



# **New Jersey School Boards Association Insurance Group**

**Board of Trustees Meeting**

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**September 12, 2012**

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**TOWERS WATSON** 

# Agenda

- Estimating Liabilities
- Indicated Loss & ALAE Liabilities as of June 30, 2012
- Potential Rate Implications for 2013-14 Program Year
- Questions

# Estimating Liabilities

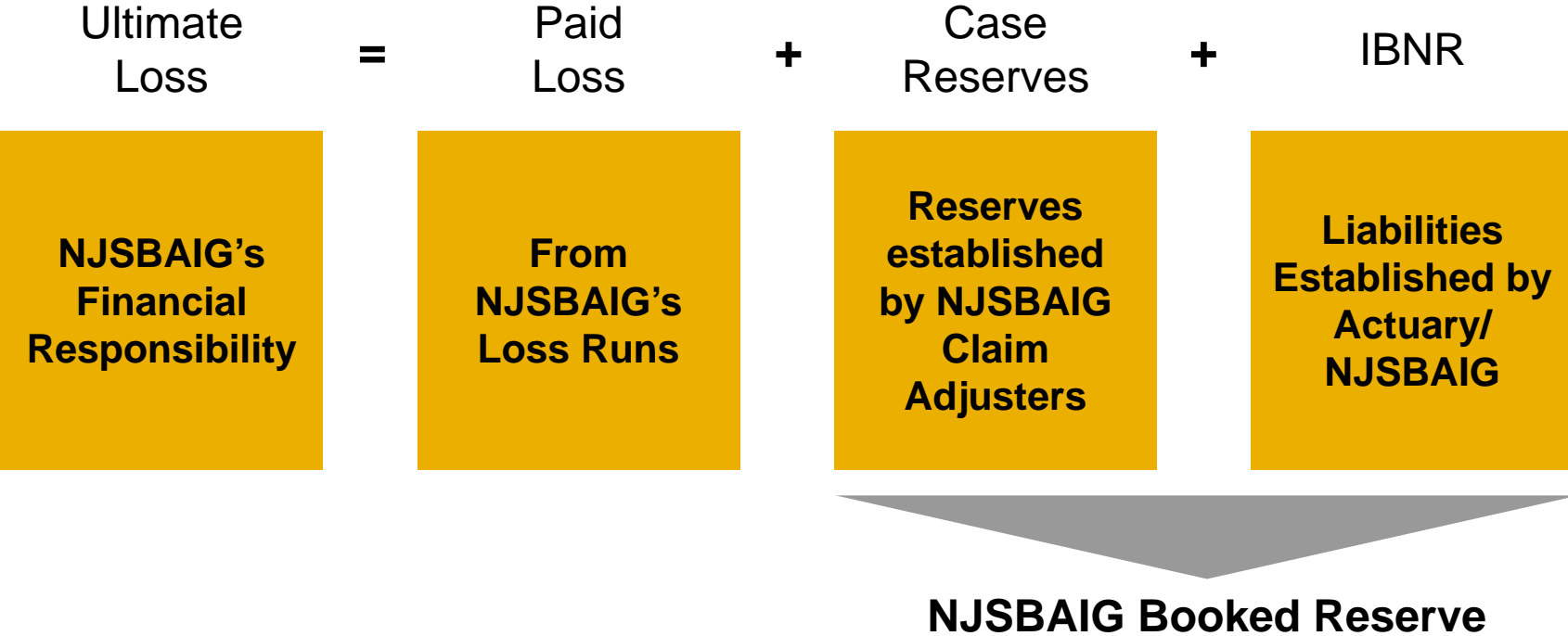
## Basic Details

- Data is evaluated as of June 30, 2012
  - Update to June 2011 analysis
- This analysis relates to coverage provided through June 30, 2012
- Estimates are produced on a net of reinsurance and salvage/subrogation basis
- Towers Watson presented the results of its review in a draft report dated August 6, 2012
- The following slides provide a high-level summary of Towers Watson's report
- Any conclusions drawn from these slides may be inappropriate and/or incomplete without a thorough reading of the full report
- The distribution of the slides contained herein is limited to the management of NJSBAIG and they may not be further distributed, disclosed, copied or otherwise provided to any other party

