

NON-LIFE RESERVES

Insurers hold technical reserves on their balance sheets to demonstrate to interested stakeholders that future claims from existing policyholders have been estimated and, sufficient assets have been put aside to meet these claims when they do arise.

The technical reserves will typically comprise unexpired premiums, reported claims not yet paid and provisions for Incurred But Not Reported (IBNR) claims. The amount of these reserves directly affects the Shareholders Worth on the balance sheet.

In most companies the claim reserves are typically calculated by estimating the amounts payable on each reported claim. The total of the individual claims is then arbitrary increased for IBNR. This approach does not explicitly consider expected loss ratios nor claim patterns and, could be said to be subjective and not transparent.

Management practices in the insurance sector are, however, getting more sophisticated. This in part, is in response to the demands of wider share ownership, merger and acquisition activities, and institutions seeking rating status. All these require increased transparency and objectivity in the calculation of technical reserves and, by implication, the demonstration of true Shareholders Worth.

Technical reserves should reflect each entity's underwriting and operational practices, expected loss ratios and operational/technical expenses. The reserves should also reflect the business tail and likely claims inflation experience – for instance some liability claims may take years to settle. ***Statistical methods help achieve these requirements.*** The methods, if disclosed, can be independently verified by interested stakeholders, thereby increasing the transparency of published reports. Statistical calculation methods are the preferred global approach to calculating non-life technical reserves.

Our experience is that the initial adoption of statistical methods may increase the ‘normal’ technical provisions and thereby reduce reported profits. However the increased confidence/integrity reflected in balance sheet figures outweigh, we believe, the possible temporary profit reduction.

In summary, we encourage insurers to adopt statistical methods for calculating technical reserves. This conforms with current global practice, increases the integrity of balance sheets, and provides the basis for calculating shareholders *embedded value* - a key index in insurance reporting.

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