



2015 CLM Annual Conference
Palm Desert

RISK MANAGEMENT: THE ACTUARIAL PERSPECTIVE

Presenters: Frank Chang, *Uber*
Greg Katz, *Lewis Brisbois Bisgaard & Smith, LLP*
Loren Nickel, *Aon*
Stephen Truono, *Starwood Hotels & Resorts Worldwide, Inc.*

What Is An Actuary?

- **Wikipedia:** Business professional who deals with the financial impact of risk and uncertainty.
 - Actuaries need data to quantify risk!

Property/Casualty Actuaries Major Types of Work

- Ratemaking and Pricing
- Loss Reserving

Loss Reserves

- Also referred to as “Unpaid Claim Estimate.”
- Actuarial Standards Board (ASOP 43) –Definition: *The actuary's estimate of the obligations for future payments resulting from claims due to past events.*
- Liability item on balance sheet (usually the largest).

Commonly Used Terms

- **Paid Loss (known)**
 - Paid indemnity and medical
 - May include defense and cost containment
- **Loss Reserves (estimated)**
 - Case reserves
 - May include defense and cost containment
 - IBNR – Incurred But Not Reported

Commonly Used Terms

- **Case Incurred** = Paid Loss + Case Reserves
- **Ultimate** = Paid Loss + Case Reserves + IBNR
- **Loss Reserves** = Case Reserves + IBNR

Case Reserves

- Estimate of value of future claim payments on an individual claim.
- Case reserves are set by claim professionals (company claim adjusters, TPAs).
- Case reserves are typically set based on known facts of the claim.
- Case reserves are adjusted as facts change on the claim.

Case Reserve Philosophies

- Vary by company
- Most likely outcome
- Best-case / Worst-case
- Formula approach – based on historical
- Technical approach
- ❖ **Actuaries like to see a consistent philosophy over time.**
- ❖ **Communication is important if there is a change in philosophy.**

IBNR

- Estimated by actuaries
- Provision for late-reported claims, case reserves increases on known claims, reopened claims, claims in transit
- **Best's Aggregates and Averages 2008 Study**
 - Case reserves typically represent less than 50% of the total unpaid claim costs.
 - IBNR is needed to cover the remainder of the loss reserve provision.

Key Personnel

- Claims Department
- Legal
- Underwriting
- Reinsurance

- Pricing Actuaries
- Other

Loss Reserves – Financial and Regulatory Impact

- Ultimate loss and loss reserve estimates have significant variability
- Changes in the estimate of ultimate loss will impact both the income statement and balance sheet
- Loss reserves play a huge factor in regulatory calculations of required capital and solvency
- Questionable transactions involving loss reserves have landed one famous actuary in hot water (convicted in 2008, conviction thrown out in 2011 pending re-trial)