

**Casualty Actuarial Society:
Casualty Loss Reserve Seminar**

Company-Specific Risk Factors
and other RMAD Disclosures


Commitment Beyond Numbers



Gregory W. Fears Jr., ACAS, MAAA, ARM
Dawn Fowle, FCAS, MAAA
Kevin C. Ahlgrim, Ph.D., ASA, MAAA
September 18, 2019



Outline of Presentation

- Antitrust notice
- Background on:
 - Greg Fears
 - Dawn Fowle
 - Kevin Ahlgrim
- Risk of Material Adverse Deviation (RMAD) Background
- RMAD Risk Factors
- RMAD Research


1

Antitrust Notice

- The Casualty Actuarial Society is committed to adhering strictly to the letter and spirit of the antitrust laws. Seminars conducted under the auspices of the CAS are designed solely to provide a forum for the expression of various points of view on topics described in the programs or agendas for such meetings.
- Under no circumstances shall CAS seminars be used as a means for competing companies or firms to reach any understanding – expressed or implied – that restricts competition or in any way impairs the ability of members to exercise independent business judgment regarding matters affecting competition.
- It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.



2

About the Presenters

- Associate of the Casualty Actuarial Society
- B.A., Mathematics – Carthage College 2000
- Associate in Risk Management (ARM)
- 18 years of experience, primarily in commercial lines
- Reserving studies for:
 - Insurance companies (SAO and financial exams)
 - Captive insurance companies; Self-insured entities
- Funding recommendations for emerging coverages
- Experience reviewing industry financial statement data and associated trends
- Risk margin modeling
- Funding & reserving for public entities

Gregory W. Fears Jr.
Consulting Actuary
Pinnacle Actuarial Resources




PINNACLE 3

About the Presenters

- Ph.D., Finance - University of Illinois
- M.S., Finance - University of Illinois
- B.S., Actuarial Science - University of Illinois
- Associate of the Society of Actuaries (ASA)
- Member of the American Academy of Actuaries (MAAA)
- Research interests include fixed income modeling, financial risk management of insurers, subrogation, and actuarial science
- Teaches courses in corporate risk management, analysis of statutory financial statements, and commercial property insurance

Kevin C. Ahgrim
Associate Professor
Illinois State University



Kevin Ahgrim Katie School of Insurance and Risk Management 4

RMAD: Sources for Guidance

- American Academy of Actuaries SAO Practice Note
- NAIC Property and Casualty SAO Instructions
- American Academy of Actuaries Discussion Paper prepared by the Task Force on Materiality
- Actuarial Literature
 - For example: Materiality and ASOP No. 36: Considerations for the Practicing Actuary – CAS Committee on Valuation, Finance and Investments

PINNACLE 5

Relevant Comments Disclosures

- Materiality standard
- Major risk factors or considerations underlying the significant risks and uncertainties
- Risk of material adverse deviation
- Anticipated salvage and subrogation
- Discounting
- Voluntary and/or involuntary underwriting pools and associations
- A&E liabilities
- Retroactive, financial & uncollectable reinsurance
- IRIS ratios
- Changes in methods and assumptions
- Extended reporting reserves
- UPR for Long duration contracts

PINNACLE 6

NAIC Statement of Actuarial Opinion (SAO)

- Risk of Material Adverse Deviation (RMAD)
 - Paragraph in the SAO which identifies:
 - Significant risks or uncertainties that could result in a material adverse deviation (in the actuary's opinion)
 - Threshold for the RMAD – amount in \$US
 - Standard for the threshold
 - Major risk factors or considerations underlying the significant risks and uncertainties

PINNACLE 7

RMAD Location and Requirements

- Statement of Actuarial Opinion (SAO)
 - Explanatory paragraph to describe major risk factors
 - 2013: "If such risk exists", include
 - 2014: include regardless of yes/no disclosure
 - 2015 - 2018: no significant changes
 - Do not include:
 - General, broad statements about risks and uncertainties due to economic changes, judicial decisions, regulatory actions, political or social forces
 - Exhaustive list of all potential sources of risks and uncertainties
 - Explicitly state Yes or No whether the actuary reasonably believes there are significant risks and uncertainties that could result in material adverse deviation

*Source – 2013 - 2018 Practice Note on P&C SAOs by American Academy of Actuaries COP&R
PINNACLE 8

RMAD Location and 2018 Requirements (cont.)

- Statement of Actuarial Opinion (SAO)
 - Exhibit B: Disclosures
 - Risk of Material Adverse Deviation
 - #5: Materiality standard in \$US
 - #6: Are there significant risks that could result in material adverse deviation? Yes / No / NA

*Source – 2016 Practice Note on P&C SAOs by American Academy of Actuaries COP&FR

PINNACLE 9

Discussion Questions

- What information do you collect in regards to selecting a company's materiality threshold?
- Opinion writers, how do you get information on company-specific risk factors? Are you doing this individually or as a part of a larger group?
- Should this be different for groups with several affiliated companies?

PINNACLE 10

Discussion Question

- The Appointed Actuary is required to include a Relevant Comments paragraph on asbestos and environmental exposures. Are there other risk factors that merit their own Relevant Comments paragraph?

