

Background

The reforms to the Insurance Act Chap 84:01 (the Act) have included, in respect of general insurance business, a focus on the adequacy of outstanding claim reserves. There is a new Schedule to the Form B4 to be completed by each insurer for each class of insurance business which builds on the Claims Guideline that was issued by the Central Bank of Trinidad and Tobago (Central Bank) in 2008. These developments were necessary as the Central Bank makes efforts to improve its analysis and supervision of claims and reserving.

This document has three sections. The first section describes the new Form B4 Schedule and gives guidance to insurers on how to complete the worksheets via examples. The second section of the document describes the minimum claims data requirements expected by the Central Bank and finally section three contains ‘Frequently Asked Questions’ with corresponding answers regarding the completion of the Form B4 Schedule.

Section 1: Claims run-off analysis – Form B4 Schedule

The Form B4 Schedules in the insurer’s returns provide an analysis of the adequacy of the insurer’s outstanding claims reserves for its Trinidad and Tobago business for previous years. The Schedules comprise a worksheet with condensed instructions called “Instructions”, worksheets for each Class of Insurance, a summary worksheet called “All Classes” and a reconciliation worksheet called “Reconciliation”.

The following worksheets should be completed by each company:

- Class of Insurance as instructed in the “Form B4 Schedule - Class of Insurance” section of this document; and
- Reconciliation worksheet as instructed in the “Form B4 Schedule – Reconciliation” section of this document.

Definitions

“Accident year” means the year in which the accident/loss was incurred.

“Class of Insurance” means any class of insurance business prescribed in the First Schedule of the Act. The classes of insurance business are Motor Vehicle, Property, Liability, Workers Compensation, Marine Aviation & Transport, Personal Accident and Pecuniary Loss.

“Gross/Net” means Gross or Net of reinsurance and non-reinsurance recoveries.

“Non-reinsurance recoveries” mean recoveries other than those from reinsurance. It includes salvage, subrogation, excesses and other recoveries from policyholders or other third parties.

“Workers Compensation” means the business of effecting and carrying out contracts of insurance to employers against liability to pay compensation or damages to workers in their employment.

Form B4 Schedule - Class of Insurance

The Form B4 Schedule seeks to capture data for each Class of Insurance on a Gross and Net basis. Data Gross of reinsurance and non-reinsurance recoveries is entered in Table 1.0 and data Net of reinsurance and non-reinsurance recoveries is entered in Table 2.0. These tables are found in each Class of Insurance worksheet. Data in respect of non-reinsurance recoveries is captured for Motor Insurance only. This data is entered in Table 1.1 found only in the Motor Class of Insurance worksheet.

The Form B4 Schedule collects data for ten accident years up to and including the current year with a line for all claims that occurred more than ten years earlier.

For each Class of Insurance, enter the appropriate information in the respective columns of Table 1.0 and 2.0 as described below:

- “No. of claims first reported in 20xx” (column 2) - Record the total number of claims that were reported to the insurer during the financial year specified according to the accident year of the claim.

Checks & Balances

It would be expected that the large majority of the claims will be from the current accident year (claims that occurred this year and were reported during this year). There will generally be a moderate number from the previous accident year, especially those with an accident date towards the end of the year but which were not reported to the insurer until after the last balance date. There might be a few claims reported from accident years more than one year prior, although these would be relatively small in number.

- “Gross/Net claim payments during 20xx” (column 3) - Enter the total claim payments (Gross or Net as required), made over the financial year, for the corresponding ‘accident year’ of the relevant claims. The date of accident of the claim drives its classification.

Checks & Balances

Most of the amounts paid will be for claims from the current accident year or the previous accident year. Although for litigated claims, it is not uncommon for payments to relate to accidents that occurred up to five years or more prior to settlement.

- “Cumulative Gross/Net claim payments from accident year to end of financial year 20xx” (column 4) - Record the cumulative claim payments (Gross or Net as required) for the particular accident year, summing from the beginning of that accident year until the end of the current financial year. It is different from all the other columns in that it includes historical payments as well as current year’s payment.

For example, assume a company with a financial year ending December 31. In the Form B4 Schedule for the 2011 financial year, the cumulative payments for the 2009 accident year would be the total payments from January 1, 2009 to December 31, 2011 on those claims with a date of accident/loss in 2009. See also table 5 in Example 3 below.

