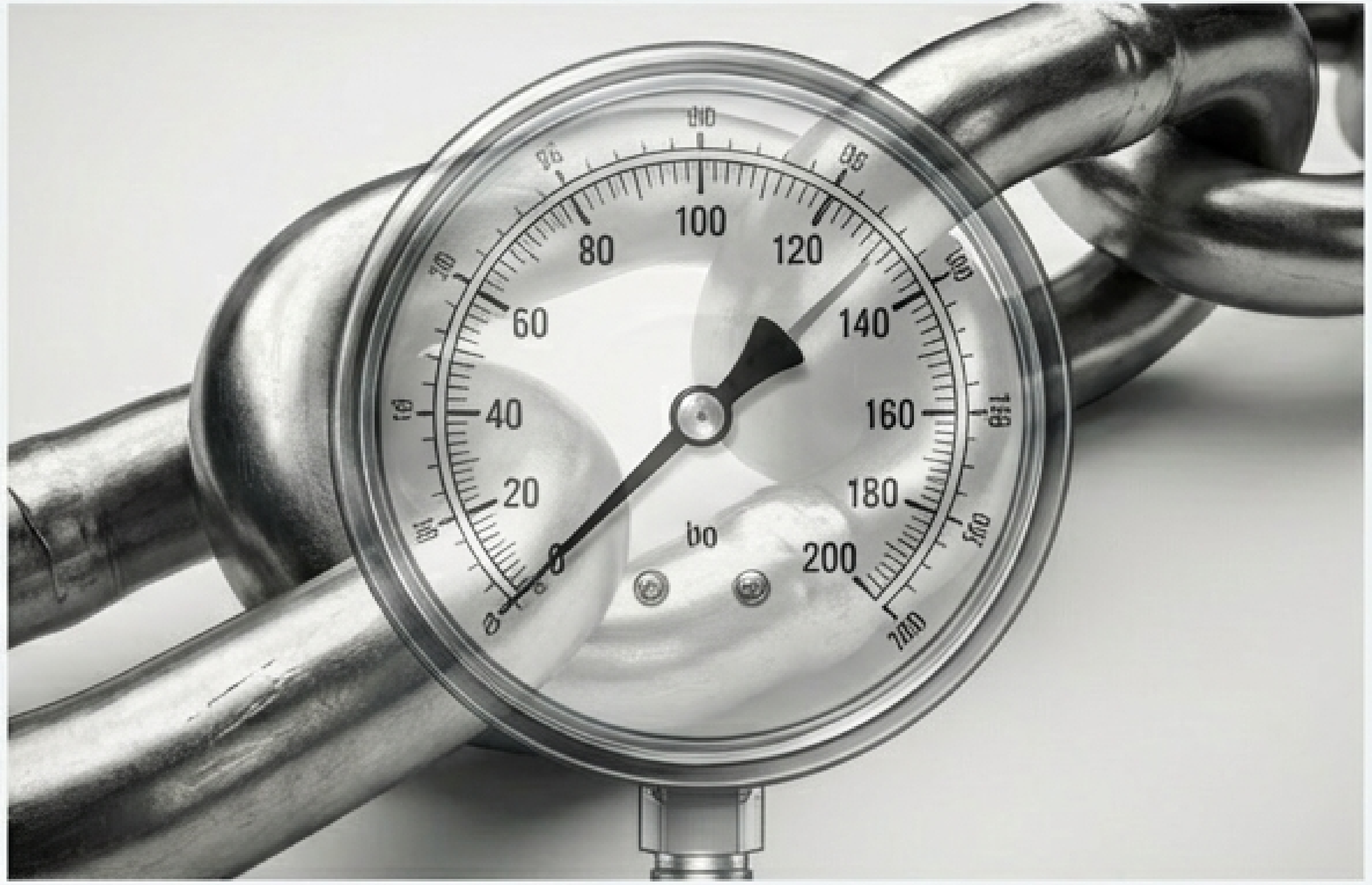
A Silent Shift

An Analysis of Claim Disposal and its Impact on Reserving Stability

Our Reserving Models Rest on a Single, Critical Assumption: Stability.

Standard methods, including the Chain Ladder, are only reliable if the underlying claim processes—reporting and settlement patterns—remain consistent over time.

How We Test the Strength of This Assumption



The Claim Disposal Analysis is a fundamental diagnostic tool. It measures the throughput and efficiency of our claims settlement process year over year.

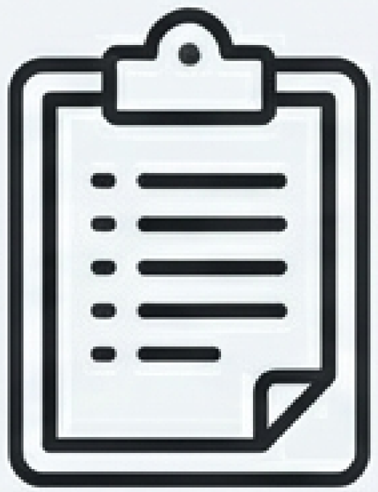
The Analysis Begins with a Snapshot in Time

Open Claims

The number of claims currently being handled.

