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THE MARKET CYCLE & RESERVING CYCLE

CAS Seminar on Reinsurance – June 6-7, 2016

Dave Clark
Munich Reinsurance America, Inc



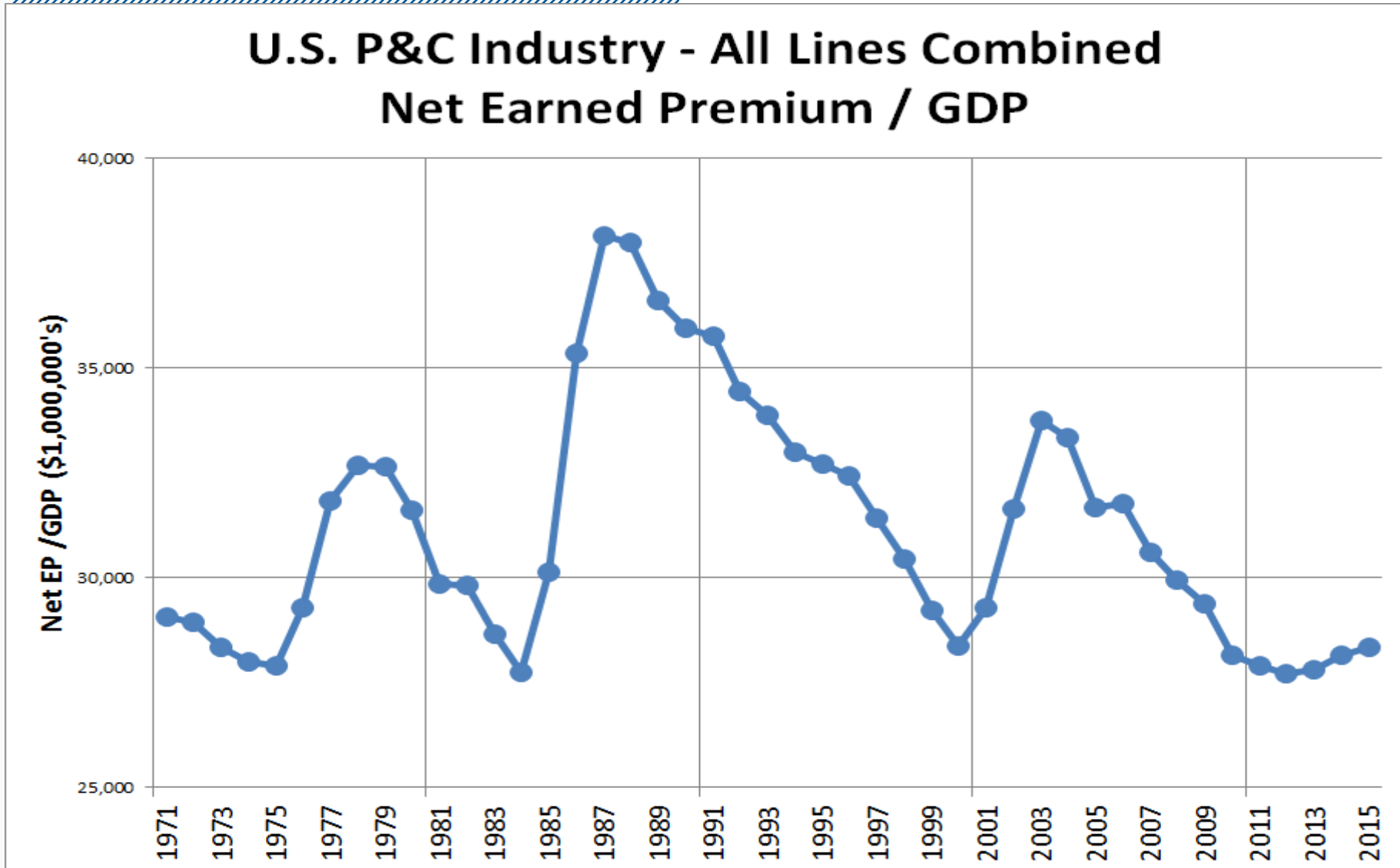
Agenda



1. High-Level View of the Market Cycle and Reserving Cycle