Once a company is in the routine of preparing Form B4 Schedules, then the cumulative payments for any given accident year can be produced by adding the current year payments (in the “Gross/Net claim payments during 20xx” column) to the cumulative payments column of the Form B4 Schedule from the previous financial year.

- “No. of claims outstanding at end of financial year 20xx” (column 5) - Record the total number of claims open at the end of the financial year according to the accident year of the claim.

Checks & Balances

The greatest number of open claims would be from the current accident year, but claims might still be open from accidents that occurred many years earlier.

- “Gross/Net Case reserves on claims outstanding at end of financial year 20xx” (column 6) - Enter the total case reserves (Gross or Net as required) on claims open at the end of the financial year according to the accident year of the claim.
- “Gross/Net IBNR reserve at the end of the financial year 20xx” (column 7) - If the company has calculated this IBNR reserve by accident year (e.g. by the use of triangulation methods) then the relevant amount should be recorded in this column against each accident year. The total should equal to the figures recorded in the company’s claims/accounting system. If, as is the usual case in the market, the IBNR reserve has been determined as a single amount, then record this amount in the current accident year row i.e. the first cell of the column, with nothing for prior accident years.
- At the bottom of each table there are lines for claims that are “20xx and prior” and “Unknown”. Use the relevant line to enter the corresponding data in the appropriate columns for all claims where the accident date is either ten or more years in the past or unknown. In theory there should be no need for the ‘Unknown’ line. Insurers will be expected to check such items and correct them over a reasonable period of time.

Motor Class of Insurance Only

Enter the appropriate information in the respective columns of Table 1.1 as described below:

- “Claim payments Recovered during 20xx’ (column b) - Enter the total claim payments recovered during the financial year, for the corresponding ‘accident year’ of the relevant claims. The date of accident of the claim drives its classification.
- “Cumulative Recoveries from accident year to end of financial year 20xx” (column c) – Enter the aggregate of all recoveries for claims in each accident year, totalled from the accident year until now.
- “Case Reserves for Non-Reinsurance Recoveries outstanding at end of financial year 20xx” (column d) – Enter the case reserves on open claims at the end of the financial year according to the accident year of the claim. These reserves should only be entered if they are reflected in the company's financial statements.

Form B4 Schedule – Reconciliation

The Reconciliation worksheet provides a reconciliation of the total claims outstanding as at the insurer's financial year end which were reported on the balance sheet of the insurer's audited IFRS accounts, with the total outstanding claims per the Form B4 Schedules.

Each insurer is required to enter into Tables 1.0 and 2.0, the outstanding claims (Gross or Net as required) in respect of Non Trinidad and Tobago business and the outstanding claims per IFRS accounts by Class of Insurance in columns 5 and 7, respectively.

The total outstanding claims in respect of Trinidad and Tobago business as per the Form B4 Schedules in column 4, is automatically calculated as the sum of the case reserves and IBNR reserves included in the Form B4 Schedules. This figure plus the outstanding claims in respect of Non Trinidad and Tobago business should be equivalent to the total claims outstanding as at the insurer's financial year end on the balance sheet of their audited IFRS accounts. If these figures are not equivalent, then explanations regarding their reconciliation should be provided in the Notes worksheet.

Examples:

Example 1: This example shows how the data in the claims system for Company X, with a financial year end of December 31, can be used to populate a Form B4 Schedule for the financial year 2012. Table 1 shows a subset of the claims data for Company X which has been grouped by accident year. The totals in Table 1 have then been used to populate the Form B4 Schedules shown in Table 2. Company X does not record their IBNR reserve by accident year, therefore its IBNR reserve of \$100,000 is recorded in the accident year corresponding with the current financial year 2012.

