

Claim Reserves 101

By Harlan Stientjes

Claim reserves are the money that WCIA sets aside to pay future claims expenses. They represent the adjuster's estimation of what the ultimate final cost of the claim will be. Claim reserves include both an expense (attorneys and experts) and an indemnity (paid to settle claim) component and are set initially and updated as information is received. The adjuster will use their experience, like-kind files, reported settlements, and jury verdicts in their estimations.

The reserve that a claim adjuster sets on an individual file aggregates up with all other claims and is provided to an actuary. The actuary takes claim reserves, WCIA's administrative budget, and a calculated amount for incurred but not reported claims to set the risk pool's rates to ensure WCIA has enough money to pay claims as the amounts come due. In this way, setting an accurate reserve is paramount to making sure we have the money to pay those claim costs when they accrue.

Recently, multiple trends have coalesced to create a very difficult environment for liability insurers. Multiple social issues have become prevalent driving nuclear (extremely large) verdicts, and younger generations have entered the jury pools. Studies have shown that younger jurors are more likely to award large sums in damages and to award medical bills without finding liability on defendants. Material and contractor shortages associated with the pandemic have also driven costs up in repairing real property. WCIA adjusters keep a pulse on these societal factors and increase their reserves when one of these factors is at play. One recent example of this, is an upswing in reserves caused by the City of Minneapolis's \$27 million George Floyd settlement. WCIA adjusters adjust reserves as the circumstances change.

WCIA uses the anticipated result reserving method. Potential damages are assessed at full value, discounted by the percentage chance of winning the case. Your adjuster may set a heavy expense reserve with low indemnity on a file they think can be defended well in court, and they may set a high indemnity low expense reserve on claims that may need to be settled quickly due to adverse exposure. By using this method WCIA avoids 'stair-stepping' reserves, which is increasing reserves bit by bit until the final claim result. Stair-stepping undervalues the claim to the actuary causing the pool to lose the ability to meet claim liabilities in the long run.

Members can help WCIA set appropriate reserves by timely reporting claims, by working with the adjuster to search out records associated with the allegation, and by engaging in the claim process. WCIA highly encourages members to reach out to the adjuster to discuss claim reserves whenever questions arise.