## There is uncertainty inherent in the estimate of unpaid loss liabilities

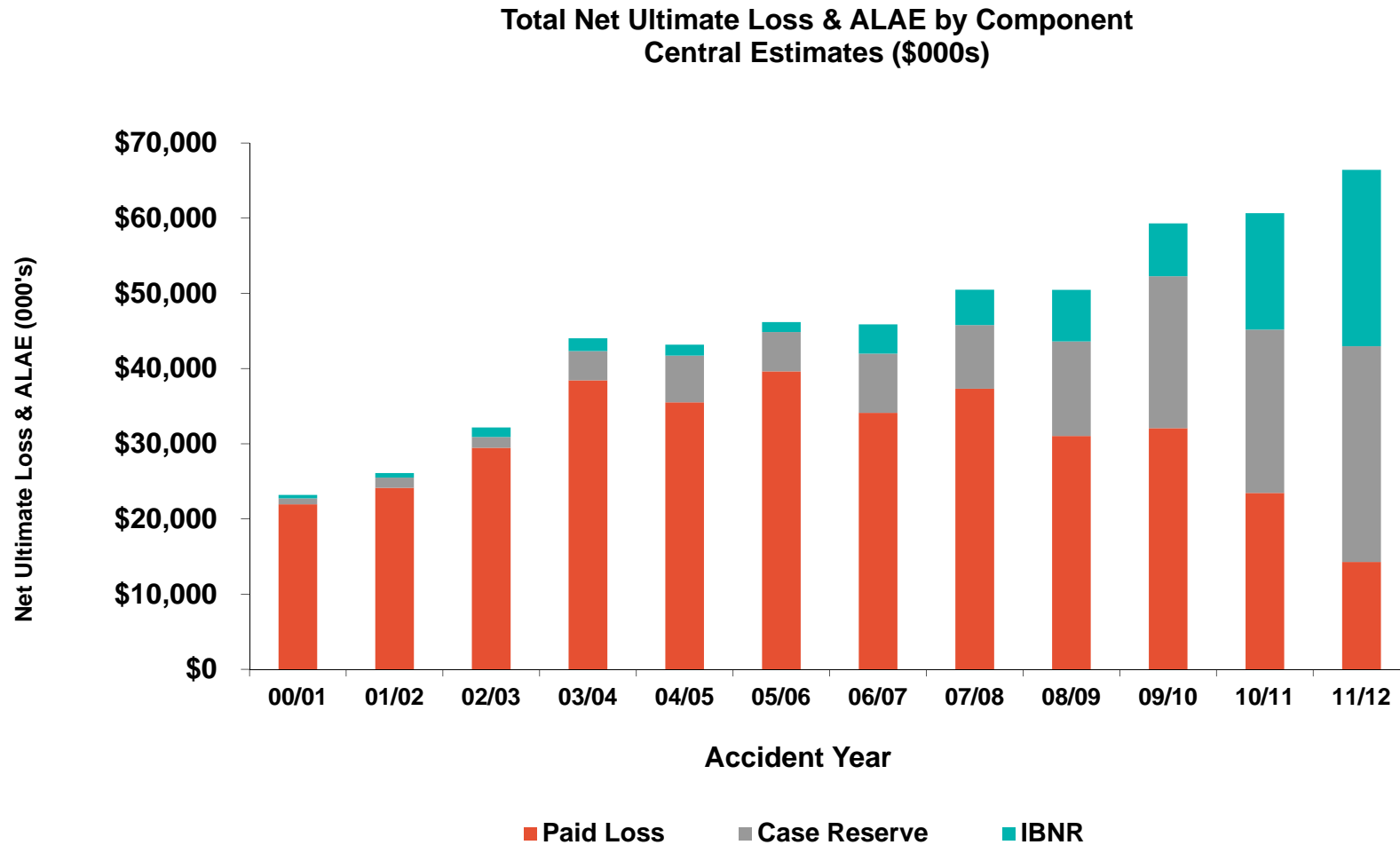
- Based on historical claim and loss information
- No guarantee that estimates will prove to be accurate
- Estimates will change with future updates
- Multiple projection techniques are used which provide various indications
- The range implied by these estimates is not all inclusive