2. Specialty Carriers
3. Commercial Auto Liability

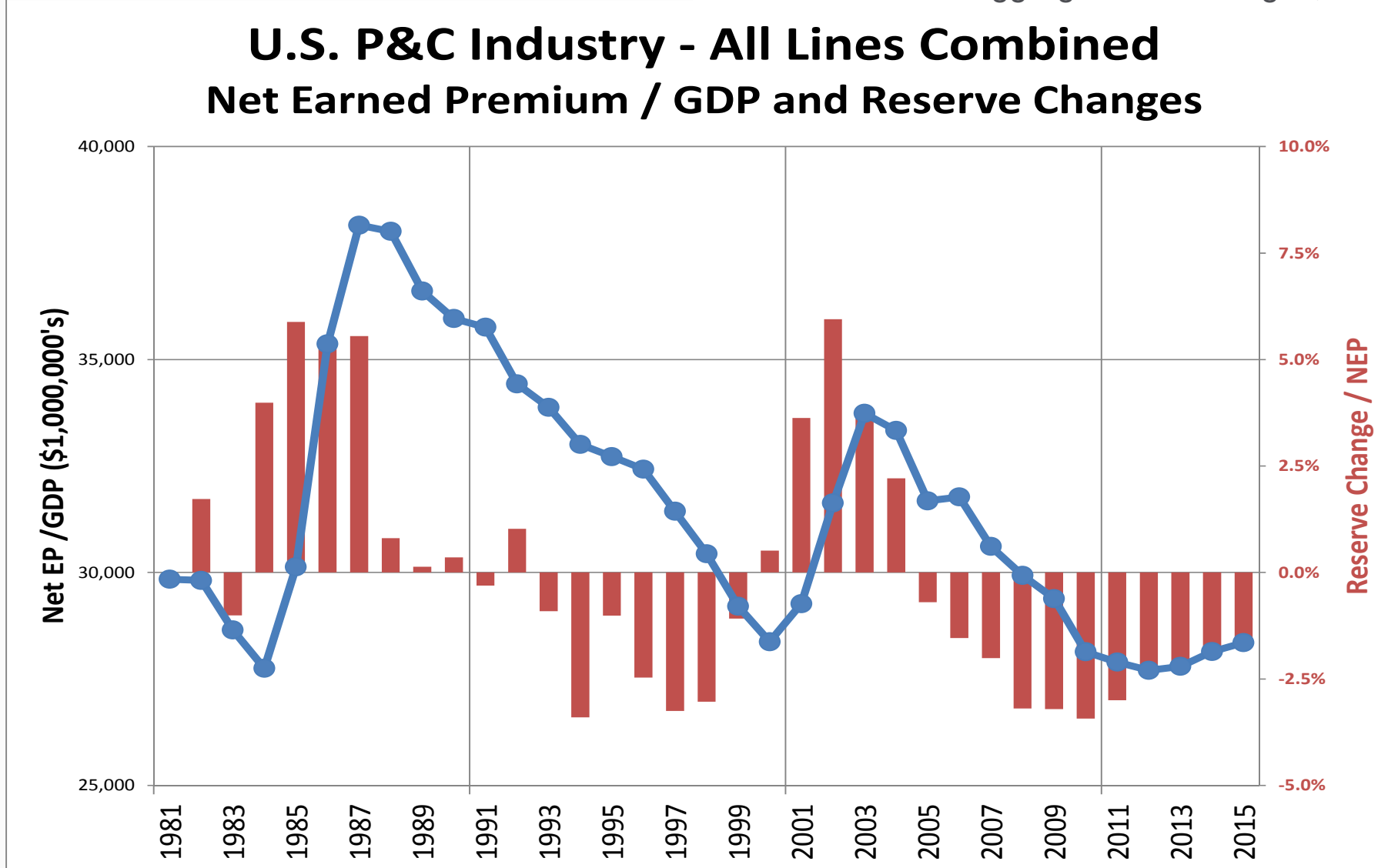
High-Level View of Market Cycle

Source: AM Best Aggregates & Averages, SNL



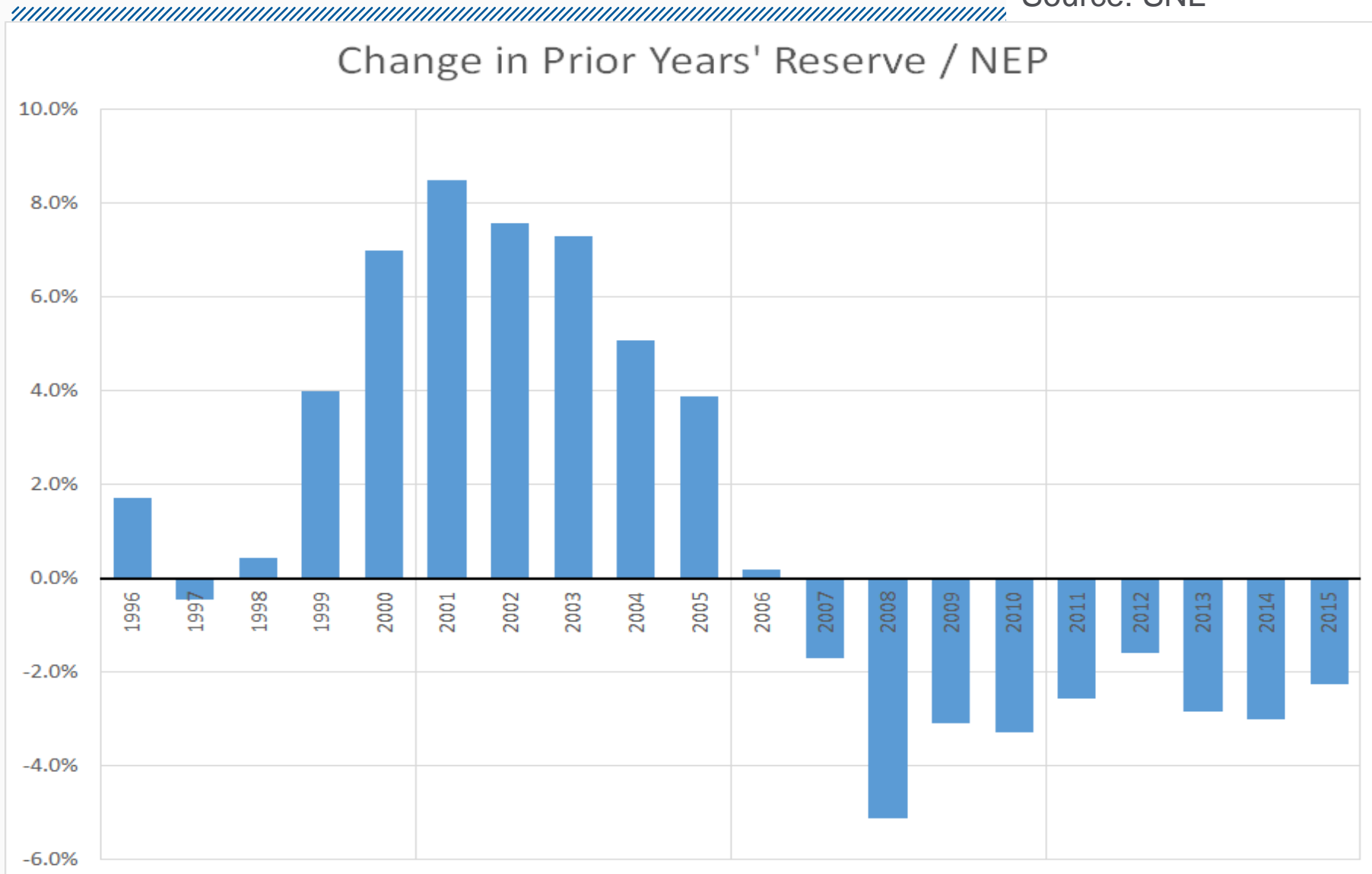
High-Level View of Market Cycle: Correlation with Reserve Changes

