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The Regulatory Agenda: Pricing & Underwriting

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01 October 2019



Agenda

- PRA's Financial Risk Frameworks
- Insights from recent reviews: personal, commercial and corporate sectors
- Relevance for actuaries
- What's next?

Financial Risk Frameworks

Review Areas:

Assets / Investments

Capital Management

Reserving

Reinsurance

Liquidity

Pricing & Underwriting

Thematic review agreed
by Senior Management

Prompted by horizon
scanning analysis

Pricing & Underwriting FRF Review

Agreed part of annual
supervisory cycle

Risk identified by
line supervision

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Market Conditions

Personal

Commercial

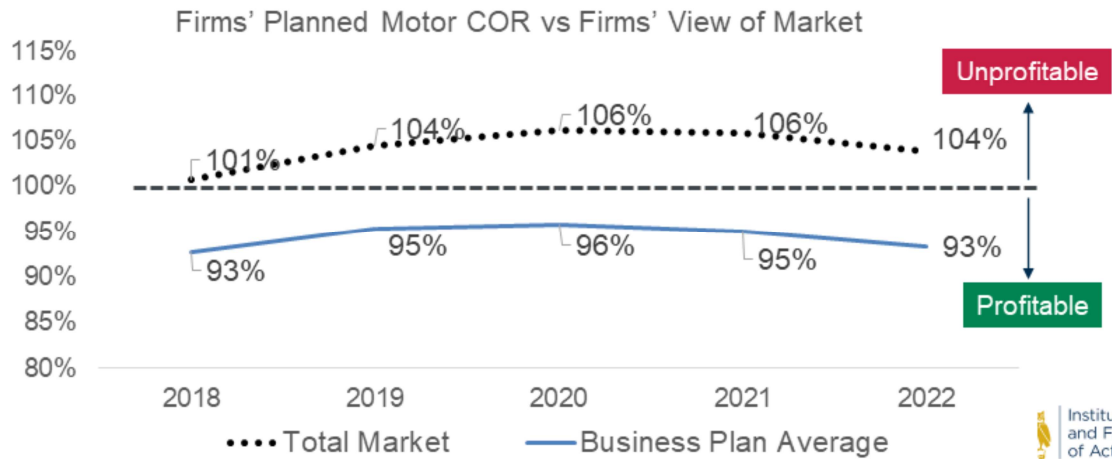
Corporate

Market Conditions

Personal

Commercial

Corporate



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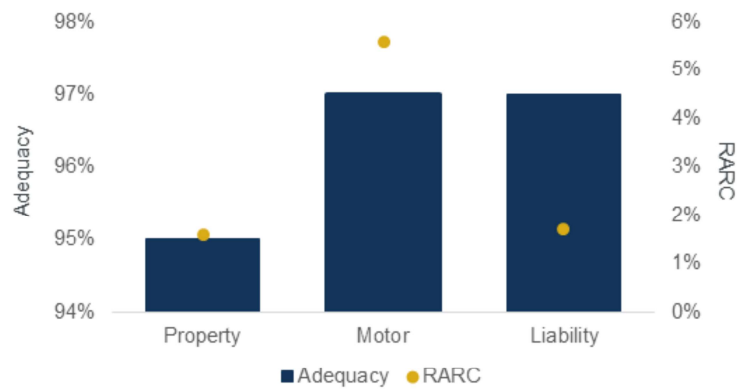
Firms projecting underwriting outperformance despite expectation that premiums will be flat or falling and that the market in aggregate will post an underwriting loss.

Market Conditions

Personal

Commercial

Corporate



Although risk adjusted rate change is positive, rate adequacy is below 100% for all three main lines of commercial business – as a result, the market in aggregate may struggle to meet its profit targets.

