

Top Ten Questions to Ask (About) Your Actuary

Prepared for: NCCAIE Insurance Meeting
Austin, TX

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Question 1: *What Services Does An Actuary Typically Provide?*

- Loss Reserve Analysis
- Loss Forecasting/Pricing
- Reinsurance Retention Evaluations
- Reinsurance Cost Benchmarks
- Capital Analysis
- Benchmarking



Question 2: *What Services Are Generally **Not** Provided By An Actuary?*

- Financial Audit
- Claims Handling Audit
- Data Audit
- Reinsurance/Excess Insurance Contract Review
- Rate Decisions
- Competitive Analysis



Question 3: *How Can I Tell If My Actuary Is Doing A **Good Job**?*

- Communication
 - Do you understand key conclusions/assumptions?
 - Exhibits easy to read?
 - Financial auditors in sync?
- Consistency
- Do assumptions match your reality?
- More than just the numbers
- Sense of humor



Question 4: *How Often Should An Actuarial Analysis Be Done?*

- Reserves – At least annually
- Pricing – Probably annually
- Reinsurance retention, reinsurance cost benchmark – Probably annually
- Other – As needed
- Split engagement strategy
 - Loss Forecast & Rate Development prior to year-end rate changes
 - Reserve Analysis after year-end



Question 5: *Is It Necessary To Get A Second Opinion On My Actuary's Work?*

- Art vs. Science Estimate vs. Hard Number
- In-house “analysis” vs. actuarial review (FCAS)
- Annual Financial Audit Requirements
- Member scrutiny issues
- Competitive issues
- Financial situation + implication of results



Question 6: *When Should I Replace My Actuary And What Should I Look For In An Actuarial Firm?*

- When?
 - Inconsistency
 - Poor communication
 - Inadequate information
- What to look for
 - Communication
 - Quality control
 - Credentials
 - References
 - Independence



Question 7: *My Pool Has Only Been In Existence For A Few Years. Is That Enough For A Meaningful Actuarial Analysis?*

- Key elements
 - Solid/reliable base data (reliable source & system)
 - Size of sample (large is better)
 - Line of business dependent (WC vs. LB vs. PR)
 - Reliance on industry factors/trends vs. own data
- How much is enough?
- Rate development dependence + Competition
- Member scrutiny
- Financial audit requirements



Question 8: *At What Confidence Level Should My Reserves Be Set?*

- What is a “confidence level”
“My financial auditor says 99% confidence on the reliability of his work...”
- Issues to consider
 - Line of business & program performance
 - Financial position + market conditions (hard vs. soft)
 - Assessment provisions
 - Pricing philosophy
- When is a confidence level on a confidence level?



Question 9: *My Actuary Says That IBNR Includes Future Development Of Case Reserves. Does This Mean My Claim Staff Is Not Doing A Good Job?*

- What is Development? IBNR? Supplemental?
 - Life of claim
 - WC vs. LB vs. PR
- Case reserve – Based on known facts
- Reserving practices of TPA 1 vs. TPA 2
- Member issues
 - Loss Report - Case based
 - Rates / Experience Modifiers - Fully Developed



Question 10: *What are the Special Issues or Special Events to Consider With Our Actuary?*

- Medical Cost Inflation (separate trend factors)
- Retention changes
- Law changes
- Hard vs. Soft market
- Change in Claims Handling/TPA
- Change of Underwriter (individual) and/or TPA



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