



KPMG Actuaries

80:20 Rule: Observations for Reserving

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ADVISORY

80:20 Rule: Observations for Reserving

Agenda

- **Insurance Liability Valuation Process**

- Main components
- “Non core” components

- **Observed Common Practice**

- Gross and Net Valuations
- Third Party Recoveries
- Small / Large / Catastrophes
- Discounting
- Claims Handling Expense
- Gross and Net Risk Margins

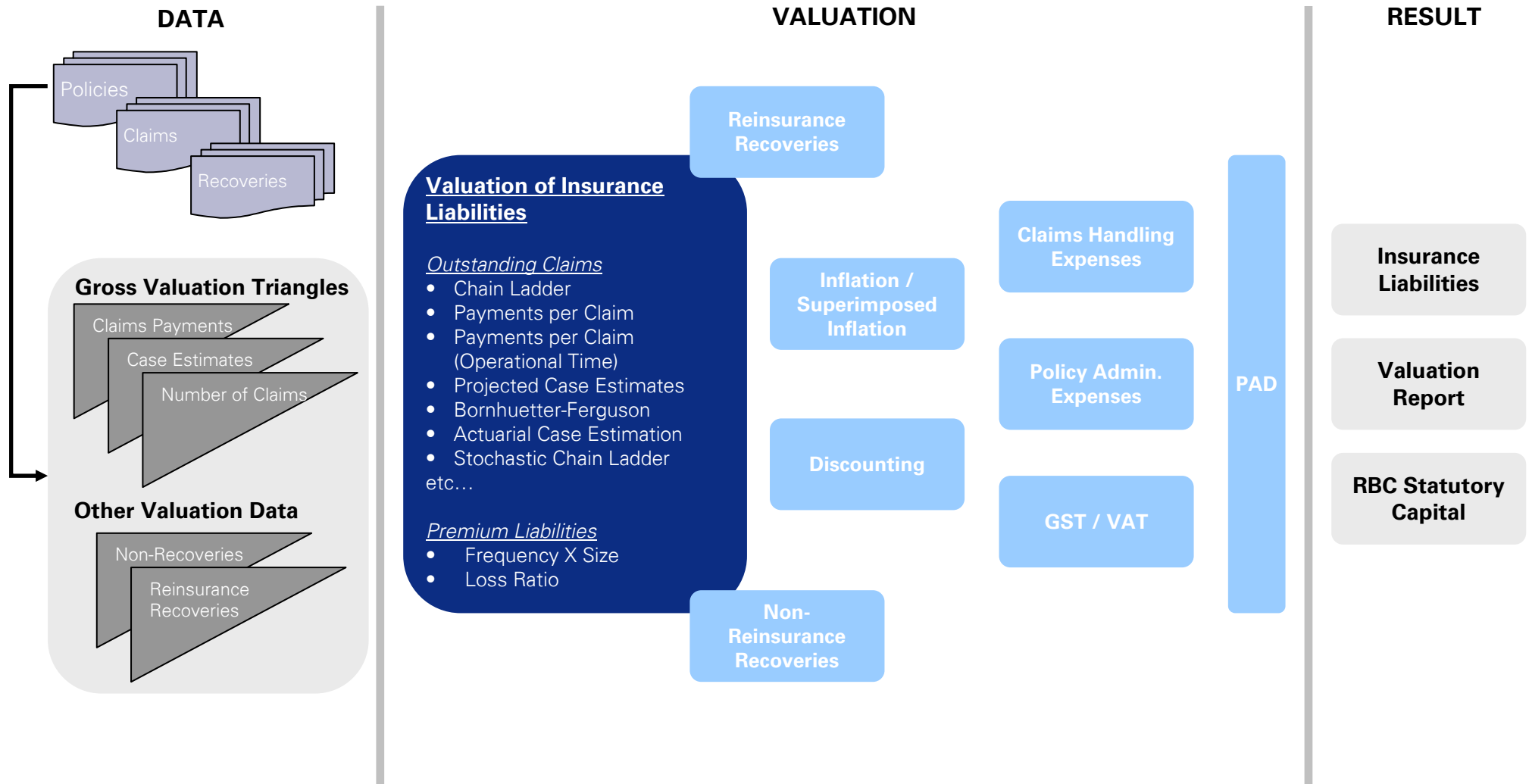
- **Impact**

- Examples

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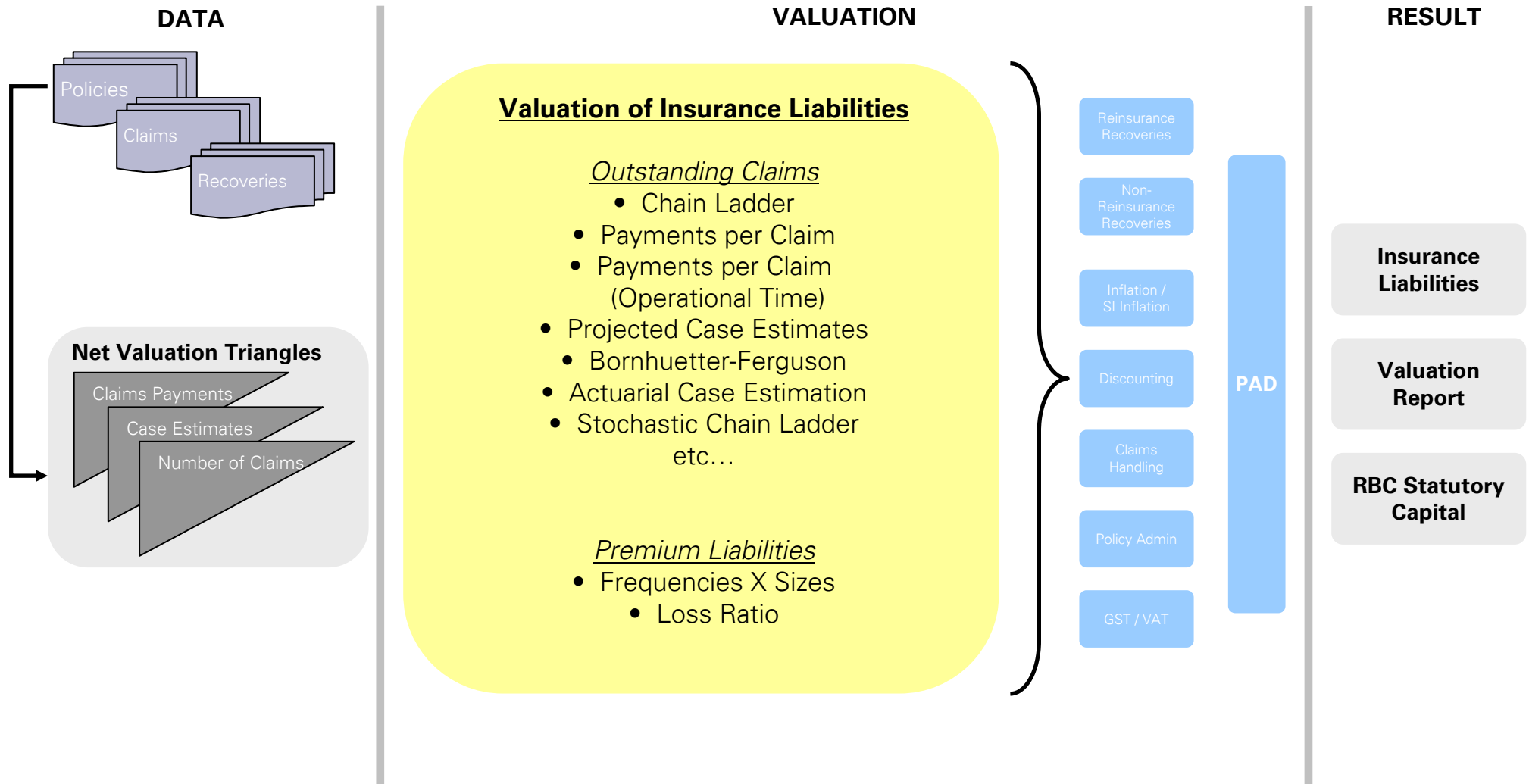
Insurance Liability Valuation Process

80:20 Rule: Observations for Reserving Insurance Liability Valuation Process



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Insurance Liability Valuation Process



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Observations

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Gross and Net Valuations

- Reporting requirements
 - Financial statements under accounting standards
 - Statutory requirements – disclosure of insurance liabilities and statutory capital requirement calculation
 - Professional requirements
- “Observed”
 - Net only
 - Net grossed up to Gross
 - Separate Gross and Net
- Less observed
 - Gross valuation with net derived from gross
 - Reasonableness tests of the implicit expected reinsurance recovery

80:20: Rule Observations for Reserving Other Recoveries

- Definition of “Gross”
 - Gross of reinsurance
 - Net of Deductible / Excess
 - Net of third party recoveries
 - GST / VAT ??
- Third party recovery
 - Significant in Motor property damage and Commercial Property
 - Different development pattern from the underlying claims
 - Attract specific asset risk charge in the RBC statutory capital calculations
 - Monitoring of recovery management
 - Bad Debt?
- GST / VAT

80:20: Rule Observations for Reserving Small / Large / Catastrophe Claims

- “Observed”
 - Small and Large claims combined experience
 - Small claims valuation plus case estimates for large claims
- Less observed
 - Separate large claims projection or estimation
 - Capped and Above Cap claims projection
- Large claims
 - Different incurred and reporting pattern
 - Different reinsurance recoveries