Closed Claims

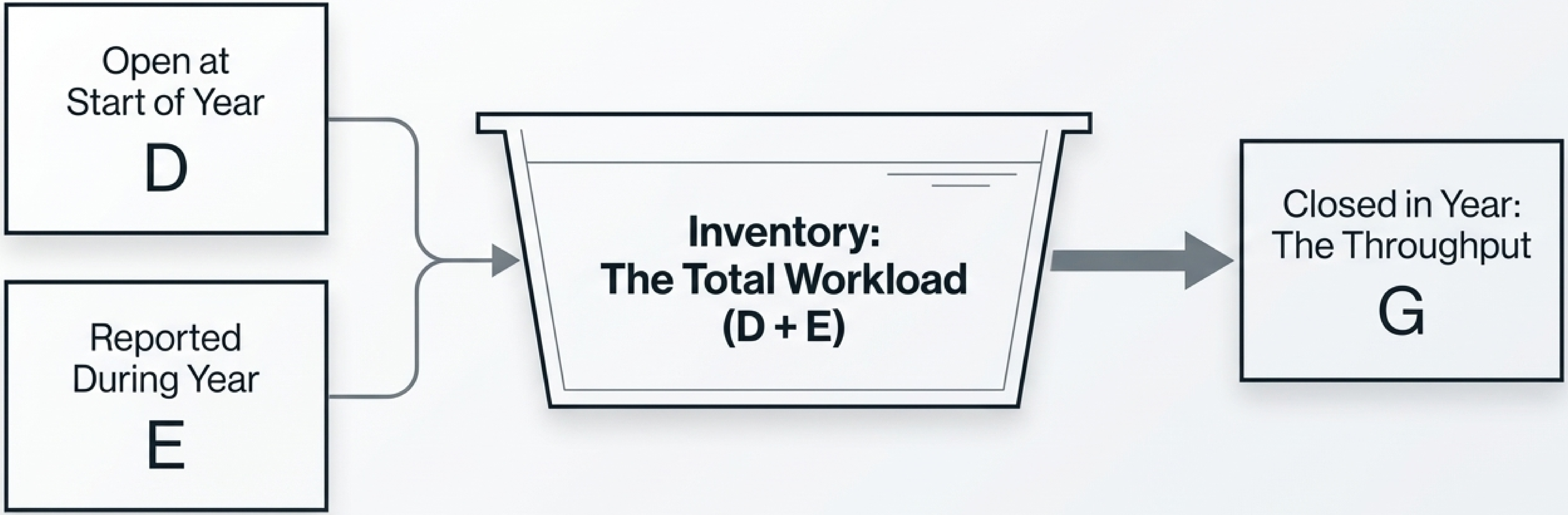
The cumulative number of claims settled to date.



Reported Claims

The total number of claims known to us (Open + Closed).

We Then Measure the Flow Through the System



NotebookLM

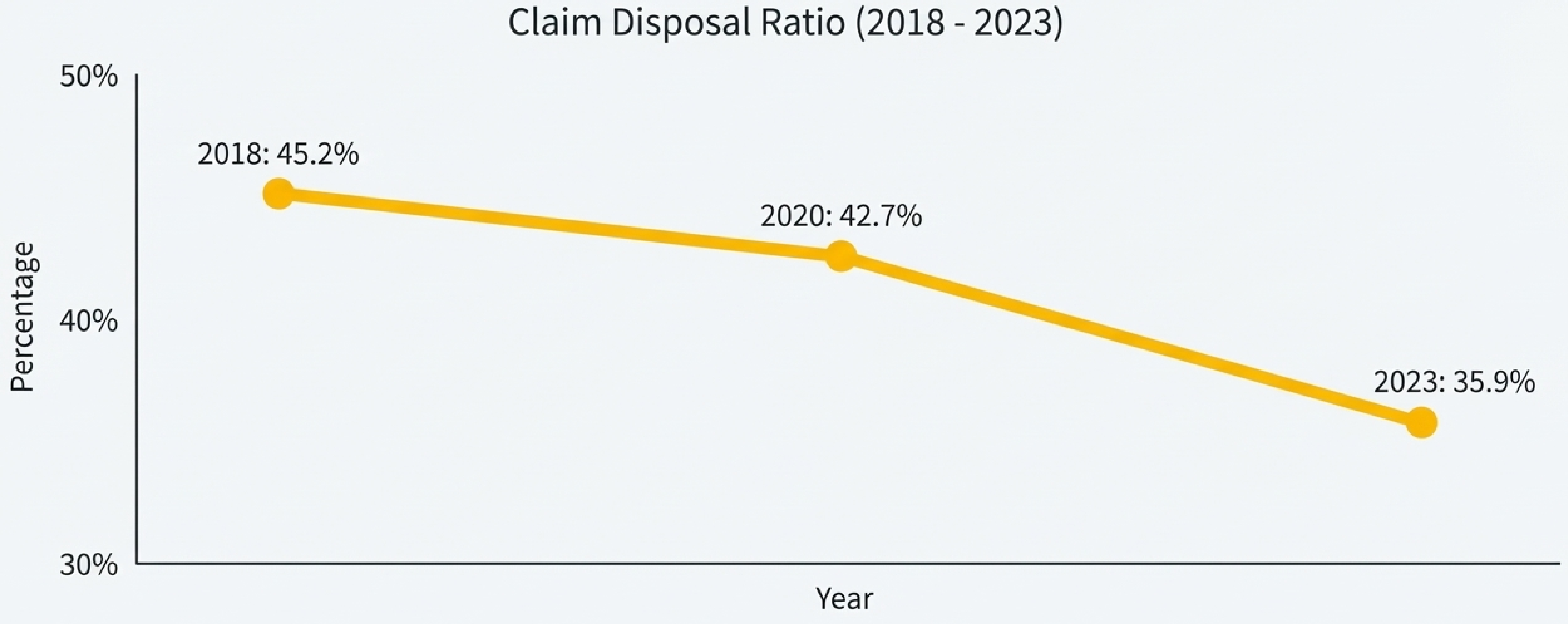
This Gives Us Our Key Metric: The Claim Disposal Ratio