Source: AM Best Aggregates & Averages, SNL



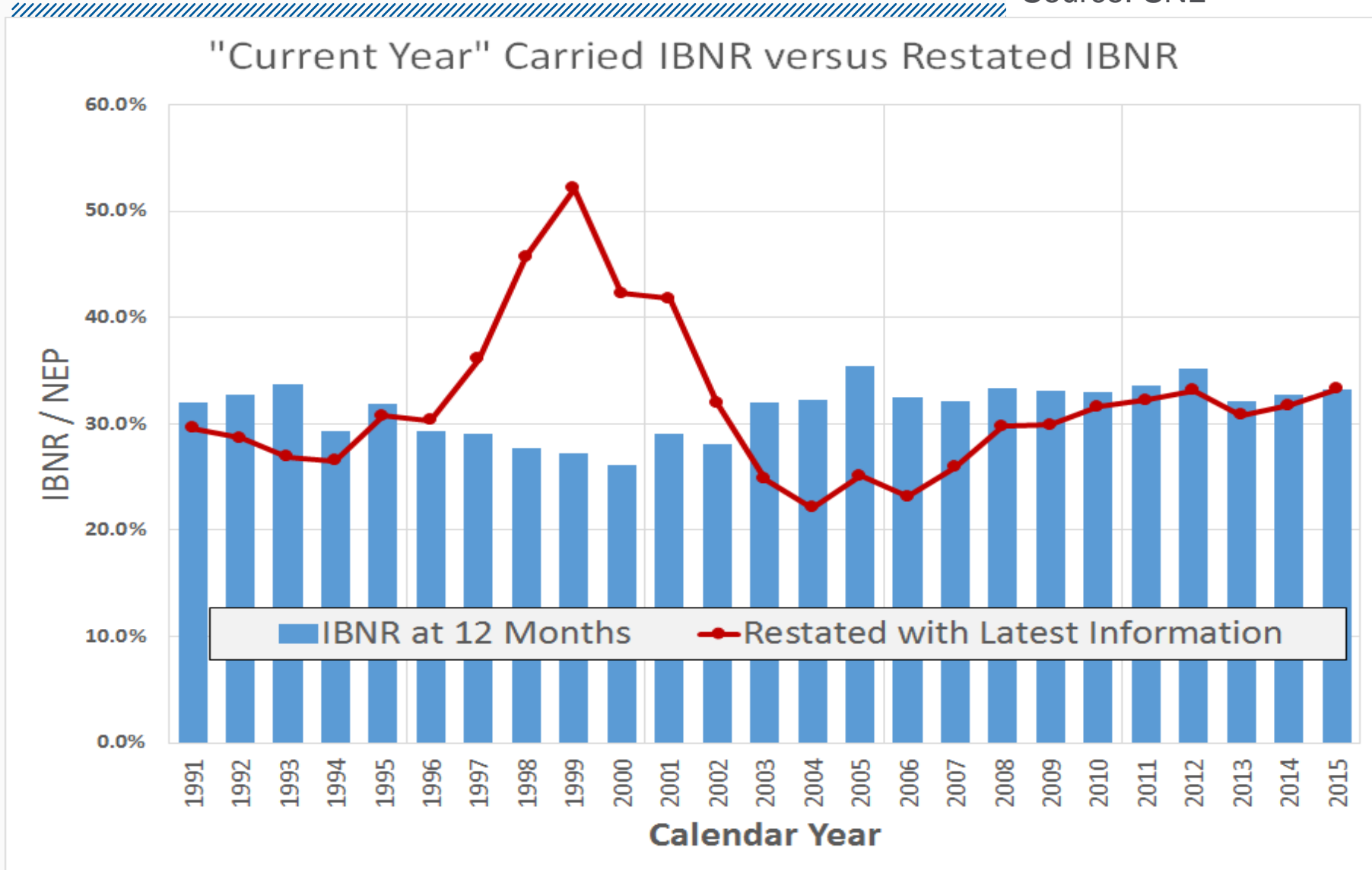
Example for Specialty Carriers

Source: SNL