# Components of Ultimate Losses and Liabilities



## Indicated Loss & ALAE Liabilities as of June 30, 2012

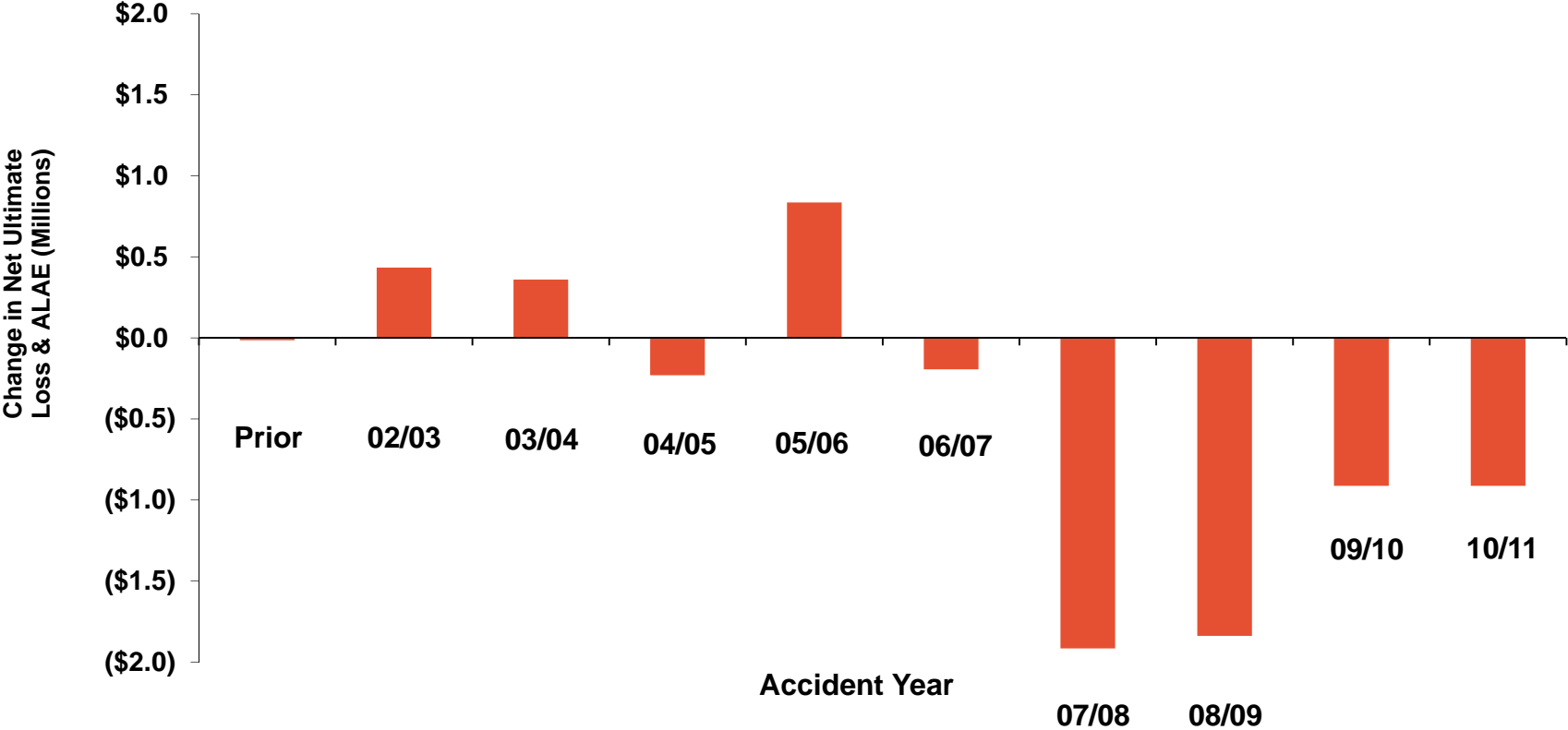
As an accident year ages, the IBNR portion of the bar will shrink and the paid portion will grow





