5.1.0 → Overview

→ overview → This section explores the use of claims-made policies. Unlike occurrence policies, claims-made policies limit coverage to claims reported during the policy period, effectively shortening the time between coverage inception + claim resolution. This shorter timeline offers several advantages for the ratemaking actuary, including a reduced forecast period + lower pricing risk due to more immediate feedback on claim trends + costs.

5.1.1 → Claims-made ratemaking

→ Overview → Products w/in certain insurance lines, such as professional liability + worker's compensation, can be difficult to price due to the amount of time it takes to report + settle a claim. It is not uncommon for a particular claim to spend many years or even decades developing before reaching its ultimate value. These types of products are known as <u>long-tailed</u> lines of business due to the extended period it takes to fully settle a claim.

→ One issue w/ long-tailed lines is that it can take years before a company realizes that its products are overpriced/underpriced. This is b/c long-tailed lines tend to have significantly longer <u>report lag</u>, which is the time between when a claim occurs + when it is reported to the insurer. The extended development period in long-tailed lines thus introduces additional risk. To manage this uncertainty, actuaries often adopt a distinct pricing method: claims-made ratemaking.

→ Claims-made Coverage

→ An insurance policy's <u>coverage trigger</u> is the event that determines whether a claim is covered under the policy. In most insurance lines, policies are <u>occurrence-based</u>, where the coverage trigger is the date of the occurrence of a claim. Under an occurrence-based policy, any claims that occur during the policy's effective period are covered, regardless of when they are reported.

→ In contrast, <u>claims-made policies</u> are <u>report-based</u>, meaning the coverage trigger is the reporting date of the claim rather than its occurrence date. These policies often specify a <u>retroactive date</u>, typically aligned w/ the policy's effective date. For a claim to be covered under a claims-made policy, it must both <u>occur after the retroactive date</u> + be <u>reported during the policy term</u>.

(very small % of exams + long content ⇒ skipping for now)