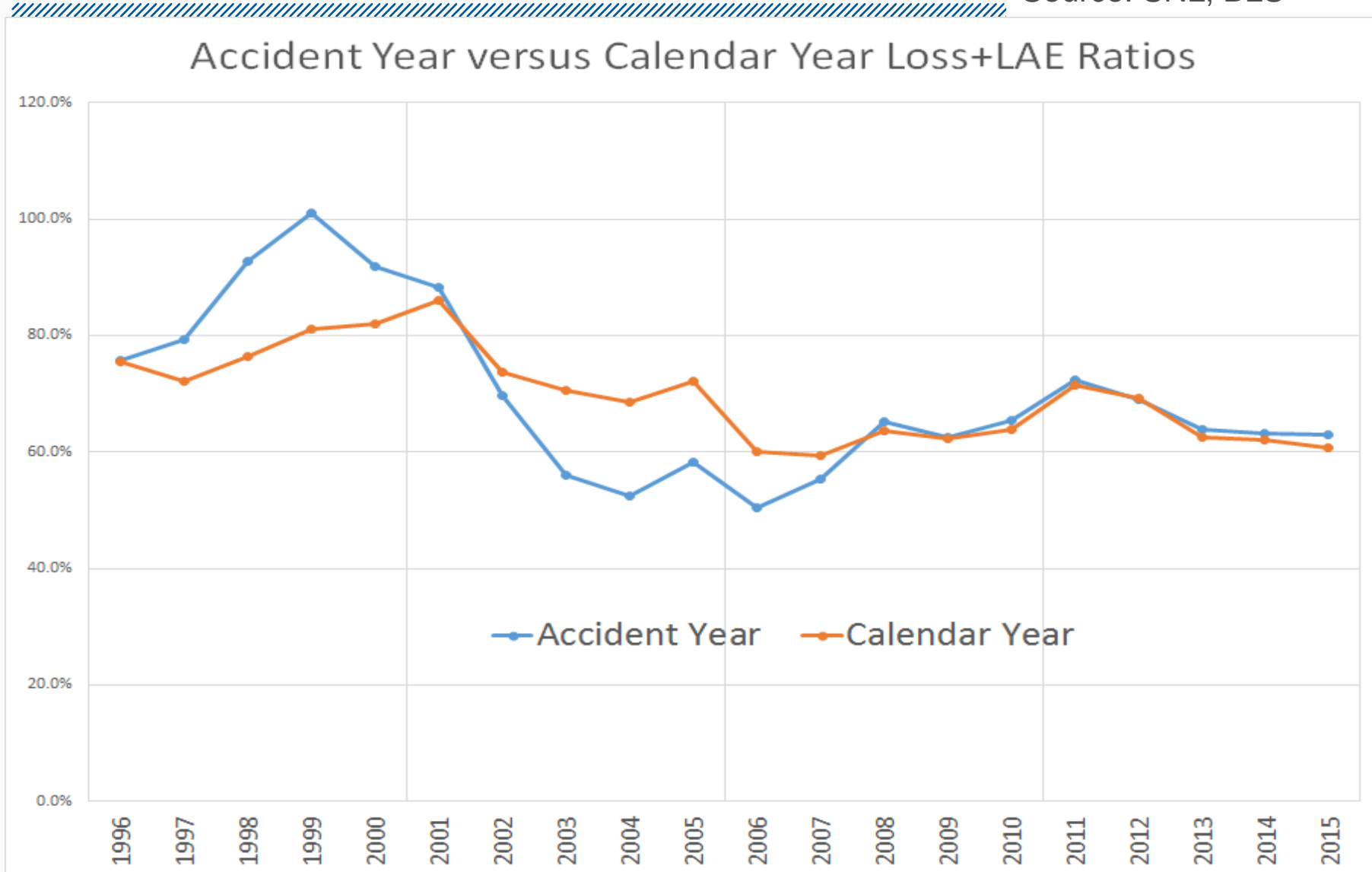
Example for Specialty Carriers

Source: SNL



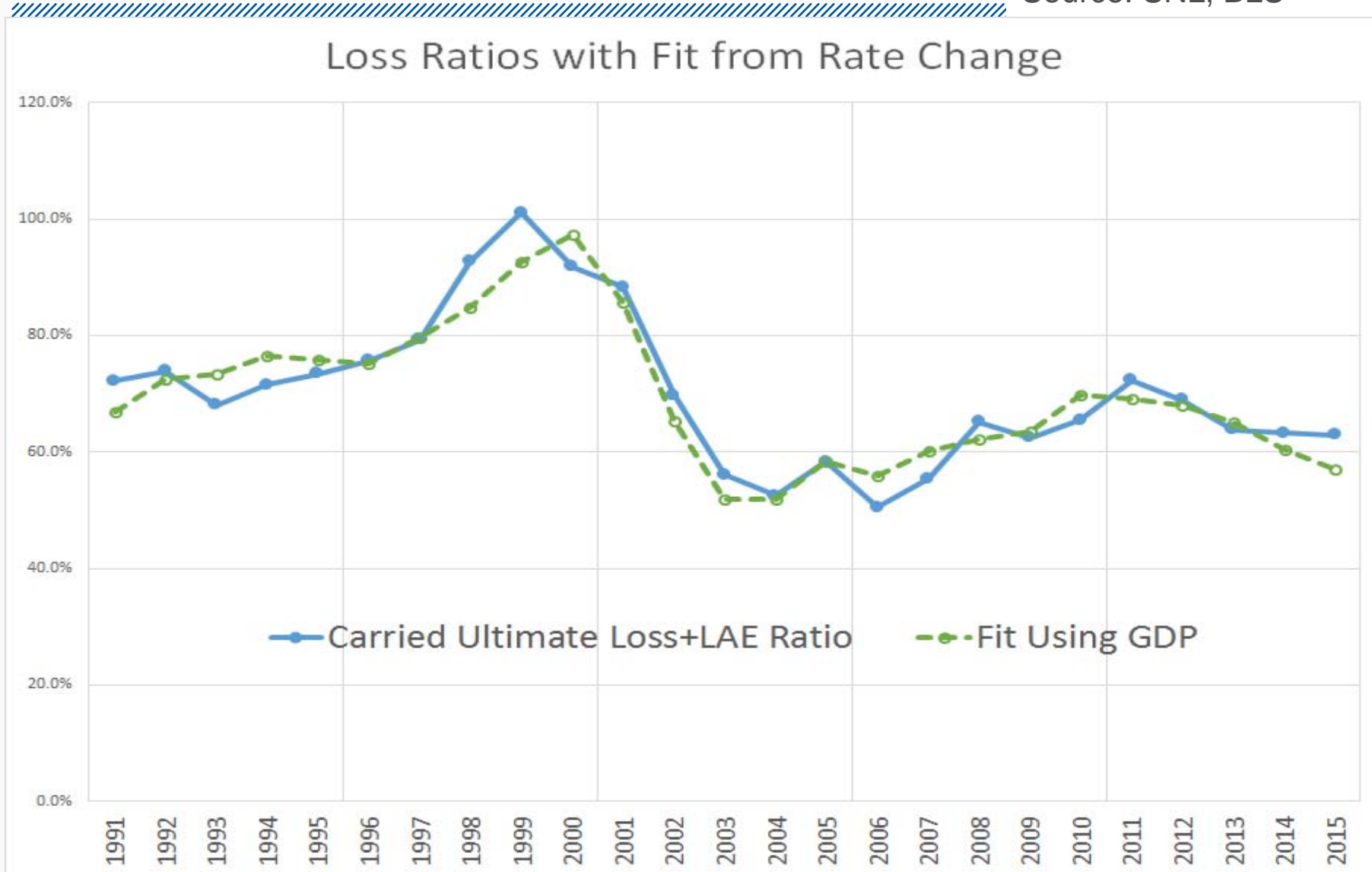
