Insurance Conference on Financial Reporting

Florida Homeowners Market
Loss Data Trends: What's Behind the Rise?

Commitment Beyond Numbers

PINNACLE
ACTUARIAL RESOURCES, INC.

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Principal & Consulting Actuary

November 14, 2017

Agenda

- By-Segment Analysis
  - Analysis Segmentation
  - Florida Property Market: *It's (Still) Always Something!*
- Assignment of Benefits
  - Water Damage
    - Development Pattern Shifts
    - One-Way Attorney's Fees
  - Wind/Hail/Lightning
- By-Segment Comparison
- Aggregate Loss Costs: Ex-Catastrophes/Sinkholes
- Preparation for Year-End 2017

By-Segment Analysis

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Data

- Loss and defense and cost containment expenses (DCC) combined
- Gross of ceded reinsurance
- Includes all homeowners and dwelling fire policy forms
- Excludes
  - Commercial business
  - Claims closed without payment (loss or DCC) – CNPs
    - Impact ability to recognize loss drivers
    - Ratio of CNPs to reported claims have changed
  - Catastrophe claims (except where noted)
  - Sinkhole claims (except where noted)

Considerations

- No geographic bifurcation – Tri-Counties area vs. remainder
- Aggregated by accident year – not closure year
  - Includes provision for unreported claims
  - Includes provision for incurred but not reported (IBNR) reserves
  - Improves determination of underlying trends
  - May conceal shifts in reporting and settlement lags
- Representative cross section of Florida experience
  - Mix of large and small carriers with various geographic concentrations
  - Relative trends and directional changes more important than absolute indications

Considerations

- Wind/hail/lightning claims proxy for AOB roofing claims
  - Indications also impacted by increase in weather events
  - Long-term and short-term trends can be misleading

Analysis Segmentation

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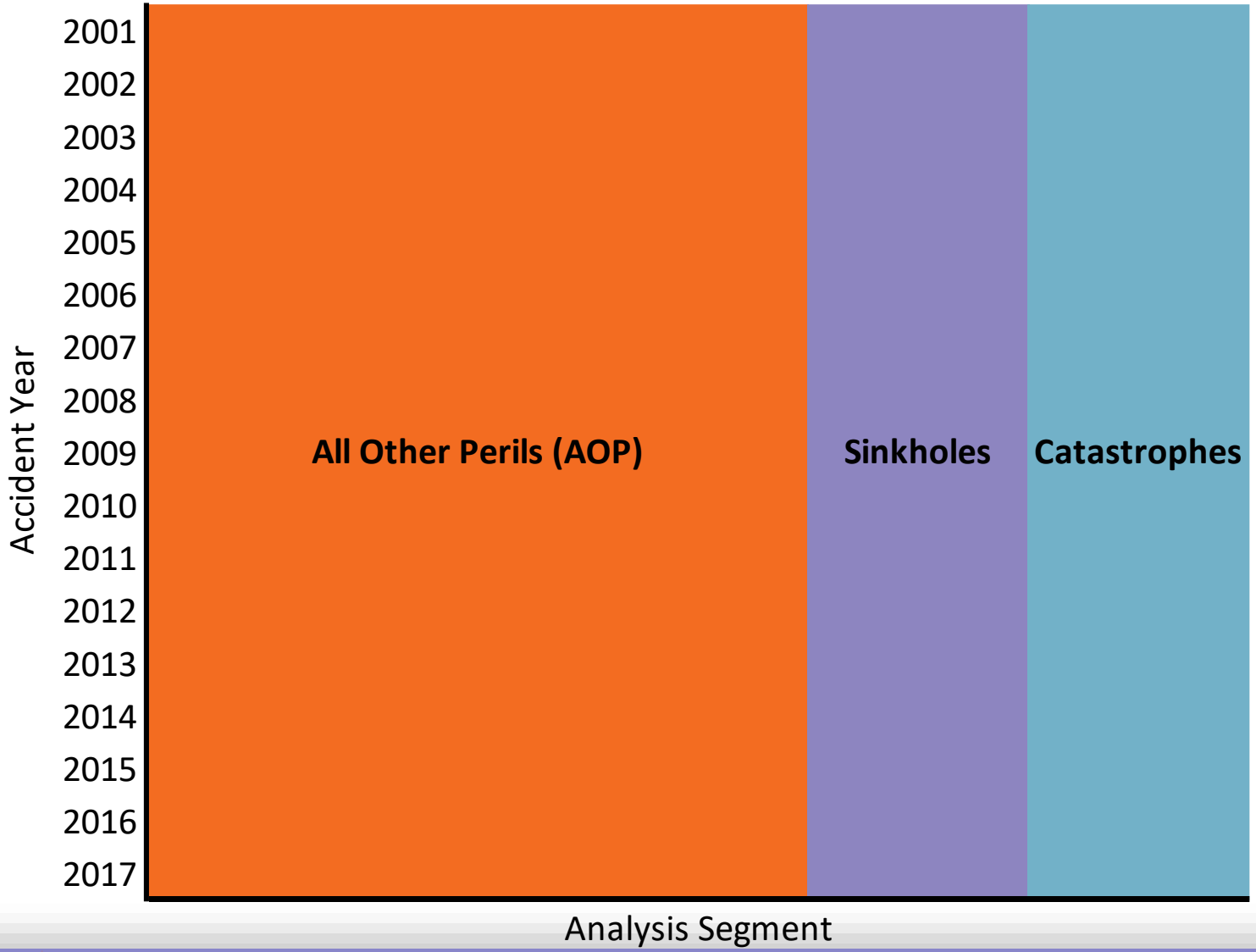
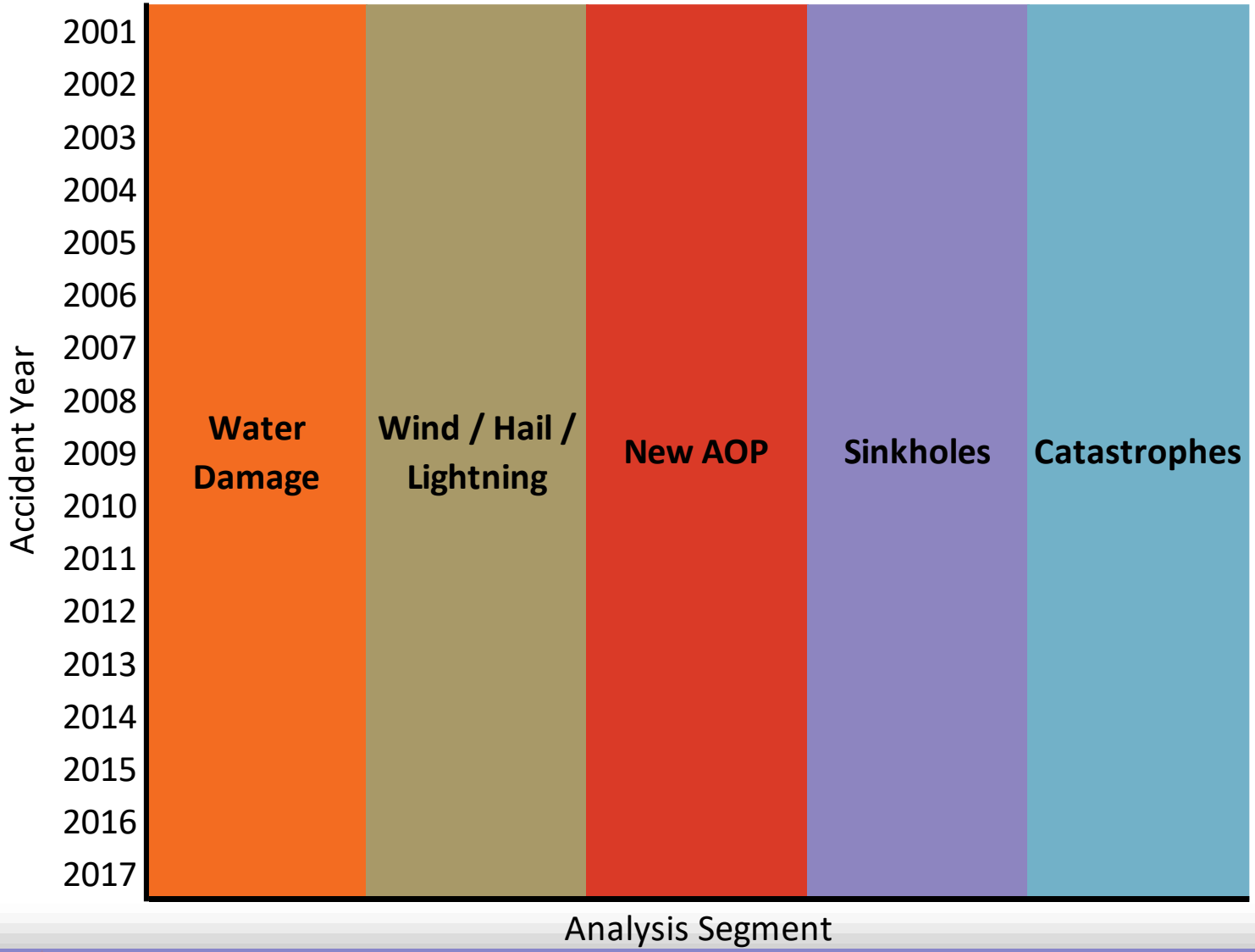
Prior Analysis Segmentation



Current Analysis Segmentation



Florida Property Market:
It's (Still) Always Something!

WHACK-A-MOLE

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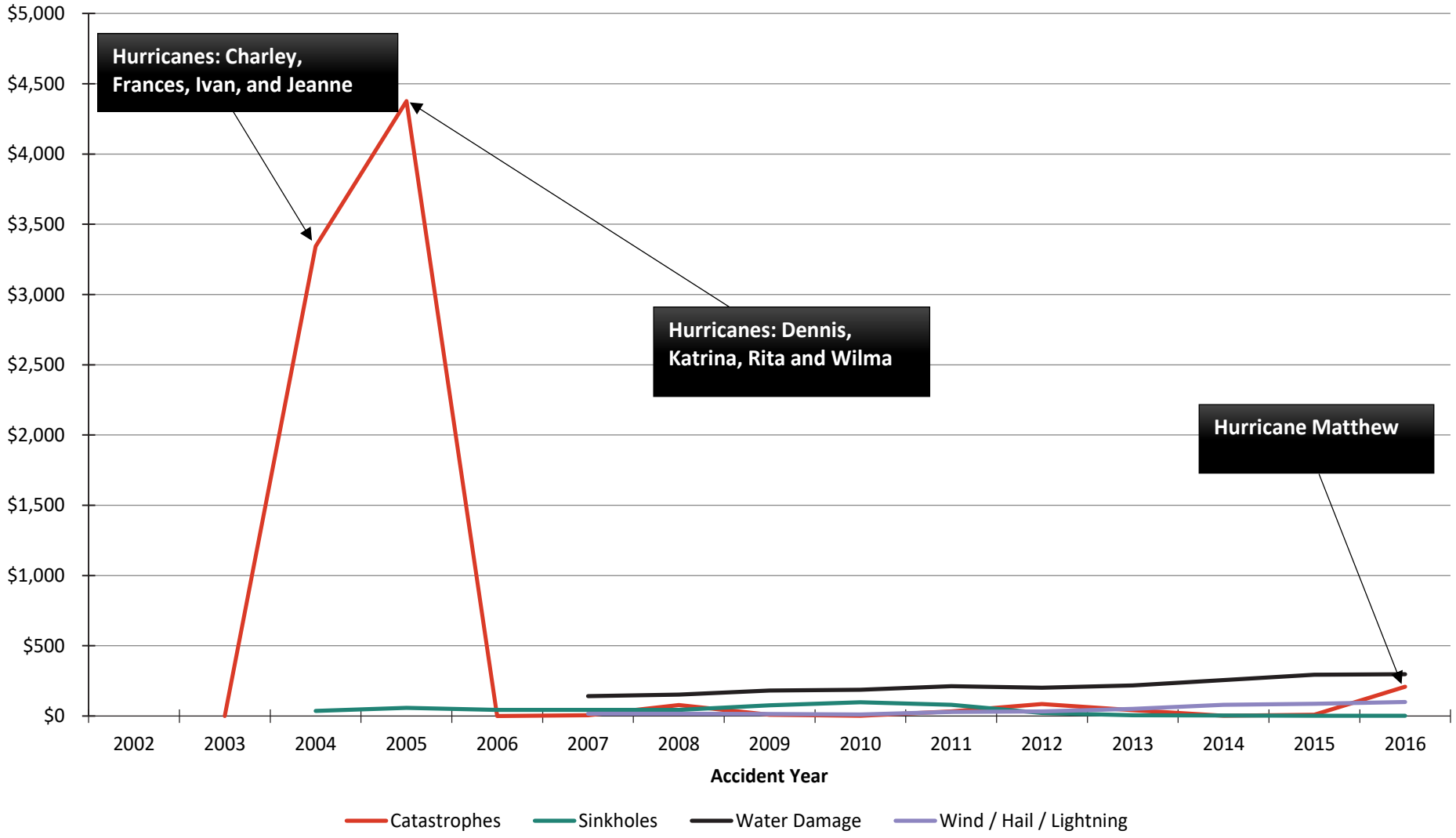
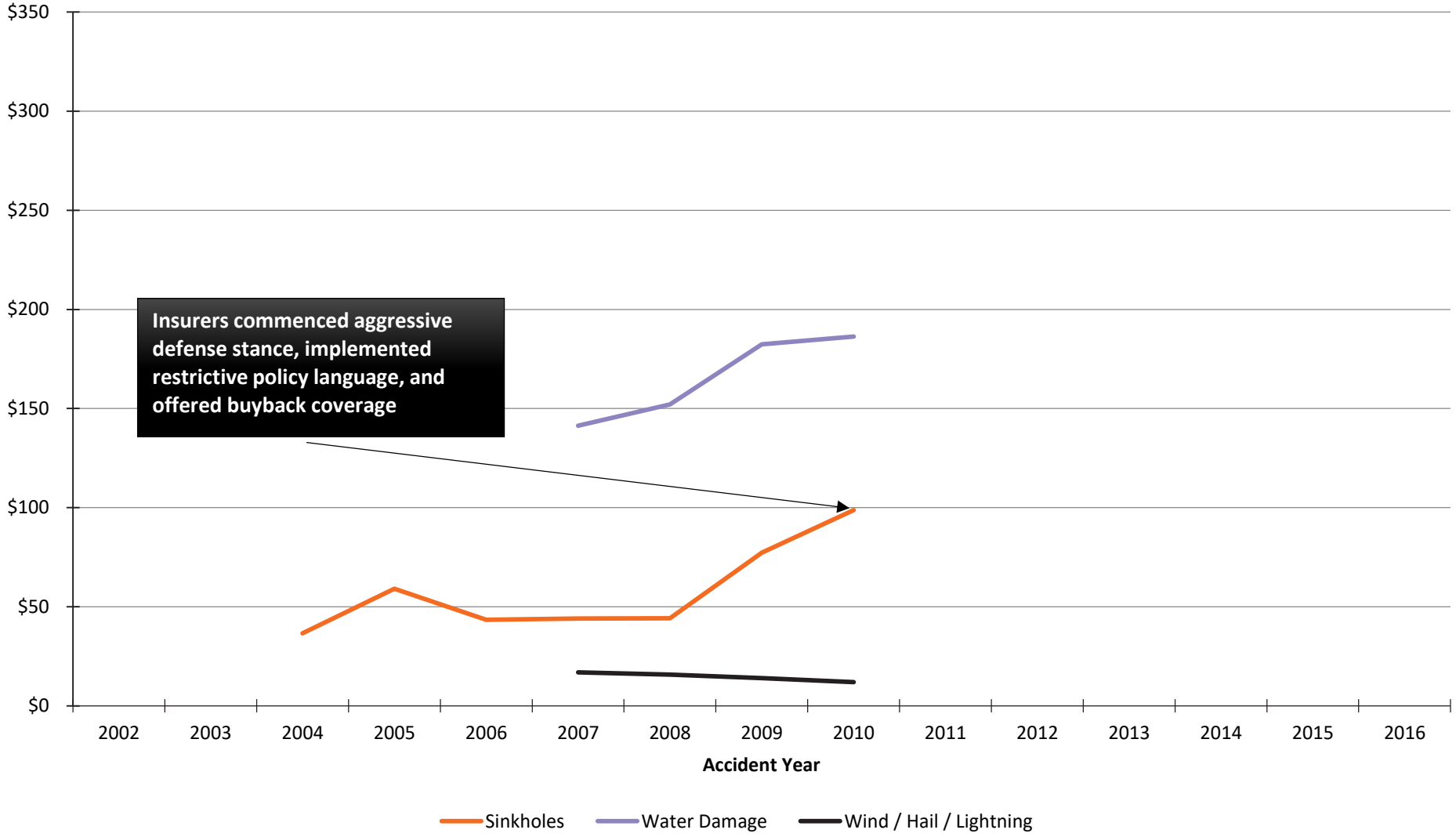
Loss Cost: By Cause of Loss



Loss Cost: By Cause of Loss (ex-Catastrophes)



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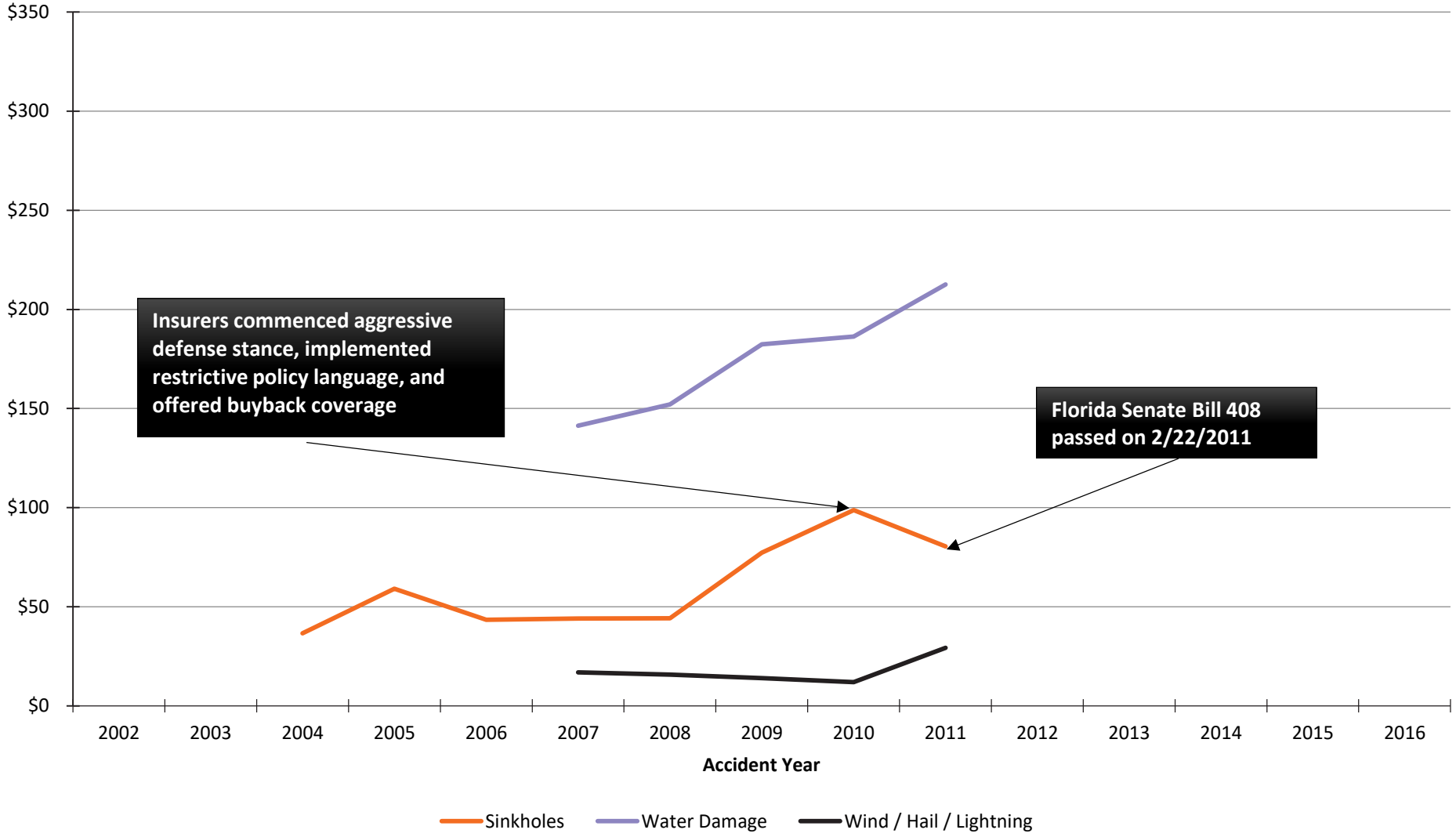

