines do you show?
- Can't aggregate across "Reporting Segment"
- E.g., Workers Comp. may be in multiple segments
- When does it become "insignificant"
- Are claim counts available?

11

Major issue – segmentation (con't)
i.e., for what lines do you show a triangle

- Can address some issues by carving out problematic segments that are "insignificant" to the total
  - E.g., if no claim counts for residual market, is it "insignificant", so just show voluntary piece?
- Need high enough % of total covered by the triangles
- Don't want too many triangles, nor too few.

12

Major issue – claim counts

- Major source – Schedule P – but never audited before.
- For larger companies, probably never used those Schedule P claim counts before.
- If never used, may not have been quality controlled, fully verified at that level
- Only used for A&O LAE allocation?
- May be counted different ways by different business units
  - By claimant? By coverage? By scheduled property?

13

Major issue – claim counts (con't)

- How can any number be material if not relevant next to the dollars?
  - Dollars include all loss types/coverages
  - Claim counts, frequency/severity analysis frequently only usable if by loss type/coverage
  - E.g., Total auto payments divided by counts that include:
    - Collision counts
    - Road side assistance counts
    - Fire counts
    - Theft counts
    - Flood counts

14

Lesser issues

- Number of years to show?
  - Based on when most dollars are paid?
  - Tail points based on fewer observations (hence may be volatile)
  - Distortions by sub&sal for tail values?

	x	x	x	x	x
	x	x	x	x	
	x	x	x		
	x	x			
	x				
observations	5	4	3	2	1

15

Lesser issues (con't)

- FX
  - Grab data in functional currency
  - Covert at latest "as of" FX rate
  - Are minor pieces "insignificant" (don't put in triangle?)

16

Lesser issues (con't)

- Mergers / acquisitions / divestitures (and loss portfolio transfers?)
  - Follow Schedule P approach of restating history
  - Easiest if straight from Schedule P (for US business)
- Description of IBNR setting method
  - Is "Take ultimate and subtract case" enough?
  - Or is something more expected. (I.e., method for estimating ultimate.)

17

Insights from the first year and possible uses of the disclosure

- Years of data in the disclosure
- Number of tables per P&C reporting segment
- Reserve development trends
- Development persistency
- Range of estimates: bootstrapping
- Peer comparisons

18

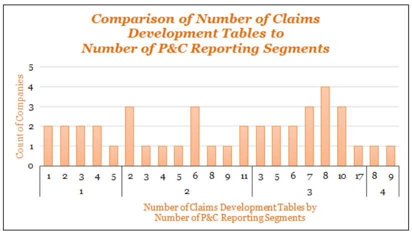
Number of years presented in the claims development tables

- Claims development tables should be provided for the number of years for which claims incurred typically remain outstanding (that need not exceed 10 years).
- Number of accident years presented in each of the 245 disaggregated claims development:

No. of Years	*No. of Claims Development Tables*	*% of Claims Development Tables*
10	163	67%
9	7	3%
8	2	1%
7	21	9%
6	4	2%
5	43	18%
4	0	0%
3	3	1%
2	2	1%
Total	**245**	**100%**

Number of tables per P&C reporting segment

- Number of claims development tables vs number of the reporting segments for which the company provided at least one claims development table.



Reserve development trends – Industry Reserve Trends (12/31/16)

Reserve development Industry trends based on PwC analysis of short duration contracts disclosure of 41 10K filings.

Historical reserve variability was assessed using the 245 claims development tables contained within the 41 disclosures. Results are presented for:

- The P&C industry and several industry groupings
- Short tailed vs long tailed
- Insurance vs reinsurance lines of business

Limitations:

- *Due to short duration requirements, **accident years 2006 and prior are not included** in this analysis*
- *Some companies did not provide ten years of disclosure information*
- *Calendar year results for each company include only the accident years presented in that company's disclosures.*
- *Use care when reviewing calendar year and accident year comparisons.*

Reserve development trends – Summary observations

- In the aggregate, P&C insurers have released prior year-end reserves in each of the last 11 calendar years
- Short tailed lines of business have developed more favorably relative to initial year-end balance sheet reserves than long tailed lines of business.
- Reinsurance lines have experienced more favorable development relative to initial year-end balance sheet reserves than insurance lines.
- Offshore insurance / reinsurance companies and smaller, commercial lines focused insurers have tended to develop more favorably relative to initial year-end balance sheet reserves than other industry groupings
- Personal lines focused insurers have had less accident year volatility than other industry groupings.
- As prior reserve balances mature and are re-evaluated:
  - Roughly one-third of public companies have hindsight reserves for more fully developed years within 10% of initial reserves.
  - Roughly one-fifth of companies deviate by more than 25%.

