Eyeballing Excellence

Establishing and Executing an Effective Watch List Process/Policy

A well-executed watch list process can significantly benefit P&C insurance companies. From the initial establishment of the process, which includes identifying which exposures and claims to include, to the ongoing review of the process as new exposures and claim types emerge, the actuarial, claims, and underwriting departments significantly impact the success of a watch list process. Open lines of communication among these departments can pave the way for a successful watch list process.

Creating a watch list

In order to make effective use of watch lists, a company should have a thoughtful and comprehensive process in place to determine which exposures to monitor and how management should consider this information. Watch list processes of leading companies typically include the following items:

- A *vision statement* to establish the goal of the watch list program;
- Clear *ownership* and lines of accountability;
- A *defined process* that includes:
  - Identification of key risks to assess;
  - Assignment of appropriate and available resources;
  - Consistent reporting of facts, coverages, and issues;
  - Exposure calculations under various scenarios;
  - Specific reporting formats;
  - Routine intervals for reporting;
  - Process for updates as new information emerges;
- *Open lines of communication* for effective information gathering/sharing among underwriting, reinsurance, claims, actuarial, and risk management departments;
- *Reporting* of findings to internal stakeholders for potential remediation initiatives.

A clear vision statement serves as a guide in defining exposures or claims assigned to a watch list, including the key members of management (notably leaders from claims, actuarial, and underwriting departments) involved in performing a watch list assessment. While this component may appear obvious, a company should not underestimate the value of the vision statement in maintaining the proper focus of the watch list over time.

Critical to a successful watch list process is the determination of the process owner and the associated roles and responsibilities. The owner of the watch list process, typically a chief reserving actuary, a claims department leader, or another executive, plays a critical role in establishing accountability and facilitating the timely sharing of information among various stakeholders. By guiding a consistent approach to identifying which exposures to include on the watch list and staying abreast of current developments and emerging trends, the process owner helps management better understand and execute the defined watch list process.

Leading practices also suggest that a company should formally document its watch list process and routinely review the process for necessary adjustments. A routine review facilitates up-to-date documentation that reflects existing resources and protocols as well as emerging issues that require assessment and reporting. An organizational culture driven by open communication across all stakeholders is well suited to develop and maintain an effective watch list process.

Identifying watch list exposures

The external environment, including changes in laws and regulations, drives the exposures selected to appear on a watch list. Much like organizational goals and objectives, which change over time, the evolving nature of watch list exposures necessitate routine assessment of and adjustment to the criterion underlying the watch list assessment process.

The criteria used to assess exposures for inclusion on a watch list may include:

- Types of coverage, time periods, and geographical regions of business underwritten;
- Limits and attachment points;

Developments on claims currently reported	Identification of new exposures to add to the watch list	Other industry emerging exposures not yet prime for formal addition to the watch list
Coverage interpretations/rulings	Trigger for placing the loss on the list	Types of losses
Changes in filing trends or exposures/damages	Filing trends	Coverages impacted
Industry perspective/strategies/reserving practices	Coverage and jurisdictional issues	Filing and exposure trends
Updates on resolution strategies	Exposure/damages estimates	
Revisions to applicable scenarios	Applicable industry reserving trends	
	Proposed resolution strategies	

Information included on a watch list

Watch list triggers	Existing claims	Potential claims	Reinsurance profile
Loss will potentially exceed a defined financial threshold • Assess from a gross and net perspective • Consider what is material • Address losses impacting multiple insureds Loss type has been defined as a trigger • Historical adverse development • Severity of injury • Filing trends • Outcomes may have significant impact on other claims or underwriting strategies Emerging losses that may present significant exposure in the future Claims in which several insured risks are subject to a common loss	Claim number Lines of business State in which loss occurred Policies currently exposed • Period/terms • Coverages afforded • Policy limits*/attachment points Exposure • Remaining limits/aggregates • Deductible limits/balances • Underlying coverage exhaustion • Loss/expense payments to date • Estimated full level of damages Description of loss Date of loss Jurisdictional/coverage issues Potential outcomes	Lines of business State in which the loss occurred Potential coverages at risk • Years underwritten • Coverages afforded • Volume of policies written Exposure • Limits exposed/attachment points • Potential range of damages Description of potential loss (filing trends/severity) Jurisdictional/coverage issues Potential outcomes	Reinsurance program structure Gross/net positions reflected in the potential outcome scenarios generated Notice provision and confirmation of notice issued to the reinsurers timely Issues that may give rise to reinsurer disputes

*written and remaining per occurrence / aggregate policy limits by year and coverage type

- Legal trends such as new court filings, rulings regarding legal interpretations and procedural requirements, and jury verdicts;
- New claim filings (inclusive of underlying carrier exposures), as well as reserve and payment patterns by industry, company, and carrier;
- New business strategies; and
- Discontinued business exiting strategies.