# Overall favorable experience for fiscal year 2011-2012

All Lines\* - Total Decrease = \$5.8 million

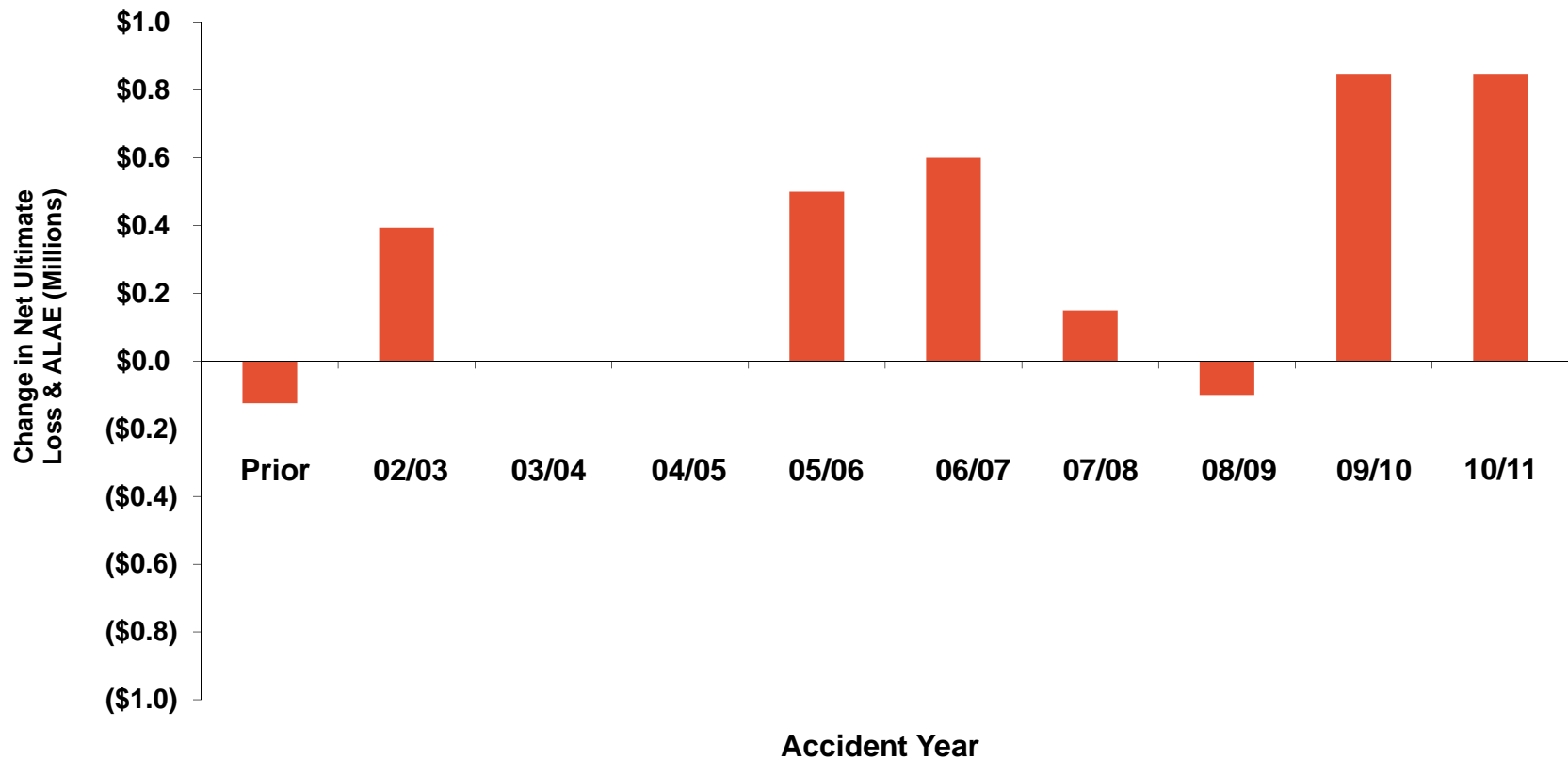


\*Includes Aggregate

- Deterioration in workers compensation was offset by favorable experience in all other lines of business

