

The Relationship between the Reserving Actuary, Pricing Actuary, and Claims Professional

Four Case Studies

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CLAIMS/ACTUARIAL INTERACTION

- § Critical insight into changes, patterns, trends and behaviors
- § Verification/confirmation of data and information
- § Estimation of ultimates, high end scenarios, and ranges as alternative to IBNER for individual claims

CASE STUDIES

§ Case Studies:

- Example A – case reserve estimation to clarify changes in claims practices
- Example B – impact of poor communication on reserve estimation
- Example C – incorporating claims handling changes into IBNR reserve estimates
- Example D – identifying claim-specific issues underlying adverse development

§ Based loosely on real-life situations (data, dates, LOBs, other identifying information changed)

EXAMPLE A – BACKGROUND

- § Large P/C carrier
- § Several “recent” claims process changes “over time” with overall impact (direction and magnitude) unclear
- § Actuary seeks additional information to assist in LDF selection process for AYs 2009-2011 at specific ages

EXAMPLE A – APPROACH

- § Select sample of files from AYs **2008**-2011 at 12, 24, and 36 months
- § Each claim reviewed at one evaluation point only – subsequent information unknown
- § Separated claims with “formulaic” reserves from those with “real” reserves
 - Evaluate “formulaic” reserves to determine if adequate information exists to estimate probable ultimate exposure
 - Evaluate adequacy of “real” reserves
- § Reviewed other sources (law, uw) to eliminate other possible sources of case reserve behavior

EXAMPLE A - FINDINGS

§ Claims with “formulaic” reserves:

- At 12 months under-reserved
- At 24 and 36 months over-reserved
- 45% had adequate information to estimate case reserves

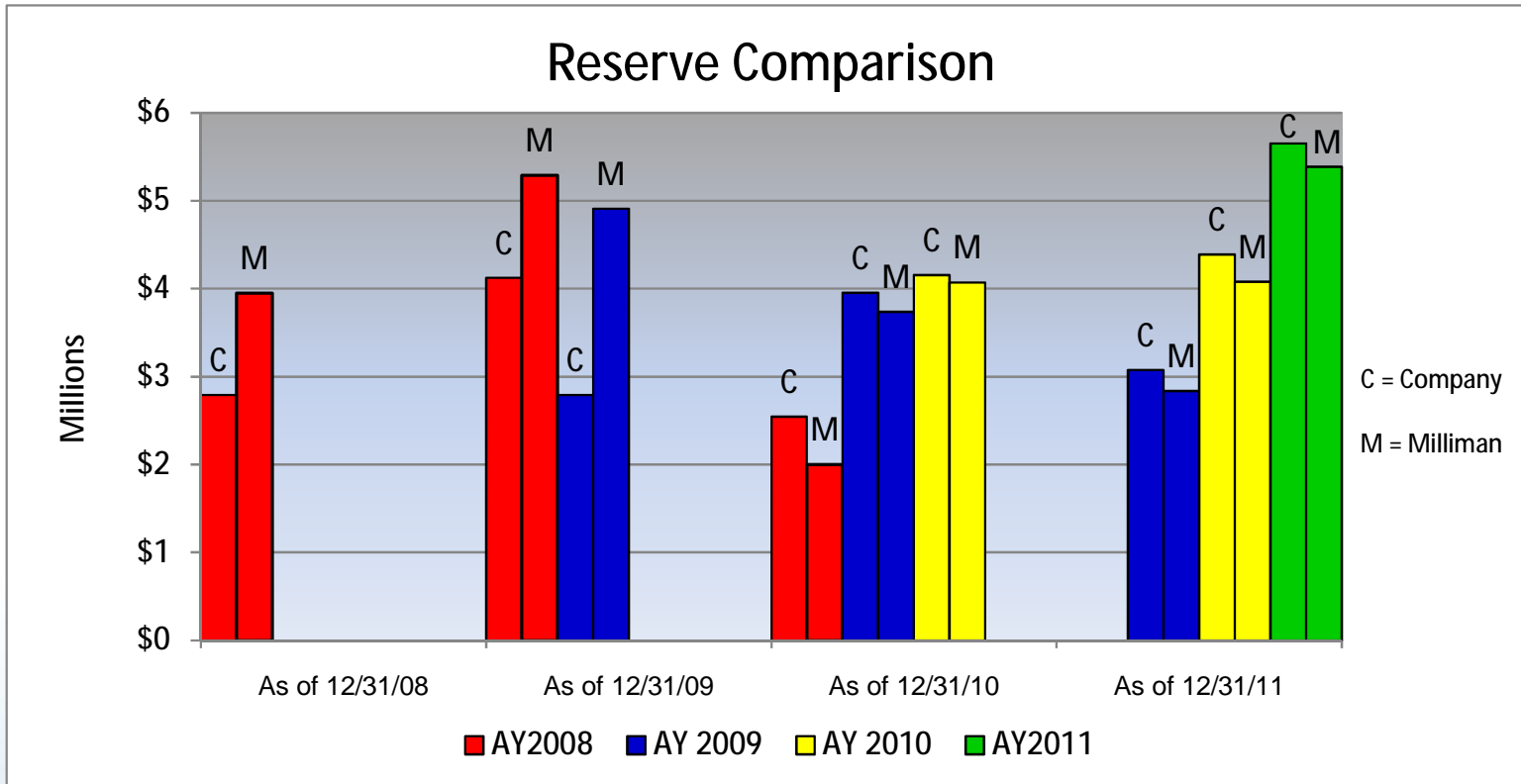
§ Claims with “real” reserves:

