Reserve Variability:
Benchmarking Unpaid Claim Estimates

Benchmarking Unpaid Claim Estimates

- **Benchmark:** A standard, or a set of standards, used as a point of reference for evaluating performance or level of quality. Benchmarks may be drawn from a firm's own experience, from the experience of other firms in the industry, or from legal requirements such as environmental regulations.

Source: businessdictionary.com

Milliman 2

Benchmarking Unpaid Claim Estimates

- Have you ever calculated an estimate of unpaid claims?
  - P&C (General) Insurance, any LOB or segment
  - For any reason, reserves, pricing, ERM, etc.
- Have you ever used a benchmark to help with your estimated unpaid claims or range of estimates?

Milliman 3

Reserve Variability:
Benchmarking Unpaid Claim Estimates

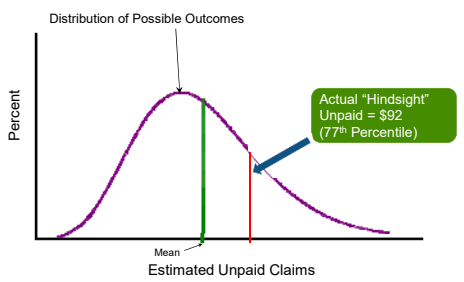
Benchmarking Unpaid Claim Estimates
Outline

1 Background
2 Analysis Summary
3 Model Limitations
4 Model Projections – Are they Unbiased?
5 Proposed Adjustments
6 Conclusions
7 Claim Variability Guidelines

Milliman 4

Background
Hindsight Analysis

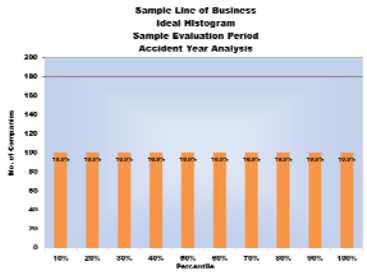
Hypothetical Unpaid Claim Distribution



Milliman 6

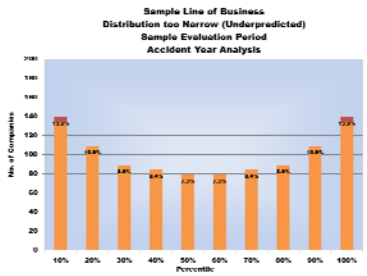
Reserve Variability:
Benchmarking Unpaid Claim Estimates

If Model is Correct…



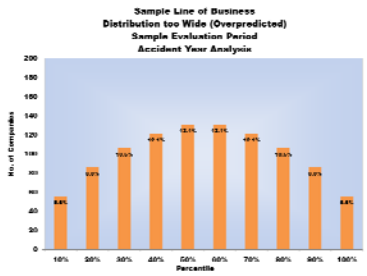
Milliman 7

If Model Underestimates Distribution…



Milliman 8

If Model Overestimates Distribution…



Milliman 9

Reserve Variability:
Benchmarking Unpaid Claim Estimates

Background
Prior Research

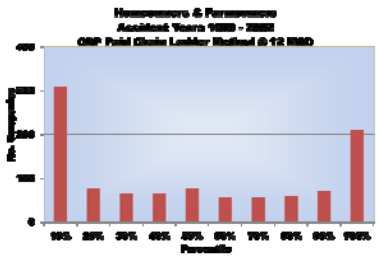
Meyers & Shi

"…study suggests that there might be environmental changes that no single model can identify."

"If this continues to hold, the actuarial profession cannot rely solely on stochastic loss reserve models to manage its reserve risk."

Milliman 11

Leong, Wang & Chen



Leong, Jessica (Weng Kah), Shaun Wang, and Han Chen, "Back-Testing the ODP Bootstrap of the Paid Chain-Ladder Model with Actual Historical Claims Data," CAS E-Forum, Summer 2012, 1-34.

Milliman 12

Leong, Wang & Chen

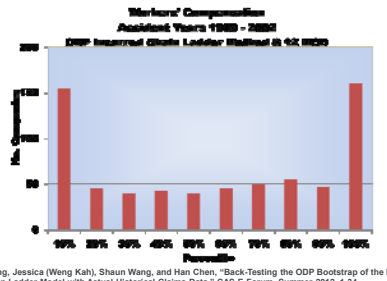
"…the popular ODP bootstrap of the paid chain-ladder method is underestimating reserve risk."

"…the bootstrap model does not consider systemic risk, or, to put it another way, the risk that future trends in the claims environment – such as inflation, trends in tort reform, legislative changes, etc. – may deviate from what we saw in the past."

Leong, Jessica (Weng Kah), Shaun Wang, and Han Chen, "Back-Testing the ODP Bootstrap of the Paid Chain-Ladder Model with Actual Historical Claims Data," CAS E-Forum, Summer 2012, 1-34.

Milliman 13

Leong, Wang & Chen



Leong, Jessica (Weng Kah), Shaun Wang, and Han Chen, "Back-Testing the ODP Bootstrap of the Paid Chain-Ladder Model with Actual Historical Claims Data," CAS E-Forum, Summer 2012, 1-34.

Milliman 14

Leong, Wang & Chen

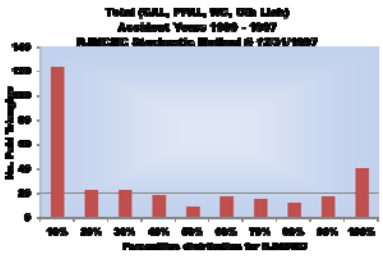
"…it appears that the incurred bootstrap model is also underestimating the risk of falling in these extreme percentiles."