Table 1: Claims data of Company X for the financial year 2012 ending December 31

Accident Year	Date of Accident/Loss	Date Claim Reported	No. of Claims First Reported in 2012	Claims Payments made in 2012	No. of Outstanding Claims as at Dec 31, 2012	Case Reserves on Claims Outstanding as at Dec 31, 2012
2010	02-Dec-10	05-Dec-10		10,000		
	12-Feb-10	14-Feb-12	1		1	30,000
	24-Apr-10	25-Apr-12		50,000		
Total			1	60,000	1	30,000
2011	05-Apr-11	05-Apr-12	1	60,000	1	5,000
	05-Apr-11	06-Apr-11			1	10,000
	25-May-11	26-May-11		5,000		
	12-Aug-11	13-Aug-11		25,000		
Total			1	90,000	2	15,000
2012	12-Feb-12	13-Feb-12	1	14,520		
	05-Mar-12	08-Mar-12	1	15,000		
	15-Apr-12	18-Apr-12	1		1	40,000
	12-May-12	13-May-12	1	100,000		
	15-Jun-12	16-Jun-12	1		1	10,000
	20-Jun-12	21-Jun-12	1	25,000		
	25-Sep-12	15-Oct-12	1		1	25,000
	25-Oct-12	28-Oct-12	1		1	40,000
Total			8	154,520	4	115,000

Table 2: Form B4 Schedule for Company X for financial year 2012 ending December 31

1	2	3	4	5	6	7
Figures grouped by Accident Year ending 31-Dec	No. of Claims first reported in 2012	Gross Claim Payments during 2012	Cumulative Gross Claim Payments from accident year to end of financial year 2012	No. of Claims Outstanding at end of financial year 2012	Gross Case Reserves on Claims Outstanding at end of financial year 2012	Gross IBNR Reserve at end of financial year 2012
	#	\$	\$	#	\$	\$
2012	8	154,520	154,520	4	115,000	100,000
2011	1	90,000	340,000	2	15,000	
2010	1	60,000	435,000	1	30,000	
2009	-	-	-	-	-	-
2008	-	-	-	-	-	-
2007	-	-	-	-	-	-
2006	-	-	-	-	-	-
2005	-	-	-	-	-	-
2004	-	-	-	-	-	-
2003	-	-	-	-	-	-
2002 & prior	-	-	-	-	-	-
Unknown	-	-	-	-	-	-
TOTAL	10	304,520		7	160,000	100,000

Example 2: This example shows how the Form B4 Schedule for Company X would change if its financial year end was May 31 instead of December 31 as shown in Example 1. Table 3 shows a subset of the claims data for Company X which has been grouped by accident year. The totals in Table 3 have then been used to populate the Form B4 Schedules shown in Table 4. Company X does not record their IBNR reserve by accident year, therefore its IBNR reserve of \$100,000 is recorded in the accident year corresponding with the current financial year 2012.

Table 3: Claims data of Company Y for the financial year 2012 ending May 31

Accident Year	Date of Accident/Losses	Date Claim Reported	No. of Claims First Reported in financial year 2012	Claims Payments made in financial year 2012	No. of Outstanding Claims as at Dec 31, 2012	Case Reserves on Claims Outstanding as at May 31, 2012
2010	12-Feb-10	14-Feb-12	1		1	30,000
	24-Apr-10	25-Apr-10		50,000		
Total			1	50,000	1	30,000
2011	02-Dec-10	05-Dec-10		10,000		
	05-Apr-11	06-Apr-11			1	10,000
	05-Apr-11	05-Apr-12	1	60,000	1	5,000
	25-May-11	26-May-11		5,000		
Total			1	75,000	2	15,000
2012	12-Aug-11	13-Aug-11		25,000		
	12-Feb-12	13-Feb-12	1	14,520		
	05-Mar-12	08-Mar-12	1	15,000		
	15-Apr-12	18-Apr-12	1		1	40,000
	12-May-12	13-May-12	1	100,000		
Total			4	154,520	1	40,000

Table 4: Form B4 Schedule for Company X for financial year 2012 ending 31 May

1	2	3	4	5	6	7
Figures grouped by Accident Year ending 31-May	No. of Claims first reported in 2012	Gross Claim Payments during 2012	Cumulative Gross Claim Payments from accident year to end of financial year 2012	No. of Claims Outstanding at end of financial year 2012	Gross Case Reserves on Claims Outstanding at end of financial year 2012	Gross IBNR Reserve at end of financial year 2012
	#	\$	\$	#	\$	\$
2012	4	154,520	154,520	1	40,000	100,000
2011	1	75,000	300,000	2	15,000	
2010	1	50,000	405,000	1	30,000	
2009	-	-	-	-	-	-
2008	-	-	-	-	-	-
2007	-	-	-	-	-	-
2006	-	-	-	-	-	-
2005	-	-	-	-	-	-
2004	-	-	-	-	-	-
2003	-	-	-	-	-	-
2002 & prior	-	-	-	-	-	-
Unknown	-	-	-	-	-	-
TOTAL	6	279,520		4	85,000	100,000

Example 3: This example shows how the claim payments from the previous financial years 2010 and 2011 for the same Company X, were used to calculate the cumulative claim payments as at the financial year 2012 ending May 31. A breakdown of the calculations can be seen in Table 5.

