

Pinnacle News

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From the President



Steven G. Lehmann

To borrow from Charles Dickens' "A Christmas Carol," actuaries make predictions by using the ghost of past events to predict the ghost of future events while carefully monitoring the ghost of present events.

What does Pinnacle see in the ghost of the future events for 2008?

- The commercial lines market will continue to soften, resulting in lower profits and expense belt-tightening.
- Similar pressures on personal lines will beget selective rate reductions.
- The reinsurance market will soften across the board.
- E&O and D&O claims will increase due to fall out from the subprime meltdown.
- New areas of liability will emerge from global climate changes.
- ERM will grow in popularity due to rating agency pressure and prudent management.
- Predictive modeling will become a competitive necessity for commercial insurers.
- Auto frequency will stay low because of high gas prices.
- Claim severities will be higher due to rising medical costs.

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Wildland Fire Risk Reaches Catastrophic Level

The recent destruction in southern California serves as a reminder of the catastrophic peril of wildland fires. While California has been a top story recently, other states are equally exposed to wildland fire risk: Mississippi, North Carolina, Florida and drought-stricken Georgia all had significant occurrences of wildland fires – along with California – in 2006, according to the Insurance Information Institute.

When it comes to pricing, wildland fires should no longer be viewed as a "standard" fire peril because its characteristics more closely resemble a catastrophic peril. Wildland fires pose challenges familiar to anyone managing or pricing the portfolio of a business with hurricane or earthquake exposure.

As along the nation's beachfronts, more homes are also being constructed in woodland areas. New home construction in Wildland/Urban Interface (WUI)

areas, "where structures and other human development meet or intermingle with undeveloped wildland or vegetative fuels," has increased by as much as 38%



in the western United States, according to a March 2002 study by the U.S Fire Administration, which is the most readily available information.

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Pinnacle's Regional and Niche Insurers Seminars Receive Rave Reviews

"Very good, both conceptually and with actionable ideas."

"Good, comprehensive, thought-provoking seminar. Thanks!"

"That was the best basic explanation of ERM I had ever heard."

These are just some of the enthusiastic comments from attendees of Pinnacle's seminar, "Excelling in a Sophisticated Insurance Market: Solutions for Regional and Niche Insurers."

Because of its success, Pinnacle is offering this strategy-packed seminar in Boston on March 19 and 20. Popular sessions like New Frontiers for Regional and Niche Insurers, Strategic Planning, Enterprise Risk Management: Not Just for the Big Boys, and detailed Personal Lines and

Commercial Lines Applications will be offered. Other topics include current industry trends, competitive positioning and sophisticated pricing techniques.

The seminar costs \$850 per person and space is limited. Those who register by the early bird date, Feb. 15, 2008, will receive a \$100 discount. Register three executives from the same company and the fourth attends free. A block of hotel rooms will be available on a first come, first served basis.

This seminar provides tools that every regional and niche insurer needs. Don't miss out. Register today!

For more information, contact Daisy Pritchard at (309) 665-5010 or visit www.pinnacleactuaries.com. ▲

Carlson Becomes President of the Casualty Actuarial Society

Pinnacle Consultant **Christopher S. Carlson** began his term as President of the Casualty Actuarial Society (CAS) on Nov. 14. The CAS, which was founded in 1914 to advance actuarial science through research and education, is based in Arlington, Va.

As President, Chris will chair the CAS Executive Council, which is responsible



Christopher S. Carlson

for implementing CAS policies, and will oversee the operations of several volunteer-led committees. He will also be involved in representing the CAS in an ambassadorial role with the other US-based actuarial organizations as well as with actuarial associations in Canada and Mexico.

A member of the CAS since 1986, Carlson earned his CAS Fellowship in 1990. Previously, he served on the CAS Executive Council as the Vice President of Professional Education; as President-Elect; and, as a member of the CAS Board of Directors. He has also served on the Ratemaking Research, Ratemaking

Seminar, Long Range Planning, and Examinations committees.

Carlson earned his B.S. in Mathematics at The University of Oregon. He has worked in the insurance industry since 1979 when he began his career at Nationwide. He is a member of the American Academy of Actuaries and is currently a member of the Academy Board of Directors. Chris also has served as a member of the Actuarial Standards Board's Casualty Committee, serving as committee chair in 2005 and 2006.