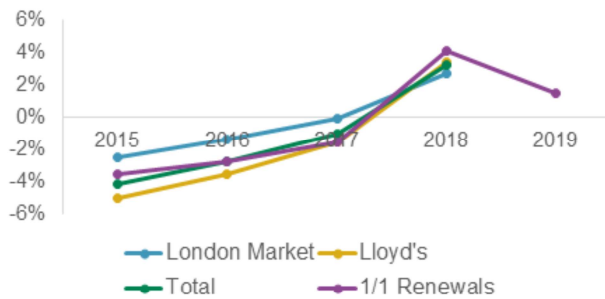
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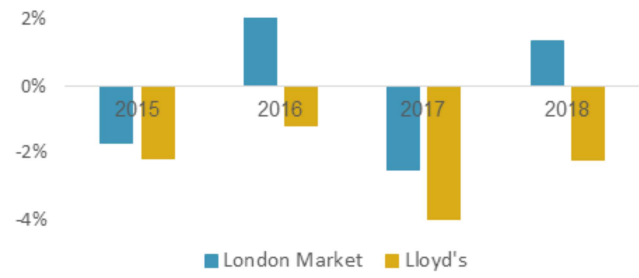
Corporate

Risk Adjusted Rate Changes throughout Calendar Year



Improved RARC in 2018 but 1/1 renewals show adverse trend in 2019

Renewed rate strength minus new business rate strength



New business generally viewed More favourably

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What are we looking for?

Management Information

- Sufficient depth, clarity and narrative to support decision-making
- Concise summary to Board and Senior Management

Decision-Making

- Clear, consistent basis for pricing decisions
- Manages profit and volume levels, including at appropriately granular segment level, and in line with risk appetite

Cross-Functional Engagement

- Claims trends regularly shared with pricing
- Communication between pricing and reserving when setting view of expected ultimate

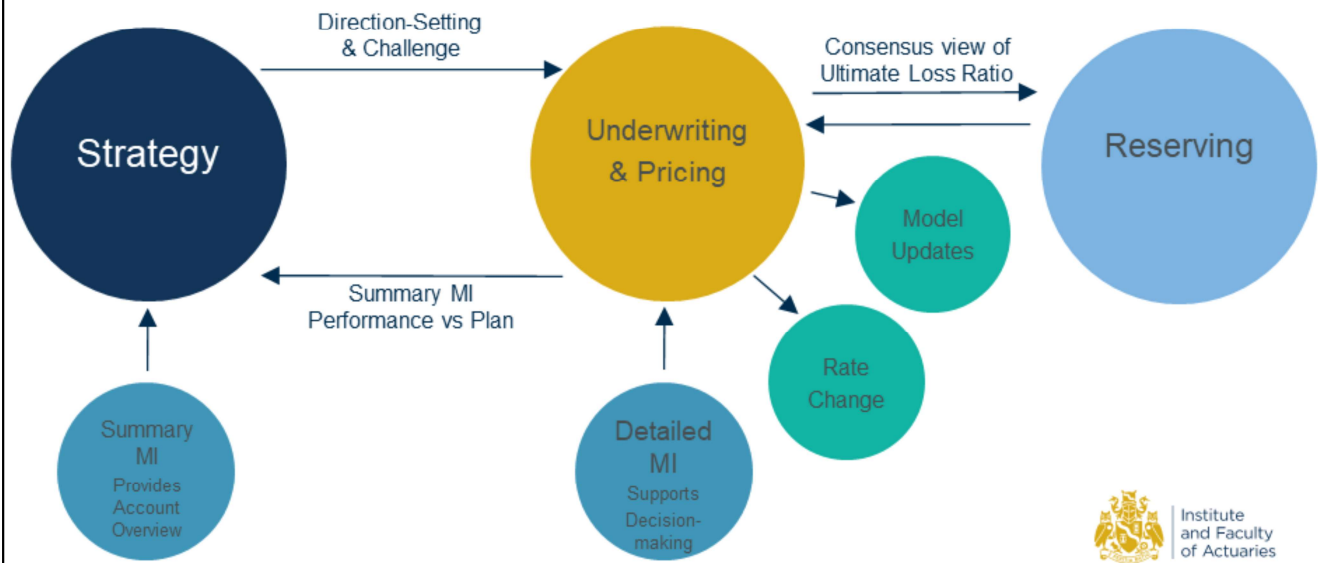


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The PRA's primary aim is to answer the following question – **to what extent does the firm's pricing capability, in the context of its business strategy, raise prudential concerns?**

What are we looking for? In Context



Our reviews are NOT focussed on....