Note: This is not the same incurred ODP bootstrap model as described in the Shapland Monograph.

Leong, Jessica (Weng Kah), Shaun Wang, and Han Chen, "Back-Testing the ODP Bootstrap of the Paid Chain-Ladder Model with Actual Historical Claims Data," CAS E-Forum, Summer 2012, 1-34.

Milliman 15

Gremillet & Miehe



Gremillet, Marion, and Pierre Miehe, "Back-Testing the Reversible Jump Markov Chain Monte Carlo & further extensions," ICA 1-38 (2013).

Milliman 16

Gremillet & Miehe

"…it is core to have adjustments by actuaries prior to running the stochastic methods 'automatically.' "

"Actuary in the box" dream for stochastic reserves valuation not yet happening

Gremillet, Marion, and Pierre Miehe, "Back-Testing the Reversible Jump Markov Chain Monte Carlo & further extensions," ICA 1-38 (2013).

Milliman 17

Background

Communication Issues

Communication Issues

- Intended audience
- Intended use of the work product
- Measurement objective
- Reliability of the estimates
- Disclosures

Milliman 19

ASOP 43

- Purpose or Use of the Unpaid Claim Estimate – The actuary should identify the intended purpose or use of the unpaid claim estimate.
- Who will be using the work product?
  - What is their training and experience?
- How do they intend to use it?

Milliman 20

Examples of Intended Uses

- Support for a Statement of Actuarial Opinion
- M&A
- ERM risk assessment, capital modeling, ORSA
- Internal strategic planning
- SEC filings

Milliman 21

ASOP 43

3.3 Scope of the Unpaid Claim Estimate The actuary should identify the following:

a. the intended measure of the unpaid claim estimate;

1. Examples of various types of measures for the unpaid claim estimate include, but are not limited to, high estimate, low estimate, median, mean, mode, actuarial central estimate, mean plus risk margin, actuarial central estimate plus risk margin, or specified percentile.

Milliman 22

Basis of Presentation

- Standard deviation
- Coefficient of variation
- Probability distribution
- Probability levels / Confidence Levels / Percentiles

Arguably satisfies the letter of the law, but the spirit of the law too?

Milliman 23

Sources of Uncertainty

Process Risk	Parameter Risk	Model Risk
• Inherent randomness of future payments	• Random noise in historical data used to estimate parameters • Risk that past is not predictive of future values	• All models are wrong • Simplifying assumptions are inherent to the modeling process

Milliman 24

Sources of Uncertainty

Independent Risk	Internal Systemic Risk	External Systemic Risk
• Inherent randomness of future payments • Random noise in historical data used to estimate parameters	• Simplifying assumptions inherent to the modeling process • Unconscious biases of the reserving actuary • Other sources of risk related to the reserve estimation process	• Risk that historical experience is not predictive of future values

Milliman 25

ASOP 43

3.6.1 Methods and Models – The actuary should consider methods or models for estimating unpaid claims that, in the actuary's professional judgment, are appropriate. The actuary should select specific methods or models, modify such methods or models, or develop new methods or models based on relevant factors including, but not limited to, the following:

…

e. the reasonableness of the assumptions underlying each method or model.

Milliman 26

ASOP 43 Cont.

The actuary should consider the use of multiple methods or models appropriate to the purpose, nature and scope of the assignment and the characteristics of the claims unless, in the actuary's professional judgment, reliance upon a single method or model is reasonable given the circumstances. If for any material component of the unpaid claim estimate the actuary does not use multiple methods or models, the actuary should disclose and discuss the rationale for this decision in the actuarial communication.

Milliman 27

Reliability of the Estimates

- Suitability of the data for bootstrapping calculations?
- Data issues that could impact bootstrapping
  - Calendar Year Effects
  - Trend
  - Known material changes to exposure (e.g. Law change)
- Others?

Milliman 28

Other Disclosures

- Judgmentally selected risk drivers for bootstrap?
  - Coefficient of variation for Bornhuetter-Ferguson expected loss ratio
  - Coefficient of variation for tail factors
- Correlation between lines of business?
- Indications from multiple models?
- Known risks not captured by statistical analysis of loss development triangles?
- Others?

Milliman 29

Analysis Summary

Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Analyses

Item	Meyers & Shi	Leong, Wang & Chen	Gremillet & Miehe	Shapland
Data	50 Companies	21 (MPL) to 78 (PPAL) Companies	?	1,679 Companies
Evaluations	1	11	5	9
Models	2	2	3	8
Lines of Business	1	9	4	16
Triangle Sets	50	~4,950	296	30,707

Milliman 31

Analysis Details

- **ODP Bootstrap**
  - Paid Chain Ladder
  - Incurred Chain Ladder
  - Paid Bornhuetter-Ferguson
  - Incurred Bornhuetter-Ferguson
  - Paid Cape Cod
  - Incurred Cape Cod
  - Weighted
- **Mack Bootstrap**
  - Paid Chain Ladder

Milliman 32

Analysis Details

- **Beginning Data**
  - NAIC Schedule P – 4,796 Companies (& Groups)
  - Remove all triangles without 10 years of data (Paid, Incurred, etc.)
  - Other data quality tests ➔ "quality data"
  - Test whether next 9 years are identical ➔ "complete data"
- **Test Data**
  - 2,104 Companies with at least 2 Schedule P LOBs of "quality data"
  - Total of 75,000+ LOBs with "quality data"
  - 1,679 Companies with at least 1 Schedule P LOB of "complete data"
  - Total of 30,707 LOBs with "complete data"
  - Approx. 27,000 LOBs with at least 2 for same Company

