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Streff
INSURANCE SERVICES

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Summer Notes from Steve Streff

Our firm expanded once again on July 1 when we added Todd Gruenhagen and Sarah Petersen to our team, bringing us to six actuaries and making us one of the deepest consulting firms in the Midwest. Todd founded Green Hills Consulting in 1998 and has built up a strong practice. Todd and Sarah specialize in serving the various needs of self-insureds and captives. There is a strong market for this business in Minnesota and Streff Insurance Services is now among the leaders in this field. Both Todd and Sarah work out of their homes in northeast suburbs of the Twin Cities.

Equally exciting is the news that Cindy Grim joined our firm on January 1. Cindy has managed a consulting practice since she left The St. Paul in 2001. As a medical malpractice and liability pricing expert, she helps round out the Streff team. Most of Cindy's current duties involve commercial rate filing analysis for national companies and she is being integrated into some of our reserving accounts. Cindy works out of her home in Apple Valley, MN.

We have redesigned our website www.streffinsurance.com. You will find an expanded description of our services, improved biographies and pictures of the Streff team. The theme has been streamlined with a clean and modern look. Special thanks to those clients who provided testimonials.

It was hard to say goodbye to Ryan Beckman, our able actuarial assistant who left us in April. Ryan took a job with Allianz in Minneapolis where he is better able to associate with other young actuaries. He helped make our models more efficient and our reports easier to read. The article here on pivot tables was written by him.

If you haven't yet tuned in to the astute observations of Bob Hartwig at the Insurance Information Institute (www.iii.org), then you're in a real treat. His commentary on the state of the industry is outstanding. One of Dr. Hartwig's overriding issues is that the insurance industry's historical return on equity is below other industries and that a combined ratio of 95% should be the standard rather than the exception. Part of the "problem" is recent over-capitalization brought on from stellar underwriting results during the two years without large-scale catastrophes. That over-capitalization could change overnight with another Katrina, earthquake or terror attack, so you can't blame the industry for tucking away extra cash in the face of a soft market and the constant threat of cats.

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The Third Annual Momentum Rankings

After another profitable year most firms held steady according to the findings of the third annual Momentum Rankings as developed by Streff Insurance Services. An industry combined ratio of 95.6% and surplus growth of 6.2% were offset by negative premium growth, which was the first premium decline since World War II. It now appears that 2006 will be remembered as the peak of the current profit cycle.

The Momentum Rankings are based on data from Best's 2008 Key Rating Guide. By measuring financial indicators over a five year span and weighting toward the current years, a company's momentum can be quantified. Reviewing hot and cold companies can teach us lessons about current business strategy.

In our model, surplus growth accounts for 40% of each company's score with a 55% weight assigned to the growth in 2007. Combined ratios and premium growth each account for 30% of the score. Insurers' are penalized for premium growth that is excessively fast or slow. The industry's 2007 revenue growth was slightly negative, so companies were rewarded for disciplined underwriting.

The nearby table ranks the largest 50 companies by momentum. The scores for the three components are measured with symbols similar to those found in Consumer Reports. Solid circles represent the top quintile and completely hollow circles represent the bottom quintile.

Conservative firms such as FM Global, Chubb, USAA and Erie have risen to the top. The key to their success is controlled organic growth and an emphasis on retention. These companies have strong corporate cultures. As well, other strong-identity firms such as Auto-Owners, State Farm and Allstate are performing well.

Two new companies to the top 50, Philadelphia and Balboa, have booked tremendous underwriting results. However, excessive premium growth makes us leery of embracing these firms just yet. Philadelphia was acquired by Tokio Fire this summer at the height of their success.

SAFECO is soon to be bought out Liberty Mutual after shining itself up for a sale. The combination will result in the country's fourth largest insurer. Liberty's underwriting results have been relatively poor and its expense ratios have crept higher, leading to neutral momentum. Maybe a bigger platform and a reorganization will bring better numbers.

The weak dollar and depressed stock prices have given foreign players extra incentive to scoop up American firms. Commerce was recently bought out by Spain's Mapfre SA and other firms outside the top 50 have been purchased by foreigners such as Munich Re and Zurich. Watch for Allianz and QBE along with Bermudans ACE and XL to expand their American presence. Stateside, Travelers and Berkshire Hathaway could absorb almost any stock company.