PINNACLE 11

Discussion Question

- With the your presentation to the board, do you present the RMAD information, and does this differ based on the make-up of the board of directors? Example: insurance professionals vs. other types of professionals
- How much time do you spend addressing the RMAD?

Specific RMAD Paragraph - Risk Factors

- “I have discussed the major risk factors underlying the variability of their loss experience with Company management. They believe that their greatest sources of risk relate to ...”
- **Asbestos & Environmental**
 - “...exposure to Asbestos liabilities, changes in claims department procedures, and unexpected changes in loss costs as the economy continues to expand.”
 - “Exposure to latent claims, in particular: asbestos and environmental claims, and sexual abuse claims.”
- “The Companies are rolling out a new claims system, which may result in unanticipated changes in loss and/or loss adjustment expense development patterns used to set reserves.”

Specific RMAD Paragraph - Risk Factors

- “rapid growth in ... long haul trucking ... is highly leveraged, and does not have a stable history of experience,”
- “...unexpected changes in loss emergence patterns in Auto Liability and General Liability...”
 - “...experience in Auto has been driven by an increase in the frequency of large claims as well as a concentration of business in New York...”
 - “...one contributor to the changes for the large General Liability program is the significant growth in exposure ... which appears to have affected claims handling procedures at the TPA.”
 - Good example of risk factor combination
- “Loss development factors ... were based on industry triangles due to the lack of credibility of the Company’s historical experience.”
 - In relation to variability

Specific RMAD Paragraph - Risk Factors

- State Specific, Geographic or Line of Business Concentration**
 - "The Company also has exposure to claims on New York construction policies to section 240(1) of the New York labor law imposing strict liability for height related injuries."
 - "...increased reserve uncertainty from rapid growth in California and Connecticut and adverse severity development in the Private Passenger automobile liability line."
 - "... exposure to catastrophic events and having a concentration of exposure in few states ... The Company ... has experienced severe wind, hail and freeze events related to its exposures in the Midwest. Additionally, the Company has exposure to personal auto and homeowners risks concentrated in Southern California."
 - "A high concentration of business in Florida, combined with the unfavorable claims environment in Florida, characterized by high costs associated with assignment of policyholder benefits to water remediation contractors, increases in policyholder demands related to roof repairs, and significant attorney representation."
 - "A high concentration of business in geographical areas that are exposed to the potential for significant tropical storm events."

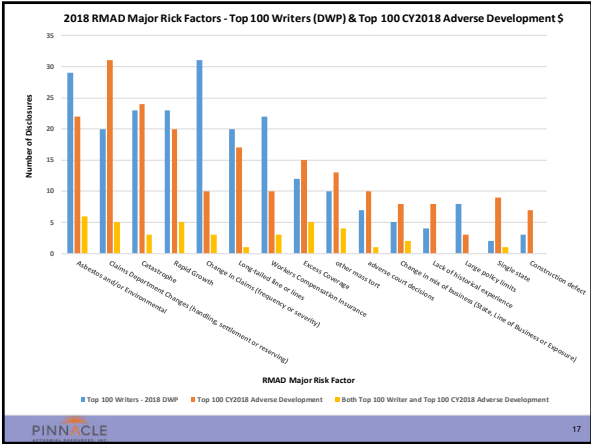
PINNACLE 15

Major Risk Factors - Top 30 Adverse Development \$ - Number of Disclosures

RMAD Major Risk Factors*	SAO Year						
	2012	2013	2014	2015	2016	2017	2018
Asbestos/A&E/Environmental Combination	6	7	10	5	6	4	6
Claims Department Changes (handling, settlement or reserving)	5	5	6	4	7	3	6
Long tail Coverage / Line of Business	3	4	2	1	13	2	5
Uncertainty	1	2	7	5	1	6	6
Rapid growth	1	4	-	3	3	3	7
Other Miss Tort exposure	-	2	5	5	3	2	2
New Line of Business (Lack of historical experience)	-	1	2	2	5	4	3
Construction defect exposure	2	2	3	2	2	1	4
Change in Economy	1	1	6	2	2	1	1
Inflation	-	-	3	5	3	1	2
Workers Compensation Insurance	2	4	2	1	2	2	1
Catastrophe exposure	-	-	1	1	2	3	5
Excess Casualty or Liability Exposure	2	-	3	1	1	1	4
Lack of historical experience	-	3	1	1	4	1	-
Court/Judicial decision recent or pending	-	1	-	3	2	3	1
Total Risk Factors Listed	41	53	70	57	67	50	69


*Top 30 Groups with highest 1 year adverse development - Sch P, Part 2

PINNACLE 16




Transition – RMAD Research

- Research question: How are actuaries actually reporting on the Risk of Material Adverse Deviation (RMAD)?

 18

Conclusion

- RMAD Background
- RMAD Risk Factors
- RMAD Research
- Questions?

 19

Thank You for Your Time and Attention

Gregory W. Fears Jr., ACAS, MAAA, ARM
gfears@pinnacleactuaries.com
 309.807.2316

Dawn Fowle, FCAS, MAAA
Dawn.Fowle@ey.com

Kevin C. Ahlgrim, Ph.D., ASA, MAAA
kahlgrim@ilstu.edu
 309.438.2727


 ACTUARIAL RESOURCES, INC.

Commitment Beyond Numbers 20