 - Could “muddle” the results of the actual versus expected analysis

80:20: Rule Observations for Reserving Discounting

- Discounting
 - Allowance for investment income
 - Discount rates are specified by insurance regulations
 - Impact depends on the future payment duration and applicable yield curve
- Common reason for not applying discounting
 - Not significant, but....
 - No documented reasonings
 - No quantification of the impact of discounting
- Current yield curve environment
 - Arguably, not significant in Singapore
 - Significant in Malaysia, Australia and New Zealand

80:20: Rule Observations for Reserving Premium Liability

- “Observed”
 - The ultimate projected loss ratio from the most recent accident periods
 - Any “over” or “under” reserving in the outstanding claims liabilities flow directly into premium liability
 - PAD is a multiple of OCL PAD
- Less “observed”
 - Claim frequency and average claim size approach
 - Discounting of premium liability
 - Explicit modelling of uncertainty (for example, catastrophe risks)

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Global Assumptions

- Expenses (claims handling and policy administration)
 - Benchmark
 - Separate gross and net expenses
 - Expressed as a percentage of net claims
- Future reinsurance costs
 - Few references to the actual reinsurance program
 - Reinsurance treaty period
 - Advanced reinsurance payments => double counting ?

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Gross and Net Risk Margin

- “Observed”
 - One percentage applies to both gross and net
 - Separate gross and net risk margins = > implicit reinsurance recovery risk margin
 - Premium liability PAD is generally a multiple of the outstanding claims liability PAD
- Less “observed”
 - Monitoring of the risk margins
 - Dollar risk margin approach
 - Specific large claims risk margin

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Impact

80:20 Rule Observations for Reserving Impact

A numerical example highlighting the importance of the “non-core” components will be presented.

For further details, please contact the presenters.

80:20 Rule Observations for Reserving Discussion



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Further queries, please feel free to contact us.
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