Table 5: Cumulative Claim payments from accident date to end of year 2012

Accident Year	Financial Year of Claim Payment			Cumulative Claim Payment from Accident Year to End of Financial Year 2012
	2010	2011	2012	
2010	245,000	100,000	60,000	405,000
2011		210,000	90,000	300,000
2012			154,520	154,520

Section 2: Minimum Claims Data Requirements

It is a requirement of the Central Bank that, in order to maintain sound and prudent operations and to meet the reporting requirements under the draft Insurance Bill, each insurer must maintain claims information at least equivalent to the minimum standard set out below.

Computerised Claim Database

Each insurer must have a computerised system for recording claim information that contains at least the data items listed below. The database can be in any form that is able to be accessed at an individual claim level and that can be interrogated for both standard and non-standard reports.

Insurers will find that as they automate their claims information they will need many more items than those listed below and are encouraged to develop systems that meet their own needs. These requirements are just the minimum needed to meet the needs of reporting to the Central Bank.

Minimum Required Data Items

- Claim Identifier
- Policy Number
- Date of Accident
- Date of Report
- Class of Insurance
- Status of Claim (Open/Settled)
- Date of Settlement
- Whether the claim involves bodily injury
- High court number (if applicable)
- High court claim settlement (if applicable)
- For every payment on the claim:
 - Date of payment
 - Amount of payment
 - Indemnity or Costs
- For every time the case reserve on the claim is adjusted:
 - Date of reserve change
 - Amount of reserve

Appendix 1 provides further explanation for each of these items. The Central Bank would expect that they shall be readily understood by insurers, but will answer any questions.

Section 3: Frequently Asked Questions

Question Do I have to open an electronic claim file for a notification that will not lead to a claim?

Answer No. Follow the same protocol for opening electronic claim files as you do with paper files. If, for example, there is a telephone call for an incident that turns out not to be insured with your company, do not open a claim file.

Question Why do I need to keep every change in reserve?

Answer It is essential to keep in the computer system a complete history of all the changes in the case reserves. This is the only way that the claim run-off returns required by the Central Bank can be prepared and it is also a very powerful tool for the insurer in testing its own run-off of outstanding claims and managing the claims function.

Question What if there is more than one claimant, such as multiple vehicles or more than one injured person?

Answer It is normal practice to record one claim per accident, even if there is more than one vehicle or person for which the insurer will be liable. It would be good practice for the insurer to maintain a system that has facility for separate records (they might be referred to as ‘claim sections’) for each claiming party (each vehicle and each person separately).

The minimum requirements are to identify each payment and each reserve change separately and to know whether the claim involves bodily injury or not. For an insurer that is able to keep ‘claim sections’ it is then possible to analyse the claim costs and the delays to settlement separately for the property damage and the bodily injury claims. If, however, the insurer does not have this capability then, in any event, the Central Bank requires the claims to be segmented into two groups within each Class of Insurance:

- a) Property damage only – even if there is more than one property or vehicle that has been damaged

- b) Bodily injury – this includes claims that have more than one injured person claiming, as well as claims that involve both property damage and bodily injury.

Question What do we do with claims that are closed without any payment?

Answer Claims that do not incur any cost for the insurer, but where it has opened a claim file, shall be included in the claims database and not removed. A sophisticated insurer may wish to analyse its experience of such nil cost claims, but this is not a requirement of the Central Bank.

Question What if a claim file has been closed but further payments turn out to be required?

Answer This is not an unusual occurrence in the insurance industry and is referred to as a ‘reopened claim’.

