



Casualty Actuarial Society
Committee on the Theory of Risk

Request for Proposals

Risk Premium Project Update (RPP II)

Submissions and Written Questions

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**CASUALTY ACTUARIAL SOCIETY
Committee on the Theory of Risk**

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February, 2 2010

1. Casualty Actuarial Society (CAS)

The CAS was organized in 1914 as a professional society with the purpose of advancing the body of knowledge of actuarial science applied to property, casualty and similar risk exposures. This is accomplished through communication with the publics affected by insurance, the presentation and discussion of papers, attendance at seminars and workshops, collection of a library, funded research activities, and other means. The membership of the CAS includes over 4,600 actuaries employed by insurance companies, industry advisory organizations, national brokers, accounting firms, educational institutions, state insurance departments, the federal government, and independent consultants. Additional information about the CAS can be found at www.casact.org.

2. Committee on the Theory of Risk

The Committee on the Theory of Risk (COTOR) is charged: To propose, encourage, and monitor research and other projects concerning the actuarial and financial evaluation of risk in insurance contracts and operations in support of the CAS Centennial goals.

COTOR will sponsor the research to be conducted under this RFP on behalf of the CAS.

3. CAS Interest in the Subject

The CAS wishes to capitalize on the extensive review of the actuarial and financial literature review by the Risk Premium Project through 2000 by updating that review as outlined below.

4. Research Problem Description

Background:

Released in June of 2000, the Risk Premium Project (RPP I), sponsored by the CAS and AERF, was an extensive up to date review and analysis of the current procedures to account for risk in the discounting of property and casualty loss and

loss adjustment expenses, and a comparison of approaches presented in statistical/actuarial literature to those from financial literature. The results of RPP I were presented in three phases: Phase I – Update and expand the bibliography of literature originally composed by COTOR; Phase II – Discuss and summarize key theoretical conclusions regarding appropriate methods for quantifying insurance risk in light of the recent literature detailed in Phase I; Phase III – Propose some empirical studies to help quantify various aspects of the theory from literature contained Phase I and summarized in Phase II. Relevant documents from RPP I are on the CAS website at www.casact.org/cotor/index.cfm?fa=rpp. Actuarial and Academic Sources consulted in RPP I (37) are shown in Table 3 of the report and are meant to be representative but not required for RPP II.

5. COTOR requests proposals from qualified researchers to produce a research document that accomplishes the following goals:

Research Goals:

The goals of the Risk Premium Project Update (RPP II) will be to revise the findings of RPP I. Specifically (1) update the literature bibliography from Phase I of RPP I with additional papers and research done since 2000, incorporating literature from reinsurance, risk management and catastrophe sources (in addition to statistical/actuarial and financial), (2) revise and augment the key conclusions included in Phase II of RPP I in light of additional literature and results of the two empirical studies (cost of equity capital for insurers by-line of insurance and allocation of capital for insurers), and (3) Recommend additional empirical studies to enhance the understanding of the current theories and to further quantify particular aspects, update and perhaps provide alternatives to recent models produced.

6. Proposal Requirements

Proposals should include a clear outline of the work that will be performed and the time frame in which it will be performed (including key dates). The more specific the proposal covers the goals the better. A cost estimate or range should accompany each proposal.

This proposal will be reviewed in conjunction with the attached Research Agreement which defines the terms and conditions under which the work is performed.

The proposal should be accompanied by the resumes of the researcher(s), indicating how their background, education, and experience bear on their qualifications to undertake the research.

Respondents should demonstrate their interest in and familiarity with the literature on the evaluation of risk by including a resume (if a firm, of the principal

consultant(s) performing or directing the work) showing relevant work/research experience and professional accomplishments (e.g... papers published).

Receipt of proposals will be acknowledged in a timely manner.

All decisions regarding the evaluation of responses to the RFP will be awarded entirely base on the information provided in the written proposals. The CAS will award the contract to the respondent who, in the judgment of the Oversight Subcommittee of COTOR, is best able to perform the work as specified herein. If COTOR determines that no proposal meets the requirements of the RFP, then no contract will be awarded.

When a respondent is chosen by the Oversight Subcommittee and the contract awarded, respondents not awarded the contract will be so informed shortly thereafter.

Interested researchers should submit their proposals and any questions in writing to:

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The proposals will be reviewed by members of a subcommittee COTOR. The current membership of the COTOR includes:

Chairperson: Steve Mildenhall

Vice Chairperson: Richard A. Derrig

Committee Members: The current list of COTOR members:
https://netforum.casact.org/eweb/DynamicPage.aspx?Webcode=CommitteeDirectoryDetail&cmt_key=62392e08-2aa6-4d65-9bee-6d73364679bd&cmt_name=Committee+on+Theory+of+Risk.

7. Proposed Schedule

February 2, 2010

RFP circulates to CAS sources including ARIA list serve for academics.

February 19, 2010

Deadline for questions (must be written) from researchers regarding the RFP.

March 3, 2010

All written questions together with their answers will be distributed to all proposers.

March 15, 2010; March 29, 2010

Proposal deadline - end of business day; Proposal selection by COTOR

June 21, 2010, July 26, 2010

Draft Report due; Final Report Due

8. Compensation

Funding for this research is principally through the CAS but may include other research funding organizations. The amount of funds available for this project has not been determined at this time. The final scope of the project will be decided by the committee based on the research costs for various items and the expected results of the project. Payment of award(s) will be contingent upon delivery of an acceptable research product.

9. Presentation, Ownership and Publication of Report

If asked, the researcher(s) agree to be available to present the report at a CAS meeting or seminar. If travel is required, reasonable expenses will be paid in addition to the compensation provided in Section 8.

As a condition of selection, the CAS requires that all right, title, and interest, including copyright and patent, in and to the report be owned by the CAS. The selected researcher must sign a formal Agreement (attached) that assigns all such rights to the CAS. Of course, in any publication of the report, the researcher will receive appropriate credit. The CAS may publish the report in any CAS publication, including electronic versions such as on its Web site or on compact disc (<http://www.casact.org/members/manual/research/index.cfm?fa=contract>).

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