# Background

## Scenario 1

This is a book of automobile insurance with an expected loss ratio of approximately 80%, written by the Friendly Insurance Company in the state of Texas.

Nothing particularly unusual is happening in Texas nor for Friendly, except for a particularly troubling claim that arose from a 2011 accident. Because of errors in Friendly' handling of the claim it was required to pay substantially more than its policy limits to settle the claim. This payment occurred during 2015.

In addition on December 1, 2016 a major earthquake struck Friendly's call center in California. This call center is used to process incoming claims. However, due to this earthquake and resulting damage to the call center, new claims could not be processed during December 2016.

What is your recommended total reserves as of December 31, 2016?

## Scenario 2

This is a book of automobile insurance with an expected loss ratio of approximately 80%, written by the Friendly Insurance Company in the state of Texas.

Except for 2016, nothing particularly odd was happening at Friendly, but Texas implemented a new law that increased the posted highway speed limits, phasing in the increase beginning January 1, 2012 and ending December 31, 2015. It is believed this will increase the claim costs for Friendly and also cause claim settlements to take longer.

To make matters worse, on December 1, 2016 a major earthquake struck Friendly's call center in California. This call center is used to process incoming claims. However, due to this earthquake and resulting damage to the call center, new claims could not be processed during December 2016.

What is your recommended total reserves as of December 31, 2016?

## Scenario 3

This is a book of automobile insurance with an expected loss ratio of approximately 80%, written by the Friendly Insurance Company in the state of Texas.

Except for 2016, nothing particularly odd was happening at Friendly, but Texas implemented a new law that phased in the enforcement of a new mandatory seat-belt law beginning January 1, 2012 and with maximum enforcement level attained by December 31, 2015. It is believed this will decrease the claim costs for Friendly and also reduce claim settlement time.

In addition, on December 1, 2016 a major earthquake struck Friendly's call center in California. This call center is used to process incoming claims. However, due to this earthquake and resulting damage to the call center, new claims could not be processed during December 2016.

What is your recommended total reserves as of December 31, 2016?

## Scenario 4

This is a book of automobile insurance with an expected loss ratio of approximately 80%, written by the Friendly Insurance Company in the state of Texas.

Except for 2016, nothing particularly odd was happening at Friendly, but on January 3, 2013 the Texas Supreme Court handed down a significant decision affecting all open automobile claims in Texas. The decision meant that insurers could no longer use the defense of an insured's cluelessness in arguing a claim should not be paid. As a result it is expected that claims would take longer to settle after the decision than before.

In addition, on December 1, 2016 a major earthquake struck Friendly's call center in California. This call center is used to process incoming claims. However, due to this earthquake and resulting damage to the call center, new claims could not be processed during December 2016.

What is your recommended total reserves as of December 31, 2016?