Milliman 33

Analysis Details

- **Model Output**
  - Accident Year Totals (by Year & All Years Combined)
  - Calendar Year Totals (by Year)
  - Calendar Year Runoff Totals (by Year)
  - Ultimate Loss Ratios (by Year)
  - Incremental Results (by Year and Development Period)
  - Diagnostic Statistics

Milliman 34

Analysis Details

- **Model Options (Tests)**
  - **Test 1 – Defaults**
    - No Tail factors (i.e., 1.000)
    - BF – a priori based on hindsight L/R, No CoV
    - CC – Trend = 2.5%, Decay Ratio = 90%
  - **Test 2 – Selected Limiting of Incrementals**
  - **Test 3 – Selected Limiting & Suggested Heteroscedasticity Groups**

Milliman 35

Model Limitations

Model Limitations

- **Model Risk**
  - Limited to known data
  - A single model can underestimate variability
- **Systemic risk**
  - In addition to model risk
  - A shift in claims environment
- **Need to Understand Assumptions**

Milliman 37

Major Assumption

Bootstrap models (ODP & Mack) assume Chain Ladder projections are unbiased

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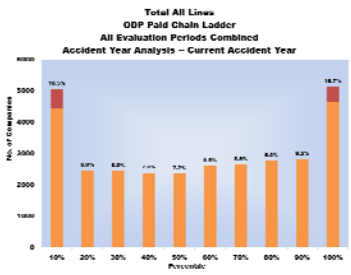
Model Projections

Are they Unbiased?

Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Tests

Test 1



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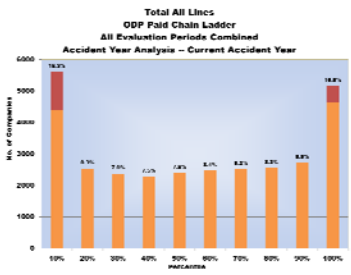
Comparison of Tests

Test 2

Milliman 40

Comparison of Tests

Test 3



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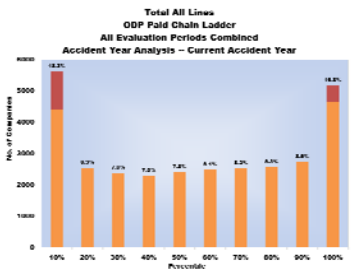
Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Accident Years

Current



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Comparison of Accident Years

1 Prior

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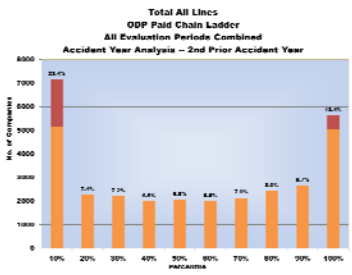
Comparison of Accident Years

2 Prior



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Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Accident Years

3 Prior

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Comparison of Accident Years

4 Prior

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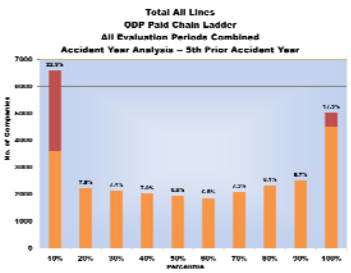
Comparison of Accident Years

5 Prior



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Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Accident Years

6 Prior

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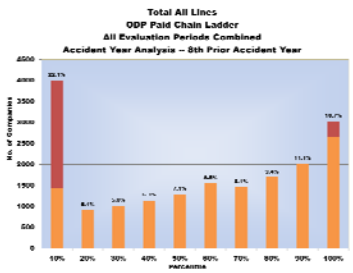
Comparison of Accident Years

7 Prior

Milliman 41

Comparison of Accident Years

8 Prior



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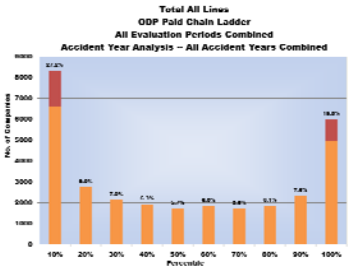
Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Accident Years

ALL



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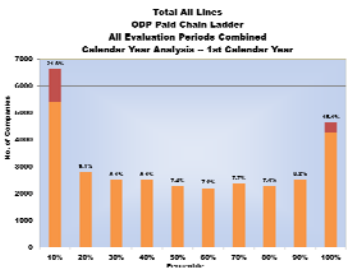
Comparison of Output

Acc Yr

Milliman 42

Comparison of Output

Cal Yr



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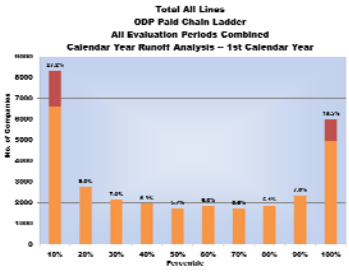
Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Output

Cal Yr Runoff



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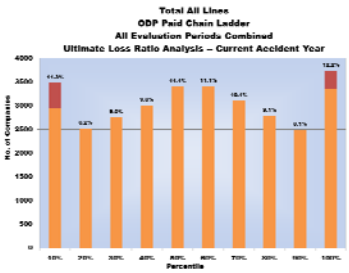
Comparison of Output

Ult L/R



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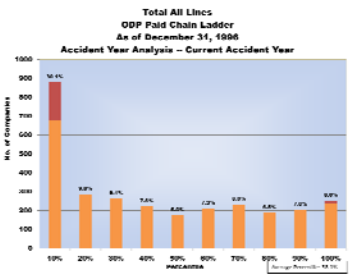
Comparison of Evaluation Years

