



As much as it embarrasses me to admit it, it's true—Valentine's Day is my favorite holiday! I suspect this admission may surprise those of you who know me, as well as those who don't know me personally but do know, or have at least heard stories about, actuaries. Like most of my fellow left-brain thinkers, I need to plan out in great detail, and well in advance, how to act spontaneously—say, for example, by purchasing a card, a box of chocolates, or some other gift (new regression software would be nice, in case anyone is taking notes) for a significant other.

And thus, every year, as the 14th day of the second month approaches, I, and many others like me, revel in the notion that we, too, can be creative, thoughtful, and, dare I say, even sensitive, all on our own—at least when we are coerced and basically forced to because of unfair and illogical social pressures, unchallenged and irrelevant national traditions, Hallmark and Godiva Chocolatier advertising campaigns, etc., etc.

Of course, in addition to the shallow, commercially driven giving of the holiday, the other thing that the 14th day of the second month also brings into focus is this: there are only 14 days remaining to estimate, develop, allocate, and record that most lovely of accruals on insurance companies' balance sheets, that being, IBNR. Christmas has 12 days, Labor Day is a mere weekend long, and Festivus is limited to a single day. But the season of Valentine carries on for two full weeks, with an extra day thrown in every four years—surely a reflection of its importance, since no other holiday can claim this special treatment. It is during this precious time of year that, if you listen

closely, you might just hear this familiar tune echoing through the corridors of the finance departments at PIAA member companies:

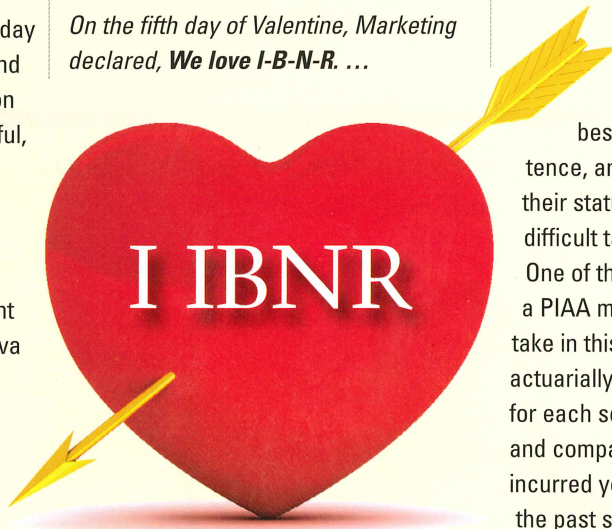
*On the first day of Valentine, our CFO told me, **Send data to the actuary.***

*On the second day of Valentine, our CFO asked me, **Why don't we have results yet.***

*On the third day of Valentine, our actuary began, **Selecting loss development factors.***

*On the fourth day of Valentine, our actuary added, **A hindsight outstanding method.***

*On the fifth day of Valentine, Marketing declared, **We love I-B-N-R. ...***



The Valentine season reaches its crescendo with the March 1 filing deadline for PIAA member companies' statutory annual statements. The results that have been encapsulated in these statements during the past few years are certainly something to admire, and it is my expectation that the message contained in this season's results will continue this recent trend of good news.

There are, of course, longer-term risks from indulging in too many candy hearts and chocolate-covered cherries.

While these risks, which can range from tooth decay to diabetes, may take several years to manifest themselves, they are nonetheless present, and should be monitored. PIAA member companies should also be cognizant of the longer-term risks that can eventually develop, on the heels of the sweet results of late. Care should be exercised, so the effects of the slow, but sure, erosion in the average collected rate levels over the past several years do not result in decay in the companies' results, to the point where a financial cavity develops, or worse yet, a more serious and chronic financial condition—the MPL equivalent of a root canal.

Fortunately, most PIAA member companies find themselves in possibly the best financial shape of their existence, and so their job is to maintain their status, rather than the more difficult task of trying to remedy it. One of the more effective exercises a PIAA member company can undertake in this regard is to review the actuarially indicated ultimate loss ratios for each separate business segment, and compare those indications by incurred year, to look for trends over the past several years. In addition, a review of changes in the indicated loss ratios, since the previous analysis, can be instructive in identifying the early onset of possible deterioration in results.

With the joyous Valentine season once again upon us, let us all celebrate how fortunate we are to be able to focus our affection on our statutory sweetheart—IBNR. ♡PIAA

*Chad C. Karls, FCAS, MAAA, is a Principal and Consulting Actuary at Milliman, Milwaukee.*