6.1.3 Actuarial Standard of Practice No. 43

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The *Actuarial Standard of Practice (ASOP) No. 43*, titled "Property/Casualty Unpaid Claim Estimates," provides guidance for actuaries when estimating loss and loss adjustment expenses for unpaid claims in property and casualty insurance. This standard applies to actuaries who develop unpaid claim estimates for property/casualty coverages across all entities.

Coach's Remarks

As a general guide outlining best practices, you are not expected to memorize ASOP No. 43 verbatim.

Instead, for the exam, focus on being able to broadly discuss important considerations when estimating unpaid claims and how those considerations could impact such estimates.

Below is a summary of the key findings in ASOP No. 43.

Purpose or Use

The actuary should identify the purpose or use of the unpaid claim estimate, such as for external financial reporting, internal management reporting, or scenario analyses. If multiple purposes are intended, potential conflicts should be considered, and adjustments made if appropriate.

Constraints

The actuary should identify any constraints that may affect the analysis, such as limited data or resources, and determine if they could significantly impact the results. If the actuary believes that such a risk exists, they should notify the principal and communicate the constraints on the analysis.

Scope

The actuary should identify the intended measure of the unpaid claim estimate, such as a high estimate, low estimate, median, mean, mode, actuarial central estimate, etc. They should consider if the measure is appropriate to the intended purpose and identify if any amounts are discounted.

Additionally, the actuary should define the scope of the estimate, including

- whether it is gross or net of specified recoverables,
- the types of unpaid claim adjustment expenses covered,
- the claims to be covered, and
- any other items necessary to sufficiently describe the scope.

Materiality

The actuary has the discretion to disregard items that are not material to the unpaid claim estimate based on their professional judgment and the intended purpose of the estimate. Materiality should be evaluated considering applicable law and professional standards.

Nature

The actuary should have a thorough understanding of the nature of the claims being estimated, which may include coverage, conditions or circumstances affecting the claim, the adjustment process, and potential recoverables.

This understanding is determined by what a qualified actuary in the same practice area could reasonably be expected to know or foresee as relevant and material to the estimate. Note that the actuary is not expected to be an expert in every aspect of unpaid claims.

Unpaid Claim Estimate Analysis

When performing the analysis, the actuary should consider the following items:

METHODS AND MODELS

The actuary should consider different methods or models and select the appropriate ones based on relevant factors including:

- the nature of the claims and exposures,
- the claims development characteristics,

- the data availability,
- the applicability of various methods or models, and
- the reasonableness of the underlying assumptions.

The actuary should also consider potential limitations and uncertainties associated with each method or model used in the analysis and disclose them in the actuarial communication.

ASSUMPTIONS

The actuary should consider the assumptions underlying each method or model used to estimate unpaid claims and use assumptions that have no known significant bias and are not internally inconsistent.

The actuary should also consider the sensitivity of the estimate to reasonable alternative assumptions and notify the principal if the use of such assumptions would materially affect the estimate.

OTHER ITEMS

The actuary should also consider:

- the interaction among different types of recoverables,
- whether estimates should be gross or net of recoverables,
- external conditions that might have a material effect on the analysis,
- changing conditions that might be insufficiently reflected in the experience data or the assumptions used,
- any uncertainty associated with the analysis.

Unpaid Claim Estimate

After the unpaid claim estimate is produced, the actuary should assess the reasonableness of the estimate using appropriate indicators or tests based on their professional judgment.

If the unpaid claim estimate comprises multiple components, the actuary should assess if the estimates of different components are reasonably consistent.

Finally, the actuary should consider the intended purpose or use in deciding how to present the unpaid claim estimate.

Documentation

When documenting the work related to unpaid claim estimates, the actuary should ensure that the documentation is clear, complete, and appropriate for the intended audience. The documentation should include necessary disclosures and explanations of the methods, models, assumptions, and limitations used in the analysis.

Actuarial Communication

When issuing an actuarial communication, in addition to communicating the actuarial findings and opinions, the actuary should disclose:

- the intended purpose or use of the unpaid claim estimate,
- any significant limitations that constrained the analysis,
- the scope of the estimate,
- the accounting, valuation, and review dates,
- significant risks and uncertainties, and
- significant events, assumptions, or reliances underlying the estimate.

Furthermore, the actuary should disclose any material assumption or method that was prescribed by applicable law or selected by a party other than the actuary. If the actuary deviates materially from the guidance of this ASOP, they should also disclose it.

In certain cases, the actuary may need to make additional disclosures.

- If the actuary specifies a range of estimates, they should disclose the basis of the range provided.
- If the unpaid claim estimate is an update of a previous estimate, the actuary should disclose changes in assumptions, procedures, methods, or models and the reasons for such changes.