



BULLETIN:

**Actuarial Valuation Reports
for the General Insurance Companies in Jamaica**

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ACTUARIAL VALUATION REPORTS FOR THE GENERAL INSURANCE COMPANIES IN JAMAICA

1.0 *Introduction*

- 1.1 During 2010 the FSC has taken the opportunity to look more closely at the actuarial reports submitted by the non-life insurers and consider whether the overall quality and usefulness of the reports could be improved.
- 1.2 The purpose of this circular is to share the FSC's observations from that review and to identify areas where the FSC would like to see improvements.

2.0 *Historical Context*

- 2.1 The requirement for non-life insurers to obtain an annual actuarial report and submit it to the FSC was introduced with the Insurance Act, 2001 and concomitant regulations.
- 2.2 In the early days of this requirement much of the activity was involved with obtaining data suitable for actuarial analysis. Many of the early reports were qualified based on the availability and reliability of data. This phase is now largely behind us, although some insurers are still not ideally placed in providing detailed exposure and claim data.

3.0 *Overall Views*

- 3.1 Overall, the FSC is pleased with the results so far of this legislative requirement. All insurers are providing adequate data, the FSC regards the quality of most actuarial reports as acceptable, and most importantly the insurance liabilities of all insurers are subject to rigorous annual review.
- 3.2 This is important to the FSC because under-reserving, whether deliberate or accidental, can disguise losses for a considerable time and lead to solvency problems for an individual insurer as well as continuing under-pricing in the market.
- 3.3 There are several improvement opportunities that have been identified, and these are dealt with in the remainder of this circular. The issues covered in this circular, while not applicable to every insurer, are reasonably common across the industry. These issues are as follows:
 - (i) Segmentation of data for valuation,
 - (ii) Use of paid and incurred methods,
 - (iii) Claim counts – frequency and severity analysis,
 - (iv) Inclusion of 'actual vs. expected' experience,
 - (v) Gross, ceded and net,
 - (vi) Business changes and initiatives,
 - (vii) Determining loss ratio assumptions,
 - (viii) Separation of catastrophe claims,
 - (ix) Response to actuary's recommendations,
 - (x) Improved feedback.

4.0 *Segmentation of Data for Valuation*

- 4.1 A few of the actuarial reports are undertaken on 'company level' data with all classes of business combined. The FSC does not regard this as acceptable and at a minimum expects the Motor class to be analyzed separately. The actuaries are applying judgment as to the extent to which other classes of business are analyzed separately or combined, and the FSC is satisfied that this judgment should be applied to balance the cost of actuarial reports with the benefits of segmentation.
- 4.2 Within the Motor class many actuaries have commented on increases in the number and cost of personal injury claims. The FSC wishes to encourage all Motor insurers and their actuaries to analyze personal injury claims separately from other claims. It is understood that it may not be easy to separate the claims data into bodily injury and other, but the FSC would like companies to do this on a 'best endeavours' basis, even if there is limited history available.

5.0 *Use of Paid and Incurred Methods*

- 5.1 Most actuarial reports include analysis of paid data and incurred data, which the FSC regards as good practice.
- 5.2 A minority of reports use only paid data, mostly citing a lack of reliable history of case reserves. The FSC does not regard this as acceptable and expects to see both paid and incurred data analyzed and included in reports. The actuary is, of course, at liberty to use professional judgment about the appropriate method(s) on which to base valuation results and if data is unreliable that would be an important consideration.

6.0 *Claim Counts – Frequency and Severity Analysis*

- 6.1 Most insurers are providing claim count data to the actuary although often there is not a complete history. Few of the actuarial reports, though, include this data or any analysis based on it.
- 6.2 The FSC wishes to encourage actuaries to include exhibits with claim count data and some frequency and severity analysis, at least for classes such as Motor for which it is likely to be meaningful. There is no expectation that valuation results should be based in this analysis (unless the actuary regards that as appropriate) but the FSC believes that it will assist both insurers and the supervisor to understand trends in business.

7.0 *Inclusion of 'Actual vs Expected' Experience*

- 7.1 Most actuarial reports identify and quantify the change in prior year liabilities. The FSC expects to see such analysis, by class and accident year, together with commentary on significant movements. The FSC requests that each actuarial report include a prominent statement of the total movement in prior year reserves on a net of reinsurance basis.
- 7.2 Some actuarial reports also include exhibits showing 'actual vs expected' experience during the year since the previous valuation. The FSC finds these exhibits helpful and expects that insurers would also find them informative. The detailed formulation of this exhibit needs to be appropriate to the valuation methodologies adopted.
- 7.3 The FSC requests each actuary to consider how he/she could best include such exhibits in the actuarial report, for each of paid and incurred development by accident year.

8.0 *Gross, Ceded and Net*

- 8.1 Most actuarial reports examine both Gross and Net data. The FSC regards this as good practice and expects those companies that have not been able to provide reliable Gross and Net data to be able to do so in future.
- 8.2 The typical actuarial practice is to analyse and value Gross and Net data separately. In situations where ceded reinsurance is material, the FSC would appreciate inclusion of some exhibits that look at the relationship of Gross, Ceded and Net data alongside the relationship between Gross, Ceded and Net valuation results. We encourage actuaries to think about what format of exhibits would be most appropriate for the data and methodology employed as well as being useful to FSC analysts.

9.0 *Business Changes and Initiatives*

- 9.1 The data used in actuarial methodologies can be impacted by changes in business methods, systems, underwriting approach and many other internal and external factors. The regulations and actuarial standards put an onus on the actuary to identify, understand and allow for such factors to the extent practical.
- 9.2 The FSC does not suggest that actuaries have been ignoring this onus, but finds that the actuarial reports are rarely explanatory about the issues identified and the response made. The FSC encourages actuaries to include more discussion on such changes in actuarial reports. The FSC does not expect detailed methodological responses (unless the actuary regards it as appropriate) but wishes to better understand the issues identified and the judgments made by actuaries as to their significance.
- 9.3 The FSC would appreciate, in many actuarial reports, more attention to describing the business of the insurer and key changes relevant to the valuation.

10.0 *Determining Loss Ratio Assumptions*

- 10.1 Actuaries use a variety of approaches to determining loss ratio assumptions for policy liabilities (and in some cases Bornhuetter-Ferguson valuation models). These approaches usually involve some attempt at 'on levelling' of historical premium and claim information. The FSC observes that there is often an absence of good data to make such adjustments.
- 10.2 The FSC will expect to see reasonable justification for selection of loss ratio assumptions, especially where the assumption implies a reducing loss ratio.

11.0 *Separation of Catastrophe Claims*

- 11.1 Most insurers seem able to separately identify and report claims arising from natural catastrophes. The FSC expects this to be done by all insurers and expects actuaries to look separately at recent catastrophes in undertaking valuations.

12.0 *Response to Actuary's Recommendations*

- 12.1 The actuarial reports frequently include some recommendations from the actuary, mainly relating to data. The FSC is concerned that recommendations are sometimes repeated from year to year with no indication as to progress.
- 12.2 The FSC expects insurers to give some response to an actuary's recommendations, even if it is to disagree with the recommendation with reasons. The FSC would appreciate actuaries

making more complete comment in reports on the status of recommendations from the previous year, and is likely to request written responses from insurers from time to time.

13.0 *Improved Feedback*

- 13.1 The FSC intends to increase the amount of feedback and interaction among itself, insurers and actuaries about the actuarial reviews and reports. Various combinations of written and oral methods will be used, and the FSC has frequently found the input it obtains during the feedback process to be very helpful.
- 13.2 The FSC would be pleased to hear any suggestions about practical ways to improve the feedback process.