Example for Specialty Carriers

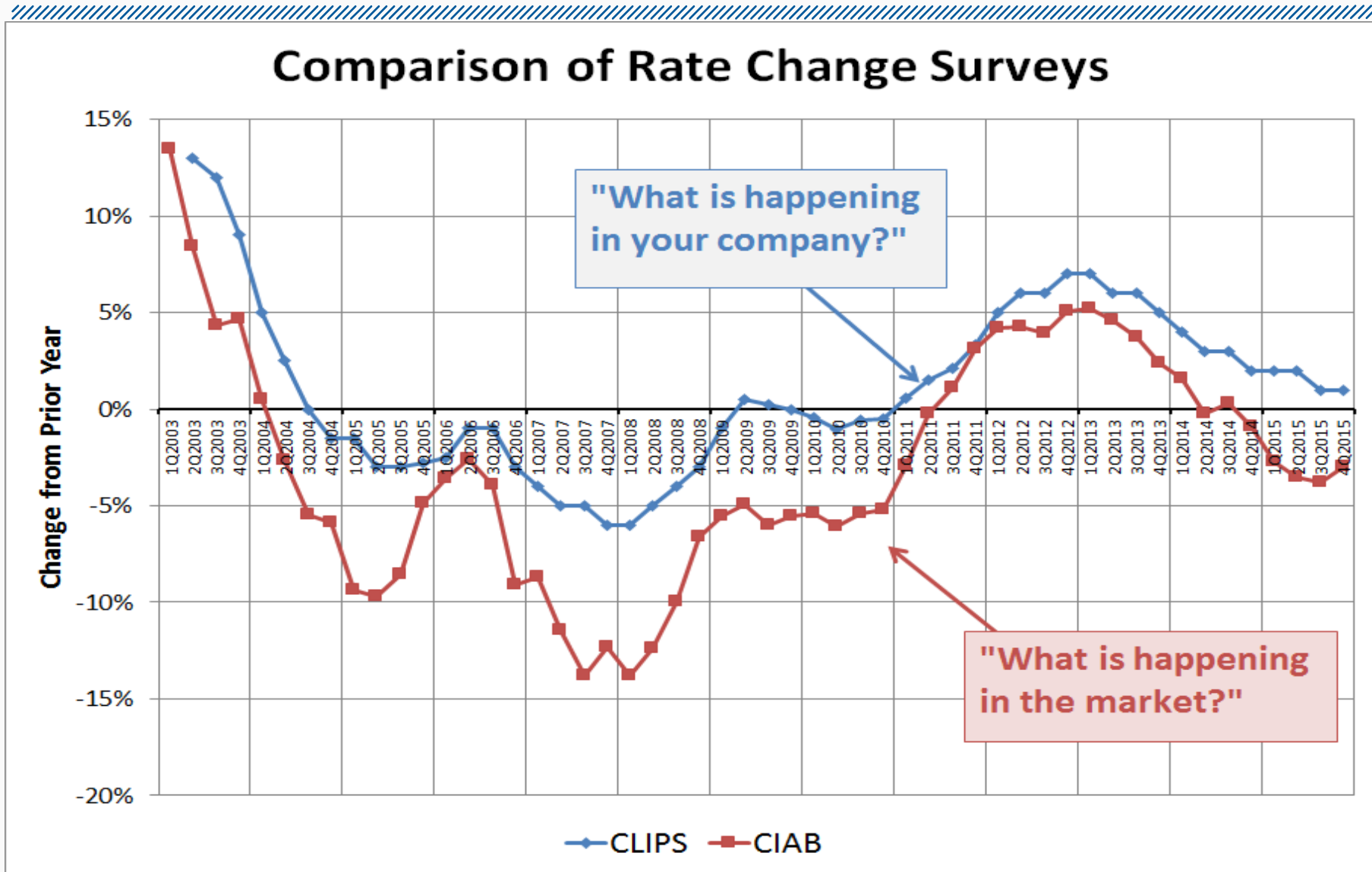
Source: SNL, BLS



Example for Specialty Carriers

