Data

In this section, we describe the various data that were used in our testing. As noted in the Scope & Objectives section, all data were from publicly available sources. We relied upon the data as presented in the sources. In actual practice, a company may have other compilations of data that might be used for evaluating fair value reserves.

Interest Rates

We used U.S. Treasury security yields at each year-end over the period we reviewed (1998 to 2002), with maturities ranging from 6 months to 30 years. These risk-free yields were not seasonally adjusted.

Loss Data

We utilized published U.S. Statutory Schedule P data as our source for historical loss development triangles. This complied with the data limitations specified by the CAS and identified in the Scope & Objectives section above. Schedule P data is on a U.S. Statutory basis and is net of reinsurance, but for simplicity we considered this data to be equivalent to data presented on a U.S. GAAP basis and will refer to it as such throughout this paper.

We also assumed that all loss reserves are undiscounted, and as such we did not make any adjustments to loss reserves for tabular and non-tabular discounting (e.g. as might be present in Schedule P for workers’ compensation business). We did not consider this simplifying assumption to have a material impact on our findings.

Experience Period

We performed our analysis on data valued at year-ends 1998 to 2002 inclusive, providing information for five year-end balance sheet dates and four calendar year income statements. For each company in our study, we analyzed the ten accident years of development data reported in Schedule P of the Annual Statement as at each year-end from year-end 1998 to 2002 inclusive.

Companies & Lines of Business

We performed our analysis for ten selected companies for each of the three lines of business considered. Our selected companies included a mixture of those writing all three lines of business (i.e. multi-line writers) and those writing only one of the three selected lines. The ten companies selected for each line of business included:

- two large companies,
- two medium companies,
- three small companies, and
- three multi-line writers with sufficient volume for all three lines in the study.

The criteria for large, medium, and small by line of business are shown in the Appendix.
We selected this range to incorporate a cross-section of companies by size. The companies selected for each line represented the following proportions of the entire U.S. market, as measured by 2002 net earned premium, shown in Table 1:

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Share of U.S. Market (2002 NEP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Auto Liability</td>
<td>15%</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>17%</td>
</tr>
<tr>
<td>Medical Malpractice Claims-Made</td>
<td>23%</td>
</tr>
</tbody>
</table>

*Table 1:* Share of 2002 insurance market represented by our sample of ten companies for each line of business.