1996



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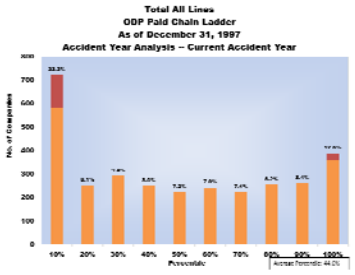
Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Evaluation Years

1997



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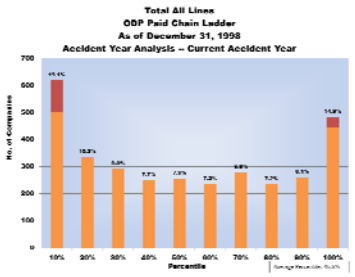
Comparison of Evaluation Years

1998



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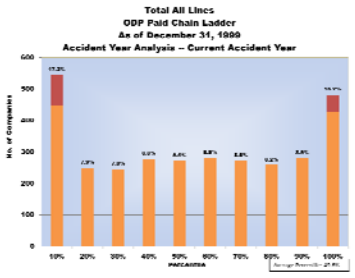
Comparison of Evaluation Years

1999



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Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Evaluation Years

2000

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Comparison of Evaluation Years

2001

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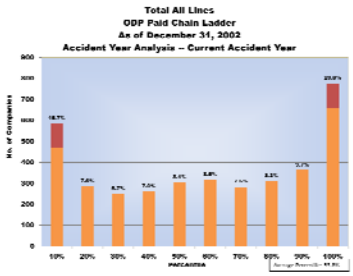
Comparison of Evaluation Years

2002



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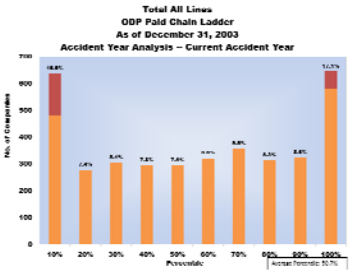
Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Evaluation Years

2003



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Comparison of Evaluation Years

2004

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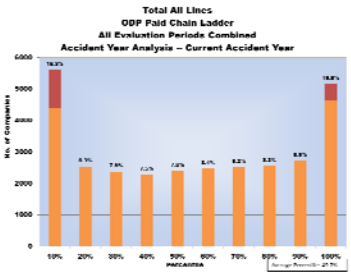
Comparison of Evaluation Years

ALL



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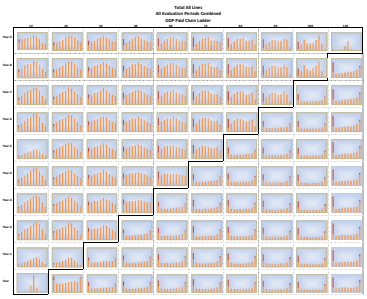
Reserve Variability:
Benchmarking Unpaid Claim Estimates

Incrementals



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Comparison of Models

ODP
Pd CL

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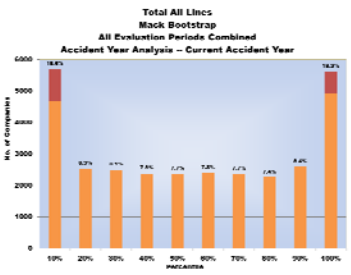
Comparison of Models

Mack
Pd CL



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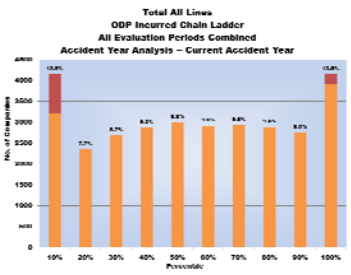
Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Models

ODP
Inc CL



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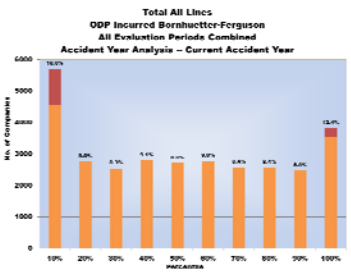
Comparison of Models

ODP
Pd BF

Milliman 45

Comparison of Models

ODP
Inc BF



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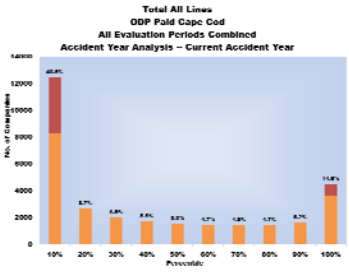
Reserve Variability:
Benchmarking Unpaid Claim Estimates

Comparison of Models

ODP
Pd CC



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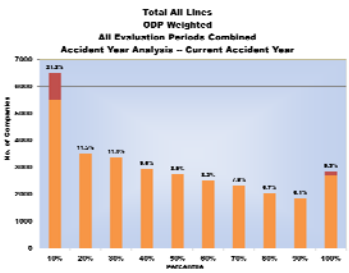
Comparison of Models

ODP
Inc CC

Milliman 45

Comparison of Models

ODP
Wgtd



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Proposed Adjustments

Leong, Wang & Chen

- **Systemic Risk Distribution Method**
  - Multiply each simulated bootstrap result by a "systemic" factor
- **Wang Transform Adjustment**
  - Increase the variability of the original unpaid loss distribution
  - Shift the percentiles to account for bias in methods over time
  - Relies on a parameter "Lambda" targeting an ideal histogram

Assumes Model Risk is Systemic!

Based on Hindsight only!

Leong, Jessica (Weng Kah), Shaun Wang, and Han Chen, "Back-Testing the ODP Bootstrap of the Paid Chain-Ladder Model with Actual Historical Claims Data," CAS E-Forum, Summer 2012, 1-34.

