2007 CAS Spring Meeting
Session #C12
Loss Reserve Ranges in Practice
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Ronald E. Greco, FCAS, MAAA
Vice President & Corporate Actuary
Unitrin

One Company's Evolution

- **Respond to the questions of the interested parties to foster an understanding of the process.**
- **Give the interested parties a historical perspective on loss reserve development recognized into income.**

One Company's Evolution (Continued)

- **Give the interested parties the potential variability in one of the standard actuarial methods.**
- **Inform the interested parties that we are continuing to study the subject.**

Response to Interested Parties

- If management's selection differs from the actuary's selection, why did management choose a different number?
  - "The final step in the reserving process involves a comprehensive review of the actuarial indications by the Company's senior actuary and senior management who apply their collective judgment to numerous factors."
  - "Total recorded reserves were higher than the actuarial indications by approximately 3.5% for the past three years."

Response to Interested Parties

- What are the key assumptions?
  - "The Company's actuaries use various generally accepted actuarial methods to estimate ultimate losses. The key assumption in these methods is that patterns observed in prior periods are indicative of how losses are expected to develop in the future."
  - "When factors appear that diminish the value of using the historical patterns as a predictor, the Company's actuaries must exercise an even greater degree of professional judgment."

Response to Interested Parties

- Quantify the impact of the changes in the key assumptions.
  - "The impact of changes in claims handling, underwriting, mix of business, legal/regulatory environment is difficult to quantify and predict."
  - "The Company's actuaries do not make specific numerical assumptions about each of these changes."

Response to Interested Parties

- Explain why you recognized the change in key assumptions in this period rather than prior periods.
  - "Since the amount of data was limited, the Company's actuaries could not be confident that the observed changes were anything but random fluctuations. As they obtained more experience, the Company's actuaries gained greater confidence that the observed changes were sustainable."

A Historical Perspective

- Calculate the ratio of the loss reserve development recognized into income to the year ending reserves for several prior years.
- Select an average of the historical ratios for each business unit, line of insurance, etc.

A Historical Perspective

- The historical loss reserve development recognized into income provides an indication of the potential variability in the estimate of reserves.

A Historical Perspective

- The historical experience may not necessarily be indicative of future variability.
- The historical variability does not constitute a statistical range of actuarially determined probable outcomes, nor does it constitute a range of all possible outcomes.

Potential Variability in the Incurred Loss Method

- Estimate the impact of changes in the cumulative loss development factor from the incurred loss method only for each reserve group.
- Assume all of the Company's reserves were based solely on the incurred loss development methodology.
- Calculate the high and low estimates that would result for all accident years combined.

Continue to Study

- "The Company has engaged an actuarial consulting firm to assist the Company in the development of additional reserve variability metrics."