

# **AIMU / MICA Marine Claims Adjusting Seminar**

## **Loss Case Reserving: An Art or a Science?**

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# Reserving – Art or Science?

- What is a Claim Reserve?
- Why Is Reserving Important?
- Basic Reserving Methods
- Considerations & Influences
- Reserving Practices
- Case Study
- Discussion / Q & A

# Reserving – Art or Science?

## What Is A Claim Reserve?

**Claim Reserve** – a claim reserve is the financially reported estimate of the necessary monetary capital set aside by an insurer or other responsible party for the payment of their obligation to an entitled claimant, normally attributable to a singular loss event.

Claim Reserve can either be divided into two separate elements - **indemnity & expense** or can be combined into a single claim reserve.

**Indemnity Reserve** – represents the estimated cost to settle and pay a claim to the entitled person / entity subject to the terms and conditions of the applicable contract (Insurance Policy; B/L; Charter Party; Regulations etc.).

**Expense Reserve** – represents the estimated sum of directly attributable expense costs incurred to investigate, evaluate and settle the subject claim.

# Reserving – Art or Science?

## Why is Accurate Reserving Important?

**Claim Reserves** represent a future liability incurred & reported but not paid.

**Claim Reserves** impact both the insurer and the insured.

- **Corporate Financial Results**
- **Surplus Capital Requirements**
- **Insurance Company Industry Rating / Designation**
- **Customer Pricing / Terms & Conditions**

# Reserving – Art or Science?

## Basic Reserving Methods

**Worst Case Scenario** – reserve to the worst possible financial outcome

- Easiest to quantify; most pessimistic
- Typically results in over-reserving & downward adjustment

**Best Case Scenario** – reserve to the best possible financial outcome

- Easy to quantify; most optimistic
- Typically results in under-reserving & upward adjustment

**At The Minute** – reserve with information developed to that point in time

- Considers only information / documentation received & verified
- Does not factor in experience & judgment of the claim professional
- Requires future reserve adjustment as claim develops

**Probable Cost** – reserve considering current facts & future anticipated development

- Hardest to quantify, most accurate requiring limited future adjustment
- Combines known facts & experiential judgment of claim professional

# Reserving – Art or Science?

## Factual Considerations

### Interest

- Coverage / Responsibility
- Insured property vs. insured liability
- Principal's participation

### Contract

- Limits / Limitation - Deductible; Aggregates, Co-Insurance; Participation
- Valuation – Agreed Value, ACV, Cost +
- Specific terms – All Risk, Named Peril, PA or Salvage, Statutes

### External

- Law & Jurisdiction
- Environment
- Future Technology & Software?

# Reserving – Art or Science?

## Influential Considerations

### Individual / Company

- Company philosophy
- Required depth of claim investigation
- Experience of claim investigator(s) / experts
- Experience of claim professional / claim manager
- Commerciality?

### Claim & External

- Future claim development
- Market conditions
- Law & Jurisdiction
- Publicity / environmental impact

# Reserving – Art or Science?

## Other Considerations

### Factors That Should Not Be Considered

- Other Insurance
- Salvage
- Subrogation
- Reinsurance



# Reserving – Art or Science?

## Conclusion

### Reserving is Both – Science & Art

#### Science

- Claim Facts
- Liability Determination
- Contractual Obligations

#### Art

- Claim Development
- Past Experience
- Impact of Variables (present & future)

### How to Develop Good Reserving Practice

# Reserving – Art or Science?

## Good Reserving Practice

1. Establish / enforce a comprehensive philosophy
2. Develop structured process
3. Evaluate historical accuracy
4. Create / implement training
5. Adapt to business / influence changes

## Practical Application

# Reserving – Art or Science?

## Case Study – Principals & Facts

- Vessel **N Y Star** owned by **XYZ Maritime** insured by **Shipowners Ins.** Under AIH form – Value \$ 5 Million; \$50k D/A; Market Value \$4 Million **XYZ Maritime** has a P & I policy with **American Club** with \$5k D/A
- Cargo of 20 steel coils owned by **Metals Trading Co.** CIF value \$100k insured by **Mutual Ins.** Coverage is All Risks; Valuation CIF + 10% with GA & Sue & Labor clauses; No D/A
- **ABC Chartering** has Charterer's Liability policy with **DEF Ins.** no D/A
- **N Y Star** is voyage chartered by **ABC** to carry **Metals Trading Co.** coils from Germany to New York – **N Y Star** grounds outside N Y berth – Hull damage est. \$200k + towage \$50k. GA declared with Contributory Value of 2% - 3 coils damaged with broken bands – Each coil sustains 10% loss + \$600 each for rebanding – Charterer banded coils & banding found to be inadequate – 2 coils non-delivered at discharge although 20 received as noted on B/L
- **Please calculate reserves for cargo insurer, hull insurer, General Average interests, charterer's liability & vessel liability**

# Reserving – Art or Science?

## Case Study Reserves

### **Mutual Insurance Co. (Cargo only)**

\$14,450 = \$11,000 (ND) + \$1,650 (Cuttings) + \$1,800 (Reband)

### **Shipowners Insurance Co. (Hull only)**

\$200,000 = \$200,000 Repair + \$50,000 Tow - \$50,000 D/A

### **General Average**

- **Cargo** \$2,000 = 2% of \$100,000
- **Hull** \$80,000 = 2% of \$4,000,000

### **DEF Insurance Co. (Charterer's LL)**

\$1,500 (COGSA \$500 / package x 3 damaged coils)

### **American Club (Vessel P & I)**

No Reserve (COGSA \$500 / package x 2 non-delivered coils under \$5k D/A)

# Reserving – Art or Science?

Q & A

Questions / Discussion

**THANK YOU!**