- Modest deficiency at 12/31/08 and 12/31/09
- Slight redundancy at 12/31/10 and 12/31/11

§ Suggests shifting resources and/or change in reserving philosophy in 2010

§ Suggests opportunity for improvement in timeliness of investigation and setting reserve

EXAMPLE A – FINDINGS



EXAMPLE A – ACTION TAKEN

- § Return to claims personnel for clarification:
 - What is “adequate” information, or “complete” investigation?
 - Workload redistributions, staff shifts?
 - Preparation of management information reports, “aging” reports?
- § Selection of LDFs based in part upon detailed information, both quantitative and qualitative

EXAMPLE B – BACKGROUND

- § Insurer A acquires Insurer B
- § Insurer B claims personnel adopt Insurer A claims handling practices and philosophies
- § Multiple claims offices
- § Actuaries assume that Insurer B is establishing case reserves in accordance with Insurer A's case reserve philosophies; estimate IBNR reserves consistent with that assumption

EXAMPLE B - APPROACH

§ Interview claims personnel from Insurer A and B

- Offers insight into claims processes/procedures
- Reserving philosophy and changes – specific hypotheticals
- Other changes?

§ Review a sample of claim files

- Verify information learned in interviews
- Assess extent of consistency among staff

§ Review management information reports and metrics from various offices

EXAMPLE B – FINDINGS

- § Insurer B claims personnel not case reserving in line with Insurer A philosophy - 45% deficiency
 - Stated philosophy is probable outcome, but not in practice
 - Unaware of new reserving philosophy
- § Poor communication and incomplete integration of the claims offices - impact on assumptions used to estimate IBNR reserves
- § Claims needed to be reevaluated to reflect on-going reserving philosophy

EXAMPLE B – ACTION TAKEN

- § Adjust IBNR reserves accordingly
- § Increased communication with claims personnel
- § Internal audits
- § Written guidelines and procedures
- § Training sessions

EXAMPLE C – BACKGROUND

- § Small mono-line claims made insurer in single state considered a “bad jurisdiction”
- § Great claim outcomes; “why IBNR needed?”
- § Recent changes potentially impacting claims
 - Reinsurer audit
 - New TPA
 - Risk manager position created

EXAMPLE C – APPROACH

- § Interviews with new TPA, defense counsel, risk manager, key personnel with background knowledge
- § Review a sample of claim files:
 - “Formulaic”
 - Potential large losses
 - Aging
 - Information/investigation adequacy
 - Reserve adequacy
 - Include closed claims and older accident years
 - Expenses