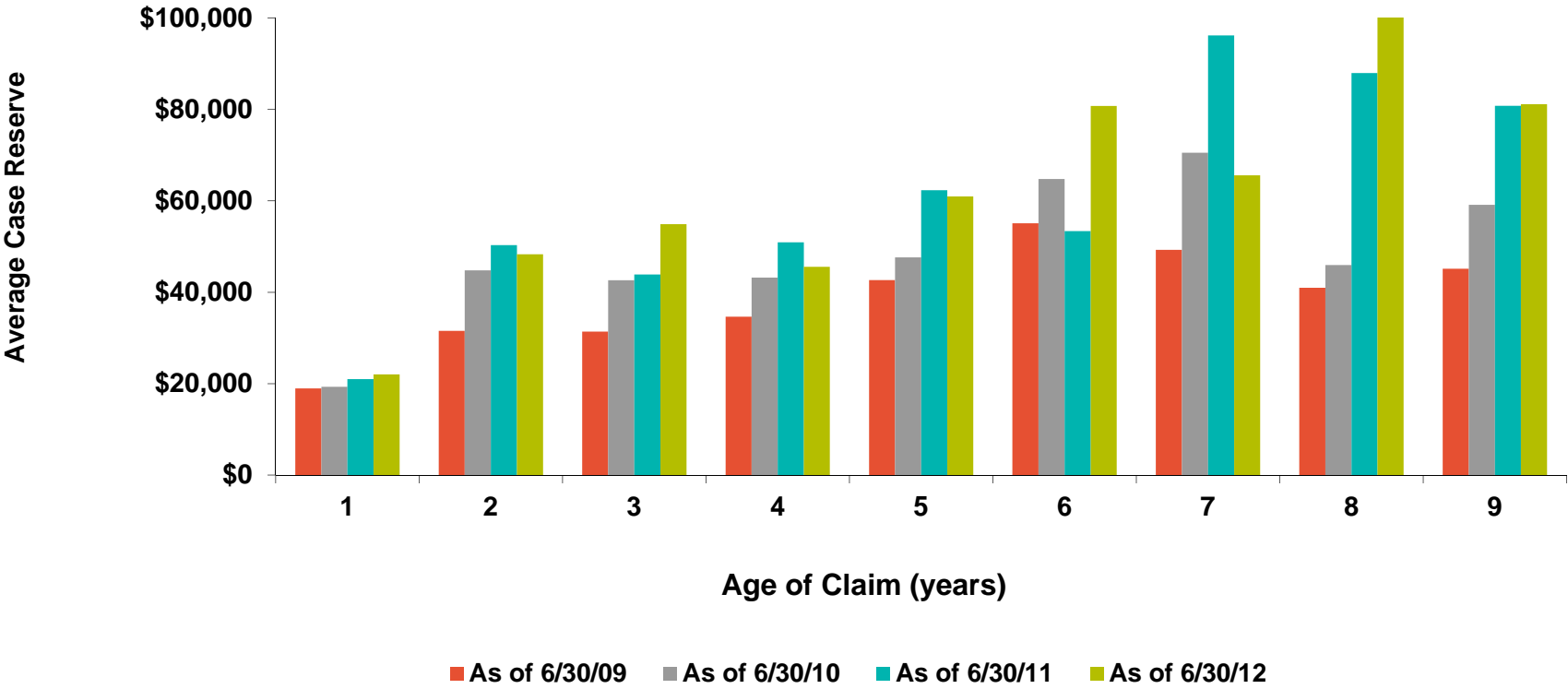
# Workers Compensation increases are due to case reserve development on large losses

Workers Compensation - Total Increase = \$2.5 million



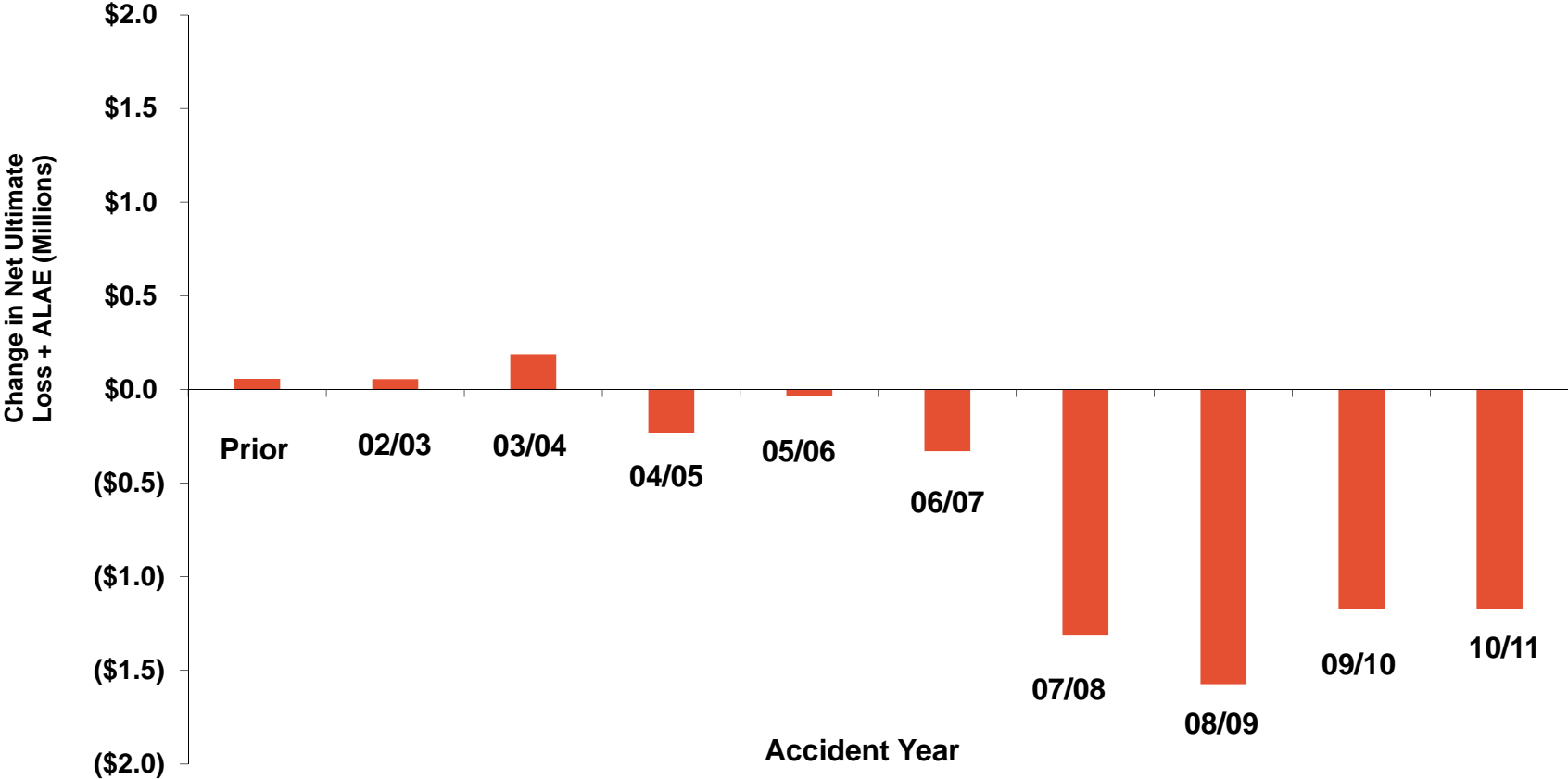
# Case reserve adequacy changes make workers compensation results more uncertain

