


## The Board's Role in Monitoring the Loss Reserve Process

September 17, 2019

Brian Brown, FCAS, MAAAA  
Milliman, Inc.

Pat Teufel, FCAS, MAAA  
University of Connecticut



---

---

---

---

---

---

---

---

### This session is very interactive, we want your input

How can Boards

- Ensure they have adequate knowledge of the reserving process?
- Understand the relationships and interplay between the reserving and pricing processes?
- Better interact with the professionals involved in the reserving process?
- Know what questions to ask when evaluating the reserving process?
- Establish a process through which they identify and help to resolve reserving issues?



---

---

---

---

---


---

---

---

### Historical perspective

- Reserves established in the late 1990's and early 2000's for many commercial lines for many carriers were very inadequate
- S&P Issued a report in 2003 - "Insurance Actuaries - A Crisis of Credibility"
- The CAS and the Academy both responded. The CAS Task Force for Enhancing the Reputation of Actuaries (originally the Task Force on Actuarial Credibility) issued its report in 2005, with an implementation task force following
- Companies tended to be over-reserved in the mid- late 2000's
- Various regulations have been established since the early 2000's to prevent a repeat of large reserve inadequacies
  - Sarbanes-Oxley
  - NAIC Changes to the Actuarial Opinion (including the Actuarial Opinion Summary)
  - Others



---

---

---

---

---


---

---

---

## Current status

- Rates for the last several years have been flat to down for many lines of business. However, recently for some coverages, rates have increased
- Commercial Auto and D&O coverages have experienced poor results
- Carriers are still dealing with legacy issues ( Asbestos, Pollution, Excess WC, etc.)
- AM Best said carriers are preparing for a marked increase in liability claims stemming from child sex abuse following statutory changes in 17 states
- How can Boards prevent/mitigate the likelihood of reserve shortfalls?




---

---

---

---

---

---

---


---

---

---

## Questions

- Can the regulations and advancements in analytics prevent another round of reserve shortfalls?
- How can Boards address the human element in loss reserve setting
  - Some management teams want to show a profit every quarter
  - Reserves are uncertain and it is difficult for the actuary to 'prove' that he or she is correct in discussions with management
  - How are actuaries dealing with
    - Data issues, both internal and external
    - Reliance on management assertions that later turn out to be inaccurate
    - Unconscious bias -- "Things can't be that bad"
    - Pressure to make small concessions - they won't do any real harm
  - Are actuaries appropriately trained in dealing with conflict?




---

---

---

---

---

---

---


---

---

---

## What can Board Audit Committees do?

- Understand:
  - Differences between the actuarial central estimate and management's best estimate (the carried reserves) and what is driving differences
  - Range of reasonable estimates vs. range of possible outcomes
  - That the reserving process involves subjective judgments
  - That small changes in reserves can have a significant impact on net income
- Evaluate how reserves change when assumptions change
- Peer comparisons, whether internal or external, can provide useful information
- A Reserve Dashboard can be a useful tool
- Establish appropriate procedures to monitor the reserving process




---

---

---

---

---

---

---


---

---

---

**Now it's your turn.....**

- Understanding the participants in this session
- Significant changes
- Relationship and Interaction with the Board
- Potential Improvement Areas
- Next steps



---

---

---

---

---

---

---

---

**Thank you**

Brian Brown, FCAS, MAAA  
Milliman, Inc.

Pat Teufel, FCAS, MAAA  
University of Connecticut

---

---

---

---

---

---

---

---

Casualty Actuarial Society  
4350 North Fairfax Drive, Suite 250  
Arlington, Virginia 22203

[www.casact.org](http://www.casact.org)



---

---

---

---

---

---

---

---