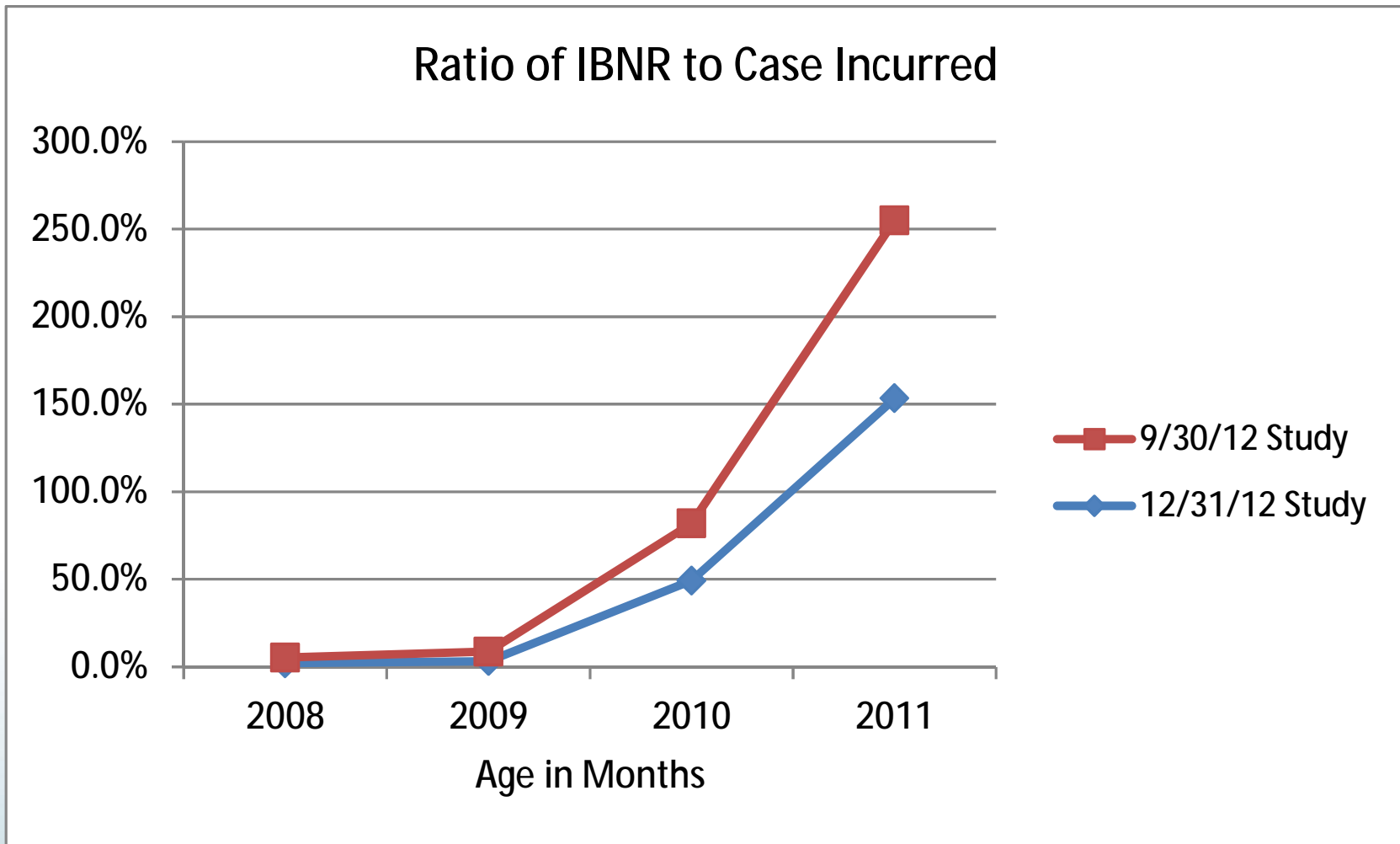
EXAMPLE C – FINDINGS

- § New TPA has local expertise
- § New risk manager focused on early reporting and investigation
- § Excessive (reactionary) case reserve increases were adjusted appropriately
- § “Bad jurisdiction” reputation was misleading
- § Older claims not higher severity
- § Formulaic claims not problematic
- § Implementation of changes complete – no further changes or adjustments expected
- § Expenses developed quite differently from losses

EXAMPLE C – ACTION TAKEN

- § Reserving actuary utilizes different methods
- § Separation of loss and expense
- § Separation of formulaic from non-formulaic
- § Increased insight into formulaic reflected in development assumptions
- § Client education – impact of formulaic reserves; impact of future expansion of uw

EXAMPLE C - RESULTS



EXAMPLE D - BACKGROUND

- § Large specialty line insurer with poor performing business unit since 2008 (as of 12/31/10)
- § Inexplicable adverse development
- § Actuaries unsure how to approach IBNR reserve estimation