Workers Compensation Average Case Reserve by Age of Claim and Calendar Year



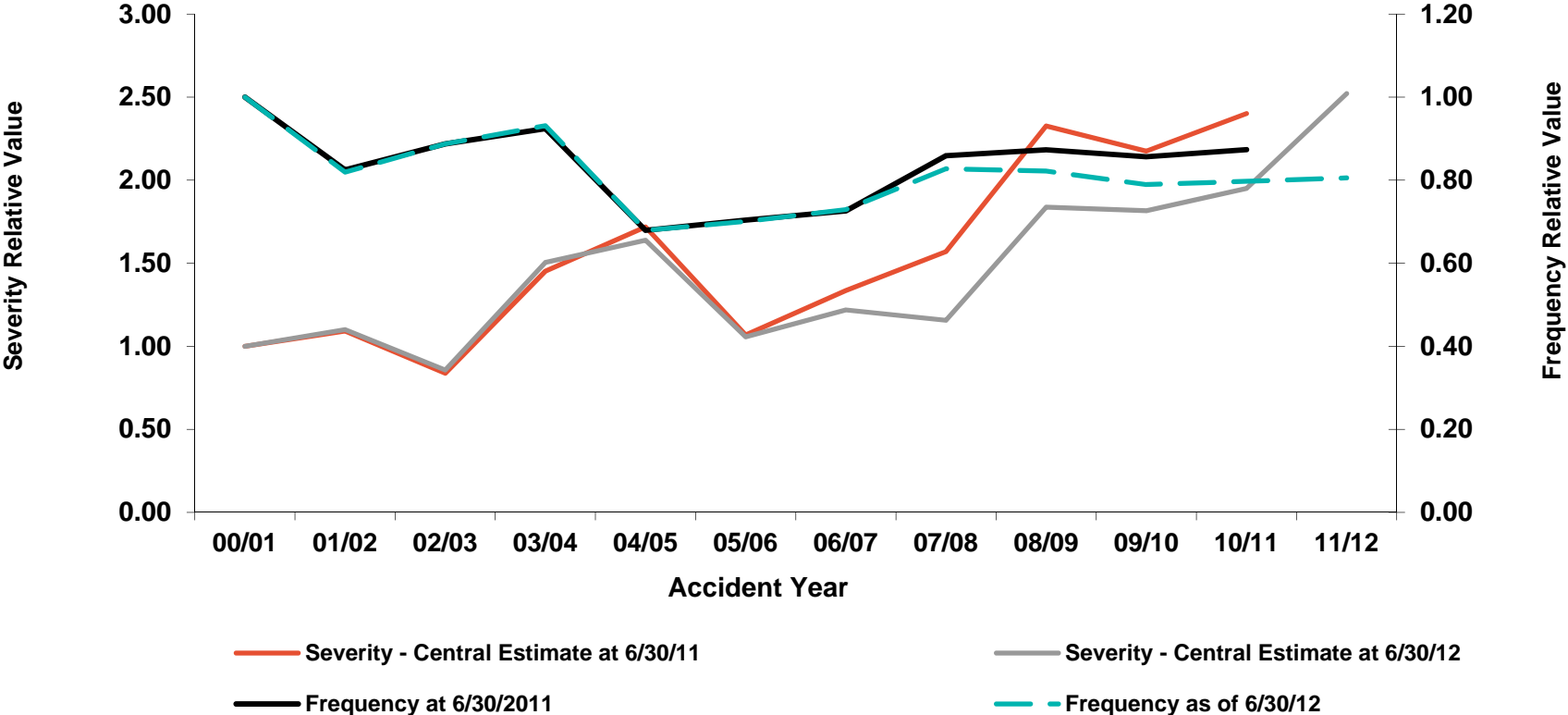
# General Liability results are favorable due to better than expected emergence