Cutting Edge Systems

Market-Leading Models

Use of AI and Machine
Learning

Charge exactly Technical
Price

Live Polling

- **Which of the following areas represents your top priority for development in pricing/underwriting over the next five years?(company actuary or other)**
- IT/Systems/tools improvements
- Data: improve the quality or introduce new sources or applications
- Exploration of new pricing techniques
- Better analytics or Management Information
- Recruitment of skilled resources
- Culture/tradition barrier
- Other



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if you work outside a company, what is your view based on all the firms that you have come across

VIP Portal

<https://vip.gatherdigital.com/apps/2234>

Scope of Reviews

Personal

Commercial

Corporate



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All photos sourced from <https://unsplash.com/> (free to use images not copyrighted)

To assist peer comparison, we pick a range of peers, not just the ones we have concerns.

our reviews are tailored to the business models and key risks for each sector.

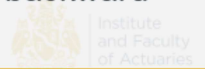
Findings – Management Information

Good Practice

- Data, analysis, content and timing fit for purpose
- Evidence of driving decisions
- Standards to cover MI for delegated business

Poor Practice

- Limited signposting, narrative & top-down view
- Over-engineered or missing key metrics
- Not credible data (c)
- Out of date & backward looking (c)



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Context: MI includes the detailed information used to inform decision-making as well as the higher level information summarising account performance provided to senior management.

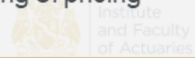
Findings – Decision-Making

Good Practice

- Clear targets and plan
- Timely impact analysis
- Regular pricing reviews and profitability analysis
- Appropriate governance of commercial decisions (c)
- Consider credibility of MI and models(c)

Poor Practice

- Inconsistent objectives
- Rating actions without clear rationale or target
- Limited monitoring of claims trend, exposure & business mix at appropriate granularity and frequency.
- Lack of back testing of pricing parameters(C)



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Context: The decisions and processes we are interested in are all relevant activities firms take to make underwriting/pricing decisions. This include setting up clear strategy and plan, carry out regular and ad hoc rate reviews, rate changes, especially focused on the overall calibration and validation of the pricing assumptions.

Findings – Cross-Functional Engagement

Good Practice

- Regular & effective communications
- Common language/metrics
- Effective feedback loop-drive decisions

Poor Practice

- Segmented interactions
- Unexplained differences between views
- Duplicated MI with inconsistent metrics



<https://poll.qatherdigital.com/results/54c6cd64-9144-40db-942d-842620183eea>

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Firm's culture and tradition tends to influence how people interact each other. PRA is not trying to define how people shall interact, but we think effective feedback loop between key functions is very important.

Live Polling

what is your self-assessment of your firm's overall capability in pricing and underwriting (if you work outside a company, what is your view on the average capability of the firms that you have come across)?

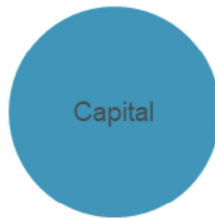
Could do better?

Capable?

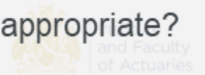
Highly effective?



Joining the dots



- Top down planning integrated with bottom up input from pricing
- Objectives for pricing team consistent with business plan
- Is the plan realistic?
- base business plan for SCR calculation realistic?
- expected performance consistent with reserving?
- calibration of premium risk appropriate?



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PRA carry out deep drive FRF reviews on all key activities.

To understand the whole picture of how a firm or an account is doing, we combine all the information we have from pricing, business planning, reserving and capital.

Future Plans – What next?

- We will continue to use pricing & underwriting reviews as part of our supervision to inform our view of risk
- Potential topics for additional focus in 2020 include:
 - A more detailed review of how pricing links to the claims function
 - Exposure management, particularly for liability lines where there are more significant challenges in monitoring accumulations
 - Governance for the application of AI and machine learning to pricing, where relevant (and engage with other regulators via FCA, EIOPA / IAIS)

