



Sample Reserving Report – Does It Stand Up To Scrutiny?

CAS Committee on Professionalism Education
2012 CAS Spring Meeting
Joe Herbers & John Wade, Pinnacle Actuarial Resources, Inc.



Overview

- Internal analysis of company's general liability line of business
- Written Actuarial Report
- Supporting Exhibits



Report Text Review

- Does it adhere to ASOP 43 – Property/Casualty Unpaid Claim Estimates?
 - Does it detail all of the necessary disclosures?
- Does it adhere to ASOP 41 – Actuarial Communications?
 - Does it meet all the requirements of that standard?



Supporting Exhibits Review

- Do they adhere to ASOP 43 – Property/Casualty Unpaid Claim Estimates?
 - Is the documentation sufficient?
- Do they support the proposed point estimate?
 - Is enough detail included to conclude that the estimate is reasonable?



Format of Today's Session

- ASOP Review
 - Quick review of ASOP #41 and ASOP #43, which are most pertinent to today's discussion
- Ten Minute Reading Period
 - Evaluate the written text and supporting exhibits per the guidelines in the previous slides
 - Feel free to ask any clarifying questions during the period
 - We can extend beyond ten minutes if this does not provide sufficient time for review
- Discussion Period
 - Thoughts from the audience
 - Guidance from the panel



ASOP Review



ASOP 41 - Requirements for Actuarial Communications

- Identify Responsible Actuary
- Identify Principal for whom findings are made; clearly state scope and any limitations or constraints
- Communicate methods, procedures, assumptions, data and other information required to complete the work
- Form and content clear and appropriate to audience
- Issued in timely manner




ASOP 41 – Required Disclosures

- Uncertainty or Risk
- Conflict of Interest
- Reliance on Others
- Responsibility for Assumptions and Methods
- Information Date of the Report
- Subsequent Events



ASOP 41 – Other Key Provisions

- An Actuarial Report must state with sufficient clarity findings and identify methods, procedures, assumptions and data used
- Explanation of Material Differences
 - Necessary if a later communication includes materially different results or expresses a different opinion than a former communication on the same issue
 - Should make clear that earlier results or no longer valid, and it should explain the reasons for the change




ASOP 43 - Required Disclosures

- Intended Purpose or Use
- Constraints/Limitations
- Scope of the Unpaid Claim Estimate
- Dates
- Significant events, assumptions, or reliances
- Type of range (if applicable)
- Changes in assumptions, procedures, methods, or models if material
- Reliance on Single Method
- Deviation from Standard



Discussion of Written Report




Report Text Issues

- At best, meets bare-minimum level of required disclosures and documentation
- Does not identify responsible actuary
- Does not describe the nature of the General Liability exposures being reviewed
- Does not quantify the range of estimates or how that range was derived
- Does not detail key method assumptions
- Does not detail how final estimate was decided upon




Discussion of Supporting Exhibits



Supporting Exhibits Issues

- Again, provide only bare minimum to see how point estimate was derived
- No detail provided on key methods, such as both the loss BF's and the ALAE BF
- No diagnostic exhibits to support the reasonableness of the selected point estimate



Discussion of Overall Analysis Quality



Selected Point Estimate Issues

- Selection at lower end of indicated method range
- Method results themselves likely understated, and 1.000 tail selected for all development triangles when >1.000 factors likely needed



Key Takeaways

- Know the Standards that apply to the work you are doing
- Thorough documentation is your best defense
- A quality peer review by a trusted colleague goes a long way to ensure the overall quality of your work!