For more information, contact Chris Carlson at (614) 734-8366 or ccarlson@pinnacleactuaries.com. ▲

From the President

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- More scrutiny of captive insurance companies by the Internal Revenue Service.
- The competitive edge will continue to narrow for Progressive and the other early pricing innovators.
- GEICO will prosper because of competitive prices and its famous gecko.
- Predictive modeling will expand to claims and wherever there is data to be mined.
- California auto rating regulations will produce downward pressure on rates to meet "100% compliance" filings.
- Continued scrutiny of reserves by analysts but emphasis will shift to impacts on earnings rather than solvency.
- And of course, Pinnacle can help no matter what happens in 2008.

Happy Holidays!

Steven G. Lehmann
President

Wildland Fire Risk Reaches Catastrophic Level

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Because wildland fires occur infrequently, it is difficult to assign credibility to a single or limited number of years of experience. Further, the few historic events that have occurred do not fully reflect this peril's loss potential.

All of these factors suggest the need to consider new ways of pricing the wildland fire peril, including modeling. Beyond pricing issues, however, the catastrophic nature of wildland fires requires a review of reinsurance purchases, managing exposure concentrations and proper underwriting guidelines to manage the total corporate exposure to the risks posed by wildland fires.

In summary, changing demographics and other factors require insurers to re-consider how they manage and price for wildfire risk. Insurers that take the initiative to re-address this risk will be prepared for the next catastrophe.

For more information, contact Paul Vendetti at (309) 665-5010 or pvendetti@pinnacleactuaries.com. ▲



Paul A. Vendetti

Lehmann Completes Term as American Academy of Actuaries' President

Pinnacle President **Steve Lehmann** recently finished his one-year term as president of the American Academy of Actuaries, the public information organization for the actuarial profession located in Washington, D.C. As president, Lehmann oversaw the strategic goals and priorities for the nonpartisan organization,

whose committees, task forces and work groups regularly prepare testimony and provide objective information to Congress and senior federal policymakers; comment on proposed federal and state regulations; and work closely with the National Association of Insurance Commissioners and other public officials.

As past-president, Lehmann will continue to serve on the Academy Board of Directors, Executive Council, and has been appointed to chair a new Public Interest Committee of the Board. ▲



We want to hear from you!

To ensure Pinnacle is meeting client expectations, we invite you to fill out a survey at <http://www.pinnacleactuaries.com/feedback>

How to Effectively Communicate with Your Actuary

Actuaries are champions in mathematics and probability theory, but they often lack effective oral and written communication skills. Too often, presentations by actuaries are filled with assumptions, complex models and caveats about uncertainty. At the same time, the actuarial report is often filled with complex exhibits and appendices, but short on narrative and explanations to make it easier to understand.

Actuaries thrive on being helpful and want people to understand their presentations. However, those who have not been challenged in the past may not be prepared to respond to some questions.

While the sample questions below should shed light on a report and/or make it more meaningful, at the same time, keep in mind that active listening skills are just as important. Strategies like summarizing your understanding of what the actuary said; offering a responsive example; or, following up with another question that approaches the topic from a different perspective should help you get the most from your questions.

Below is a list of several of the most important questions to ask your actuary:

1. **How do your conclusions differ from our held reserves?** This may seem like an obvious question, but an exhibit comparing the actuary's indicated findings with management's held reserve positions is often lacking.
2. **What data did you rely upon?** What concerns do you have about the data's reliability? If the data is suspect, the conclusions may be too.
3. **Have you incorporated any information external to our organization into your analysis?** If so, what form did that take? External information can include benchmarks from certain sectors or industrywide aggregates.
4. **Are your assumptions unduly pessimistic, optimistic or do they reflect your best estimate?**



Joe Herbers

If your actuary's answers leave you asking yourself, "What did he just say?" then you have every right to obtain an acceptable answer...

5. **What are the three most important assumptions in your analysis?** It is important to understand the "soft spots" in the actuarial analysis where significant judgments may be critically important to the overall conclusions.
6. **What risk factors contributed to uncertainty in your projections and how did you account for these?**
7. **Did you develop a range of reasonable outcomes?** If so, what does this range represent?

8. **What are the changes in your conclusions as compared to the prior evaluation?** On what basis did you change your mind from last year?

9. **What has been the historical accuracy of your prior projections?** That is, do you have a report card on your past performance for our organization? An actuary may feel this is "off-limits," but attorneys, for example, ask such questions fairly often in litigation matters.

10. **How do our results line up with our competitors, peer companies and/or industry averages?**

All these questions are legitimate inquiries into the process. If your actuary's answers to some of these questions leave you asking yourself, "What did he just say?" then you have every right to obtain an acceptable answer, even from another source.

Also, if your actuary's conclusions don't pass the "smell test" based on everything you know about your organization, you have the responsibility to make all necessary inquiries as to why such conclusions differ from your own sense of the company's financial position.