As for buyout candidates, there is a feeling that several high-quality companies will be acquired in the next year. Leading sell-out candidates include WR Berkley, Mercury General, Cincinnati, Hanover and Unitrin.

Perhaps your company's momentum is strong. Drop us a line and we'll run your five-year numbers through our model and return a brief commentary.

	Momentum Rank	Company	Surplus Growth	Combined Ratio	Premium Growth	Premium Rank
hot	1	FM Global	●	●	●	27
	2	Chubb	●	●	○	11
	3	AIG	●	●	●	2
	4	USAA	●	○	●	12
	5	Erie	●	●	●	21
	6	Philadelphia	●	●	○	49
	7	ACE INA	●	●	○	20
	8	Travelers	●	●	●	4
	9	Balboa	●	●	○	48
	10	Hartford	●	●	●	10
warm	11	Auto-Owners	●	○	●	19
	12	Assurant	●	●	○	32
	13	WR Berkley	●	●	●	18
	14	Fairfax	●	○	●	23
	15	Mercury General	●	●	●	25
	16	State Farm	●	○	●	1
	17	Allstate	○	●	●	3
	18	Cincinnati	○	●	●	22
	19	Nationwide	●	○	●	7
	20	Hanover	●	○	●	34
neutral	21	Southern Farm Bureau	○	○	●	40
	22	Commerce	○	●	●	43
	23	Auto Club Enterprises	●	○	●	31
	24	Country	●	○	●	39
	25	Great American	○	●	●	29
	26	Sentry	●	○	●	42
	27	Selective	○	○	●	46
	28	Munich Re	●	○	○	35
	29	Liberty Mutual	●	○	●	6
	30	Markel	○	●	○	50
cool	30	Progressive	○	●	●	9
	32	Berkshire Hathaway	○	●	○	5
	33	NJM	○	○	●	47
	34	Westfield	●	○	○	45
	35	MetLife Auto & Home	○	●	●	24
	36	Old Republic	○	●	○	36
	37	Everest Re	●	●	○	38
	38	Farmers	○	○	●	8
	39	CA State Auto	○	●	○	33
	40	Zurich US	●	○	○	15
cold	41	Allianz	○	●	○	17
	42	State Comp Fund of CA	●	○	○	37
	43	QBE	●	○	○	30
	44	Safeco	○	○	●	16
	45	CNA	●	○	●	13
	46	American Family	○	○	●	14
	47	White Mountains	○	○	○	26
	48	GMAC	○	●	○	28
	49	Unitrin	○	○	○	41
	50	Swiss Re	○	○	○	44

Key: Companies ranked by quintile

●=1-10, ●=11-20, ●=21-30, ○=31-40, ○=41-50

An Introduction to Excel Pivot Tables

Pivot tables are a powerful and user-friendly tool in Microsoft Excel. They can be used effectively to analyze and interpret large data sets, even by someone with limited Excel experience. There are only a few steps to generate a pivot table, but once constructed they can offer insights that might otherwise remain hidden.

The first step to creating an efficient pivot table is organizing the data sheet properly. Data must be sorted into columns with the heading for each column of data in only the first row of the spreadsheet. Each column must have a distinct name from all the other columns, and there cannot be any blank columns going across the data set. One final note in preparing the data sheet is to verify continuity in the data itself.

Once the data has been prepared, the second step is to create the actual pivot table. In a new worksheet, going to the Data dropdown menu and selecting PivotTable and PivotChart Report will open a new dialog box. Name the data range by highlighting the data columns on the data worksheet and place the table in the new worksheet. Another way to create a pivot table is to simply copy and paste an existing pivot table, or use the option of creating a new table from a previous table. Once the pivot table is displayed in the workbook, a field list will be displayed on the right of the screen, as well as a special "pivot toolbar". To add data to the table, simply click on the column name in the field list, drag the mouse to the desired location and drop the data in the table.

The true art of the pivot table is learning how to dissect the data in the most beneficial way. For some, it might be best to look at accident years as rows, with various statistics coming down as columns. For others, it might be best to break down the different types of auto coverage as rows, accident years as column headings and Losses as the data. These two examples are shown in Tables 1 and 2, respectively. Another powerful tool built into any pivot table is the filter bar above the top row of the table. This is used to restrict the table to certain limitations that may be desired. For example, if you wanted to only look at data from Minnesota, create a state column in the data spreadsheet and drop that column name into the filter row.

