



## WARRANTY PROFITABILITY – AN ACTUARIAL APPROACH

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Warranties have historically been sold to maximize top line revenue with little focus on bottom line results. Utilizing a blend of statistics, mathematics and finance, actuaries can estimate warranty costs, accruals and liability patterns. By collecting the appropriate data, we can determine which products are failing and at what times, allowing the optimal design of a warranty program. We will give a brief synopsis of actuarial methodologies and explain why they are best suited to project costs. Using actual clients' data, we will show how to identify potential pitfalls in warranty estimates such as claim trends, adverse selection and consumer behavior. We will also describe alternatives to the traditional insurance market. Alternative risk financing can provide additional savings and claim reduction incentives. The actuarial perspective provides management with unique information to enhance the bottom line results of their warranty program.

Participants will learn the following:

- How an actuary can add value to a warranty program
- How to estimate warranty costs from an actuarial perspective
- What data to collect for proper analysis
- What factors specifically affect warranty costs
- Cost savings from alternative risk financing (self-insurance, captives, etc...)