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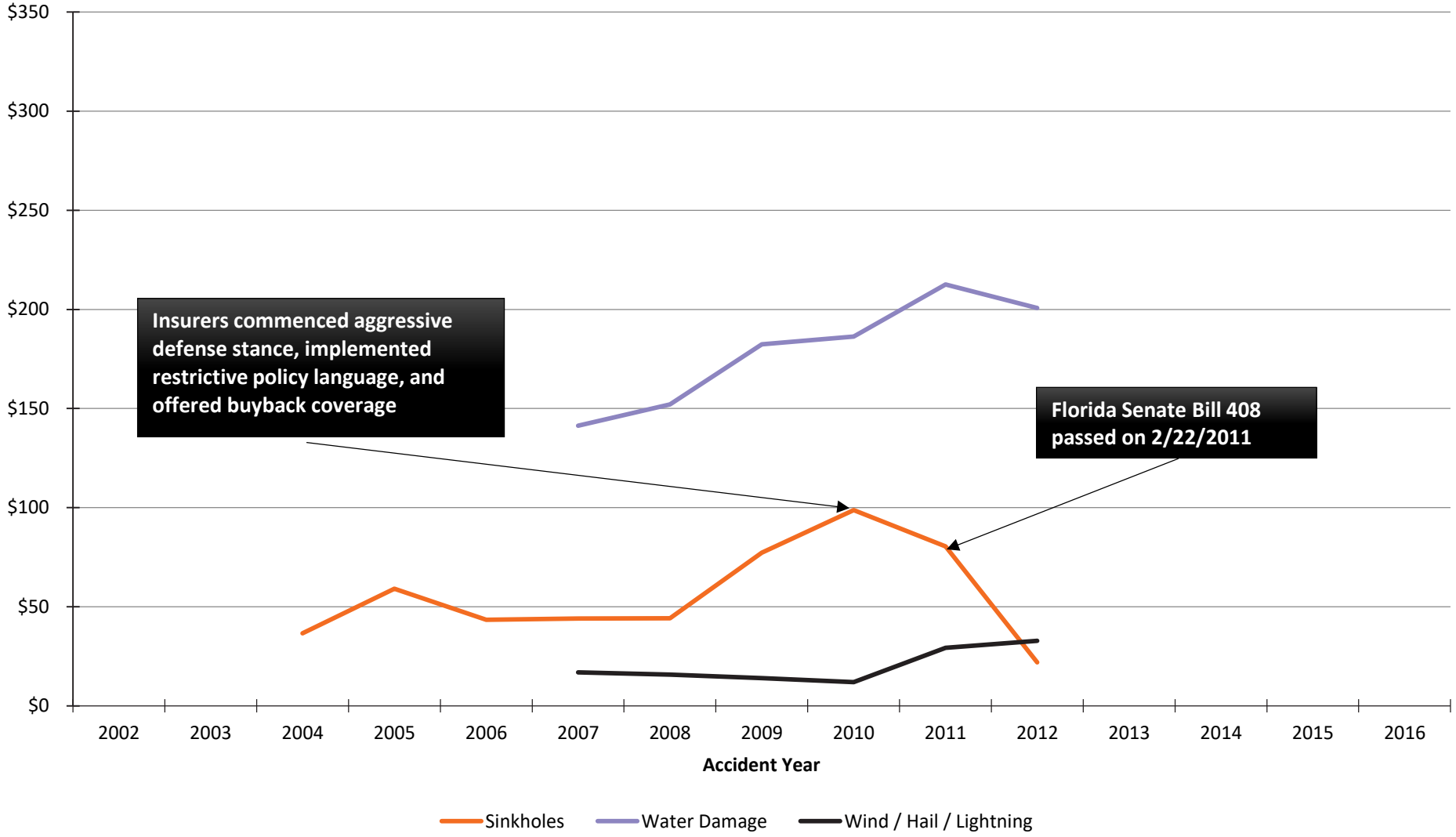

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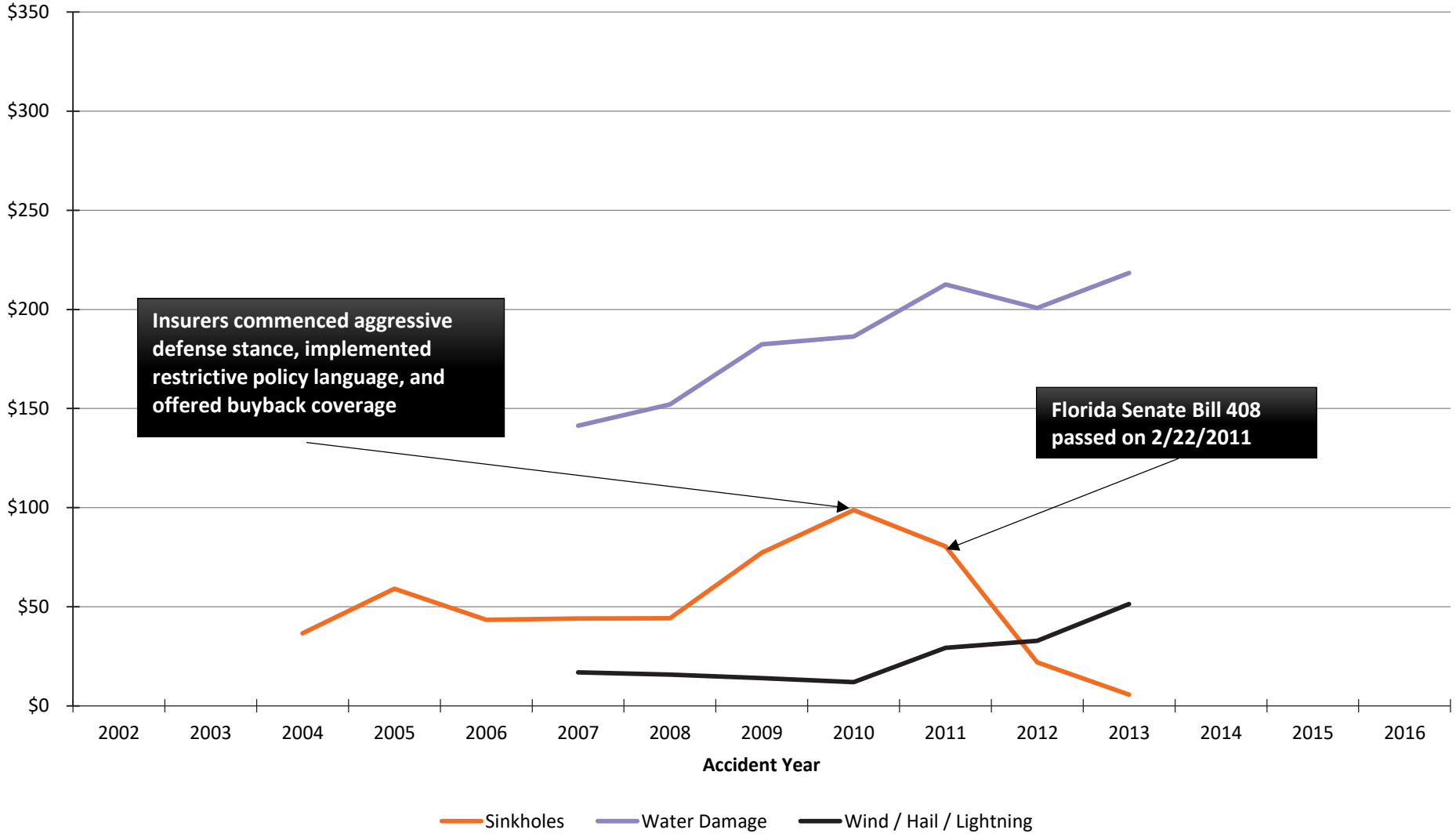

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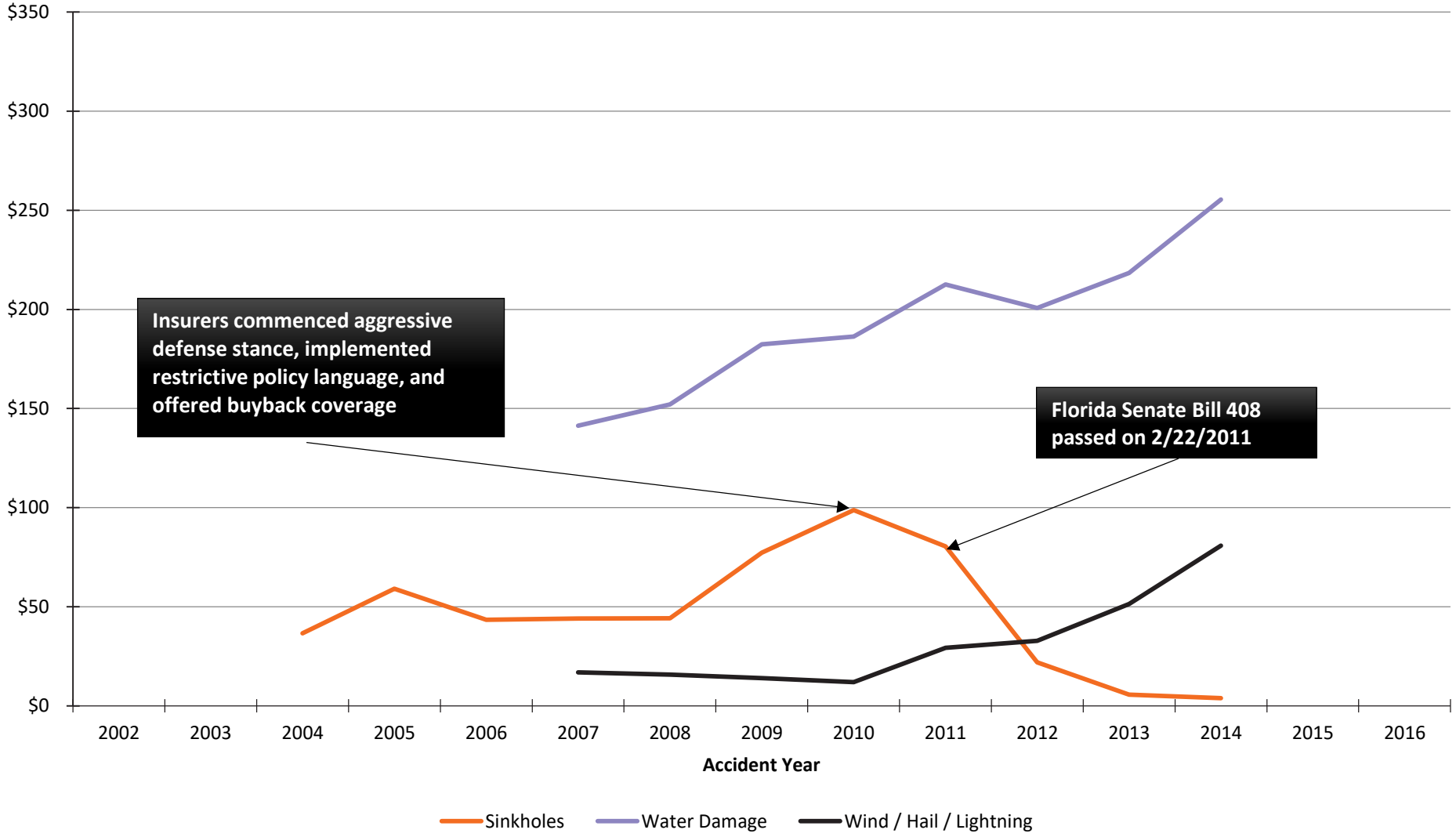

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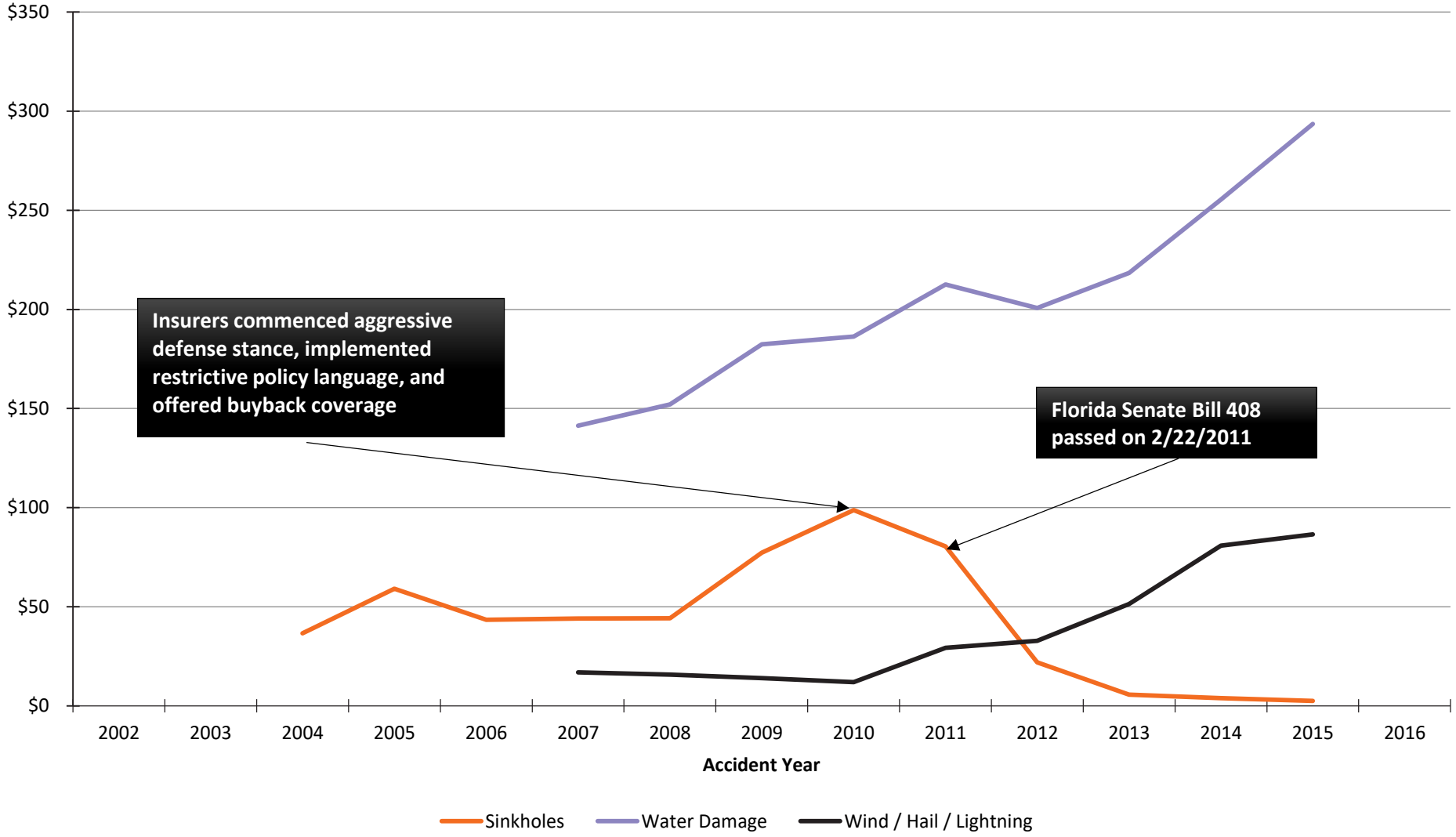

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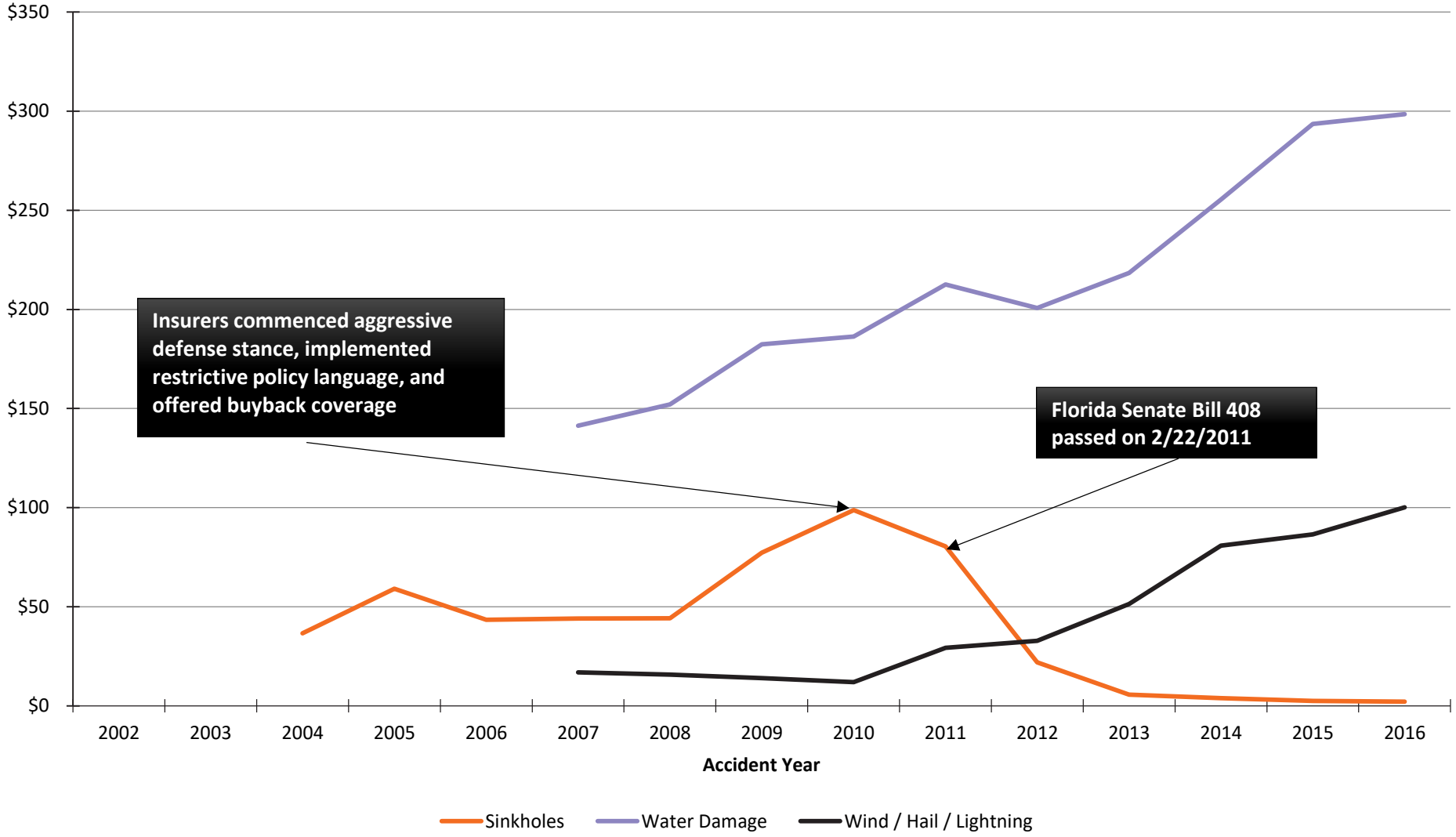

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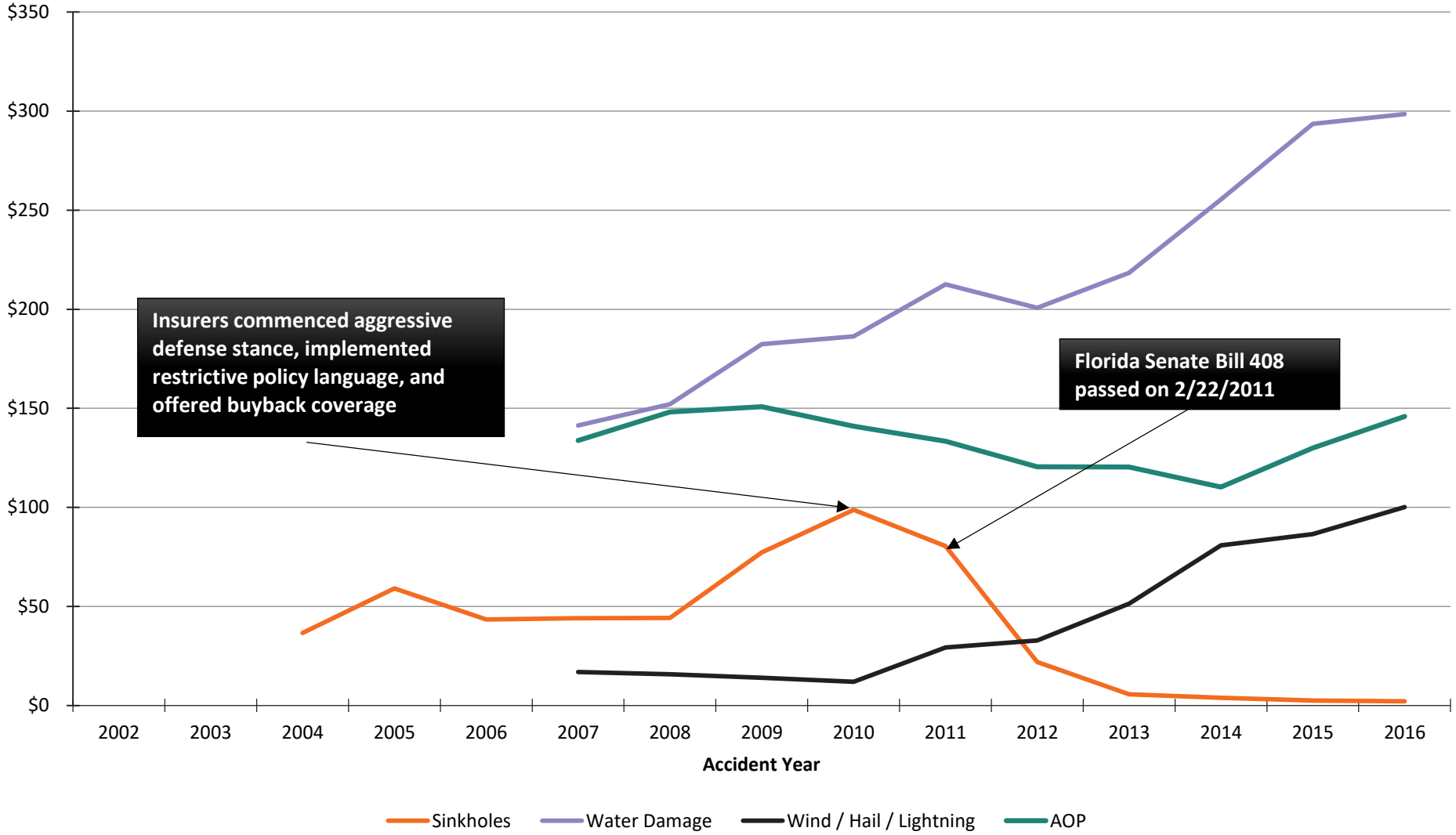

