Non-Life Loss Reserving Practices and Documentation

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Canadian Requirements

• Discounting
  – Required Margins
  – Similar to IFRS 4 Proposal

• Actuarial Opinion Required

• Actuarial Report Filed with Regulator
Report Outline

- Introduction
- Opinion
- Executive Summary
- Company Overview
- Data Overview
- Unpaid Claims
- Premium Liabilities
- Exhibits and Appendices
Introduction

- Company
- Date
- Name and contact information of the Actuary
- Purpose/Scope of the report
Opinion

- Compare carried provisions with Actuary’s estimate
- Summary of the results for the different business segments showing how the total provision is derived
Executive Summary

• Summary of key results
  – Accident year vs calendar year
  – Unusual losses or significant concerns

• Comment on development of prior years’ losses

• Discuss changes in methods and their financial impact

• Disclose any departure from accepted actuarial practice
Company Overview

• Ownership and Management
  – Especially changes

• Business
  – Lines of business
  – Underwriting policies
  – Claims policies

• Reinsurance
  – Description of all significant treaties covering several years
    • Ideally covering all years which have unpaid claims
Overview of Data

• **Sources of data**
• **Verification procedures**
  – Reliance on others
    • Accountants
    • Other actuaries
• **Completeness of data**
  – Non reviewed business segments
Unpaid Claims

• To meet Canadian Requirements we need:
  
  • Undiscounted Unpaid Claims
  • Selection of Payment Patterns
  • Selection of Interest Rate
  • Selection of Margins

I will restrict my comments to the undiscounted unpaid claims
Undiscounted Unpaid Claims

- Gross
- Ceded
- Net

Two of the above provisions are calculated and the third obtained by simple arithmetic.

Practices vary depending on the data, lines of business and reinsurance.

We have no preference but all provisions must be reasonable.
Undiscounted Unpaid Claims

Considerations

• Frequency/severity trends
• Policy or coverage changes
• Change in reinsurance
• Change in reporting or payment of claims
• Changes in case reserving practices
• Regulatory changes
Claims Expenses

• **Internal or Unallocated**
  – Usually estimated using the paid to paid ratio and the assumption that 50% of the expense is incurred when the claim is reported

• **External or Allocated**
  – Can be included with the claims data or reviewed separately
Undiscounted Unpaid Claims

- Favourable/unfavourable development
  - We require 5 years of data by line and in total
  - We encourage actuaries to show 10 years

- This is a very valuable tool for the supervisor
  - The actuary should comment on the reasons for the development and changes made to address any relevant issues
Premium Liabilities

Balance Sheet Presentation
- Unearned Premiums
- Deferred Acquisition Expenses
- Other assets/liabilities
- Premium Deficiency

Actuary’s Calculation
- Expected losses & expenses on policies in force
- Premium adjustments on policies and reinsurance
- Commission adjustments including agent/broker profit commissions
Other Liabilities

- Self-Insured Retentions
- Subrogation and Salvage
- Other Assets/Liabilities
External Review Procedures

- **External Auditor**
  - Actuarial Specialist

- **External Reviewer**
  - Once every 3 years
  - Actuary should discuss the status of any recommendations make in past reviews
Questions