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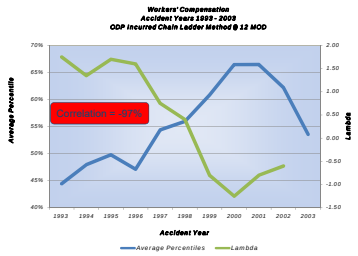
Leong, Wang & Chen



Leong, Jessica (Weng Kah), Shaun Wang, and Han Chen, "Back-Testing the ODP Bootstrap of the Paid Chain-Ladder Model with Actual Historical Claims Data," CAS E-Forum, Summer 2012, 1-34.

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HDR Adjustment

- Shift distribution by multiplying unpaid claim estimates by the HDR
- Coefficient of variation unchanged
- Additive shift – will not address variance
- Hindsight adjustment, but we are not advocating, just testing how much bias vs. not enough variance

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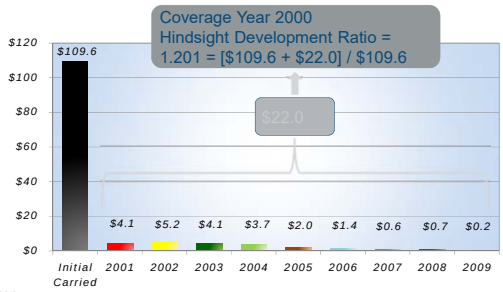
Example – Coverage Year 2000 ($B)



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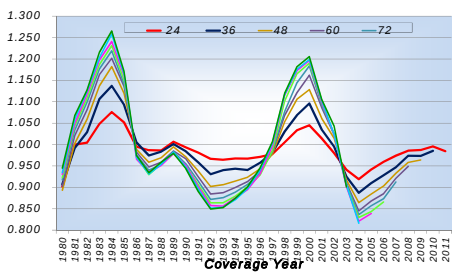
HDR by Evaluation Month



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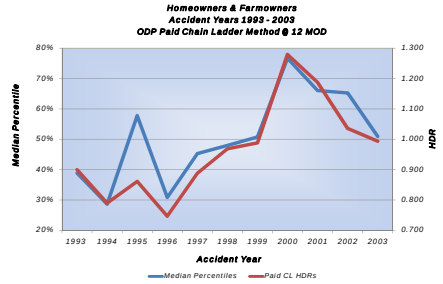
Reserve Variability:
Benchmarking Unpaid Claim Estimates

HDRs vs. Median Percentiles



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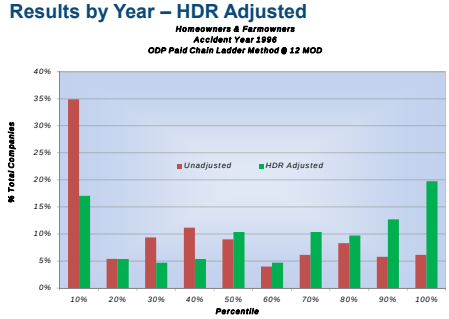
Results by Year – HDR Adjusted



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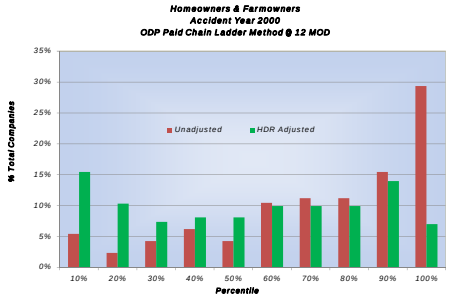
Results by Year – HDR Adjusted



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Conclusions

Conclusions

- **Goal of Ideal Histogram Unrealized by Paid CL Bootstrap**
  - Both ODP Bootstrap and Mack Bootstrap
  - Confirms Other Research
- **Other ODP Bootstraps – Much Closer to Theoretical Ideal**
  - Milliman Incurred models different (Shapland Monograph)
  - Bornhuetter-Ferguson and Cape Cod models
- **Cyclical Bias in Reserve Distributions – Paid and Incurred**
  - Consistent with Deterministic Projections

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Conclusions

- **"Corrections" to Other ODP Models may be Unnecessary**
- **Addressing Model Risk is very important**
  - Can't "blindly" accept model results
  - Use diagnostics to assess model strengths / weaknesses
  - Implications for weighting
  - Still need to address systemic risks
- **Guidelines (i.e., benchmarks) to Assess Results**
  - Based on hindsight, but forward looking
  - Correlations
- **Distributions by LOB and Premium**

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Claim Variability Guidelines
The Way Forward

Claim Variability Guidelines
Types of Benchmarks

1. Loss Development Patterns
2. Unpaid Claim Distributions
3. Correlation Between Segments

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Claim Variability Guidelines
Loss Development Patterns

- Back-testing output includes VWA factors for all paid data triangles
- Back-testing output includes VWA factors for simulated paid data
- Actual incurred data is part of the data set, but output for incurred simulations is not readily available
- By Schedule P Line of Business, a "distribution" of the patterns were created for both actual and simulated data
- The Claim Variability Guidelines™ product (the "Product") includes a function for calling any pattern:

cvgLDFPattern(LOBCode, *LDFPercentileCode*, *LDFDataCode*)*

* *Italicized* parameters are optional

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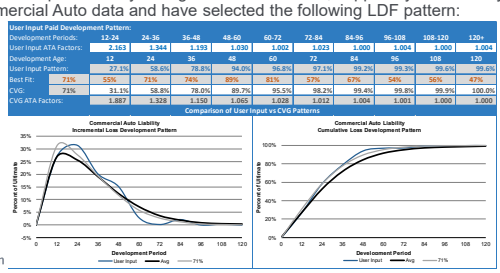
Reserve Variability:
Benchmarking Unpaid Claim Estimates