Assignment of Benefits: Water Damage

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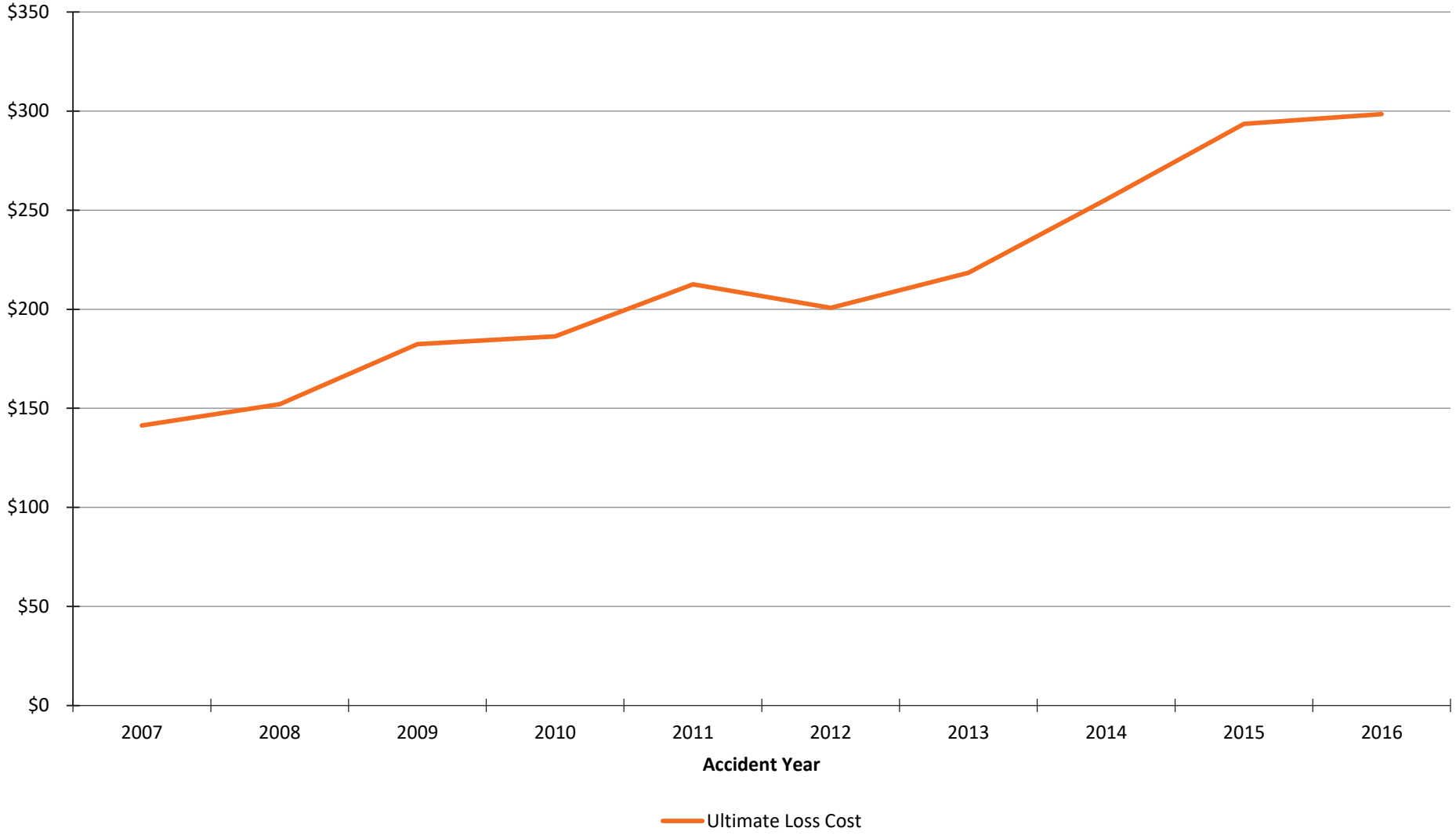
Water Damage: Loss Cost



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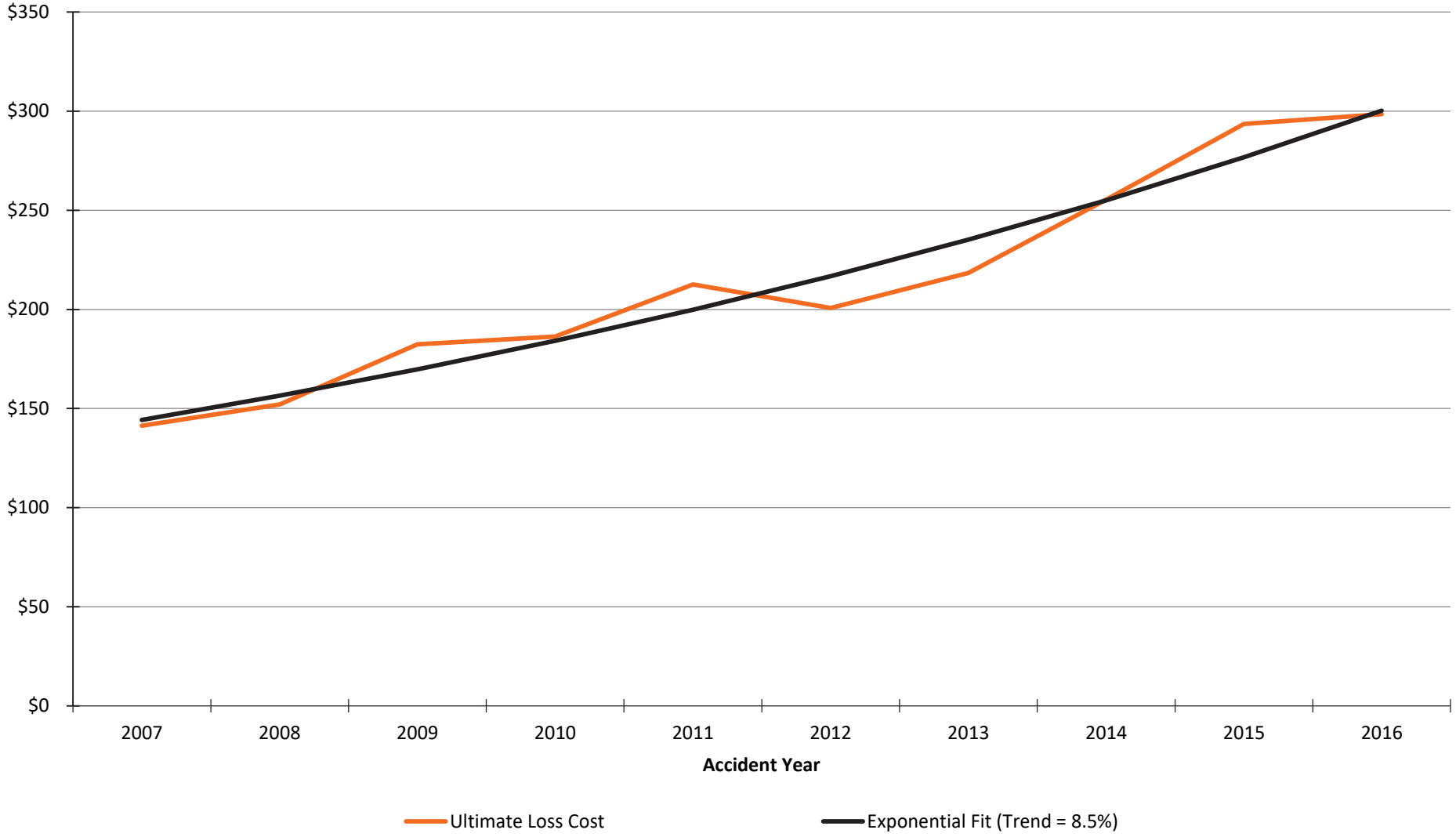

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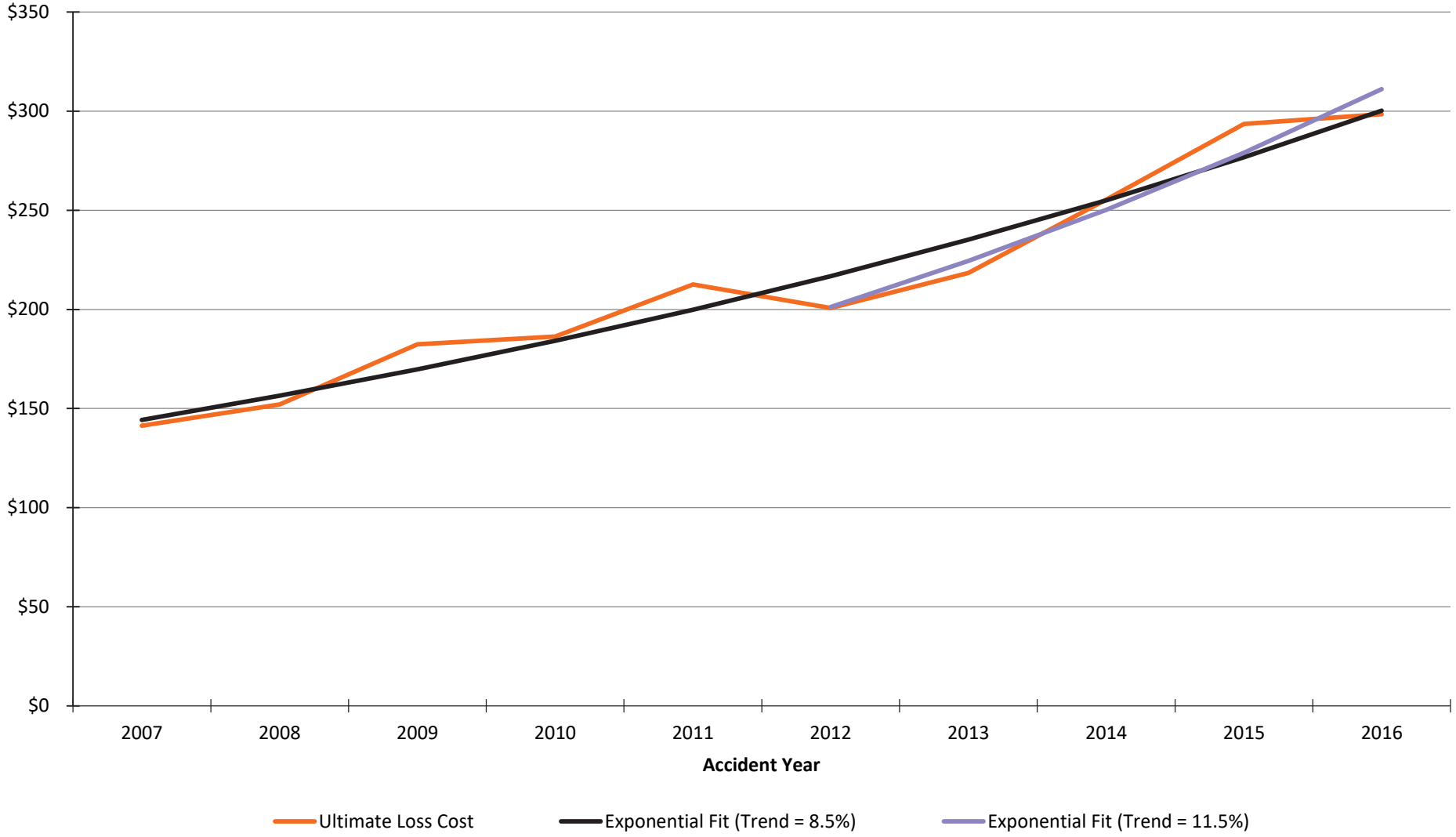
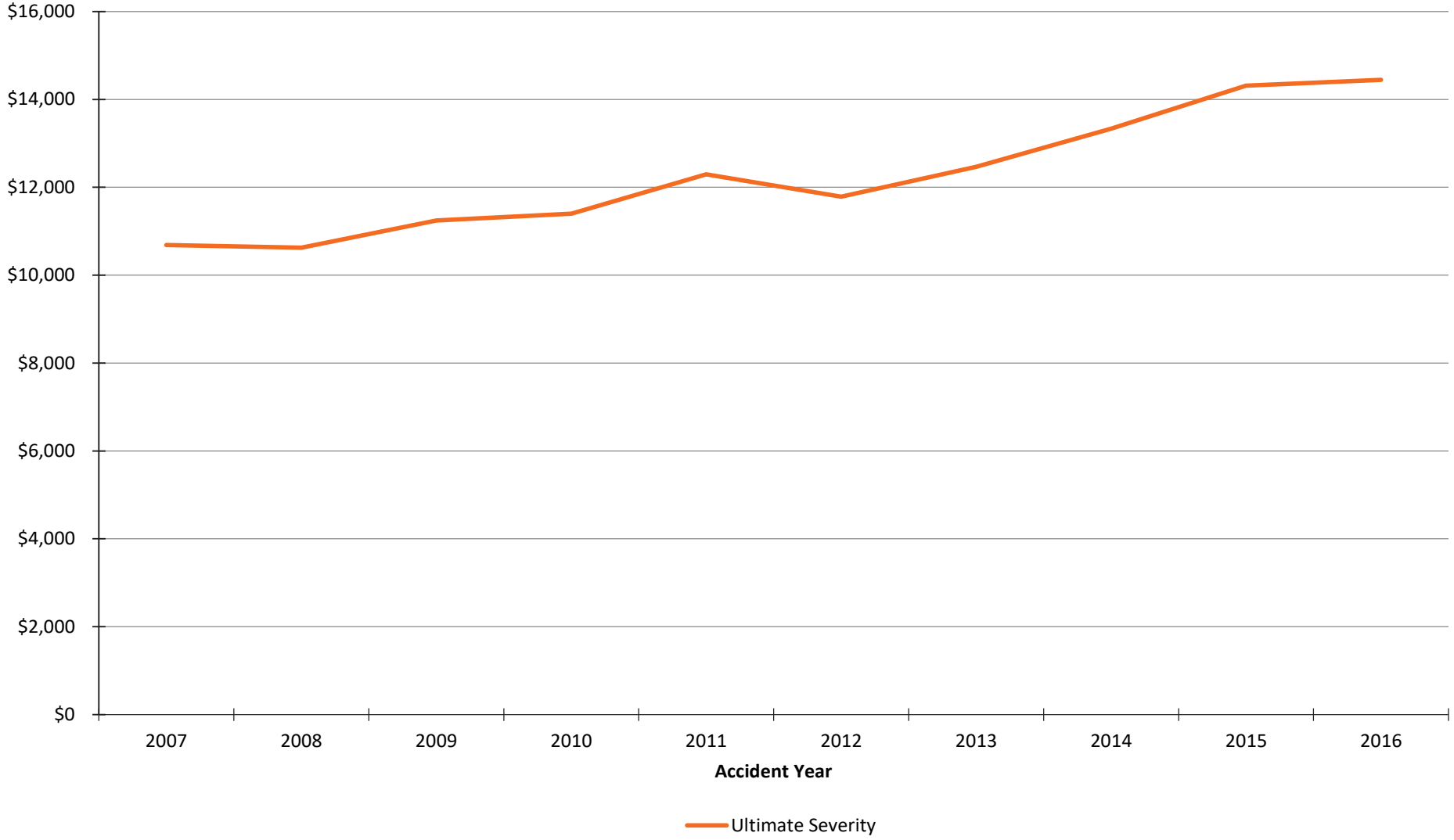


Water Damage: Severity



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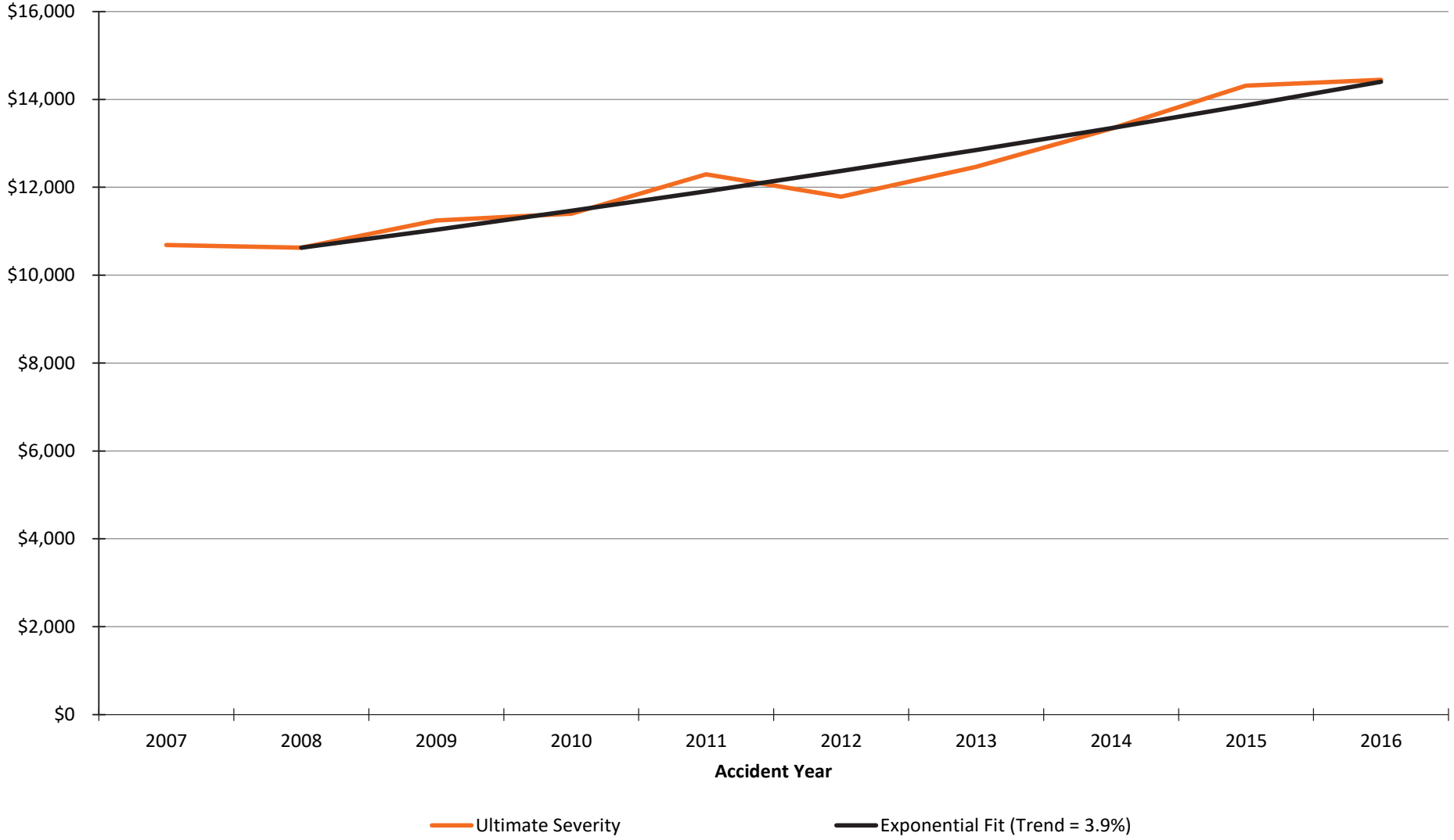