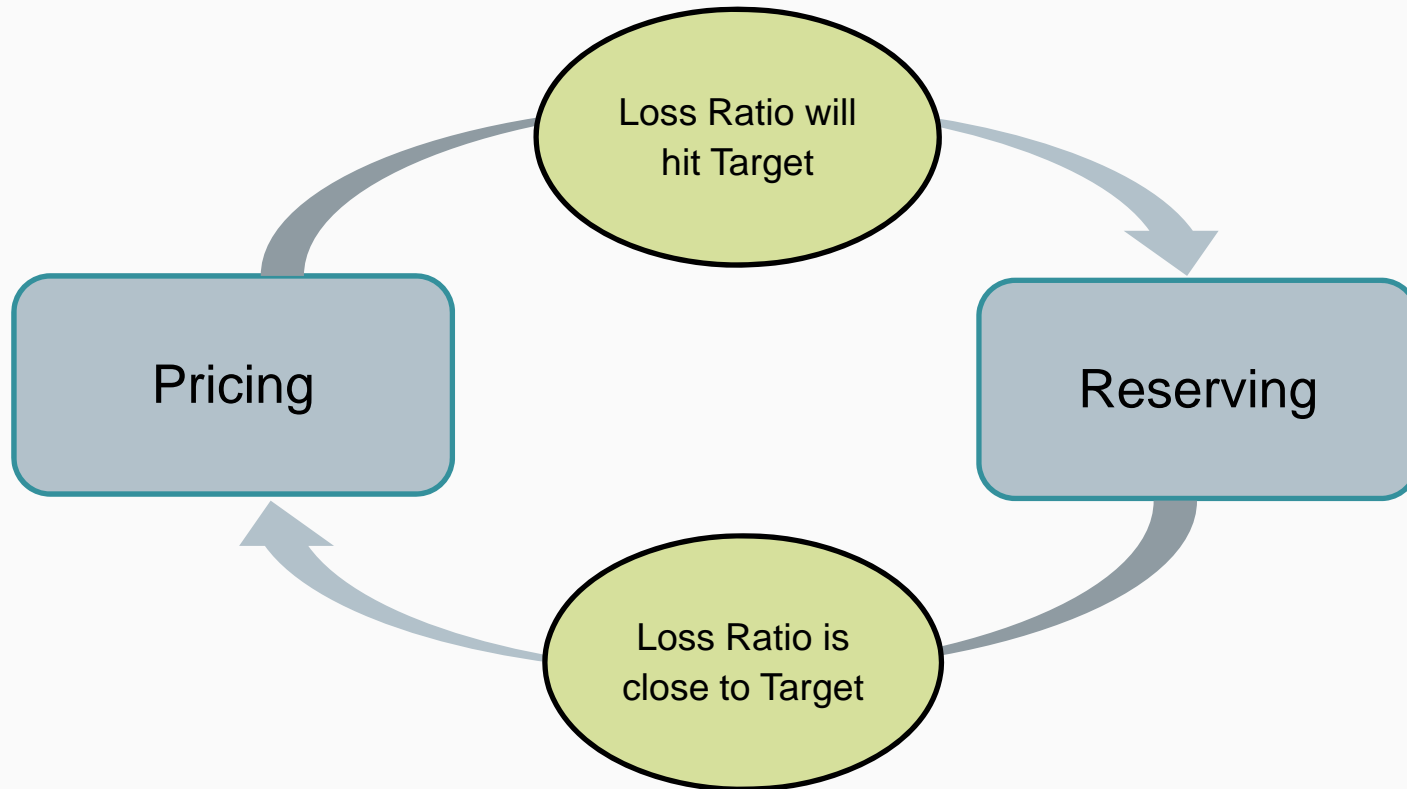
Source: SNL, BLS







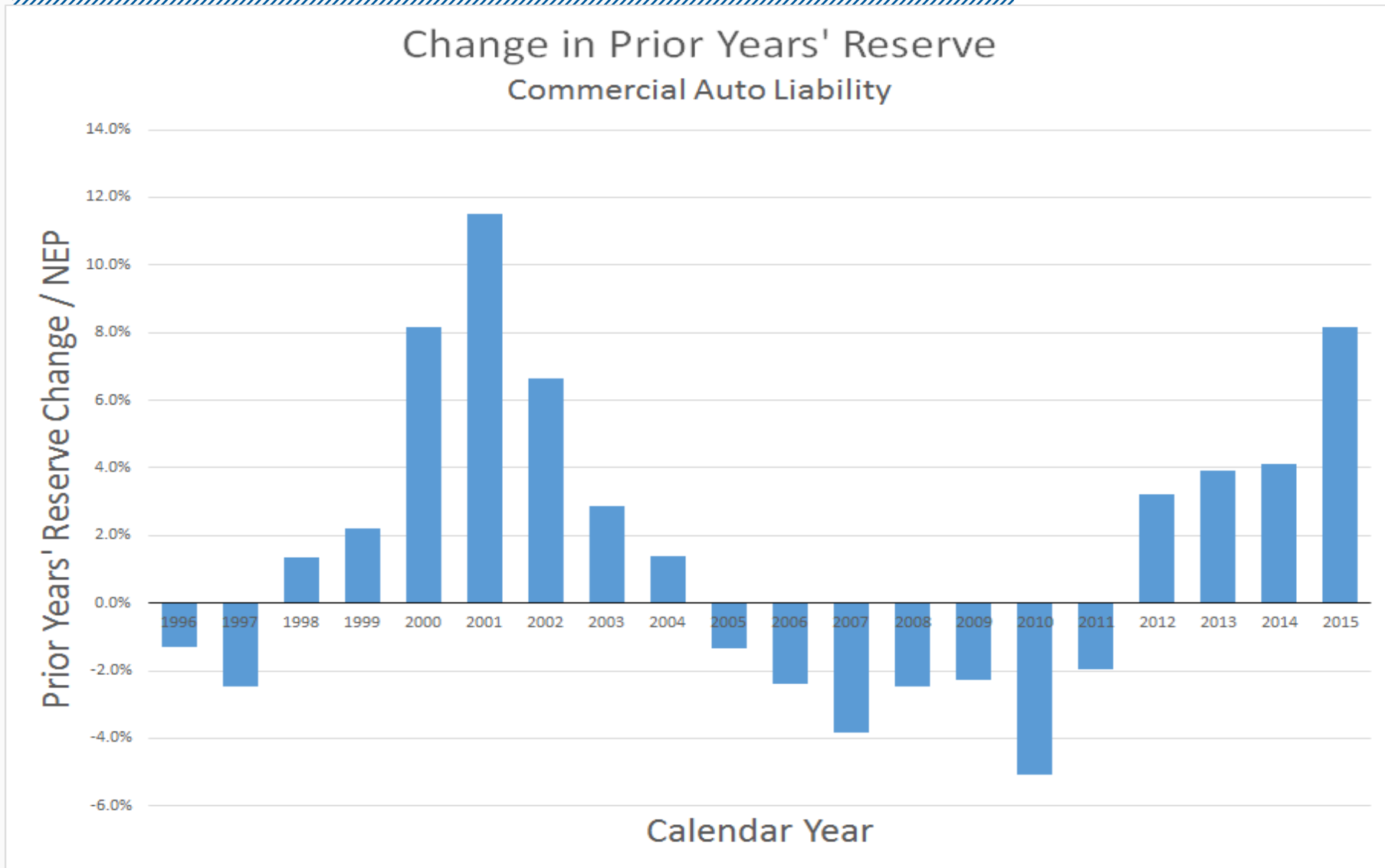
A Control Cycle or Operational Risk?