The minimum requirement if a claim is reopened is to change the status from Settled to Open and to remove the Date of Settlement. It would be normal for this to be accompanied by an increase in case reserve (if for example a further injured person has come forward) or a further payment (if for example it is an additional legal invoice or the like).

Some insurers might prefer to have a separate claim status for reopened claims (so that there are three statuses – Open, Settled or Reopened), and even to record the date and reason the claim was reopened. In such cases the Date Settled need not be removed, but can be updated when the claim is closed again. This additional recording of reopened claims is good practice but it is not part of the minimum requirements of the Central Bank.

Question How shall we deal with subrogation claims?

Answer Subrogation is a common feature in insurance claims, especially in the Motor class. Most subrogation involves other insurers, but this need not be the case and there can also be recoveries from other parties for other reasons.

Subrogation payables - If the insurer receives a claim under subrogation from another insurer (e.g. to reimburse property damage caused by our insured to a vehicle comprehensively insured with the other insurer) this shall be treated no different from any other claim. The claim shall be opened as soon as the insurer is advised, it shall have the case reserve established and updated in the normal way, and settled as would

any other claim. An insurer may wish to know for its own purposes which claims are of this kind, but it is not part of the minimum requirements of the Central Bank.

Subrogation receivables - The situation where the insurer needs to meet the claim of its insured and then recover from another insurer (or third party) is more complicated. It is good practice for an insurer to maintain a comprehensive system for subrogation actions, with separate records of the other insurer involved, the dates and amounts of recoveries requested and received. At the present time, though, this is not a requirement of the Central Bank.

The minimum requirement is that recoveries received from subrogation, salvage or the like are recorded as 'negative payments' on the date received. The treatment of subrogation recoveries in financial statements is an accounting matter and the treatment of subrogation recoveries in outstanding claim reserving shall be dealt with in the insurer's claims policies.

Question How do we deal with reinsurance in the claims database?

Answer The minimum requirement is for the computerised system to record claims gross of reinsurance. Depending on the nature of the reinsurance program and the complexity of the insurer's business, an insurer may choose to also record amounts recoverable from reinsurance in the same system.

Appendix 1: Minimum Data Requirements – Item Descriptions

Data Item	Description
Claim Identifier	The claim number or similar identifier that is sufficient to uniquely identify a claim in the computer database and also to find the paper claim file if needed.
Policy Number	The number or identifier of the policyholder's file with regards to the claim.
Date of Accident	The date of the accident giving rise to the claim.
Date of Report	The date the claim was first entered into the insurer's computer system (note that this might be a few days after the claim was actually notified to the insurer).
Class of Insurance	Use class codes that, at a minimum, identify the Class of Insurance as per Schedule 1 of the Insurance Act. Insurers are free to use more detailed and specific codes, in particular whether a motor policy is TP only or comprehensive.
Status of Claim (Open/Settled)	Whether the claim is currently open or has been settled with the claim file closed. See comments on reopened claims in the FAQ section.
Date of Settlement	The date the claim file was closed in the computer system. If a claim has been reopened and then settled again, it shall be the date of the last settlement
Whether the claim involves bodily injury	If the claim involves bodily injury only, or both bodily injury and property damage, this item is Yes. If the claim involves property damage only, this item is No. See comments on multiple claimants in the FAQ section.
High court number	The identifier of the high court case regarding the claim
High court claim settlement	The claim settlement as awarded by the high court

For every payment on the claim-

Data Item	Description
Date of payment	The date that the payment was made by the insurer
Amount of payment	The amount of the claim payment by the insurer
Indemnity or Costs	There must be sufficient coding of the nature of the payment to know whether it was an indemnity payment under the policy (including a claimant's costs) or whether it is an external cost of assessment (e.g. adjuster, investigator, medical exam, legal)

For every time the case reserve on the claim is adjusted-

Data Item	Description
Date of case reserve change	The date that the case reserve on the claim was changed (this may be the same as the date of a payment, but it could be the date a case reserve was first established or increased, or reduced to nil)
Amount of case reserve	The amount of the case reserve established for the claim at the relevant date. This amount shall be set in accordance with the insurer's claims policies and the Claims Guidelines of the Central Bank. It is the estimated amount yet to be paid and does not include any amounts paid to date. Thus it is the outstanding amount of the claim, not the incurred amount of the claim.