This ratio tells us what percentage of the total claims workload we successfully settled in a given year. It is the primary indicator of settlement speed.

$$\text{Disposal Ratio} = \frac{\text{Claims Closed in Year}}{\text{Total Inventory (Open at Start + Reported in Year)}}$$

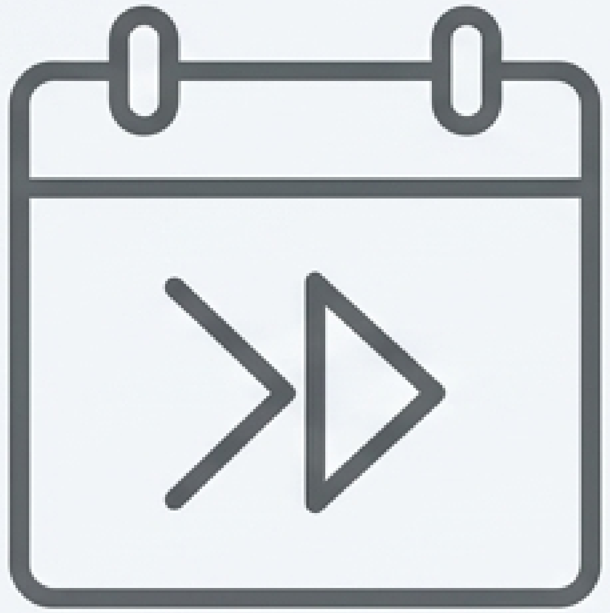
So, What Does the Data Reveal About Our Settlement Speed?

Our Claim Disposal Ratio Shows a Clear and Accelerating Decline.



NotebookLM

A 9-Point Drop Is Not a Fluctuation. It's a Fundamental Shift.



Past Assumption:
Fast, Stable Settlements

Current Reality:
Decelerating Settlements

The data is unequivocal: we are closing a smaller percentage of our claims workload each year. Our historical assumption of a stable settlement speed is no longer valid.

This Slowdown Creates a Predictable Chain Reaction.

Falling Disposal Ratio

Slower Claim Settlements

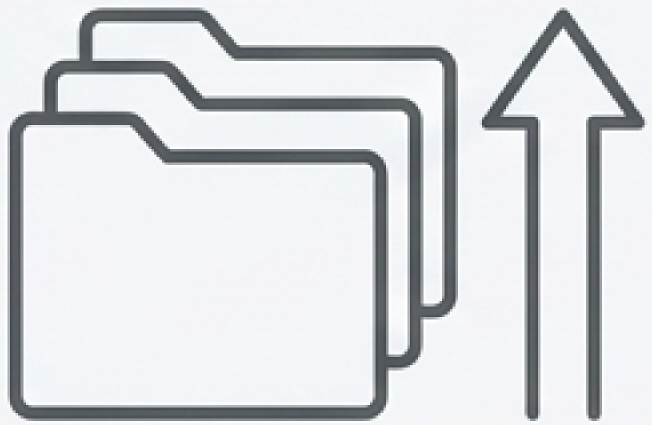
Artificially Low LDFs

Chain Ladder Models Understate Liabilities

Potential Reserve Deficiency

How This Trend Directly Distorts Our Models

The Chain Ladder applies historical (and faster) settlement patterns to the current book. Since actual settlement speed is now slower, the model will **systematically underestimate** the ultimate claims cost.



A falling disposal rate leads to a **“bulge”** in open claim counts. This can inflate Case Reserves, **masking** a deeper **inadequacy** in the IBNR until it’s too late. This is a critical check before any Berquist-Sherman adjustment.

Our Immediate Priorities: Diagnose the Cause and Recalibrate Our Models.

We must investigate the operational drivers behind this slowdown. Key questions to answer:

- Has there been a shift in claim complexity?
- Is there a processing backlog in the claims or legal departments?
- Has there been a deliberate change in our settlement philosophy?

This Metric is the Canary in Our Coal Mine.

It provides an early, unambiguous warning of a fundamental operational shift. Addressing it now is critical to ensuring the ongoing stability and accuracy of our financial reserves.