See “An Introduction to Insurer Operational Risk” by Mango & Venter

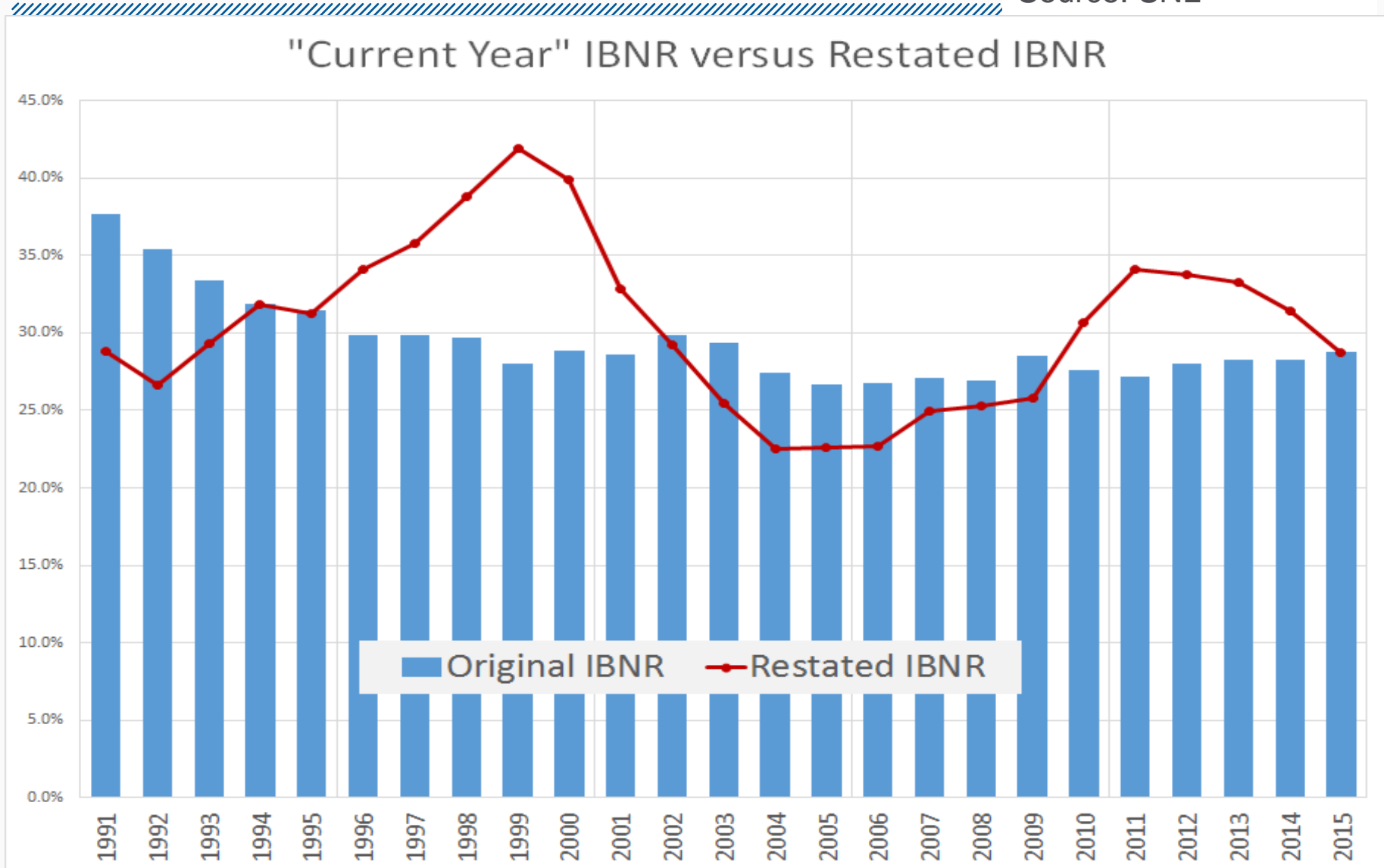
Example for Commercial Auto Liability

Source: SNL



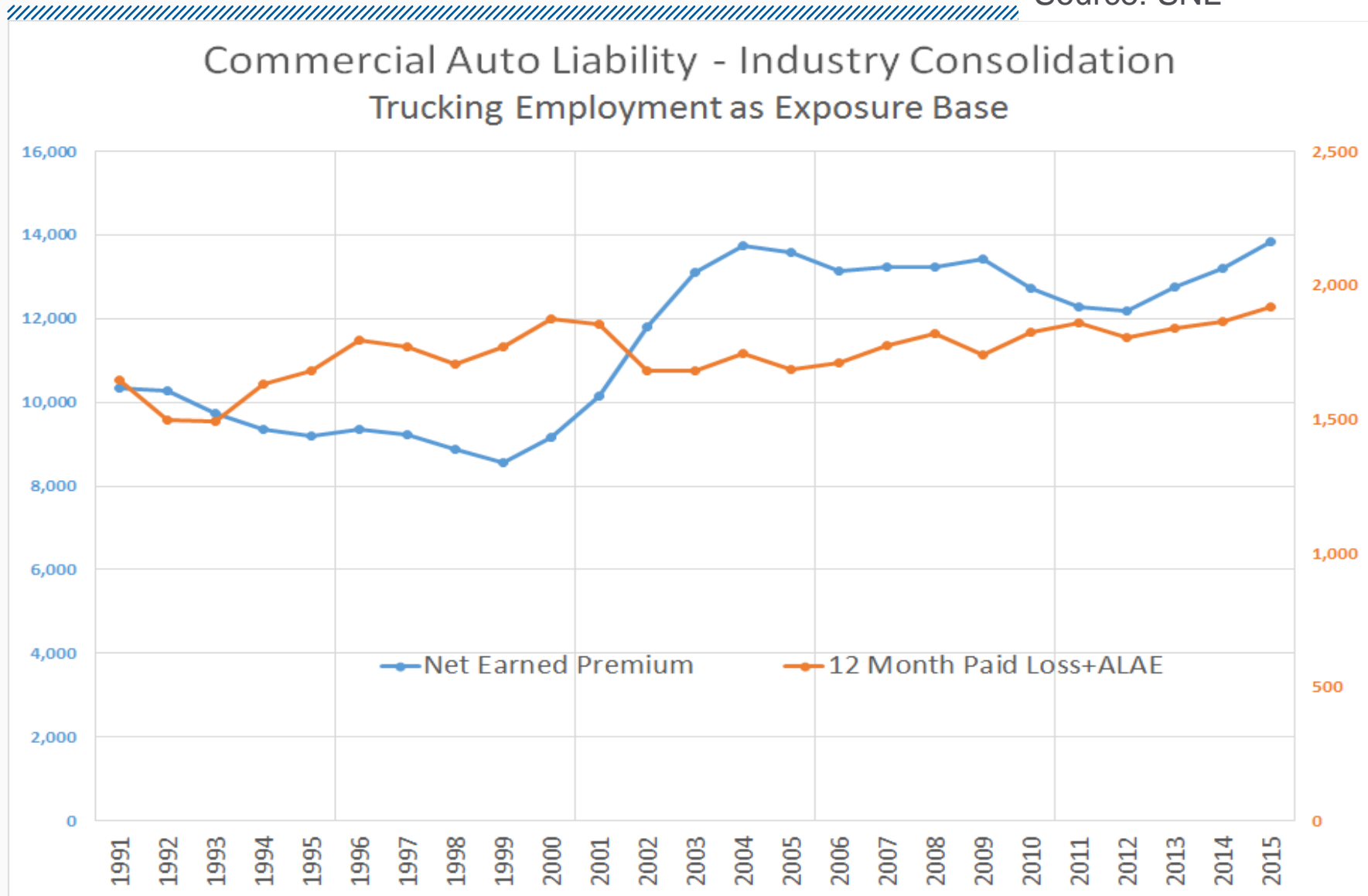
Example for Commercial Auto Liability

Source: SNL



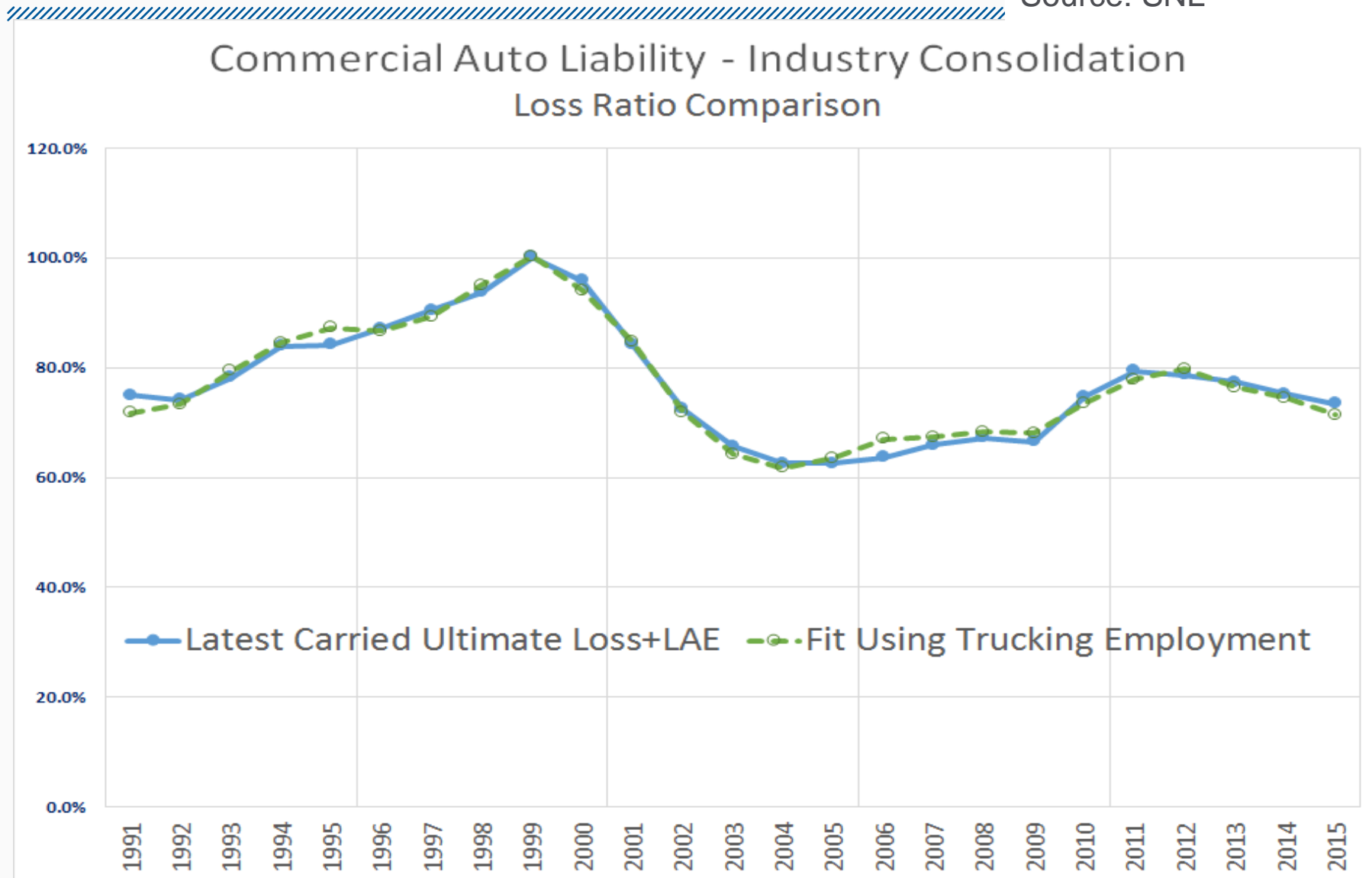
Example for Commercial Auto Liability

Source: SNL



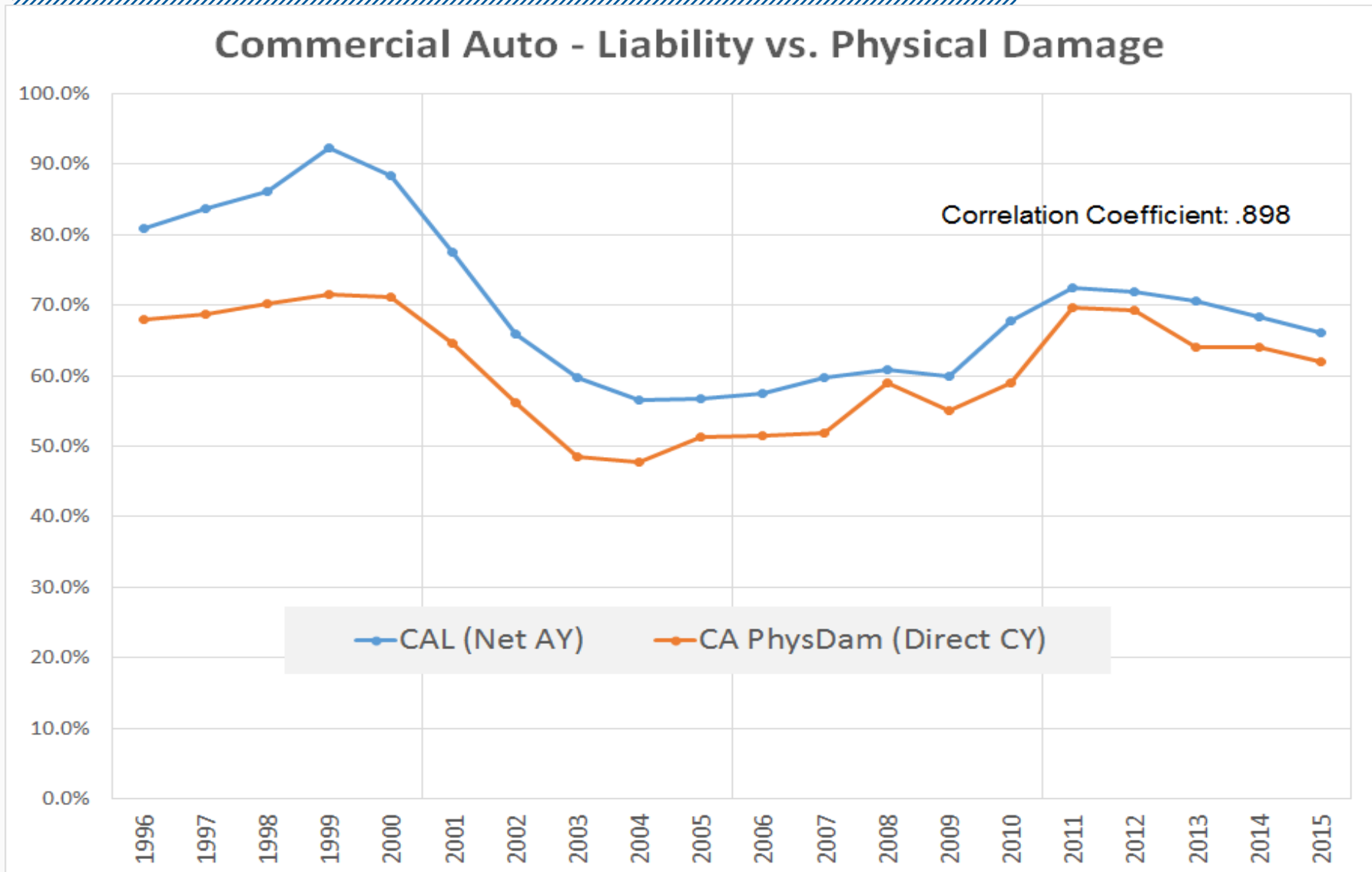
Example for Commercial Auto Liability

Source: SNL



Example for Commercial Auto Liability

Source: SNL





- We see both a pricing cycle and a reserving cycle, which are inter-related.
- Main driver appears to be failure to capture accurate rate changes and/or exposure base. That is, **operational risk**.



Dave Clark
daveclark@munichreamerica.com

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