Claim Variability Guidelines

Loss Development Patterns

- As an example of how you might use this function, suppose you are analyzing Commercial Auto data and have selected the following LDF pattern:



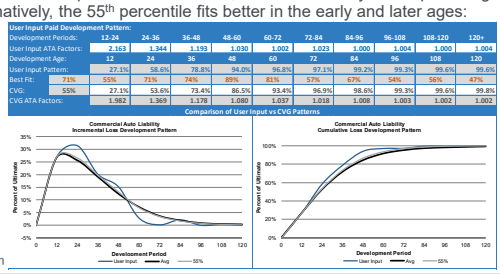
User Input Paid Development Pattern:											
Development Periods:		12-24	24-36	36-48	48-60	60-72	72-84	84-96	96-108	108-120	120+
User Input ATA Factors:		2.163	1.344	1.193	1.030	1.002	1.023	1.000	1.004	1.000	1.004
Development Age:		12	24	36	48	60	72	84	96	108	120
User Input Pattern:		27.1%	58.6%	78.8%	94.0%	96.8%	97.1%	99.2%	99.3%	99.6%	99.6%
Best Fit:	71%	55%	71%	74%	89%	81%	57%	67%	54%	56%	47%
CVG:	71%	31.1%	58.8%	78.0%	89.7%	95.5%	98.2%	99.4%	99.8%	99.9%	100.0%
CVG ATA Factors:		1.887	1.328	1.150	1.065	1.028	1.012	1.004	1.001	1.000	1.000

Comparison of User Input vs CVG Patterns

Claim Variability Guidelines

Loss Development Patterns

- Overall the 71st percentile fit the best, but this varies by development age. Alternatively, the 55th percentile fits better in the early and later ages:



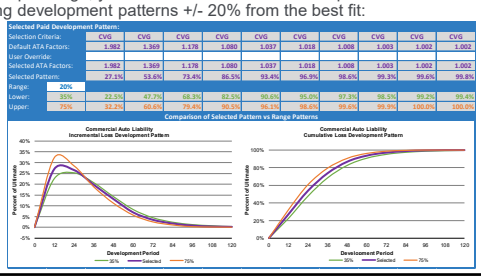
User Input Paid Development Pattern:											
Development Periods:		12-24	24-36	36-48	48-60	60-72	72-84	84-96	96-108	108-120	120+
User Input ATA Factors:		2.163	1.344	1.193	1.030	1.002	1.023	1.000	1.004	1.000	1.004
Development Age:		12	24	36	48	60	72	84	96	108	120
User Input Pattern:		27.1%	58.6%	78.8%	94.0%	96.8%	97.1%	99.2%	99.3%	99.6%	99.6%
Best Fit:	71%	55%	71%	74%	89%	81%	57%	67%	54%	56%	47%
CVG:	55%	27.1%	53.6%	73.4%	86.5%	93.4%	96.9%	98.6%	99.3%	99.6%	99.8%
CVG ATA Factors:		1.982	1.369	1.178	1.080	1.037	1.018	1.008	1.003	1.002	1.002

Comparison of User Input vs CVG Patterns

Claim Variability Guidelines

Loss Development Patterns

- To develop a range, you could then calculate new unpaid claim estimates by selecting development patterns +/- 20% from the best fit:



Selected Paid Development Pattern:											
Selection Criteria:		CVG	CVG	CVG	CVG	CVG	CVG	CVG	CVG	CVG	CVG
Default ATA Factors:		1.982	1.369	1.178	1.080	1.037	1.018	1.008	1.003	1.002	1.002
User Override:											
Selected ATA Factors:		1.982	1.369	1.178	1.080	1.037	1.018	1.008	1.003	1.002	1.002
Selected Pattern:		27.1%	53.6%	73.4%	86.5%	93.4%	96.9%	98.6%	99.3%	99.6%	99.8%
Range:	20%										
Lower:	80%	22.5%	47.7%	68.3%	82.5%	90.6%	95.0%	97.3%	98.5%	99.2%	99.4%
Upper:	75%	32.2%	60.6%	79.4%	90.5%	96.1%	98.6%	99.6%	99.9%	100.0%	100.0%

Comparison of Selected Pattern vs Range Patterns

Reserve Variability:
Benchmarking Unpaid Claim Estimates

Claim Variability Guidelines
Types of Benchmarks

1. Loss Development Patterns
2. **Unpaid Claim Distributions**
3. Correlation Between Segments

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Claim Variability Guidelines
Unpaid Claim Distributions

- For each Schedule P LOB, the back-testing results contain thousands of simulated distributions for companies of all different sizes
- Regression models were used to fit the distributions by premium volume for each of the Acc Yr, Cal Yr, Cal Yr Runoff, and Loss Ratio distributions
- Fitted results were smoothed to be consistent between distribution types and to conform with statistical properties
- This resulted in a Product function to calculate the unpaid claim benchmark:

cvgUnpaid(EarnPrem, APrioriLR, LOBCode, *UnpaidCode*, …)*

* Additional optional parameters not shown

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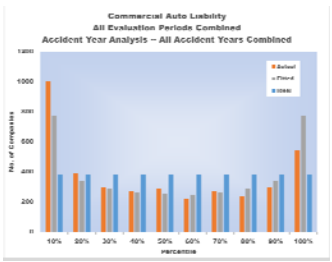
Claim Variability Guidelines
Unpaid Claim Distributions

- Algorithm also includes Variance Adjustment Factors to correct for back-testing results
- Separate variance adjustments factors for Loss Ratio distributions
- For example, this is the Acc Yr adjustment for Commercial Auto
- Optional parameters allow the user to further increase or decrease the variance



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Reserve Variability:
Benchmarking Unpaid Claim Estimates