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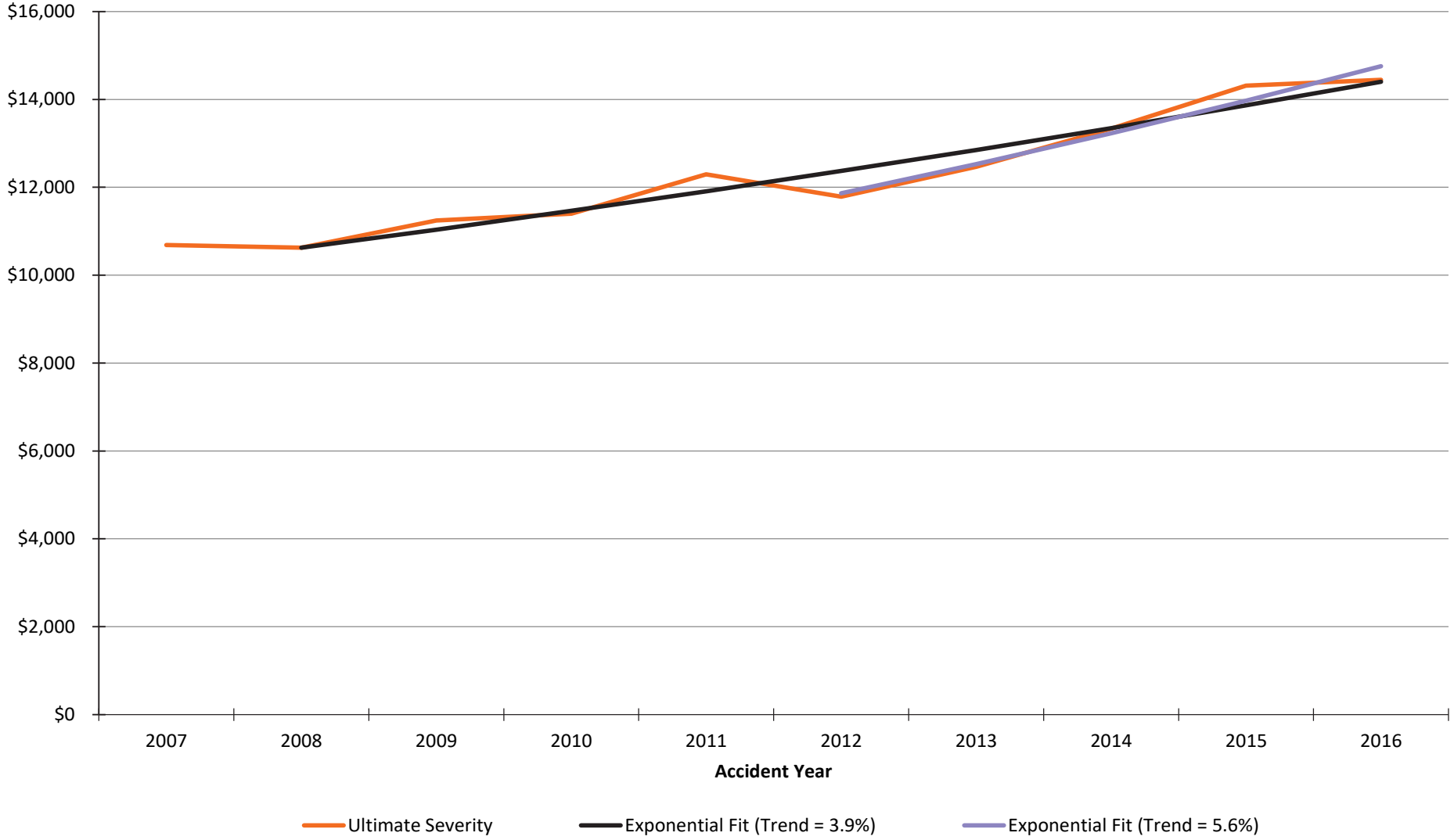
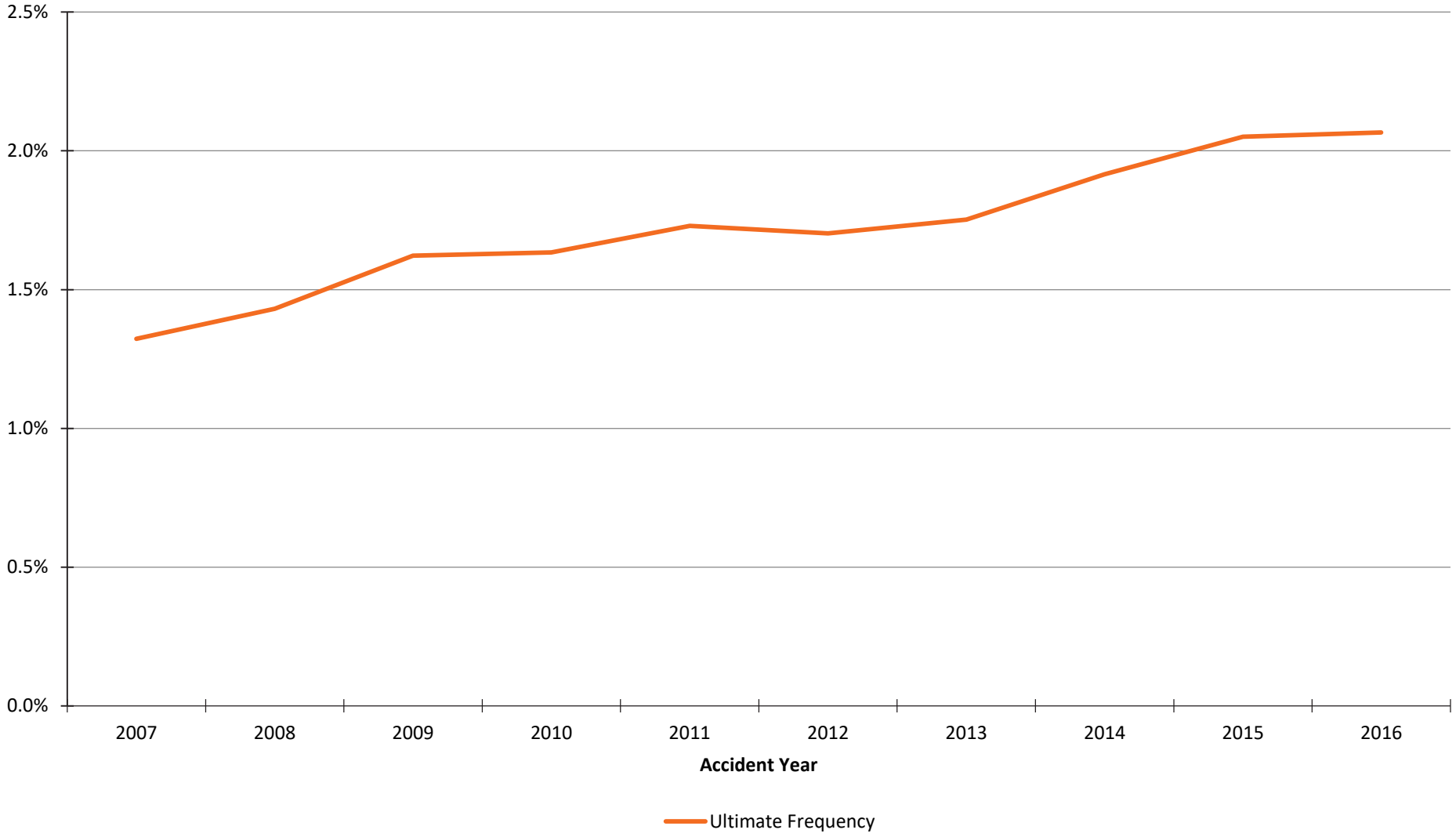


Water Damage: Frequency



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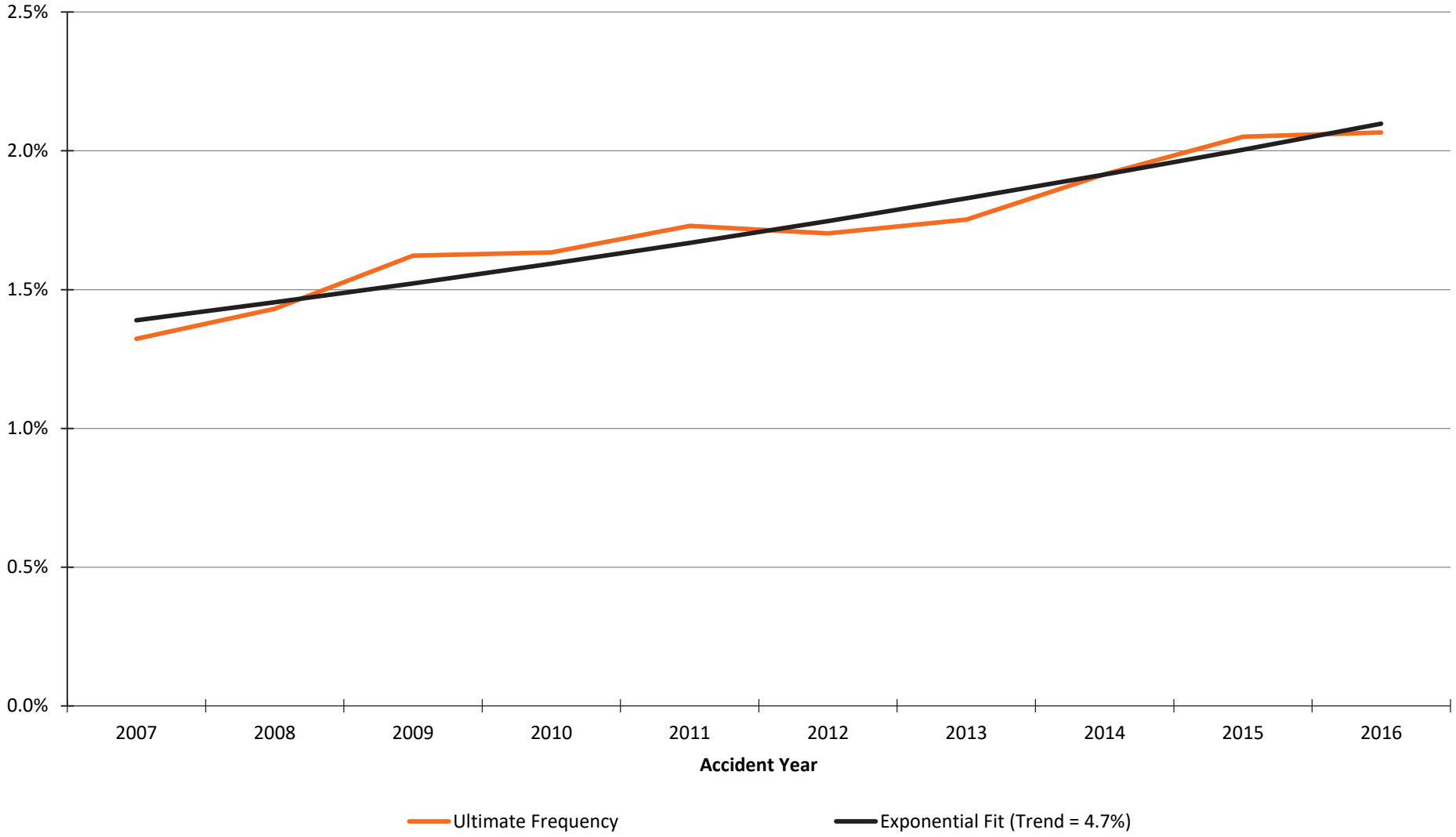

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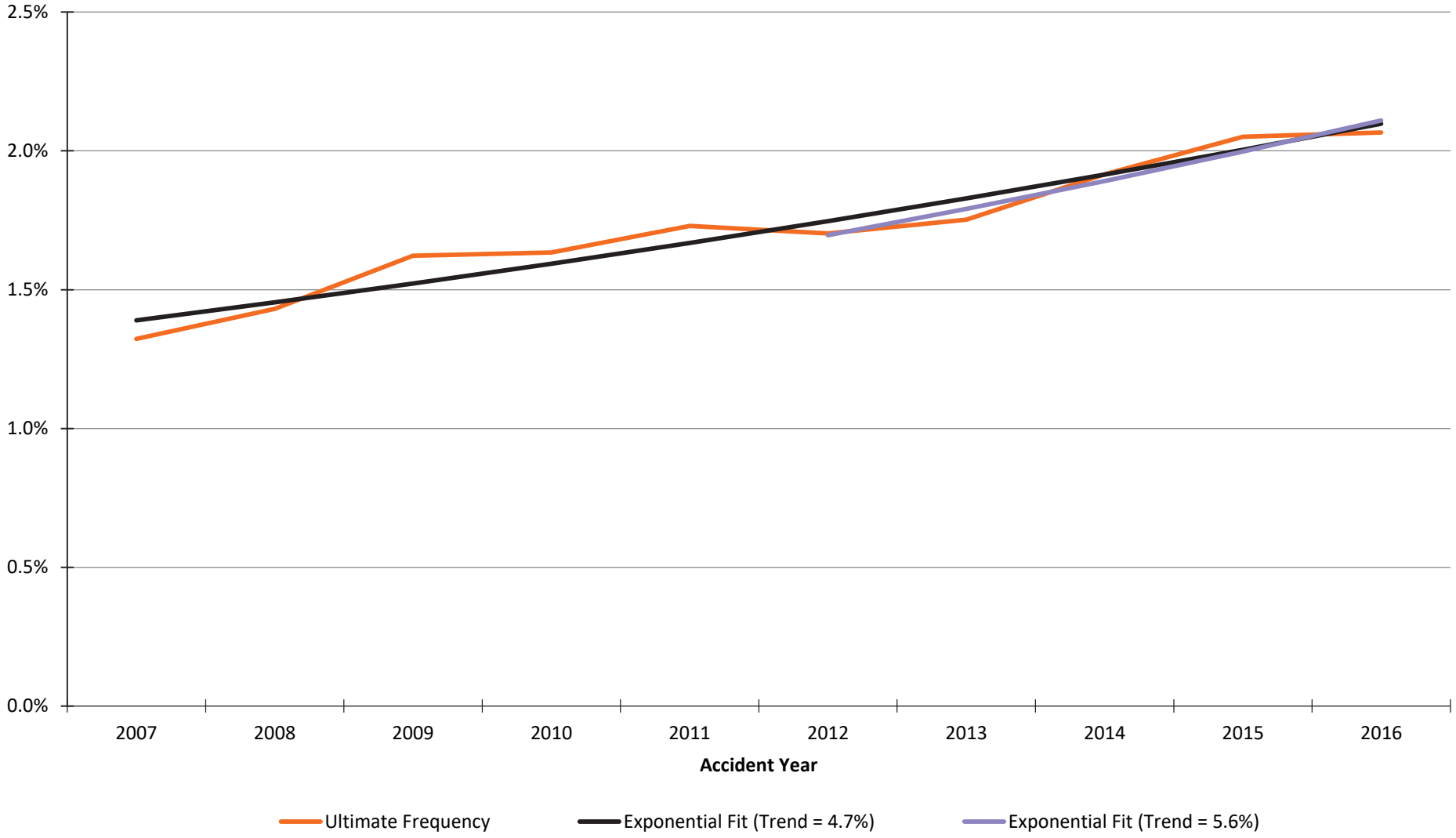

Water Damage:
One-Way Attorney's Fees

#FAKENEWS?

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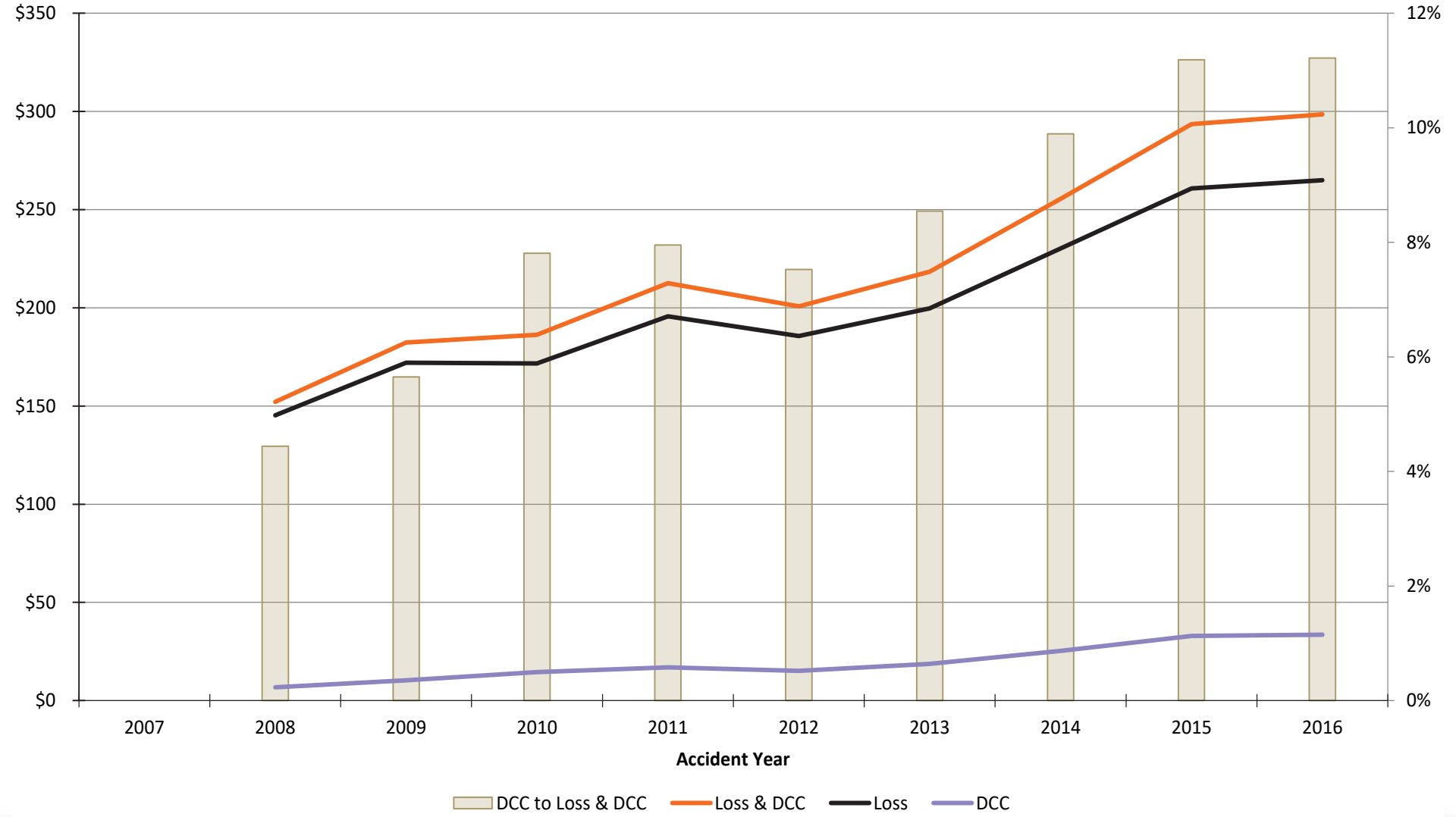
Water Damage: One-Way Attorney's Fees



Water Damage: Development Pattern Shifts

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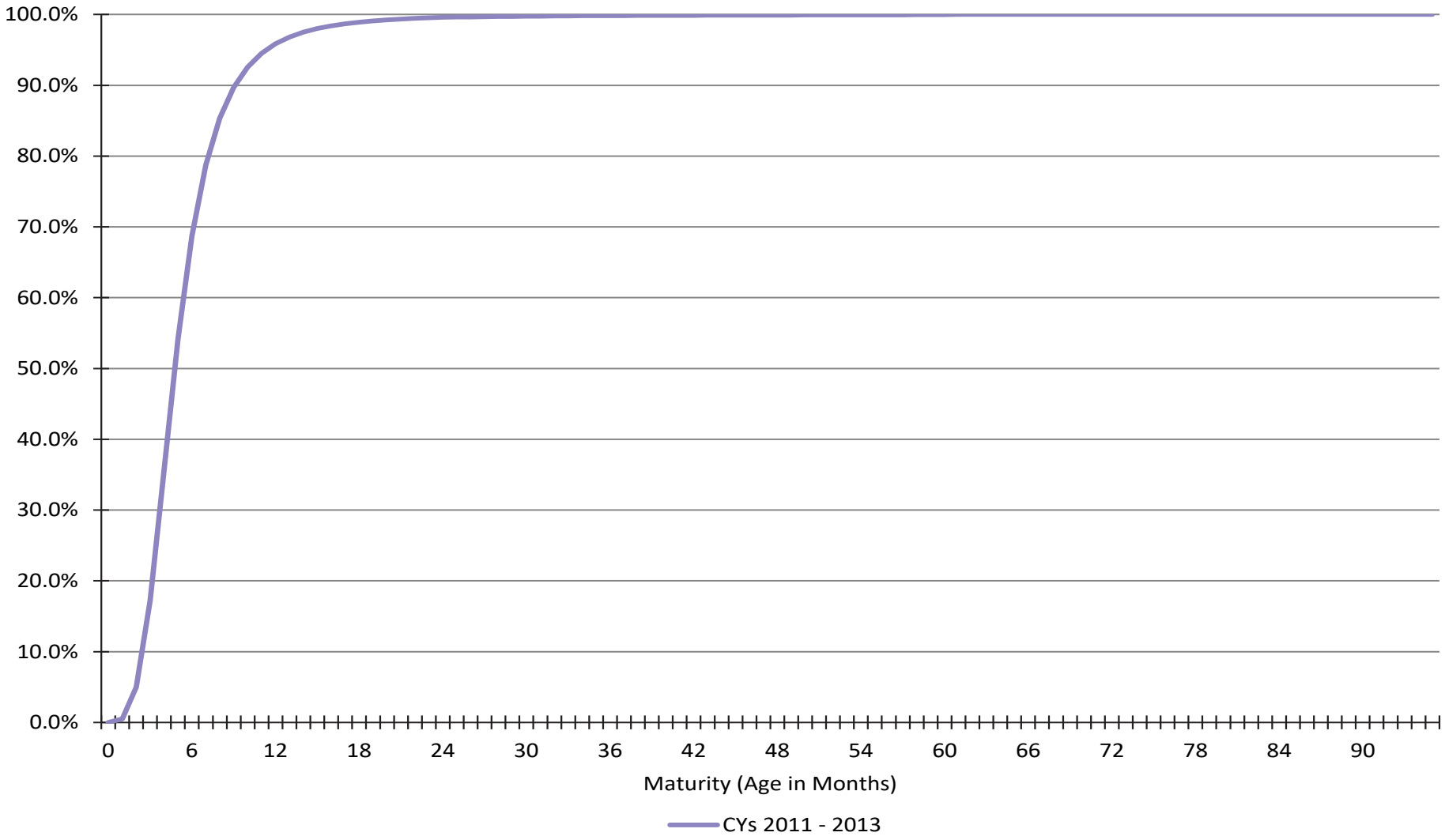
Water Damage: Reported Claim Development