22

Reserve development trends – Reserve variability (calendar year)

Cumulative Reserve Development as a % of Initial Recorded Reserves

Calendar Year End	P&C Combined	Short-tail Lines	Long-tail Lines	Insurance Lines	Reinsurance Lines
2007	-12%	-13%	-12%	-10%	-21%
2008	-10%	-12%	-9%	-8%	-19%
2009	-10%	-16%	-8%	-8%	-18%
2010	-8%	-12%	-7%	-7%	-16%
2011	-6%	-10%	-5%	-4%	-15%
2012	-6%	-8%	-5%	-3%	-15%
2013	-5%	-7%	-4%	-2%	-14%
2014	-2%	-4%	-1%	-1%	-10%
2015	0%	-2%	0%	1%	-6%
Initial Recorded Reserves - CY 2015 ($ in millions)					
	280,811	80,707	195,299	232,319	48,492

Source: 41 GAAP 10K Annual Statements, 2016. Compiled by PwC.
Excludes accident years 2006 and prior.

Several disaggregated claims development tables included both short and long tailed exposure; we did not assign these claims development tables to either grouping. As such, the sum of short tailed lines and long tailed lines does not equal the P&C Combined total.

This table shows how reserves have developed since the original year-end balance sheet date through year ending 2016 for four lines of business groupings.

Each line of business grouping has tended to develop favorably relative to original year-end reserves.

Short tailed lines and reinsurance lines have tended to develop more favorably than long tailed lines and insurance lines, respectively.

23

Reserve development trends – Reserve variability (calendar year)

Cumulative Reserve Development as a % of Initial Recorded Reserves

Calendar Year End	P&C Combined	Commercial Lines Focus Large Insurer	Commercial Lines Focus Small Insurer	Personal Lines Focus Insurer	Offshore Insurance/ Reinsurance Focus
2007	-12%	-11%	-19%		-14%
2008	-10%	-9%	-21%		-11%
2009	-10%	-9%	-19%		-12%
2010	-8%	-7%	-14%		-11%
2011	-6%	-5%	-10%		-10%
2012	-6%	-4%	-7%	-3%	-10%
2013	-5%	-3%	-5%	-3%	-9%
2014	-2%	-1%	-5%	-3%	-6%
2015	0%	1%	-2%	-1%	-4%
Initial Recorded Reserves - CY 2015 ($ in millions)					
	280,811	193,424	9,503	21,805	56,079

Source: 41 GAAP 10K Annual Statements, 2016. Compiled by PwC.
Excludes accident years 2006 and prior.

Each industry grouping has tended to develop favorably relative to original year-end reserves.

Commercial lines focus small insurers and offshore insurance / reinsurance have tended to develop more favorably than other industry groupings.

Note that the data for any given calendar year-end includes development from all prior accident years excluding accident years 2006 and prior.

24

Reserve development trends – Reserve variability (accident year)

Cumulative Reserve Development as a % of Initial Recorded Reserves

Accident Year	P&C Combined	Short-tail Lines	Long-tail Lines	Insurance Lines	Reinsurance Lines
2007	-12%	-13%	-12%	-10%	-21%
2008	-7%	-9%	-6%	-5%	-16%
2009	-6%	-15%	-3%	-4%	-15%
2010	-3%	-7%	-1%	-1%	-10%
2011	-1%	-6%	1%	1%	-10%
2012	-3%	-7%	0%	-1%	-14%
2013	-3%	-5%	-1%	-1%	-13%
2014	-1%	-3%	1%	0%	-7%
2015	1%	0%	3%	2%	-4%
Initial Recorded Reserves - AY 2015 ($ in millions)					
	93,225	41,706	49,655	79,339	13,886

Source: 41 GAAP 10K Annual Statements, 2016. Compiled by PwC.

Several disaggregated claims development tables included both short and long tailed exposure; we did not assign these claims development tables to either grouping. As such, the sum of short tailed lines and long tailed lines does not equal the P&C Combined total.

This table shows how accident year loss reserves have developed since the initial year-end balance through year ending 2016 for several lines of business.

