

**CAS Committee on Reserves
Teleconference Minutes
November 22, 2004
2:00 p.m. to 3:20 p.m. EST**

Attendance

Member Participants:

Ron Fowler; Aaron Halpert; Joe Herbers; Steve Herman; Bert Horowitz; Warren Johnson; Stan Khury; Jon Michelson, Chairperson; Dale Ogden; Tom Ryan, Vice Chairperson; Mark Shapland.

Absent Members:

Rick Burt, Jeff Carlson, Gloria Huberman, Chris Olson.

Other Attendees:

CAS staff liaison, Mike Boa

Roster Changes

Jon Michelson reported that Jeff Guttman and Tony Phillips have rotated off the committee. Mark Shapland has joined the committee.

Task Force on Reserving Principles (TFORP)

Jon Michelson reported that the Committee on Reserves Task Force on Principles (CORTFOP) has been renamed the Task Force on Reserving Principles (TFORP) and now reports directly to Don Mango, CAS Vice President-Research and Development. Tom Ryan, CASCOR Vice Chair, will serve as a liaison to the Task Force from the Committee. TFORP will continue to seek advice and comment from other relevant bodies of the CAS and AAA, especially the Committee on Reserves.

Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves

Bert Horowitz, TFORP Chairperson, led the discussion on the Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves ("Principles"). He referred to the 11/15/04 draft Principles and a comparison of the 11/15/04 draft Principles with the earlier 10/15/04 draft Principles. He noted that the table heading of October 8, 2004, Draft Statement of Principles in the comparison document should have read October 15, 2004, Draft Statement of Principles.

Bert Horowitz led the Committee through the changes made to the 10/15/04 draft Principles. The 11/15/04 draft Principles reflects TFORP's consideration of CASCOR's feedback as well TFORP's on-going discussions. In general, the 11/15/04 draft Principles moves away from the accounting balance sheet concepts and takes a more general approach to loss reserves, as well as replaces random variable phraseology with probability distribution language. Committee members raised questions and made comments during the presentation, but discussion of these issues was deferred until the end of the presentation.

After reviewing the changes, Bert Horowitz asked the Committee for feedback on the overall tenor of the document as currently drafted. Committee members expressed no concerns with the overall tone of the document.

The floor was opened for discussion of specific items in the 11/15/04 draft Principles. Stan Khury took the floor and offered his compliments and congratulations to the Task Force for their hard work and quality work product.

Stan Khury asked about the Context section of the 11/15/04 draft Principles and questioned whether it was necessary to include it. He stated that this section was more appropriate for Standards than Principles. Aaron Halpert replied that the question had been discussed by the Task Force, which concluded that the Context section should be included. He explained that there is necessarily some context in which loss reserves are presented. The context in which loss reserves are presented may indicate items that should be reflected in the loss reserves. Therefore, it was worthwhile to include the Context section in the Principles. Stan Khury stated that inclusion of a Context section might be redundant with the Standards, but that given the explanation, he understood the reasoning behind including the section in the Principles.

The Committee discussed item 3 in the Context section, which states: "loss reserves may contain a risk margin to reflect uncertainty in the loss reserve liability." There was some discussion about whether it was necessary to define "risk margin." It was mentioned that risk margin could be added to the Definitions section, or it could be defined where it appeared in the Context section. Alternative wording was suggested for this item that would preclude the need to define risk margin: "loss reserves may contain a margin for the risk of adverse deviation to reflect uncertainty in the loss reserve." Wording also was suggested that would define risk margin within the Context section: "A loss reserve may contain a risk margin, sometimes known as a margin for adverse deviation, that serves to increase the probability of sufficiency of a loss reserve." TFORP will consider the suggestions.

The Committee discussed the inclusion of "Carried Loss Reserve" in the Definition section of the Principles. There was a question as to whether it was necessary to include it, given that the term was not used elsewhere in the document and since, it was suggested, a loss reserve may not actually be carried anywhere. It was stated that it may be worthwhile to retain Carried Loss Reserve because the document is intended to be educational and definitional.

Joe Herbers asked whether the Task Force had considered including "judgment" or "actuarial judgment" in the Principles. Bert Horowitz replied that the Task Force considered it, but deliberately declined to include it.

Stan Khury asked whether it was necessary to include "appropriate" in Principle 7, which states "Selection of Appropriate Loss Reserve: The selection of an appropriate loss reserve from within a range of actuarially reasonable loss reserves depends upon the relative likelihood of the estimates and the context in which the loss reserve is to be presented." He stated that "appropriate" was redundant and unnecessary. TFORP will consider the suggestion.

Stan Khury referred to his e-mail dated 11/20/2004 in which he offered two alternatives to the wording of Principle 2, Probability Distribution Representation. He stated that the current wording does not go far enough in making the point that loss reserves have an associated probability distribution, and that the language should be more explicit. TFORP will consider the suggestion.

The transmittal document to accompany the Principles draft for presentation to the Executive Council was discussed. It was suggested that the Task Force develop a side-by-side comparison document that illustrates which parts of the 1988 Principles survived, were changed, or were eliminated. Members of the CAS reviewing the Discussion Draft will likely be

undertaking this exercise as part of their analysis for comment, and the Task Force could do the members a great service by developing this document once rather than requiring everyone to do it. The Task Force will consider the suggestion.

Bert Horowitz stated that the Task Force would hold a teleconference to discuss the feedback from the CASCOR conference call. The minutes of this CASCOR teleconference will form the basis of the items that TFORP will discuss, and the CASCOR members will have an opportunity to review the minutes prior to them being submitted to TFORP. However, the turnaround time for the Committee review will be short.

Mark Shapland mentioned that the Task Force may be interested in reviewing the draft paper under development by the Working Party on Reserves Variability. He will forward the paper to the Committee.

The Committee offered its compliments to the Task Force on their work, and, via Bert Horowitz, the Task Force thanked the Committee for its input.

The teleconference was adjourned at 3:20 p.m. EST.