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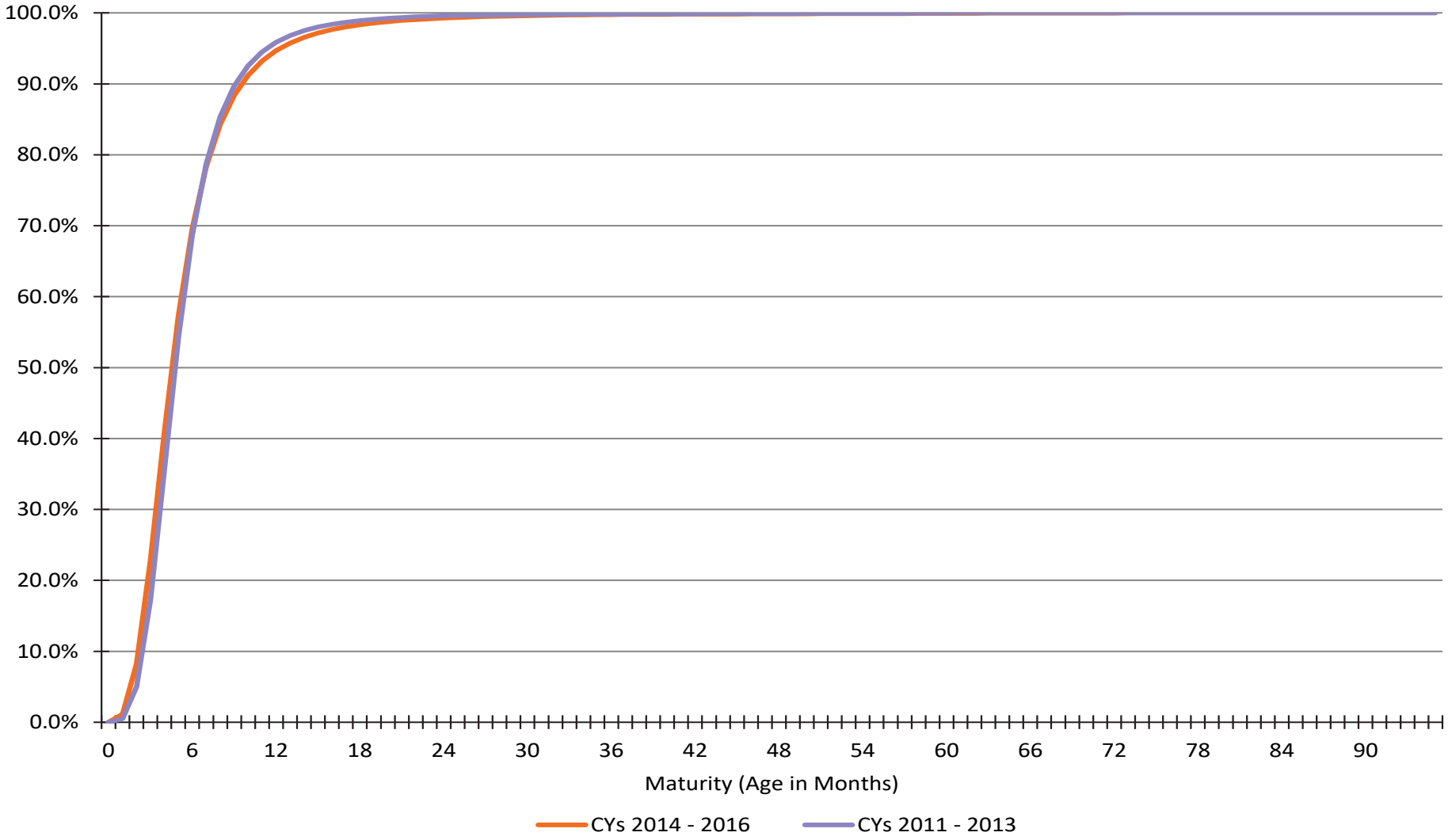
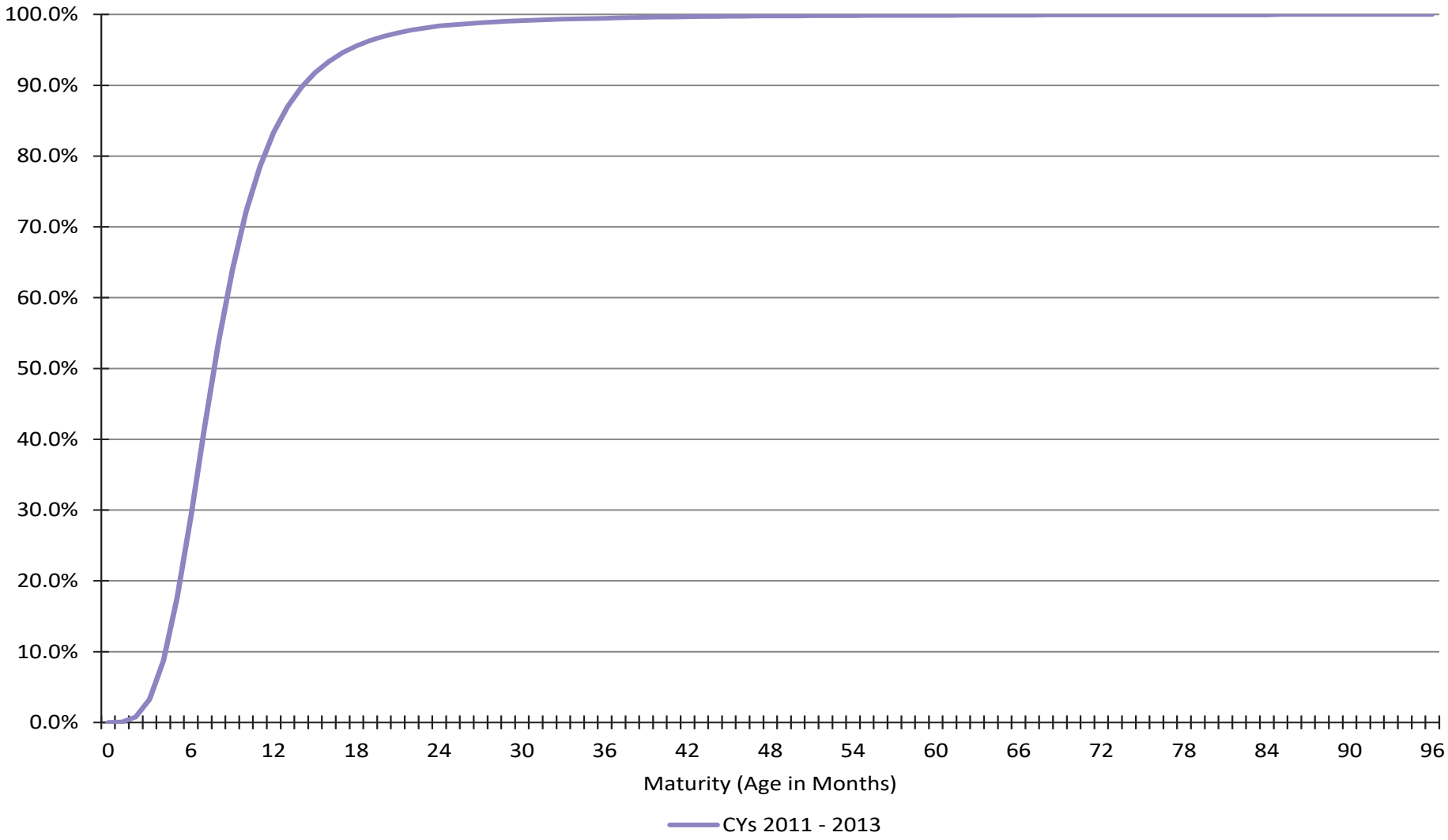


Water Damage: Closed Claim Development



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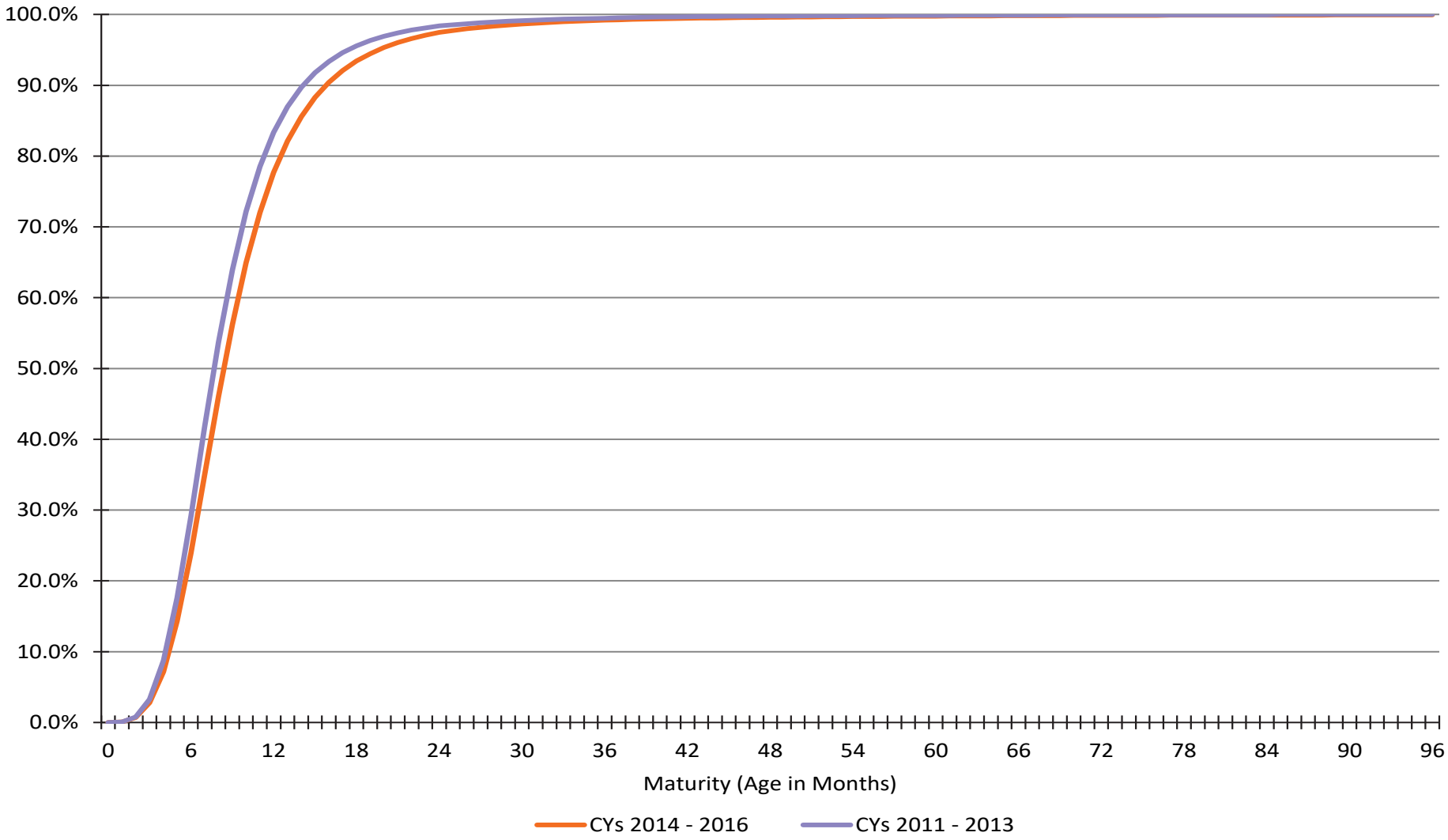
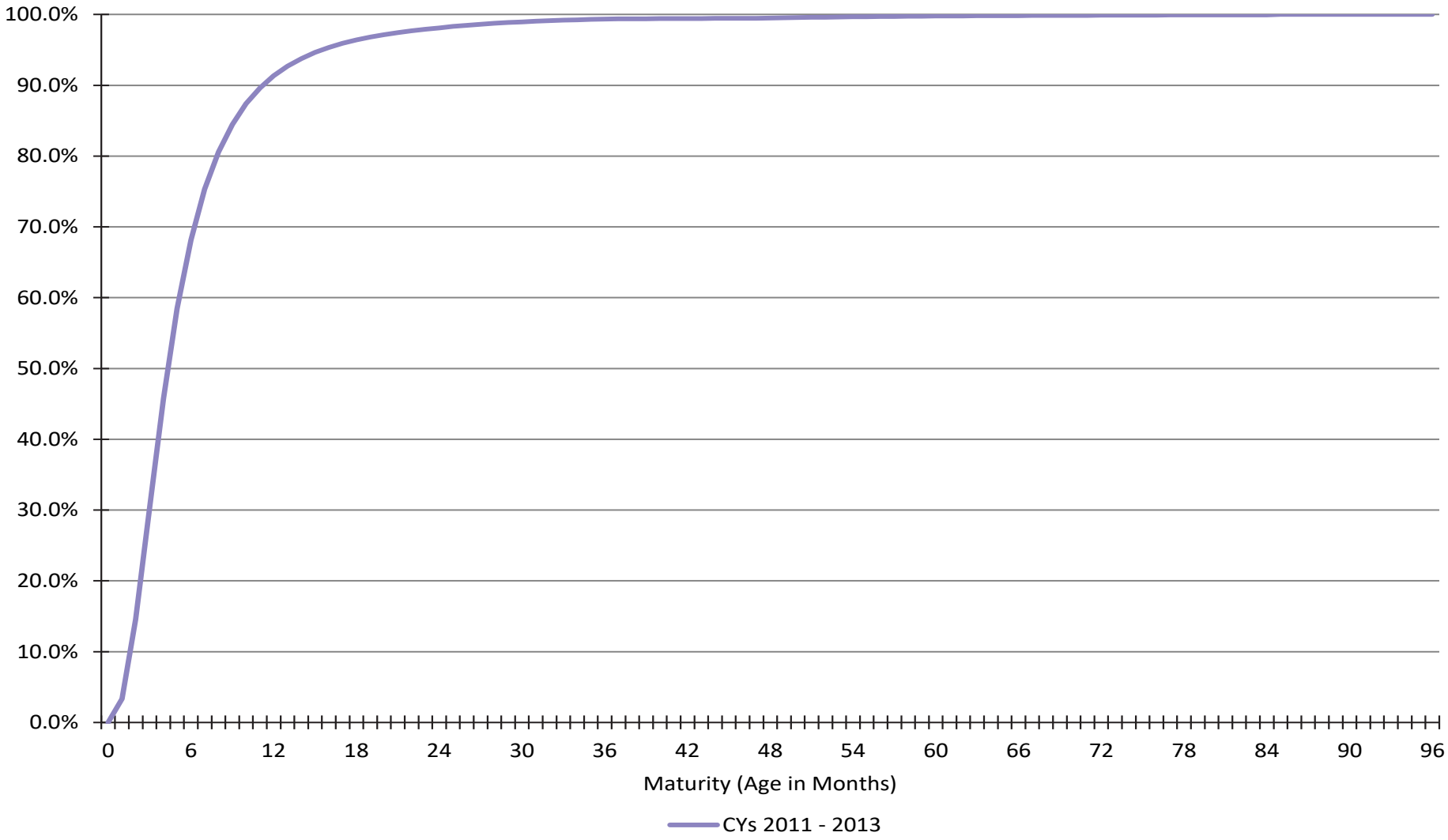


Water Damage: Reported Loss & DCC Development



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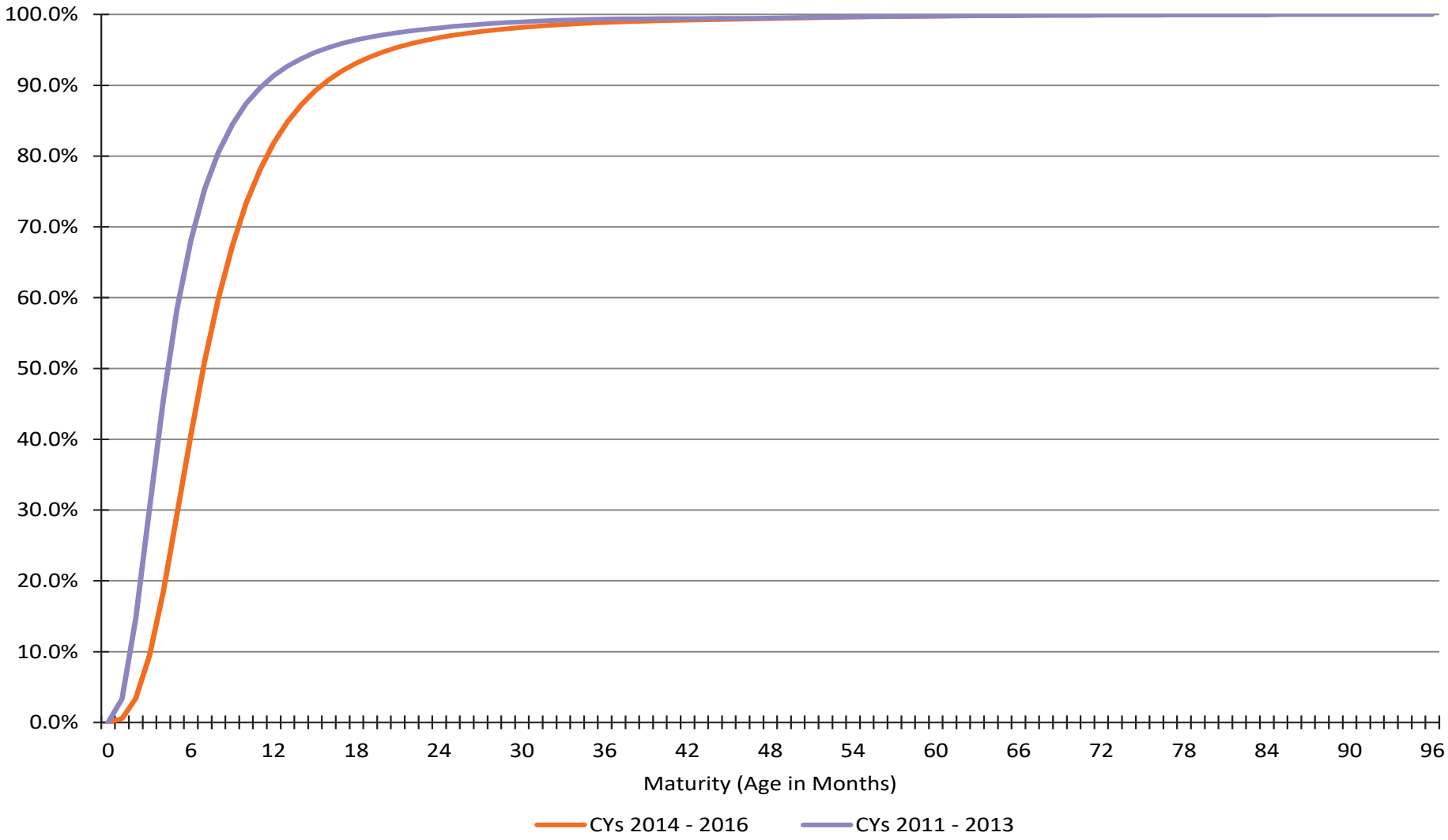
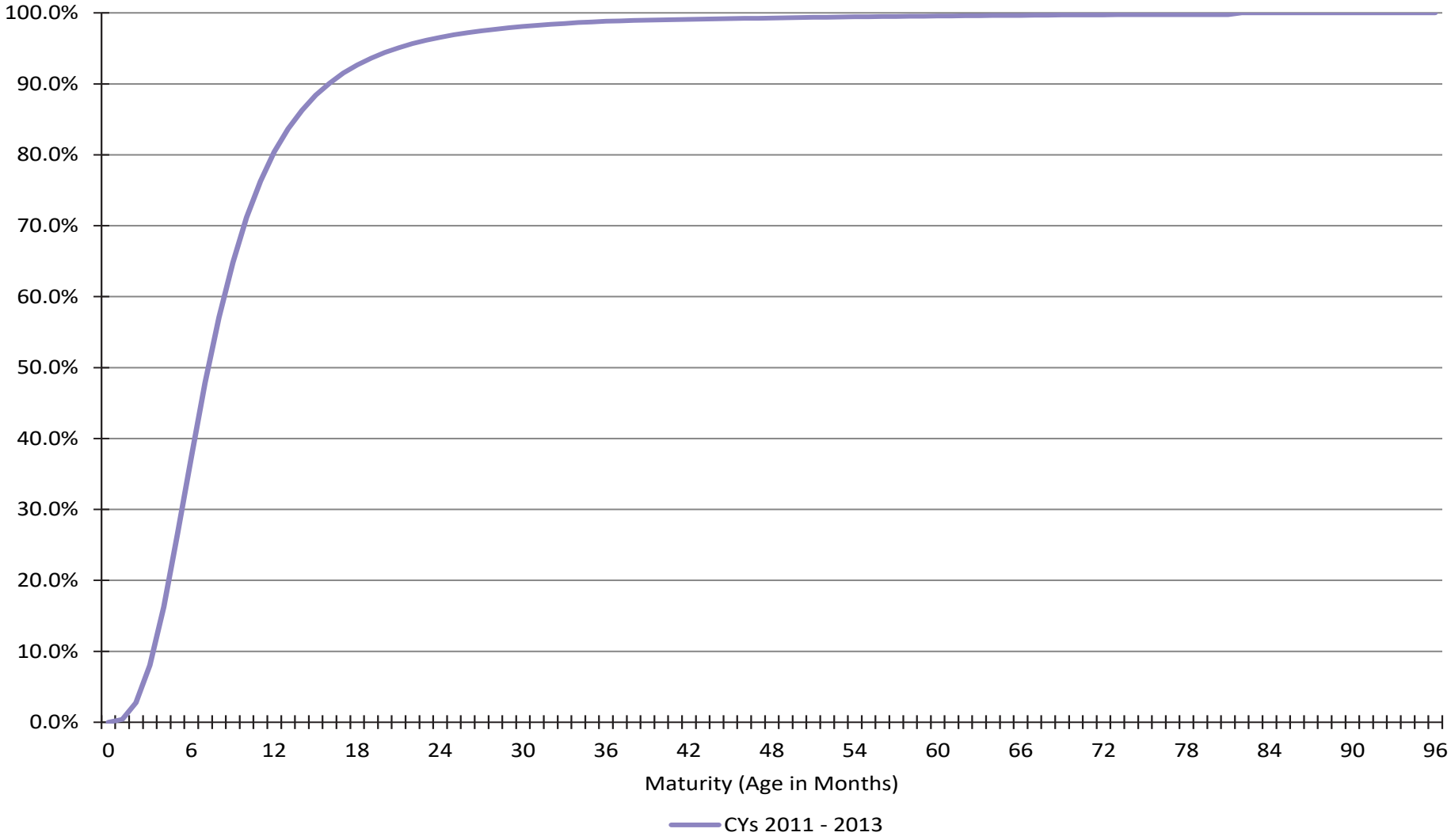