Claim Variability Guidelines

Unpaid Claim Distributions

- The algorithm allows for changes in assumptions to fit statistical properties.
- For example, consider smaller vs larger number of exposures:

Small Insurer

Commercial Auto Liability Accident Year Guidelines (US$ 000's)					
Acc Yr	Premium	L/R	Mean	Std Dev	CoV
2008	5,115	75.3%	17	63	369.8%
2009	5,302	77.1%	42	112	268.7%
2010	5,427	79.4%	95	203	213.1%
2011	5,508	81.7%	196	308	157.3%
2012	5,668	82.5%	404	498	123.4%
2013	5,907	82.0%	820	737	89.9%
2014	6,277	79.2%	1,532	1,019	66.5%
2015	6,780	74.9%	2,719	1,640	60.3%
2016	7,214	73.8%	4,278	2,401	56.1%
Total	53,197	78.3%	10,102	3,654	36.2%

Large Insurer

Commercial Auto Liability Accident Year Guidelines (US$ 000's)					
Acc Yr	Premium	L/R	Mean	Std Dev	CoV
2008	40,918	75.3%	131	284	216.4%
2009	42,415	77.1%	323	464	143.5%
2010	43,419	79.4%	735	838	114.0%
2011	44,064	81.7%	1,516	1,223	80.6%
2012	45,343	82.5%	3,124	2,067	66.2%
2013	47,256	82.0%	6,344	3,409	53.7%
2014	50,215	79.2%	11,850	5,250	44.3%
2015	54,236	74.9%	21,034	8,442	40.1%
2016	57,710	73.8%	33,093	12,465	37.7%
Total	425,576	78.3%	78,152	17,681	22.6%

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Claim Variability Guidelines

Unpaid Claim Distributions

- The algorithm allows for other customizations.
- For example, consider a faster development pattern:

Average Development

Commercial Auto Liability Accident Year Guidelines (US$ 000's)					
Acc Yr	Premium	L/R	Mean	Std Dev	CoV
2008	20,459	75.3%	66	157	238.9%
2009	21,207	77.1%	162	263	161.9%
2010	21,709	79.4%	369	475	128.6%
2011	22,032	81.7%	762	700	91.9%
2012	22,671	82.5%	1,570	1,171	74.6%
2013	23,628	82.0%	3,188	1,882	59.0%
2014	25,108	79.2%	5,954	2,832	47.6%
2015	27,118	74.9%	10,568	4,556	43.1%
2016	28,855	73.8%	16,627	6,715	40.4%
Total	212,788	78.3%	39,266	9,666	24.6%

Faster Development

Commercial Auto Liability Accident Year Guidelines (US$ 000's)					
Acc Yr	Premium	L/R	Mean	Std Dev	CoV
2008	20,459	75.3%	2	25	1506.9%
2009	21,207	77.1%	18	79	430.9%
2010	21,709	79.4%	69	173	249.2%
2011	22,032	81.7%	275	360	131.0%
2012	22,671	82.5%	794	721	90.8%
2013	23,628	82.0%	2,029	1,320	65.0%
2014	25,108	79.2%	4,481	2,227	49.7%
2015	27,118	74.9%	8,926	3,945	44.2%
2016	28,855	73.8%	15,589	6,351	40.7%
Total	212,788	78.3%	32,182	8,202	25.5%

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Claim Variability Guidelines

Unpaid Claim Distributions

- The algorithm allows for international use.
- For example, consider a European insurer with the same development pattern:

US Insurer

Commercial Auto Liability Accident Year Guidelines (US$ 000's)					
Acc Yr	Premium	L/R	Mean	Std Dev	CoV
2008	20,459	75.3%	66	157	238.9%
2009	21,207	77.1%	162	263	161.9%
2010	21,709	79.4%	369	475	128.6%
2011	22,032	81.7%	762	700	91.9%
2012	22,671	82.5%	1,570	1,171	74.6%
2013	23,628	82.0%	3,188	1,882	59.0%
2014	25,108	79.2%	5,954	2,832	47.6%
2015	27,118	74.9%	10,568	4,556	43.1%
2016	28,855	73.8%	16,627	6,715	40.4%
Total	212,788	78.3%	39,266	9,666	24.6%

European Insurer

Commercial Auto Liability Accident Year Guidelines (€ 000's)					
Acc Yr	Premium	L/R	Mean	Std Dev	CoV
2008	20,459	75.3%	66	161	244.5%
2009	21,207	77.1%	163	271	166.4%
2010	21,709	79.4%	370	489	132.2%
2011	22,032	81.7%	763	722	94.7%
2012	22,671	82.5%	1,572	1,205	76.6%
2013	23,628	82.0%	3,191	1,926	60.4%
2014	25,108	79.2%	5,961	2,884	48.4%
2015	27,118	74.9%	10,581	4,638	43.8%
2016	28,855	73.8%	16,647	6,834	41.1%
Total	212,788	78.3%	39,313	9,870	25.1%

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Reserve Variability:
Benchmarking Unpaid Claim Estimates

Claim Variability Guidelines
Unpaid Claim Distributions

- For each adjustment, all four result types are always available:

Acc Yr

Commercial Auto Liability
Accident Year Guidelines (US$ 000's)

Acc Yr	Premium	L/R	Mean	Std Dev	CoV
2008	20,459	75.3%	66	157	238.9%
2009	21,207	77.1%	162	263	161.9%
2010	21,709	79.4%	369	475	128.6%
2011	22,032	81.7%	762	700	91.9%
2012	22,671	82.5%	1,570	1,171	74.6%
2013	23,628	82.0%	3,188	1,882	59.0%
2014	25,108	79.2%	5,954	2,832	47.6%
2015	27,118	74.9%	10,568	4,556	43.1%
2016	28,855	73.8%	16,627	6,715	40.4%
Total	212,788	78.3%	39,266	9,666	24.6%