The lines of business have generally experienced favorable accident year development after initial reserving.

Long tailed lines and the insurance lines of business have had less accident year volatility than short tailed lines and reinsurance lines, respectively.

25

Reserve development trends – Reserve variability (accident year)

Cumulative Reserve Development as a % of Initial Recorded Reserves

Accident Year	P&C Combined	Commercial Lines Focus Large Insurer	Commercial Lines Focus Small Insurer	Personal Lines Focus Insurer	Offshore Insurance/ Reinsurance Focus
2007	-12%	-11%	-19%		-14%
2008	-7%	-6%	-18%		-7%
2009	-6%	-5%	-10%		-10%
2010	-3%	-1%	-2%		-8%
2011	-1%	0%	-3%		-7%
2012	-3%	-1%	-4%	-3%	-10%
2013	-3%	-2%	-2%	-1%	-7%
2014	-1%	0%	-6%	-2%	-2%
2015	1%	3%	-2%	0%	-2%
Initial Recorded Reserves - AY 2015 ($ in millions)					
	93,225	60,527	3,487	12,416	16,795

Source: 41 GAAP 10K Annual Statements, 2016. Compiled by PwC.

The industry groupings have generally experienced favorable accident year development after initial reserving.

Commercial lines focus small insurers and offshore insurance / reinsurance have tended to develop more favorably than other industry groupings.

Accident years will continue to develop as they mature. More recent accident years are therefore subject to greater estimation uncertainty.

26

Development persistency – Heat Map (P&C Industry)

Reserve Development by Accident Year
P&C Industry
(in $millions)

		Evaluation Date (in months)										
Accident Year	Initial Reserve 12	24	36	48	60	72	84	96	108	120	Hindsight Reserve @2016	Cumulative Reserve Development
2007	60,131	(1,141)	(1,299)	(524)	(1,378)	(934)	(884)	(626)	(359)	(114)	52,872	-12%
2008	64,481	254	(494)	(1,403)	(693)	(982)	(616)	(372)	(218)		59,957	-7%
2009	57,858	(367)	(549)	(627)	(566)	(804)	(565)	(103)			54,277	-6%
2010	58,344	1,043	(254)	(640)	(823)	(505)	(308)				56,857	-3%
2011	66,666	429	(234)	(380)	(123)	(533)					65,825	-1%
2012	90,760	(592)	(1,647)	(236)	(452)						87,834	-3%
2013	86,758	(962)	(1,095)	(396)							84,304	-3%
2014	88,787	(874)	59								87,972	-1%
2015	93,225	1,150									94,375	1%
2016	98,083										98,083	

Source: 41 GAAP 10K Annual Statements, 2016. Compiled by PwC.

This heat map shows the incremental subsequent development of losses by accident year from initial year-end balance through year ending 2016 and is useful to understand underlying changes in hindsight reserve redundancy / deficiency.

Once an accident year begins to develop downward, the favorable trend generally persists.

We have observed similar trends of ongoing adverse development in some older accident years (e.g. accident years 1997 through 2002) in prior analyses.

27

Development persistency – Heat Map (Commercial Auto)

Reserve Development by Accident Year
Commercial Auto
(in $millions)

Evaluation Date (in months)

Accident Year	Initial Reserve 12	24	36	48	60	72	84	96	108	120	Hindsight Reserve @2016	Cumulative Reserve Development
2007	1,419	(25)	(18)	(37)	(12)	(2)	(19)	(5)	(15)	(1)	1,286	-9%
2008	1,402	(4)	(68)	(28)	(2)	(14)	(28)	(10)	(6)		1,244	-11%
2009	1,364	(123)	(42)	(39)	11	(15)	(23)	(7)			1,127	-17%
2010	1,233	(28)	6	20	14	(7)	(20)				1,217	-1%
2011	1,288	89	50	27	33	(7)					1,481	15%
2012	2,401	166	24	57	27						2,674	11%
2013	2,448	74	120	39							2,682	10%
2014	2,517	68	76								2,660	6%
2015	2,666	152									2,818	6%
2016	3,032										3,032	

Source: 41 GAAP 10K Annual Statements, 2016. Compiled by PwC.
** Commercial Auto Industry statistics include 16 companies that classified triangles as Commercial Auto Liability, Commercial Auto Physical Damage, Small Commercial - Commercial Auto, or Specialty Program - Commercial Auto*

Commercial Auto: companies disclosing "commercial auto" claims development tables have experienced adverse development since 2011, generally with consistent adverse development year-after-year.