Water Damage: Paid Loss & DCC Development



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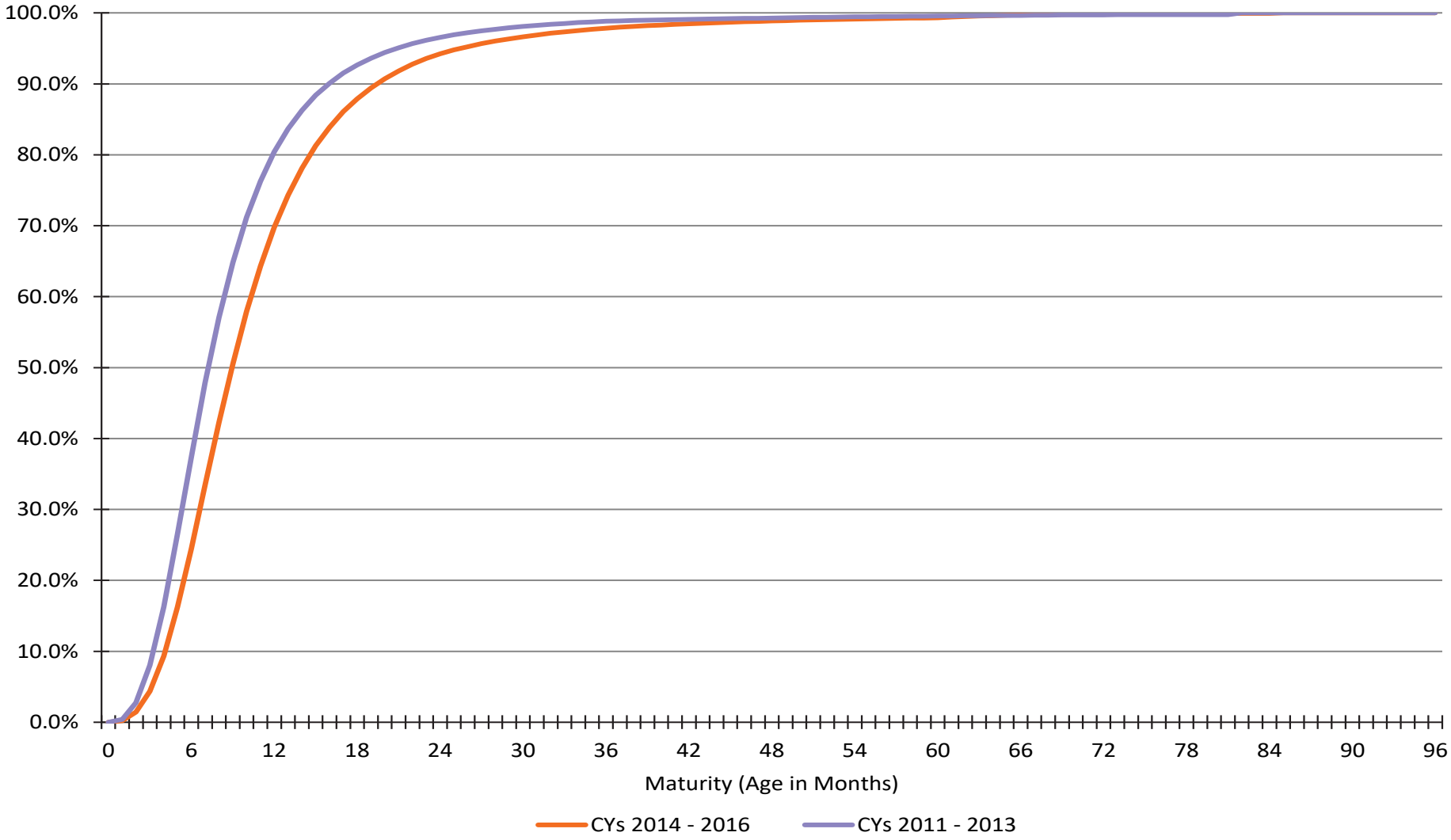

Assignment of Benefits: Wind/Hail/Lightning

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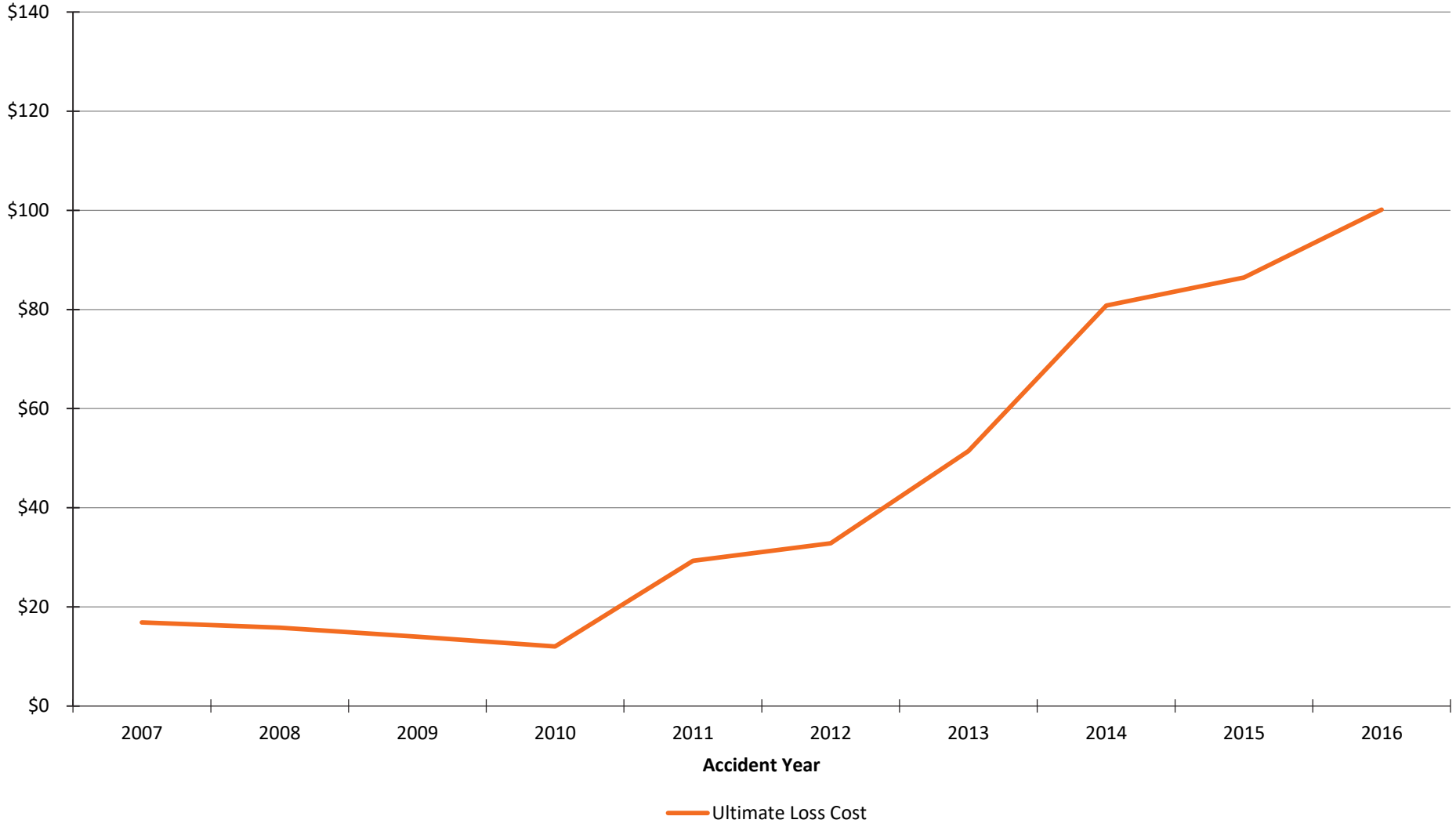
Wind/Hail/Lightning: Loss Cost



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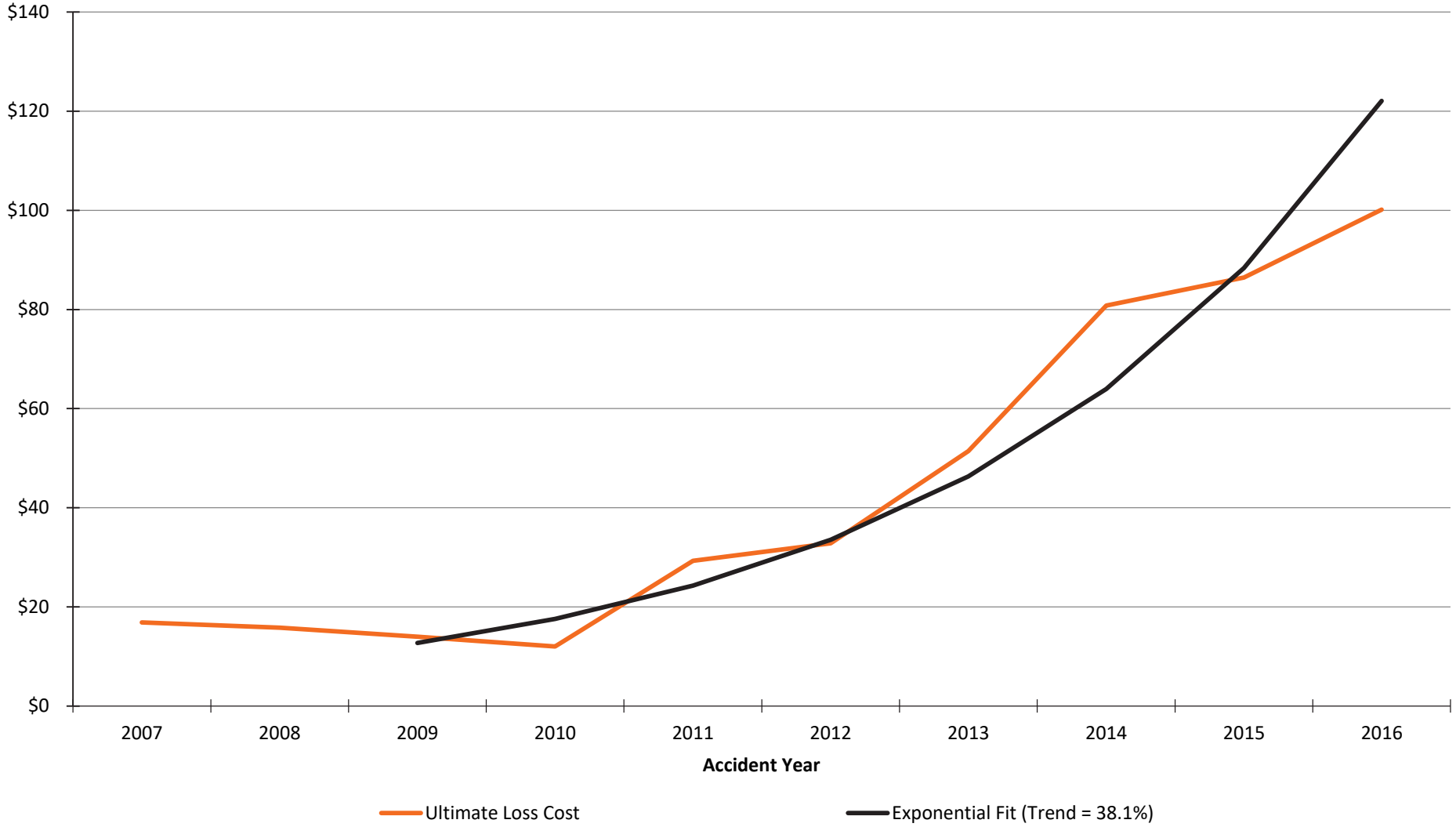

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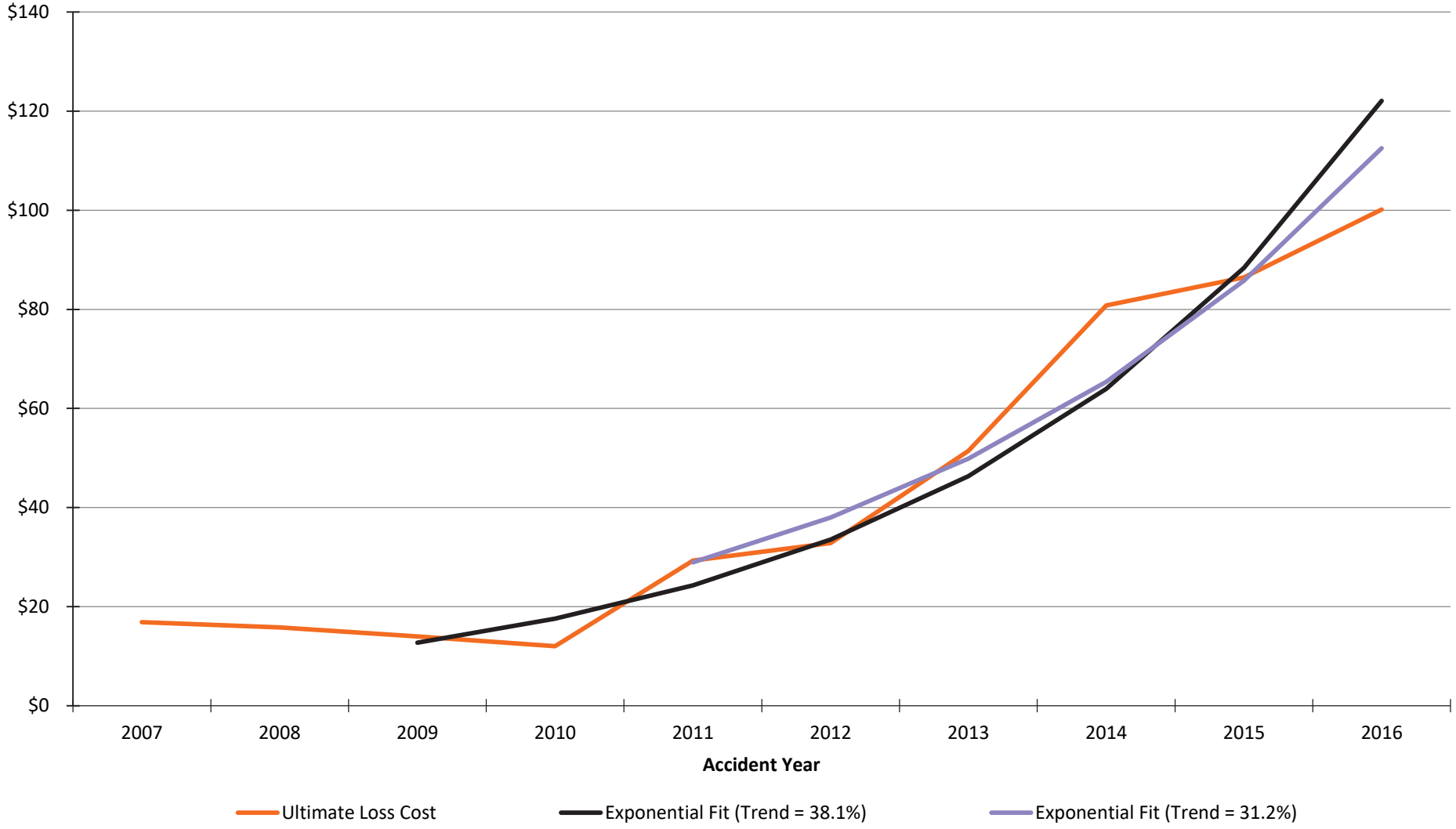

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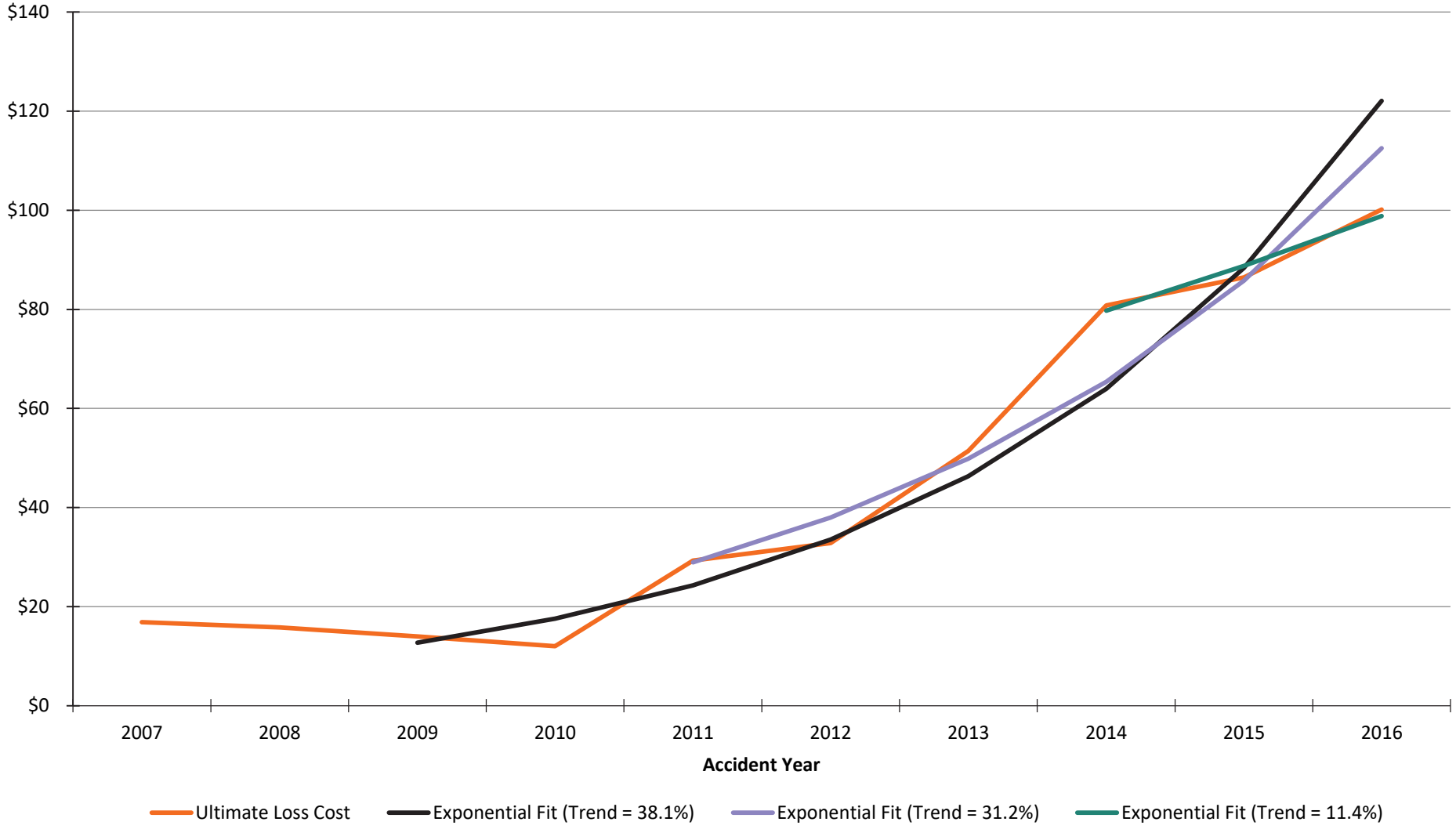
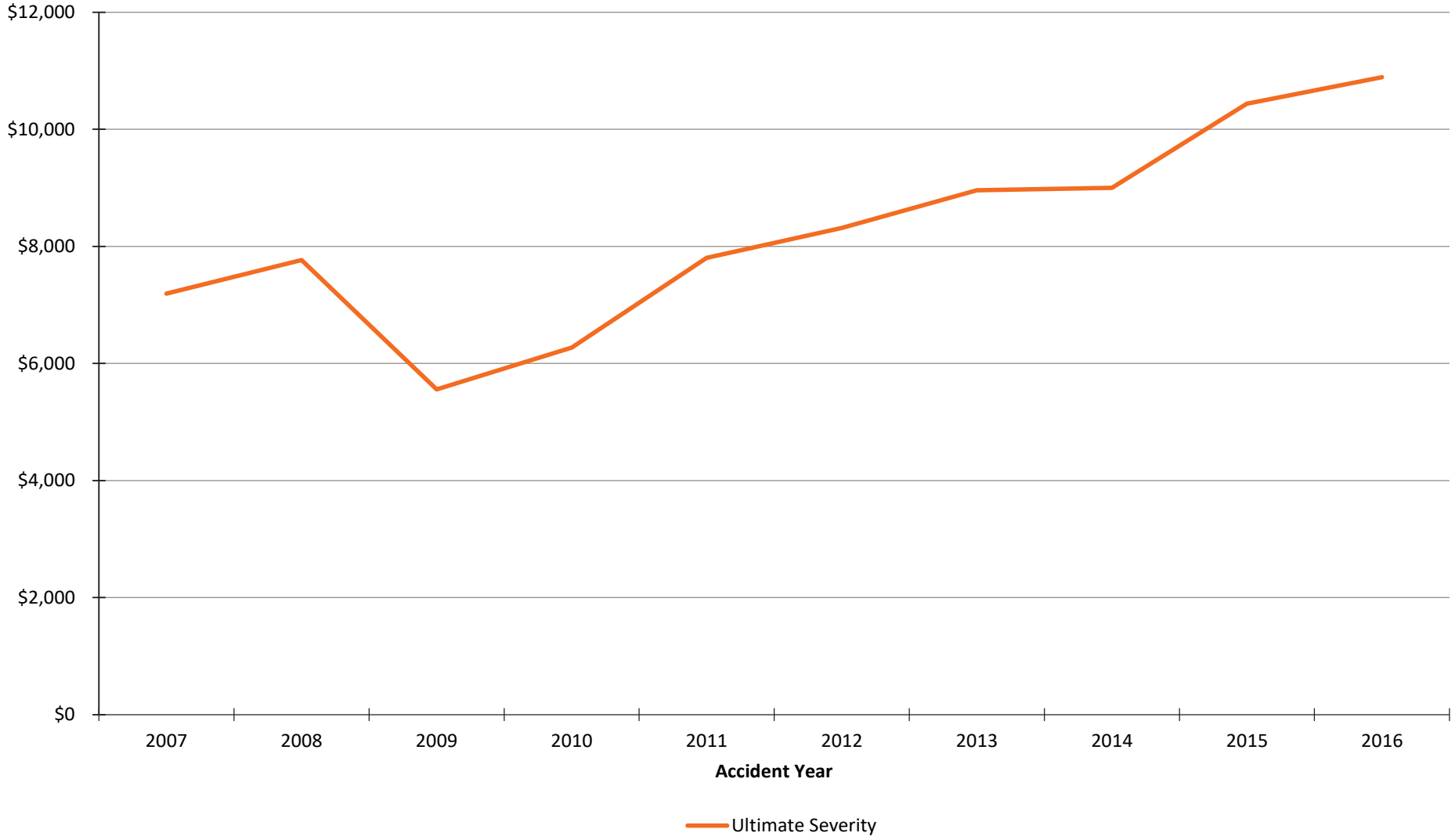


