

Regulations Pertinent to the Technical Provisions

Milliman Academy Workshop

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Valuation of Technical Provisions - Overview

- The Board of Directors shall appoint an Actuary who is registered with the Authority.
- The Actuary shall review and approve the Company's Technical Provisions, both gross and net of reinsurance.
- The Company shall report quarterly to the Authority the details of the Technical Provisions which is certified by the Actuary.
- The Actuary shall provide the Insurance Authority with an annual report that presents the immediate or future risks facing the Company.
- The end of year report must be authenticated by the External Auditor and endorsed by the Chairman of the Board of Directors.

Valuation of Technical Provisions – Overview Cont..

- The Actuary's report on the estimation of reserves should cover the following (at a minimum):
 - Company Overview
 - Data
 - Methodology
 - Back-Testing
 - Results
 - Certification.

Required Technical Provisions

- Unearned Premium Reserves (UPR)
- Unexpired Risk Reserves (URR)
- Outstanding Loss Reserves (OSLR)
- Incurred But Not Reported Reserves (IBNR)
- ALAE & ULAE
- Mathematical Reserves

Required Technical Provisions

- **Unearned Premium Reserve (UPR)**

The amount set aside from written premiums to cover for the risks incurred after the accounting date.

- **Unexpired Risk Reserves (URR)**

The reserve held in excess of the UPR, which allows for any expectation that the UPR will be insufficient to cover the cost of claims and expenses incurred during the period of unexpired risk.

- **Outstanding Loss Reserves (OSLR)**

The reserve set up in respect of the liability for all reported outstanding claims, including reserves for future payments on claims that are currently regarded as settled but may be reopened.

Required Technical Provisions

- **Incurred But Not Reported Reserves (IBNR)**

- A reserve for claims in respect of events that have occurred before the accounting date but are still to be reported to the insurer by that date.
- In the case of a reinsurer, the reserve also needs to provide for claims that, although already known to the cedant, have not yet been reported to the reinsurer as being liable to involve the reinsurer.
- IBNR includes both Incurred But Not Yet Reported (IBNYR) claims and Incurred But Not Enough Reported (IBNER) claims.

Required Technical Provisions

- **Allocated Loss Adjustment Expense Reserves**
 - Reserves for the expenses incurred in handling and settling claims.
 - Which can be assigned to specific claims e.g. legal fees
- **Unallocated Loss Adjustment Expense Reserves**
 - Expenses that are not attributed to the processing of a specific insurance claim.
 - All other expenses, not included in ALAE.
- **Mathematical Reserves**
 - Net present value of the future expected cash flows of a contingent event.

Calculation of Technical Provisions

Unearned Premium Reserve (UPR)

- **Unearned Premium Reserve (UPR) / Unearned Risk Reserve (URR)**
 - Shall be calculated linearly on a pro-rata basis.
 - Where the risk is non-uniform, the UPR should be determined in accordance with the risk profile of the business e.g. Engineering and Marine classes.
 - If the UPR is inadequate to cover the unexpired liabilities, Unexpired Risk Reserve (URR) is required.
 - URR should be at the line of business level to cover the shortfall in the UPR.
 - Actuarial certification shall be required in case of UPR and URR on an annual basis at the minimum.

Calculation of Technical Provisions Incurred But Not Reported Claims Reserves

- The Company should use the actuarial methods, choice of method is left to the Actuary.
- The standard actuarial methods to calculate IBNR include:
 - Chain Ladder or Development Factor methods
 - Bornhuetter–Ferguson (BF) method
 - Loss Ratio method
 - Average Cost Per Claim method
- The Actuary should provide adequate explanation of the methods used.
- Methods should be consistent from year to year.
- The term IBNR covers both IBNYR and IBNER.
- It is not necessary to establish separate provisions for IBNYR and for IBNER so long as the method(s) used will take into account both elements.

Calculation of Technical Provisions Incurred But Not Reported Claims Reserves (Cont..)

- The calculation of the ALAE provision can be included with the loss provision.
- The Actuary should examine the changes in underwriting policy and claims handling practices over the period of observation. The impact of such changes on the claims development pattern and claims ratio should be estimated if appropriate.
- RI treaty accepted and Excess of Loss accepted business may require other methods more appropriate to the nature of the portfolio and its claims development pattern.
- Tests of credibility for the results produced should be used.

Calculation of Technical Provisions

Mathematical Reserves

- The valuation method shall take into account all prospective contingencies under which any premiums (by the policyholder) or benefits (to the policyholder/beneficiary) may be payable under the policy, as determined by the policy conditions.
- The level of benefits takes into account the **reasonable expectations of policyholders** (with regard to bonuses, including terminal bonuses, if any) and any established practices of the Company for payment of benefits.
- The Actuary shall **not make allowance for any future lapse, surrender, making paid up or revival of a contract** where such an allowance would result in a decrease in the liability in respect of that contract.
- **Explicit allowance for future expenses** is required for all contracts under which no future premiums are receivable where these are not provided by disclosed margins in the valuation rate of interest.
- **Sensitivity** to assumptions used should be provided.

Contact Information

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