While delving deeper into an actuarial report can seem daunting, it is critically important. The more you understand from actuarial analysis, the more educated you will be to make optimal strategic decisions for your company.

For more information, contact Joe Herbers at (309) 665-5010 or jherbers@pinnacleactuaries.com. ▲

Pinnacle Experts Featured in Industry Publications

Pinnacle consultants provided thought leadership and showcased their expertise recently in several industry publications.

Robert J. Walling's article, "Rules of The Road," which was published in *Best's Review*, covers predictive modeling for commercial auto insurance.

Roosevelt Mosley wrote, "Living Without Credit Scoring" for *Contingencies* magazine to provide alternatives for states where credit scoring is not permitted.

Paul Vendetti discussed new options for Farmowners Pricing in his article, "Farmowners Pricing Should Change

with Farms, in The National Association of Mutual Insurers' electronic newsletter *Farm Mutual Forum*.

Finally, **Terry Pemberton** published a strategic planning article called, "Lost in the Trees" in NAMIC's *IN* magazine. ▲

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To learn more about
Pinnacle visit

www.pinnacleactuarials.com
or thefirmofchoice.com.

Pinnacle News Briefs

Deborah Price Joins Pinnacle

Deborah Price, FCAS, MAAA, has joined Pinnacle as a consultant in the Geneva office. She has more than 22 years of actuarial experience and specializes in reserving for asbestos, environmental and other mass tort liabilities and various reinsurance programs. Her experience also includes pricing of workers compensation and homeowners insurance and reinsurance contracts. She earned a Bachelor of Science degree in social work from the University of Wisconsin in Madison. To reach Deborah, call (630) 262-0954 or write dprice@pinnacleactuarials.com.



Deborah Price

Sandra Ross Joins Pinnacle

Sandra Ross, FCAS, MAAA, has joined Pinnacle as a consultant in its new Michigan office. Having more than 15 years of actuarial experience, she specializes in personal lines pricing and product management including marketing, planning and performance results. She also has experience with reserve opinions and regulatory compliance. She earned a Bachelor of Science in Math/Actuarial Science from the University of Michigan. To reach Sandra, call (734) 927-5103 or write ross@pinnacleactuarials.com.



Sandra Ross

Pinnacle Opens Office in Michigan

Pinnacle Actuarial Resources, Inc. opened a new office this month in Detroit, Mich. To reach the office, call (734) 927-5103. For more information, contact Sandra Ross by writing ross@pinnacleactuarials.com.

Actuarial Presidents Speak at Illinois State University

Three presidents or past presidents of U.S.-based actuarial organizations, including two from Pinnacle, spoke on Nov. 2 to students and guests of the Katie School of Insurance to celebrate ISU's sesquicentennial anniversary.



Come Join Us!

- ✓ **NAMIC Claims Conference / ICAC Arson Investigation Seminar**
February 4-8 • Las Vegas, Nev.
Exhibit
- ✓ **NAMIC Commercial Lines Underwriting Seminar**
February 27-29 • Chicago, Ill.
Presentation
- ✓ **Captive Insurance Companies Association Annual Meeting**
March 5-7 • Scottsdale, Ariz.
Exhibit
- ✓ **Vermont Captive Insurance Road Show**
March 12 • Cincinnati, Ohio
Event Sponsor
- ✓ **CAS Ratemaking Seminar**
March 17-18 • Cambridge, Mass.
Presentations and Exhibit
- ✓ **Excelling in a Sophisticated Ins. Market: Solutions for Regional and Niche Insurers**
March 19-20 • Boston, Mass.
Pinnacle Seminar
- ✓ **Predictive Modeling Optimization for Workers' Compensation Conference**
March 27-28 • Orlando, Fla.
Presentation
- ✓ **PLRB/LIRB 2008 Claims Conference**
April 13-16 • Boston, Mass.
Seminar and Exhibit
- ✓ **NAMIC Personal Lines Underwriting Seminar**
April 16-18 • Orlando, Fla.
Seminar and Event Sponsor
- ✓ **Risk Insurance Management Society**
April 27 - May 1 • San Diego, Calif.
Exhibit

Steve Lehmann, immediate past president of the American Academy of Actuaries, **Chris Carlson**, president of the Casualty Actuarial Society and **Bruce Schobel**, president of the Society of Actuaries discussed the current issues facing the actuarial profession, future challenges to the profession and the skills that future actuaries will need. ▲



*Pinnacle wishes you a safe
and happy holiday season!*