Wind/Hail/Lightning: Severity



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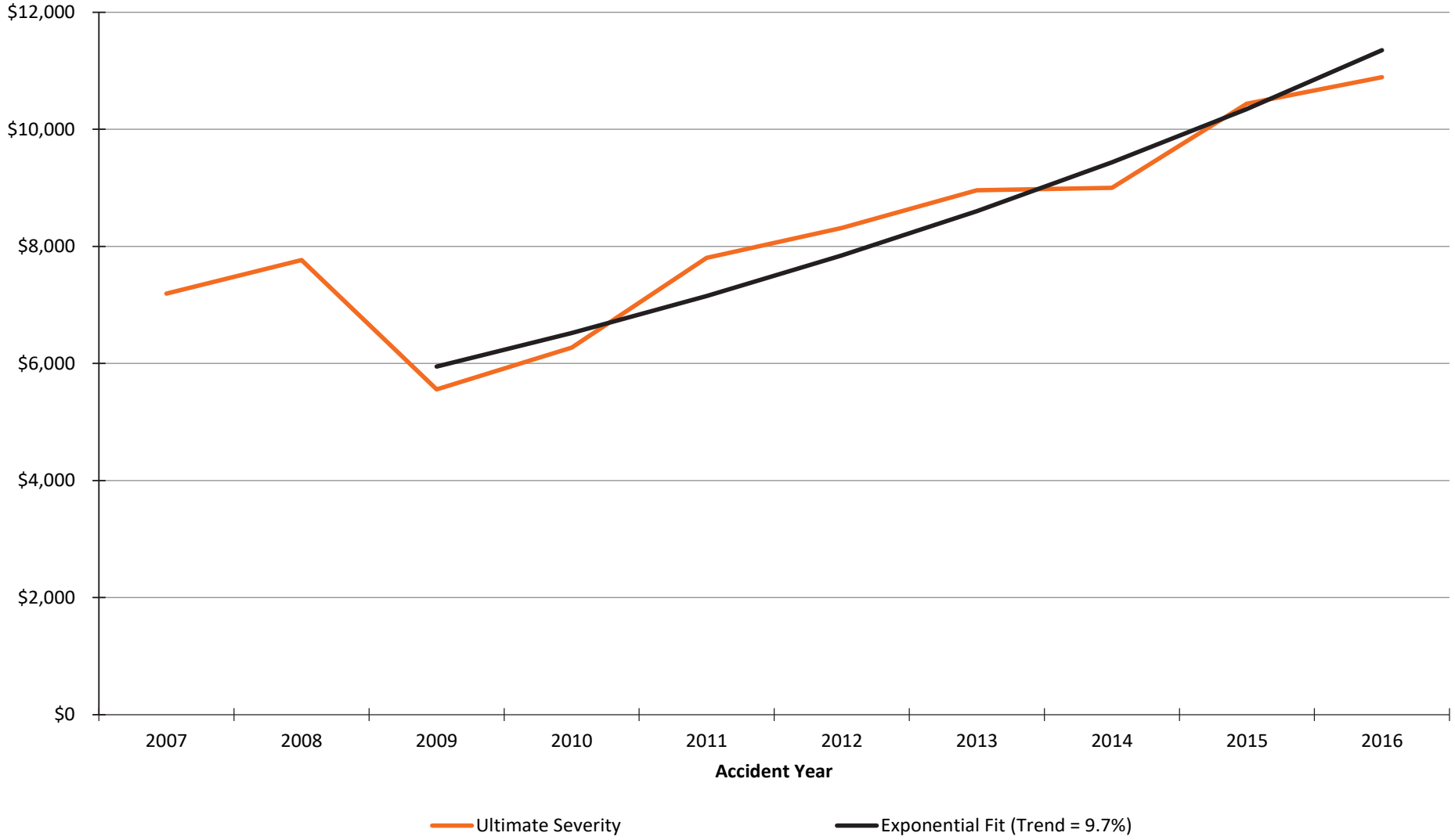

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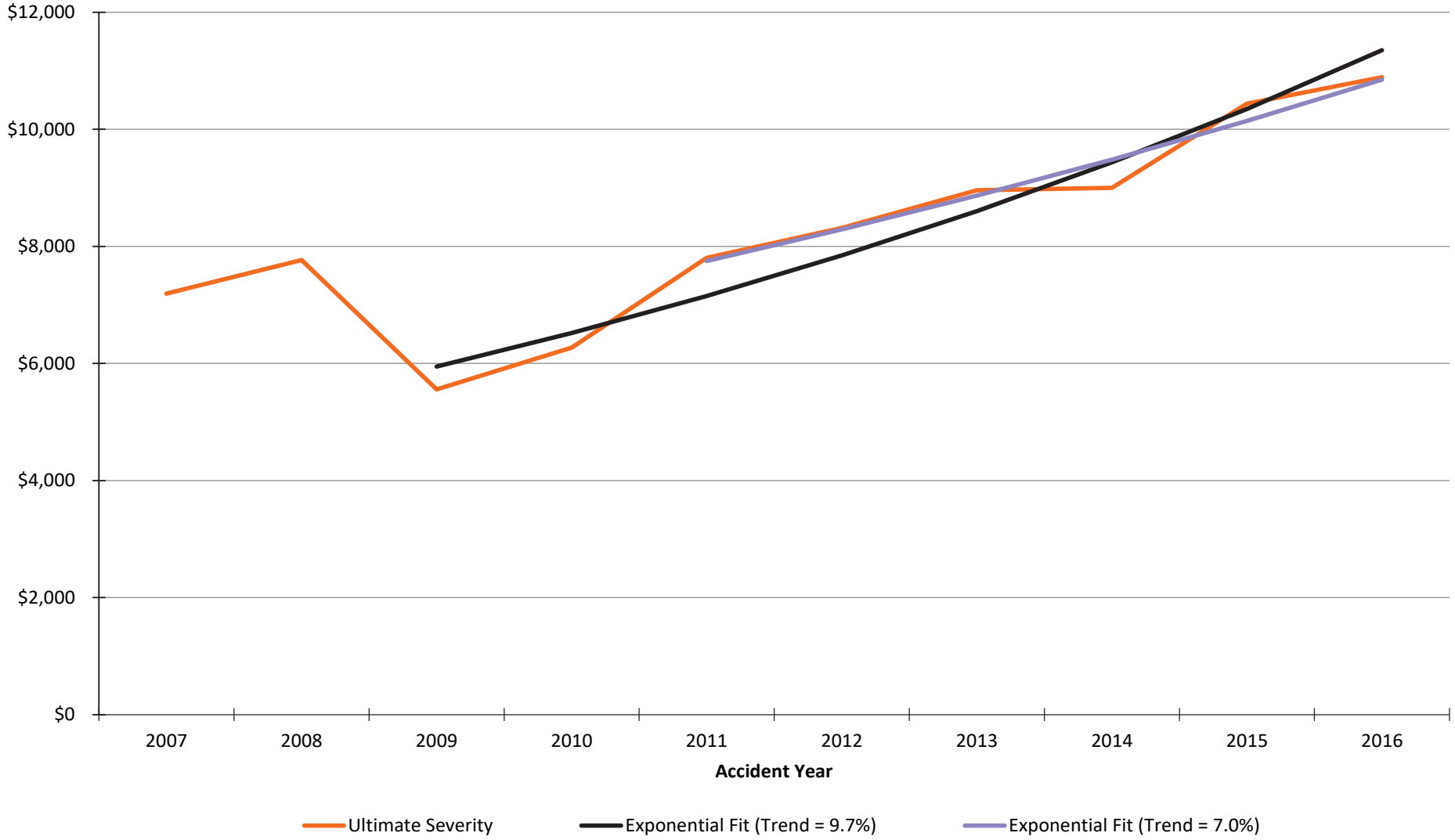
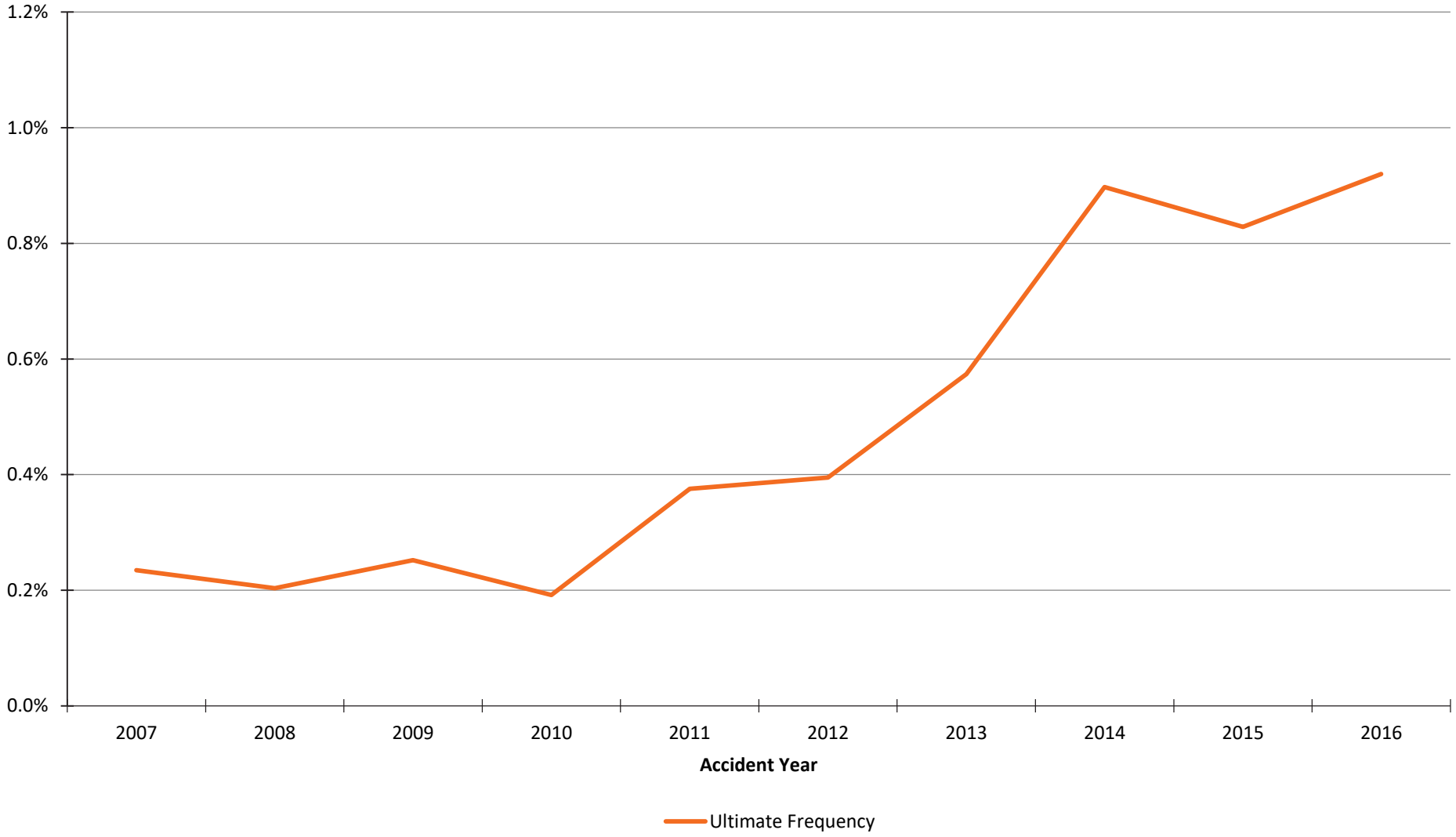


Wind/Hail/Lightning: Frequency



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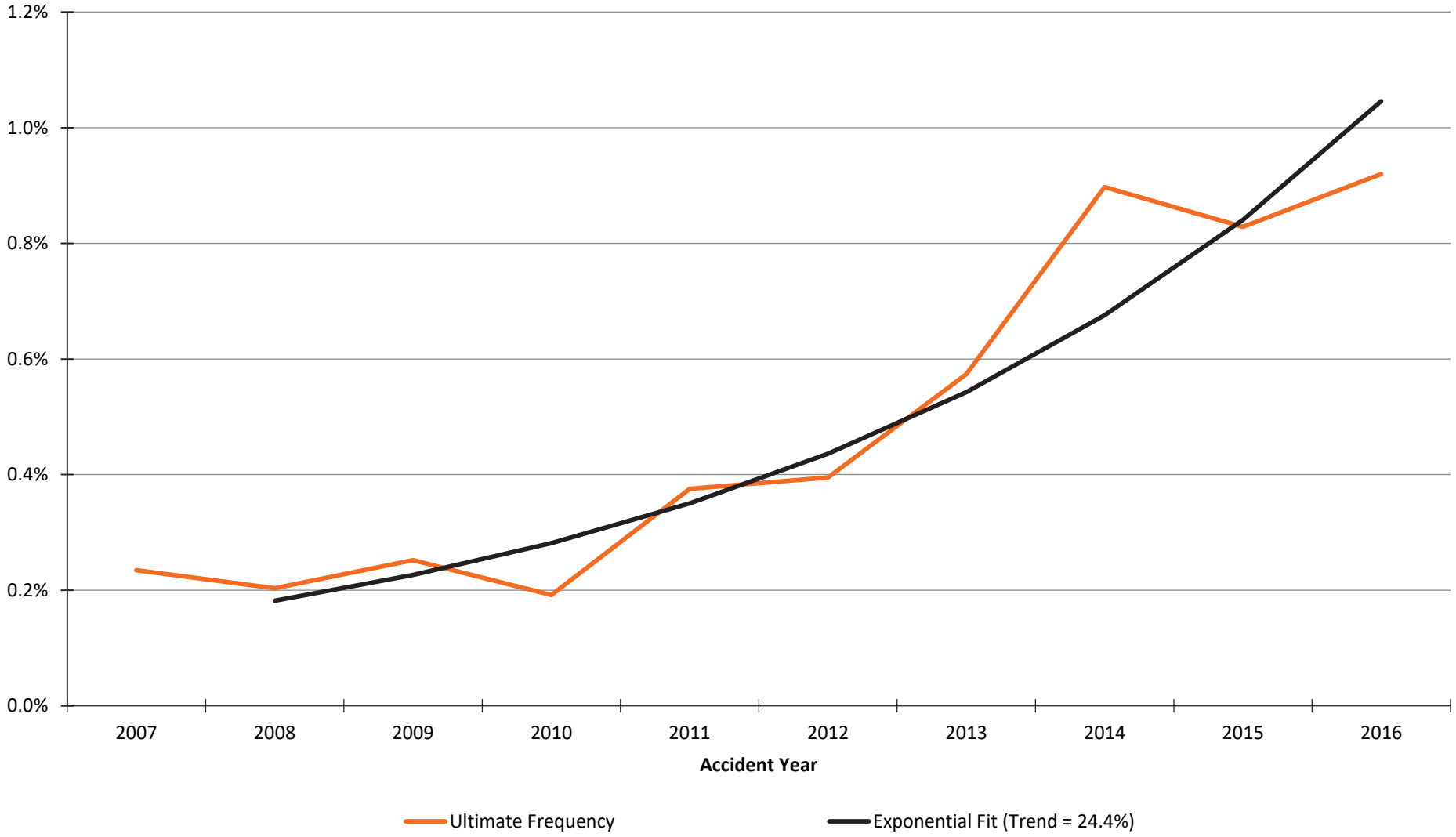

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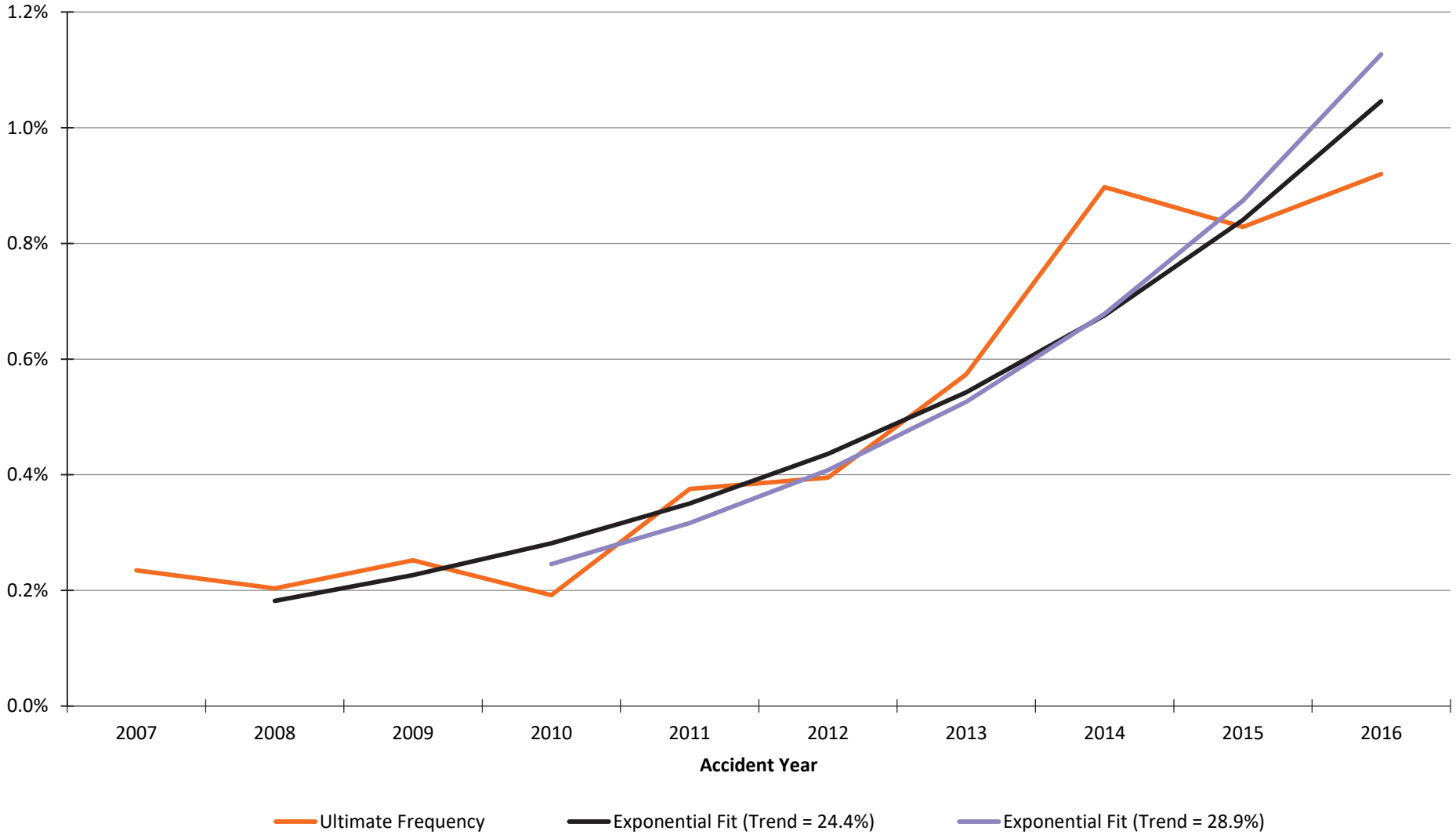