Asbestos, pollution, health hazard, and other complex exposures are perhaps most commonly found on watch lists, but prescient companies effectively utilize their claims and actuarial departments to stay abreast of current trends and identify emerging exposures and new claim types to incorporate into their watch list process.

The role of the claims department

Claims personnel typically play an important role in identifying exposures to include on a watch list. Thanks to their deep knowledge of the underlying exposures, claims personnel often have an early awareness of emerging loss trends and case law changes, which may impact the selection of watch list claims or loss types. A well–run claims department will establish processes for routinely and consistently tracking key issues and the associated exposures.

Leading claims department watch list processes typically include a quarterly assessment, as per chart on page 14.

The head of the claims department typically performs an assessment, relying on information he or she gathers from the claims team, underwriters, and reinsurance departments (similar to a routine large loss assessment process) and shares the findings with the actuarial department. The assessment includes a factual investigation incorporating the applicable coverage parameters and assessment of potential liabilities under various scenarios as follows.

Claims personnel may carry out scenario testing and litigation risk analyses due to the complex nature of watch list exposures and the associated coverage interpretation issues, such as what constitutes an occurrence or the allocation of exposure across various defendants or carriers. By carrying out several assessments, each incorporating different assumptions as to legal outcomes and ultimate damages, the claims department can provide management and the actuarial department a range of possible outcomes to consider. These assessments facilitate early identification of claims with the potential to breach excess coverage layers and, thus, early notification to reinsurers. Without such assessments, these claims are at risk for future reinsurance denials due to late reporting of claims, unexpected reserve development, and poorly developed litigation strategies.

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The role of the actuarial department

The actuarial function fills several key roles in the watch list process. Because they typically analyze aggregate data, actuaries have a different perspective from claims professionals and may identify different potential watch list exposures and emerging claim types by leveraging their knowledge of industry and reserving trends. Actuaries also may be responsible for quantifying the potential liability associated watch list claims, as well as their impact on underwriting and incurred but not reported (IBNR) reserves. Because claims and actuarial professionals have different perspectives, facilitating collaboration between these functions is advantageous to insurers.

Information included on a watch list

All company watch lists do not include the same information. The data, which is contingent upon the nature of the risk, legal issues, and the underlying business or exposure, may include what is in the chart on page 15.

Using watch lists for more than the core claims and actuarial assessments may require a company to collect additional data. For instance, a company that wants to consider watch list exposures in ongoing underwriting and pricing also will need to gather rating information, premium values, underwriting office and current underwriting goals/criteria.

Companies should regularly re-assess the criteria for inclusion of claims and exposures on a watch list and the related assessment process in light of the continual evolution of organizational goals and objectives, as well as the external environment (e.g., changes in laws and regulations).

Challenges and opportunities

One of the most common challenges in a watch list process is the timeliness of updates, assessments, and quality review. The difficulty lies in the speed with which unexpected new developments can occur in the underlying exposures or external influences. Accordingly, the process for adding or updating items on the watch list should be clear and flexible enough to allow authorized individuals to add new items and make ad hoc updates as new claims information or developments in pertinent events emerge. Companies should maintain available resources to carry out assessments when the need arises.

Aligning a watch list assessment with the reserve study schedule can provide efficiencies and valuable insights that management can leverage to make decisions. As with any organizational process, quality assurance of the watch list process should rely on adherence to sound policies that encourage both compliance and accountability.

The implementation of a robust watch list process will promote the timely identification of significant claims, facilitate appropriate reserving and underwriting actions, optimize litigation and resolution strategies, and lead to improved overall underwriting results. Successful watch list practices include a multidisclinary team of stakeholders defining watch list triggers and monitoring the assessment process. Leading practices suggest that companies leverage this information in developing and implementing long-term underwriting and claims strategies. ●

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