It is simple to add or augment data in the pivot table if the data spreadsheet changes. To add additional columns it is best to insert them between two existing columns or else the entire range will have to be redefined. Also, if data has been re-entered or a formula has changed, click the refresh button on the pivot table toolbar (the red !) and the table will be instantly updated. When adding a new column to the spreadsheet, refreshing the pivot table will add the new column heading to the field list. To add a field in the pivot table from current data it is usually simpler to create a formula in the pivot table than to create an entire column of data. For example, to create a Loss Ratio field, it is best to go to the Pivot Table menu in the new toolbar and select Formulas – Calculated Field. Name the new field (Loss Ratio) and insert the current fields and operations (Inc. Losses / Premium) to create the desired formula.

State	MN	Table 1			
	Data				
Accident Year	Premium	Inc. Losses	Pd Losses	Loss Ratio	
2002	793,685	535,252	507,461	68.7%	
2003	791,964	353,364	323,056	44.1%	
2004	908,512	410,565	376,571	45.1%	
2005	953,583	399,722	357,261	41.2%	
2006	1,011,732	520,648	473,651	52.5%	
2007	1,047,439	556,114	510,924	53.1%	
Grand Total	5,506,914	2,775,665	2,548,924	49.7%	

State	MN	Table 2					
Inc. Losses	Accident Year						
Accident Type	2002	2003	2004	2005	2006	2007	
BI	140,334	43,330	94,458	60,876	112,898	145,172	
UM	161,561	45,949	24,960	19,847	87,654	148,175	
Coll	77,735	77,157	66,672	83,445	77,947	86,848	
Comp	71,877	63,669	54,875	105,953	52,543	69,597	
UIM	48,617	51,211	130,738	81,771	42,450	58,308	
PD	35,128	72,048	38,863	47,831	147,157	48,013	

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Streff Insurance Services provides a wide range of actuarial consulting support to property and casualty insurance companies. We trace our roots back to 1983 and have been located in picturesque Red Wing, Minnesota since 1995. Since then, our client base has steadily grown and our relationships with our other insurance vendors have strengthened.

We are known for our informative reports, independent views and practical advice. Open communication and a sharp focus on the end product are the keys to meeting project deadlines and keeping clients satisfied. Our areas of specialty

include loss reserves, pricing, reinsurance analysis, start-up feasibility studies, strategic management and industry research.



A Baker's Dozen – Simple Lessons for a Senible Reserving Strategy

(Note: This article was originally published in the electronic newsletter of NAMIC Insurance Company)

In medieval times bakers could face severe punishment if they shortchanged customers, so they made a habit throwing in an extra item with every order. Since counting quickly by hand can result in mistakes, an order of a dozen would most often contain thirteen, sometimes twelve or fourteen, but almost never eleven. Thus, thirteen came to be known as a “baker’s dozen”.

Like counting bakery items and forecasting in general, setting loss reserves is an inexact exercise subject to human error and biases. Insurance companies can learn from the baker by building a small margin of safety into the reserves. Research shows that a company’s reserving strategy tends to reflect its overall approach to business. Companies with adequate reserves tend to emphasize long-term results, invest prudently and maintain lengthy relationships with agents.

Developing adequate reserves begins with a commitment to a steady case reserving strategy that can be monitored regularly by management. A consistent case reserve approach matters more than the technical strength of the case reserves and consistency will yield reserve smooth and accurate trends. Once a steady case reserve strategy is in place, the IBNR reserves can be set to reflect your annual growth.



Another winning habit is playing it safe with the current accident year. It is tempting to be optimistic about today’s business strategy. Putting away a little extra on the current accident year will pay off down the road. To ensure that the reserves are reasonable, double-check secondary metrics such as loss severity and claim frequency. If those numbers look aggressive raise the IBNR to be safe.

Finally, very old accident years should be reserved with caution since they usually involve liability claims that will eventually be settled by the courts. Many companies have old assumed reinsurance liabilities. More often than not these liabilities tend to worsen over time. It can be difficult to properly analyze old liabilities so it’s best to add a reserve cushion.

What is the optimal reserve margin of safety? We advise between 5% and 10% depending on the nature of the reserves.

Companies with heavy property exposures should lean more toward a 5% reserve margin. Some firms go above 10%, but that risks attracting unwanted attention from the IRS. Keep in mind that the baker didn’t throw in two extra doughnuts, only one.