By-Segment Comparison

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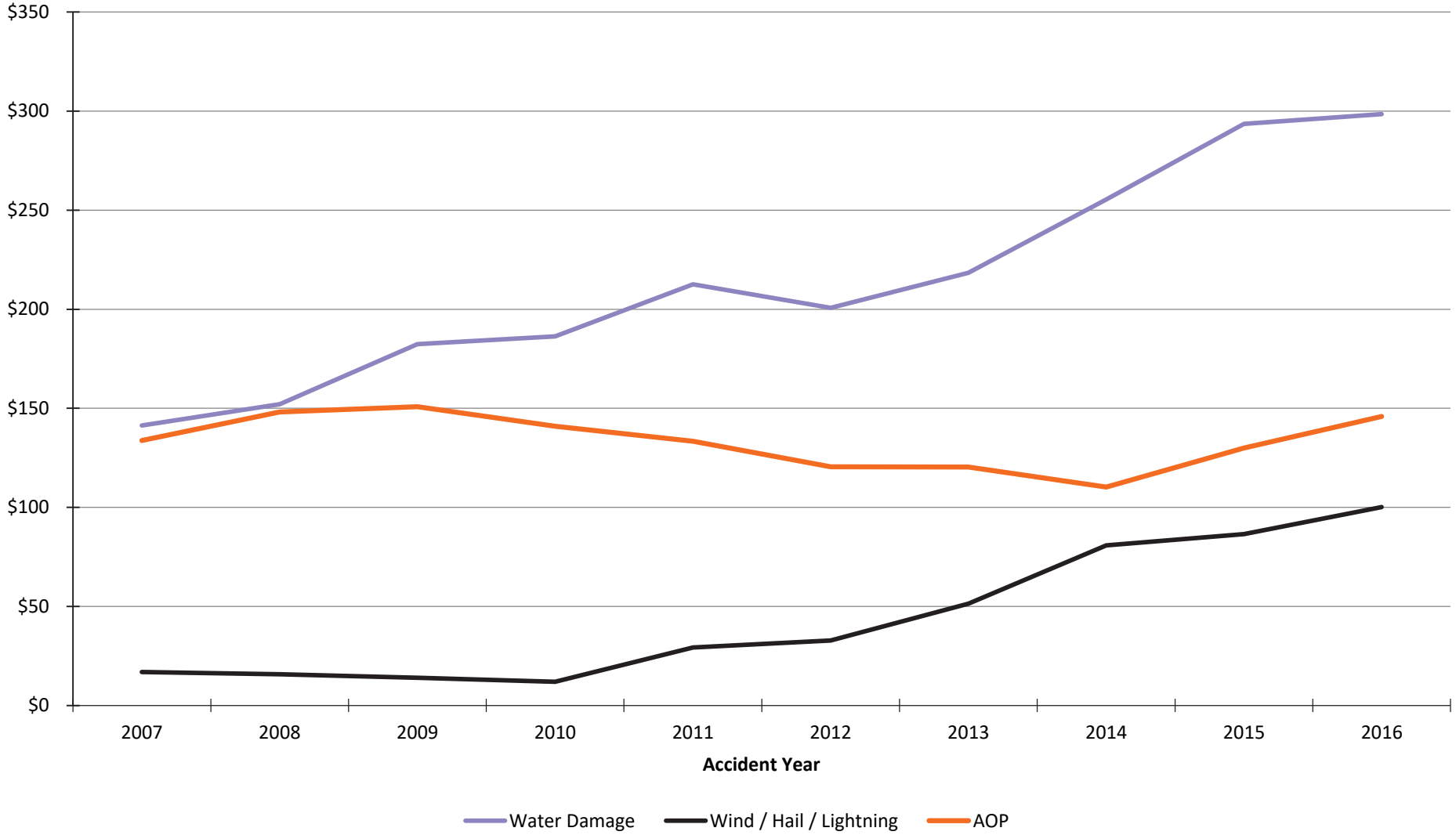
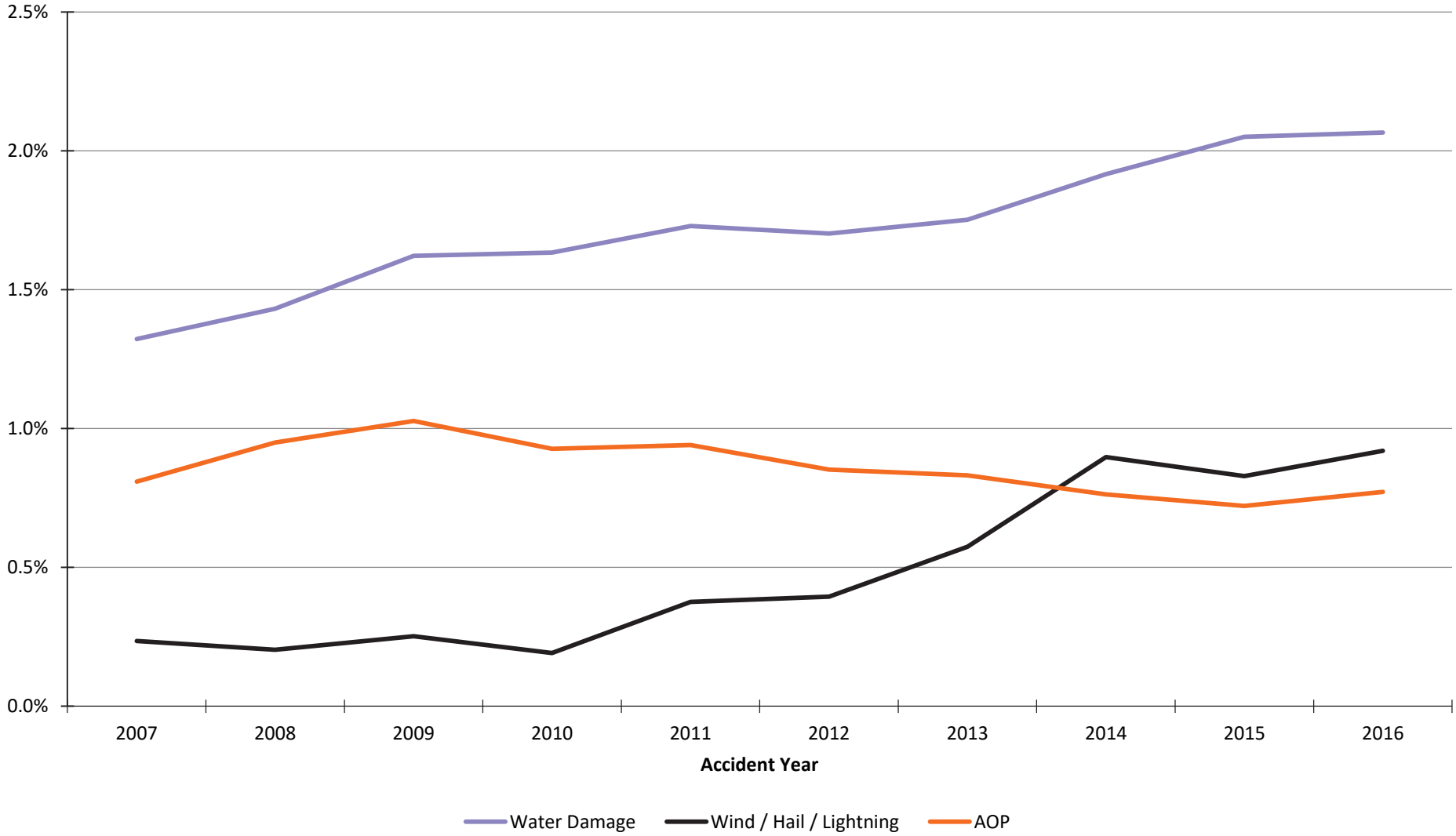
By-Segment Comparison: Loss Cost



By-Segment Comparison: Frequency/Claim Distr.



Aggregate Loss Costs: Ex-Catastrophes/Sinkholes

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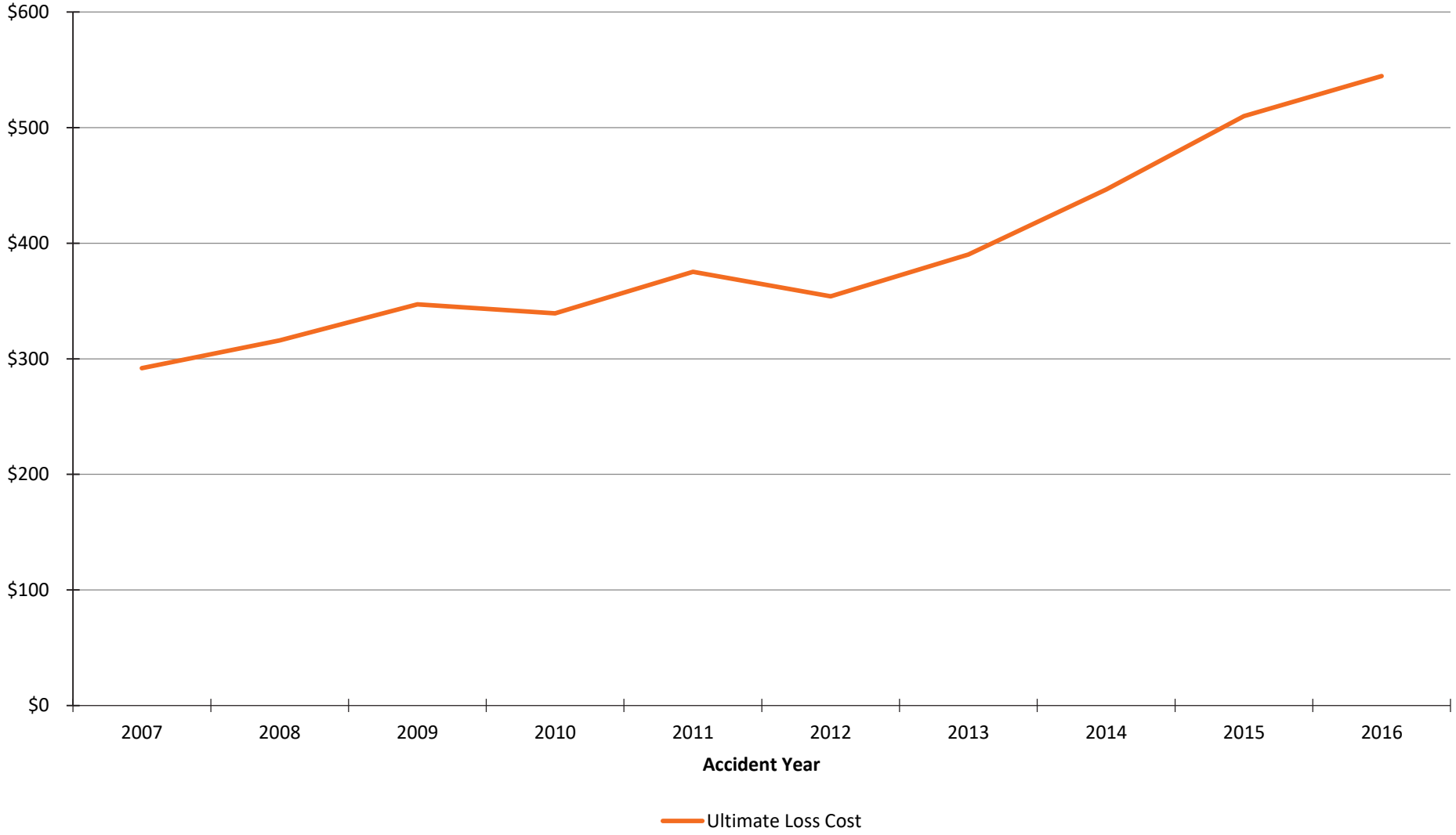
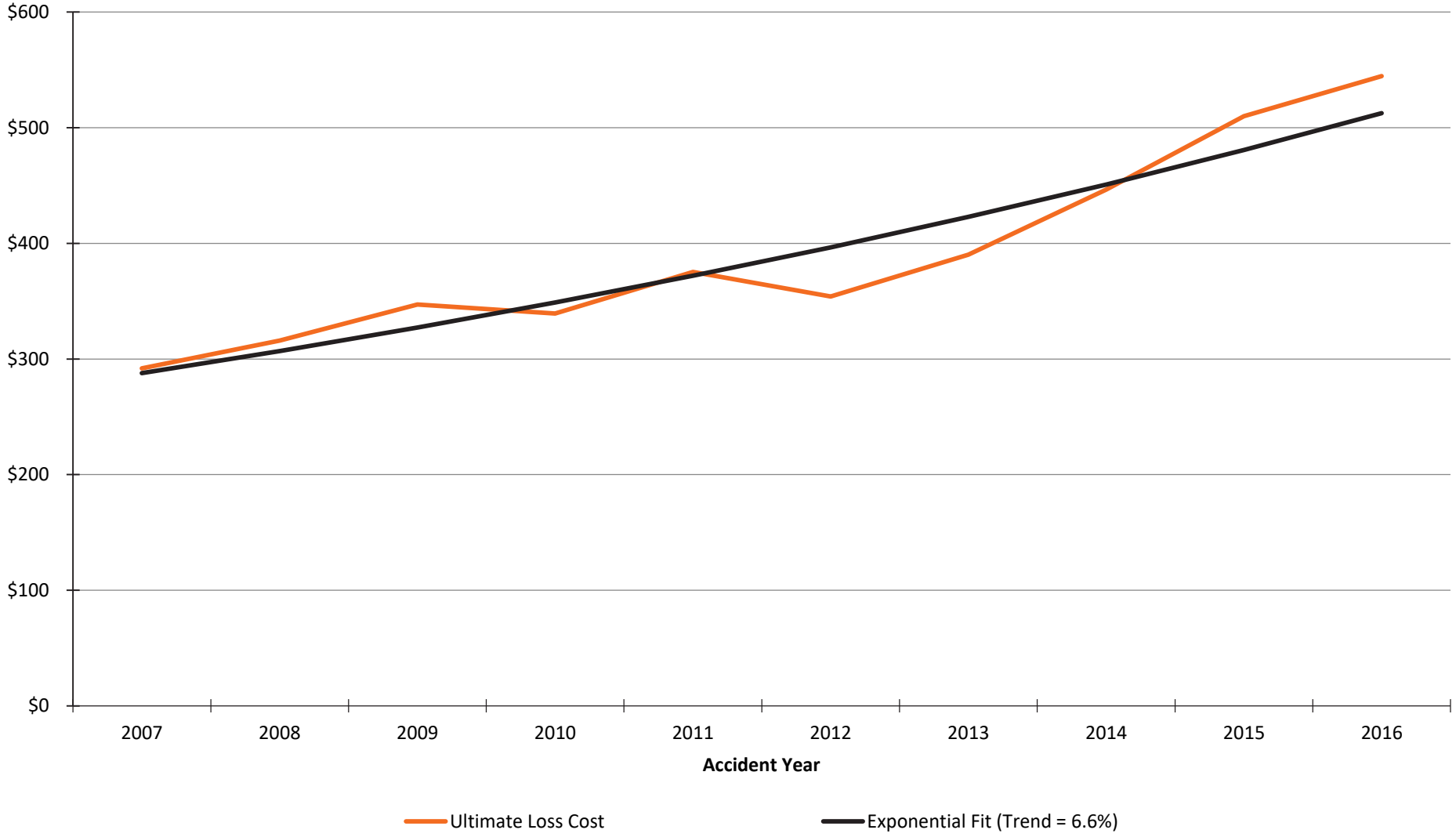
Ex-CATs/Sinkholes: Loss Cost



Ex-CATs/Sinkholes: Loss Cost



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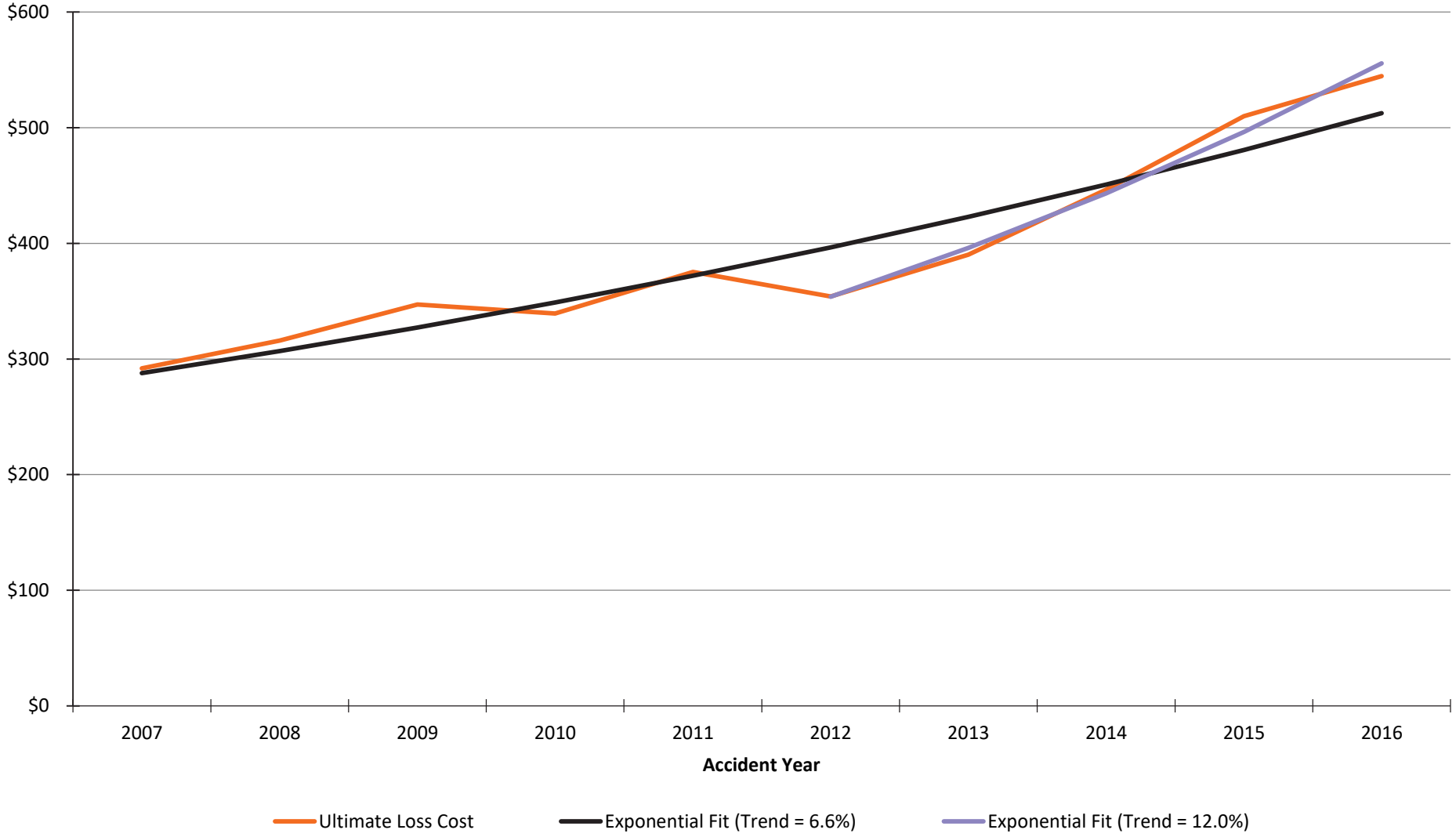

Preparation for Year-End 2017

Commitment Beyond Numbers

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Methodology & Approach

- What is actuarial science?
  - "*Driving forward while looking in the review mirror*" – Unknown
  - Predicated on loss development triangles
  - More like distracted driving given AOB
- Communication with management will be critical
  - Discuss issues affecting loss projections
  - Changes in claims reserving practices
  - Changes in underwriting (e.g., policy provisions, geographic restrictions)
- Develop claim diagnostics – history may not be predictive of future experience

Methodology & Approach

- Supplement historical data with ***relevant*** insurance industry benchmarks
- Expand analysis segmentation
  - Dampens pervasive claim trends
  - Increase in reporting lag
  - Increase in settlement lag
  - Change in proportion of DCC to overall spend
  - Change in cause of loss distribution
  - Change in geographic concentration – think sinkholes (Pinellas and Hillsborough counties)
  - Increase in homogeneity can lead to decrease in credibility (predictive stability)

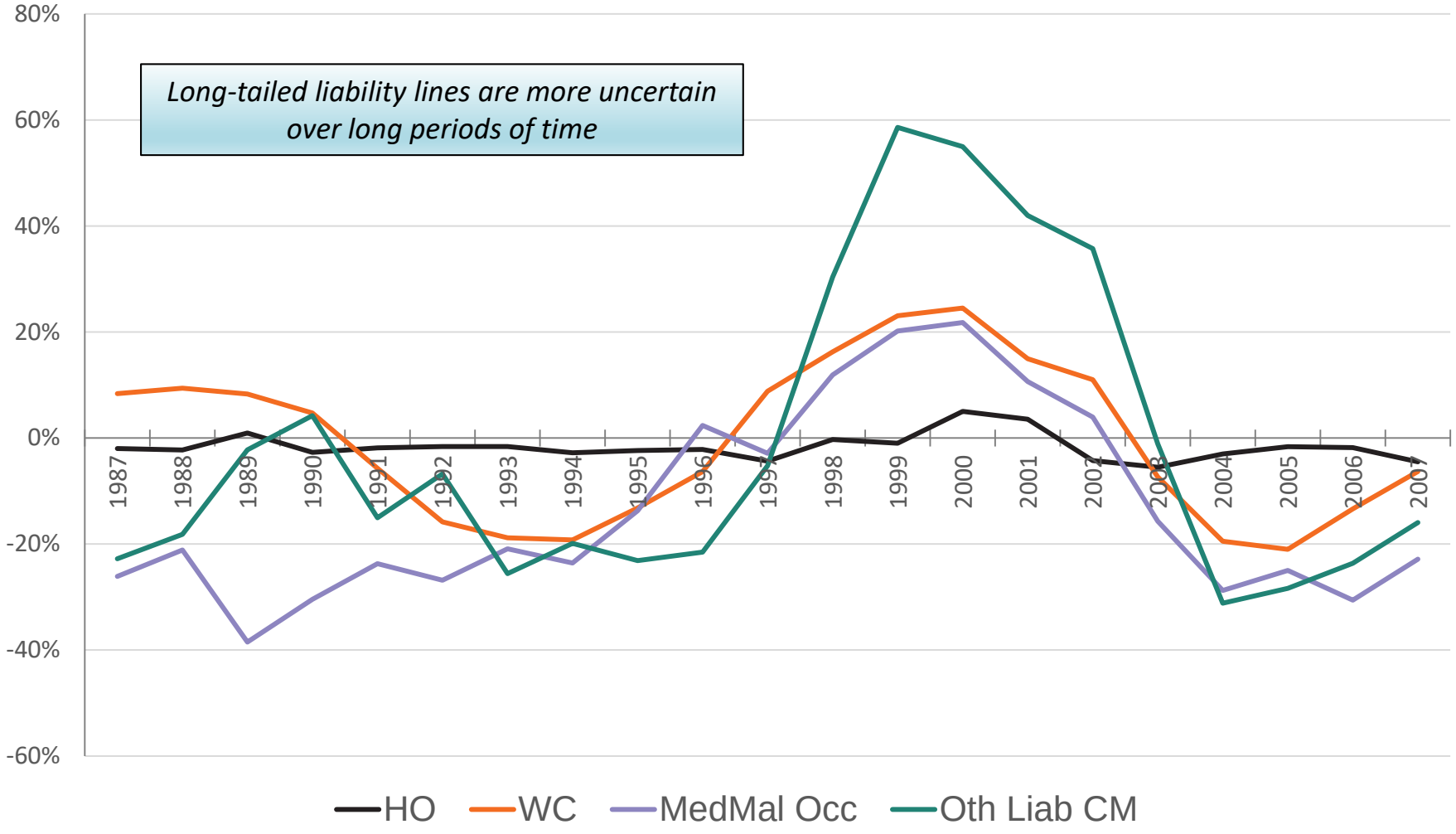
Methodology & Approach

- Initial expectations of loss cost and frequency for 2017
  - Typically rely on history to inform *a priori* estimates
  - Predictive stability of historical experience – enough relevant data "baked" into recent triangle diagonals?
- What about Hurricane Irma?
  - Reinsurance Association of America (RAA) patterns
  - Catastrophe model expected losses
  - Counts and averages approach
  - AOB impact on CAT XOL reinsurers

Reasonable Property Reserve Ranges

- Historically
  - Derivation
    - Judgmentally selected range parameters
    - Stress testing – varying projection parameters
    - Statistical modeling – coefficient of variation and mean
  - Uniform range – true central estimate (normal distribution)
  - Reasonable range: ±5%

10-Year Industry Loss Development - % of loss est.



Source: SNL Financial

Reasonable Property Reserve Ranges

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    - Statistical modeling – coefficient of variation and mean
  - Uniform range – true central estimate (normal distribution)
  - Reasonable range: ±5%
- Prospective
  - Derivation
    - Trended loss development factors
    - Risk margins – confidence levels
  - Left-skewed/negative skewed distribution – e.g.: -5% to +20%
  - Subject to auditor and regulator approval

Questions

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