

# Actuarial Roundtable Presented by Milliman

Chicago RIMS Chapter

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# Special thanks to our risk manager presenters:

- Mike Fitzpatrick – GATX
- John Kline – Discover Financial Services
- Julita Brzozowska – Rotary International
- Josh Harwood – TDS

# Agenda

- Introduction to an Actuary
- Roundtable Procedures
- Questions



# When to Use an Actuary

## ■ Financial Reporting

- Loss Reserve Estimation for Accrual
- Projection of Contributions / Budgeting
- Captive Feasibility and Valuation
- Statements of Actuarial Opinion

## ■ Insurance Decisions

- Selecting Retentions
- Selecting Limits
- Negotiating Excess Insurance Rates
- Negotiating Collateral



# When to Use an Actuary

- **Business Decisions**

- Mergers and Acquisitions
- Pricing of Products
- Determination of Class Plans

- **Risk Management**

- Allocation of Premium or Liabilities to Divisions / Entities
- Enterprise Risk Management
- Examining Loss Drivers and Safety Studies
- Benchmarking



# Roundtable Procedures

- Conversations facilitated by actuary and risk manager
- 30 minutes at each topic, then rotate
- Please share your own experiences!
- All views (actuary, risk managers, broker, claim administrator, etc.) and experience levels encouraged and appreciated

# **Topic A - Negotiating Collateral with States or Excess Carriers**

**Presented By:**

**Mike Paczolt, Milliman**

**Josh Harwood, TDS**

# Collateral Background

- Purpose
  - Credit risk of policyholders
- Significance
  - Scarce capital and increased costs
- Methodology
  - LOCs typically used
  - Amount based on percentage of initial loss pick by carrier and credit worthiness



# Collateral Tips

- Free up collateral on old policy years (little remaining development)
- Investigate alternatives to LOCs
  - LPT, Trust, CD, Surety, etc.
- Use actuary to estimate liability to negotiate
  - Some insurers use unrealistic scenarios when estimating collateral
  - It is in the insurer or state's interest to make you hold more collateral
- If collateral on a policy increases, throw up a red flag

# **Topic B - Allocating Insurance Costs to Divisions**

**Presented By:**

**Richard Frese, Milliman**

**Mike Fitzpatrick, GATX**

# What are the goals of my allocation?

- Loss control incentive
- Stability
- Equity
- Comprehension
- Ease of administration
- Other?

# How do I design an allocation to meet goals?

- Losses
- Exposure
- Caps
- Length of experience period
- Credibility
- Advanced schemes

# What are the challenges and benefits of an allocation?

- Members complain “I’m paying too much!”
- May value independence
- How to handle distribution changes
- When to update and change formula
- Creating “skin in the game” and “buy-in”
- Reducing total losses

# **Topic C - Actuaries and Financial Reporting**

**Presented By:**

**Elizabeth Cohen, Milliman**

**John Kline, Discover Financial Services**

# What's the appropriate liability to book?

- Ranges, point estimates, percentiles
- Gross and Net liability responsibilities
  - Statements of Actuarial Opinions
- Discounting
  - Appropriate interest rates

# When and Who of calculating liabilities

- How frequently should reserves be calculated?
  - Accruals
- Sarbanes-Oxley and parties qualified to calculate reserves



# **Topic D - Communicating Process Changes to your Actuary**

**Presented By:**

**Chad Glenn, Milliman**

**Julita Brzozowska, Rotary International**

# Is the past an indicator of the future?

- It isn't if the program has changed in any way
  - Reserving Philosophy
  - Safety programs have been implemented
  - Exposure mix
    - Additional entities
  - Large losses
  - New type of losses
  - Economical Factors
    - Worker Entitlement

# Questions?



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