28

Development persistency – Heat Map (Workers' Comp)

Reserve Development by Accident Year
Workers Conpensation
(in $millions)

Evaluation Date (in months)

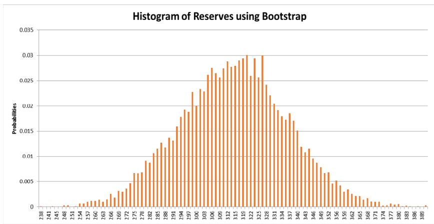
Accident Year	Initial Reserve 12	24	36	48	60	72	84	96	108	120	Hindsight Reserve @2016	Cumulative Reserve Development
2007	9,098	(178)	(103)	32	(162)	(84)	(73)	(116)	2	165	8,580	-6%
2008	8,646	134	277	(27)	(33)	(73)	(17)	32	136		9,077	5%
2009	8,155	106	(9)	59	(22)	16	11	101			8,416	3%
2010	7,418	790	159	148	100	37	91				8,743	18%
2011	8,534	206	337	116	22	32					9,247	8%
2012	8,664	(144)	132	(30)	15						8,637	0%
2013	8,550	(67)	18	36							8,536	0%
2014	8,445	(35)	44								8,454	0%
2015	8,595	(16)									8,579	0%
2016	8,390										8,390	

Source: 41 GAAP 10K Annual Statements, 2016. Compiled by PwC.
**Industry statistics include 16 companies that classified triangles as Workers Compensation*

Workers' Compensation: companies disclosing "workers' compensation" claims development tables have experienced adverse development since 2008, generally with consistent adverse development year-after-year.

29

Range of estimates – bootstrapping example



Bootstrap Percentile	
Percentile	*Reserves*
10%	285,984
20%	296,087
30%	303,072
40%	308,900
50%	314,502
60%	319,705
70%	325,423
80%	332,078
90%	341,474
95%	349,371
99%	349,371
99.5%	363,812
100%	394,058
Median	314,502
Mean	314,176
Std	21,403
%	7%

Another possible use of the disclosure is for assessing the reserve distribution. The above example shows a sample bootstrap for a hypothetical subset of reserves. This could be used to inform the understanding of reserve variability, reserve strength, reserve risk charges, and overall capital adequacy.

23

Peer comparisons – calendar year (Commercial Auto)

Cumulative Reserve Development as a % of

Calendar Year End	Company XYZ	Selected Competitors	P&C Combined
2007	1%	-20%	-9%
2008	-9%	-20%	-11%
2009	-11%	-27%	-17%
2010	-1%	-22%	-9%
2011	4%	-10%	1%
2012	5%	-3%	6%
2013	0%	6%	5%
2014	-1%	7%	5%
2015	0%	3%	4%
Initial Recorded Reserves - CY 2015 ($ in millions)	2,391	2,448	6,546

This table shows how loss reserves have developed since the original year-end balance sheet date through year ending 2016.

For example, aggregate Commercial Auto industry reserves as of December 31, 2008 have since developed favorably by 11%.

Note that the data for any given calendar year-end includes development from all prior accident years excluding accident years 2006 and prior.

Source: 41 GAAP 10K Annual Statements, 2016. Compiled by PwC.
Excludes accident years 2006 and prior.
Industry statistics include 16 companies that classified triangles as Workers Compensation

Slide 31

Peer comparisons – accident year (Commercial Auto)

Cumulative Reserve Development as a % of

Accident Year	Company XYZ	Selected Competitors	P&C Combined
2007	1%	-20%	-9%
2008	-11%	-20%	-11%
2009	-6%	-27%	-17%
2010	11%	-14%	-1%
2011	13%	8%	15%
2012	8%	6%	11%
2013	1%	15%	10%
2014	-1%	7%	6%
2015	2%	2%	6%
Initial Recorded Reserves - AY 2015 ($ in millions)	959	1,050	2,666

This table shows how accident year loss reserves have developed since the initial year-end balance, through year ending 2016.

For example, aggregate Commercial Auto industry reserves for accident year 2008 as of December 31, 2008 have since developed favorably by 11%.

Source: 41 GAAP 10K Annual Statements, 2016. Compiled by PwC.
Industry statistics include 16 companies that classified triangles as "Commercial Auto".

Slide 32

Questions?