General Liability - Total Decrease = \$5.9 million



# Favorable severity emergence in accident years 05/06 and subsequent resulted in an overall decrease in ultimate losses

General Liability - Frequency and Severity Trends



**Workers Compensation and Auto Liability have historically driven the reduction in ultimate losses for prior years (takedown); however, General Liability drove the favorable result this year**

Historical Changes in Net Ultimate Losses & ALAE at each Year-End Analysis (\$ Millions)							
	Workers Comp.	General Liability	Auto Liability	Auto Physical Damage	Property	Errors & Omissions	Total*
June 2007	(\$4.1)	\$1.7	(\$3.1)	(\$0.1)	(\$0.9)	\$3.6	(\$2.9)
June 2008	(9.0)	0.2	(3.7)	(0.1)	(1.4)	2.4	(11.6)
June 2009	(6.1)	(1.0)	(4.9)	(0.0)	(1.7)	(1.2)	(14.9)
June 2010	(0.1)	(1.8)	(3.7)	0.0	(1.1)	(3.8)	(10.4)
June 2011	5.3	(4.8)	(0.8)	(0.0)	(1.9)	(3.0)	(5.3)
June 2012	2.5	(5.9)	(1.7)	0.1	(0.6)	(0.1)	(5.7)

\*Excludes aggregate and deductible

## Historical Net Loss Ratios

Net Ultimate Loss Ratio as of June 30, 2012							
Coverage Year	Workers Comp	General Liability	Auto Liability	Auto Phys Dam	Errors & Omissions	Property	All Lines
2006-07	68%	63%	9%	39%	99%	122%	68%
2007-08	62	60	23	65	84%	275	72
2008-09	74	92	64	92	N/A	73	75
2009-10	85	99	66	93	N/A	147	89
2010-11	88	103	49	107	N/A	82	86
2011-12	92	130	56	133	N/A	97	93

- 2011-12 loss ratio is higher than recent historical levels but this year is immature
  - Driven by all coverages except auto liability

## Reserve variability can significantly impact surplus

Impact of Variability on Booked Reserves and Surplus (\$ Millions)			
	Indicated Liabilities @6/30/2012	Difference versus Booked	Surplus
High Reasonable	\$224.7	\$35.6	\$26.4
Low Reasonable	171.2	(17.9)	79.9
Central Estimate	189.1	0.0	62.0
Booked*	189.1	—	62.0

\*Booked numbers are preliminary

- If losses emerge at a high reasonable level, surplus could drop \$35.6 million
- Under low reasonable loss assumptions, surplus could increase significantly



# Potential Rate Implications for Program Year 2013-14

## Preliminary Indications:

- Based on our June 30, 2012 liability analysis; actual rates will be derived using data evaluated as of September 30, 2012
- Towers Watson has not performed an in depth analysis of rates at this point