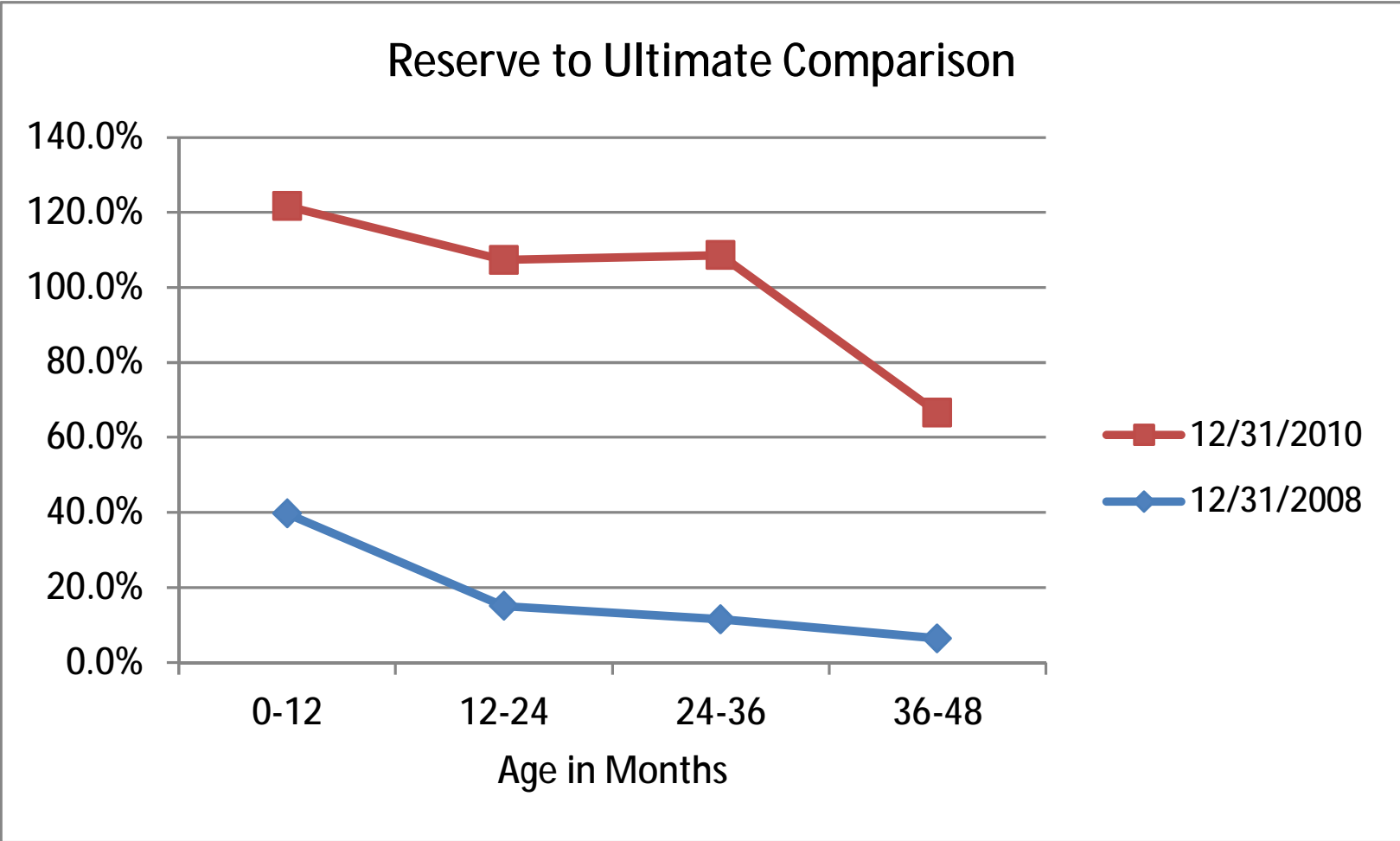
EXAMPLE D – APPROACH

- § Selected sample of open claims as of 12/31/10, estimate ultimate payment, compare current case reserve to estimated ultimate
- § Selected a “benchmark” sample of claims that were open as of 12/31/08, estimate ultimate payment if still open, compare case reserves at specific ages to estimated (or actual, if paid) ultimate
- § Samples selected to ensure matching with similar characteristics, large enough to ensure credible
- § Compare sample to benchmark:
 - Estimated ultimates
 - Reserve-to-ultimate ratios

EXAMPLE D – FINDINGS

- § Ultimate severity not rising
- § No change in types of losses reported
- § No other factors influencing severity
- § Large difference in adequacy of case reserves between the two samples

EXAMPLE D - RESULTS



EXAMPLE D – ACTION TAKEN

- § Actuaries relied more heavily on alternative methods
- § “Claim review method” also utilized, where estimated ultimates replaced case reserves and IBNR reserves were zero for this subset of claims
- § Provided a more complete picture of case reserve development, changes in claims practices and the impact of such changes, reasons for those changes and whether to expect future such changes – all of which result in better estimation assumptions and techniques

QUESTIONS

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