Cal Yr

Commercial Auto Liability
Calendar Year Guidelines (US$ 000's)

Cal Yr	Premium	L/R	Mean	Std Dev	CoV
2017	212,788	78.3%	16,042	4,772	29.7%
2018	192,329	78.6%	10,398	3,655	35.2%
2019	171,122	78.8%	6,136	2,665	43.4%
2020	149,412	78.7%	3,337	1,943	58.2%
2021	127,380	78.2%	1,716	1,274	74.3%
2022	104,709	77.2%	879	882	100.4%
2023	81,081	75.9%	435	599	137.5%
2024	55,973	74.3%	224	358	159.8%
2025	28,855	73.8%	99	227	230.0%
Total			39,266	9,666	24.6%

Cal Yr Runoff

Commercial Auto Liability
Calendar Year Runoff Guidelines (US$ 000's)

Cal Yr End	Premium	L/R	Mean	Std Dev	CoV
2016	212,788	78.3%	39,266	9,666	24.6%
2017	192,329	78.6%	23,224	6,788	29.2%
2018	171,122	78.8%	12,826	4,679	36.5%
2019	149,412	78.7%	6,690	3,166	47.3%
2020	127,380	78.2%	3,353	2,033	60.6%
2021	104,709	77.2%	1,637	1,316	80.4%
2022	81,081	75.9%	758	831	109.6%
2023	55,973	74.3%	323	459	142.1%
2024	28,855	73.8%	99	227	230.0%

Loss Ratio

Commercial Auto Liability
Loss Ratio Guidelines (US$ 000's)

Acc Yr	Premium	Mean	Std Dev	CoV
2007	19,719	73.8%	10.1%	13.6%
2008	20,459	75.3%	10.7%	14.2%
2009	21,207	77.1%	11.4%	14.8%
2010	21,709	79.4%	12.2%	15.3%
2011	22,032	81.7%	12.1%	14.9%
2012	22,671	82.5%	13.7%	16.6%
2013	23,628	82.0%	13.5%	16.4%
2014	25,108	79.2%	13.6%	17.2%
2015	27,118	74.9%	13.8%	18.4%
2016	28,855	73.8%	15.4%	20.9%

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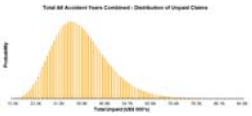
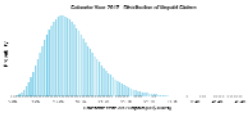
Claim Variability Guidelines
Unpaid Claim Distributions

- In Excel, these are easy to graph:

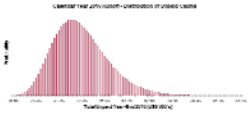
Acc Yr



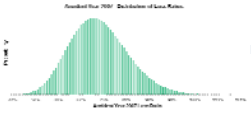
Cal Yr



Cal Yr Runoff



Loss Ratio



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Claim Variability Guidelines
Types of Benchmarks

1. Loss Development Patterns
2. Unpaid Claim Distributions
3. **Correlation Between Segments**

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Reserve Variability:
Benchmarking Unpaid Claim Estimates

Claim Variability Guidelines
Correlation Between Segments

- Back-testing output includes correlation statistics between all pairs of LOBs within a company (i.e., if there was more than one 'complete' LOB)
- Data for all years combined or individual years is available
- Output includes both paid and incurred, before and after optimal hetero adjustments
- The mean and std dev (unweighted and weighted) for all specific pairs (i.e., between two specific LOBs) was measured
- The Product includes a function for calling any statistic:

  cvgCorrelation(LOBCodes, *DataCode*, *ValueCode, TypeCode, Output*)*

* *Italicized* parameters are optional

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Claim Variability Guidelines
Correlation Between Segments

- For example, consider the weighted results for 5 LOBs using 1996 data:

Means

Paid After Hetero Adjustments (1996 Only)
Mean Values [Wgtd Values (Using 1 - PValue)]

	MPL-O	HO	WC	CA	PPA
MPL-O	100%	0.0%	-16.2%	5.9%	-1.7%
HO	0.0%	100%	5.4%	9.5%	16.7%
WC	-16.2%	5.4%	100%	17.1%	18.9%
CA	5.9%	9.5%	17.1%	100%	19.3%
PPA	-1.7%	16.7%	18.9%	19.3%	100%

Standard Deviations

Paid After Hetero Adjustments (1996 Only)
Standard Deviation Values [Wgtd Values (Using 1 - PValue)]

	MPL-O	HO	WC	CA	PPA
MPL-O		14.0%	14.6%	18.8%	18.6%
HO	14.0%		23.6%	22.9%	22.9%
WC	14.6%	23.6%		26.6%	26.0%
CA	18.8%	22.9%	26.6%		27.1%
PPA	18.6%	22.9%	26.0%	27.1%	

Counts

Paid After Hetero Adjustments (1996 Only)
Count of Pairs

	MPL-O	HO	WC	CA	PPA
MPL-O		57	62	59	48
HO	57		618	757	851
WC	62	618		688	570
CA	59	757	688		784
PPA	48	851	570	784	

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Claim Variability Guidelines
Potential Uses of Software

- Creating aggregate distributions for guidelines at the company level
- Calculating average durations for future cash flows
- Calculating reserve risk margins based on the expected unpaid claim runoff
- Assessing the variance parameter for a priori loss ratio assumptions in models
- Other uses which are only limited by your imagination

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