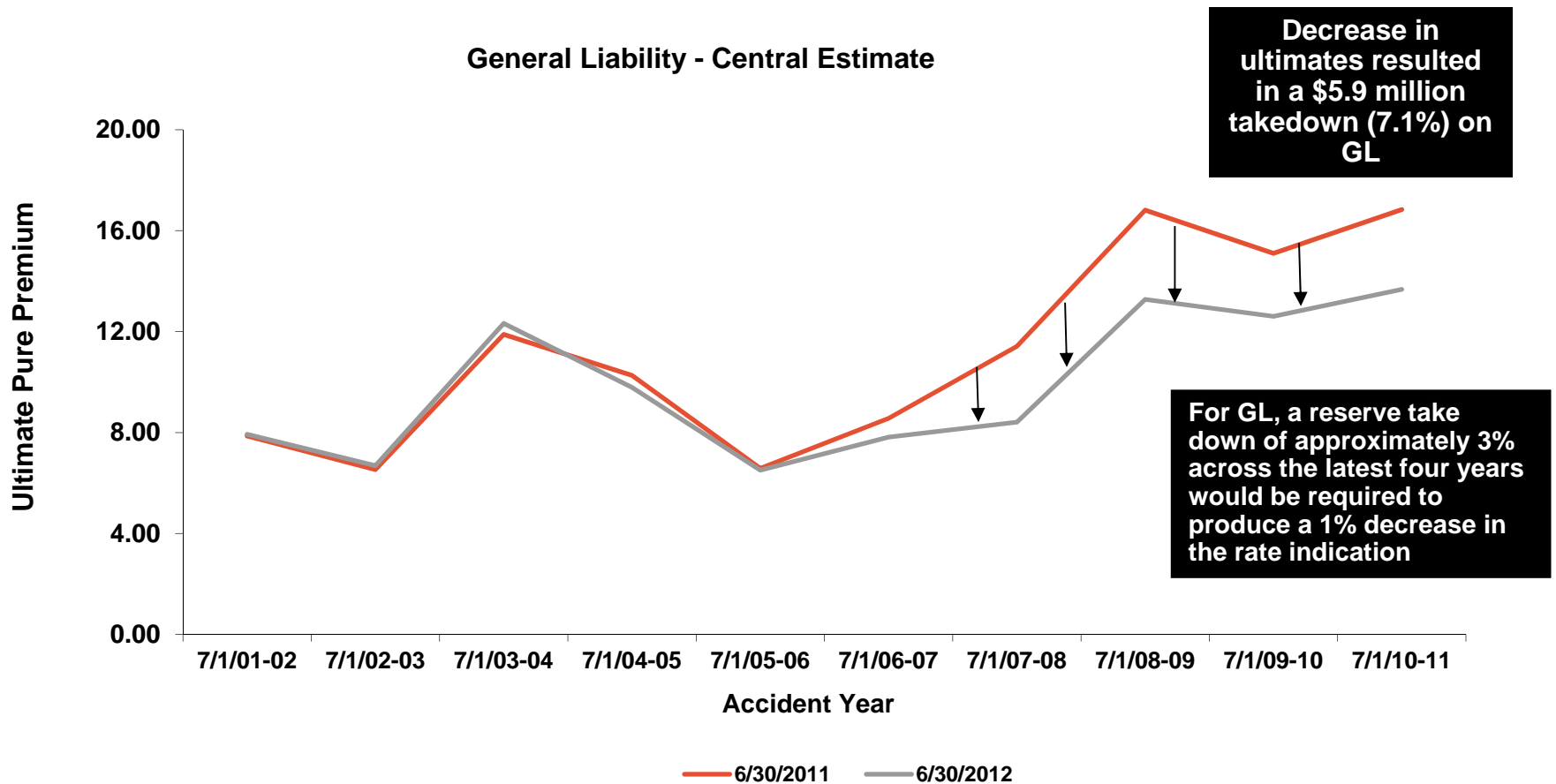
## July 1, 2012 Range of Rate Level Indications

Coverage	TW Initial Expected 2013-14 Rate Change	Direction of 2013-14 Rate Indication from Initial Expected
Workers Compensation	2.1%	Higher
General Liability	31.1%	Lower
Auto Liability	(31.0)%	Lower
Auto Physical Damage	0%	Flat
E&O	75.6%	Flat
Property	(5.5)%	Flat
Total	7.8%	Higher
Total Excluding E&O	1.8%	Higher

### Most uncertainty surrounding

- WC - case reserve/development uncertainty
- Property – reinsurance price increases

## Reserve takedowns occur because our estimates of ultimate losses change as more information emerges over time



- The decrease was largely driven by takedowns in the more recent years
- Changes in the losses for the more recent years have a leveraged effect on level of future costs

## Sources of volatility

- Large claims
- Catastrophes (e.g., hurricane, flood, earthquake, terrorism)
- Court decisions/jury verdicts
- Legislative changes
- Economic conditions
- Changing external conditions (e.g., changes in frequency and severity)
- Changes in claims handling (e.g., case reserve strengthening in WC)

# Questions?

