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# Reserving – How low can you go ?

Joe Monk



# Reserving – How low can you go ?



Sarah MacDonnell

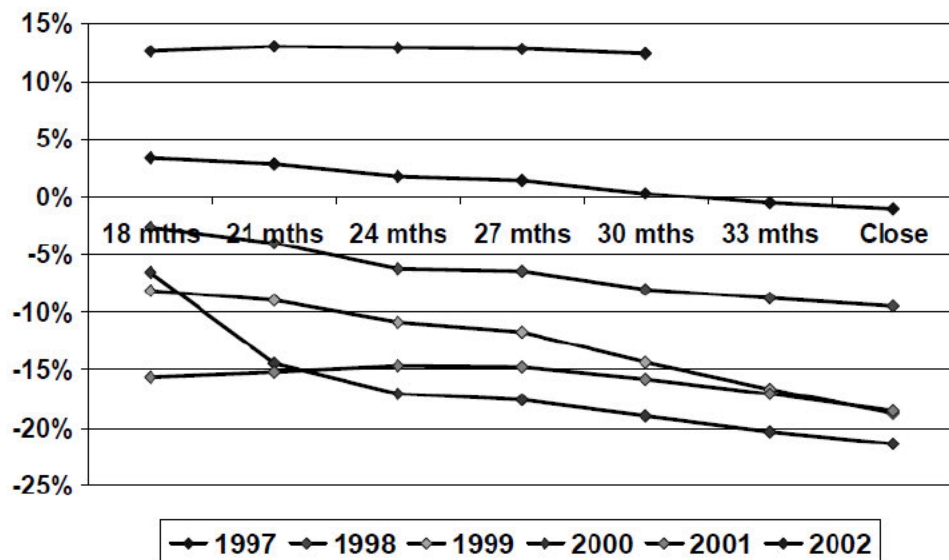


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# Development of Mid-Point Forecasts



Mark Graham



The Actuarial Profession  
making financial sense of the future



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# Monetary amount of Deterioration



Mark Graham

Year of Account	18-36 Month Deterioration (£m)
1997	-452
1998	-694
1999	-1,048
2000	-1,498
2001	-339
2002 (to 30 months)	-27
<b>Total</b>	<b>-4,058</b>

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# The “Outperformers ”



Mark Graham

- SA Meacock
- Chaucer
- Kiln
- Amlin
- Beazley
- KGM
- Atrium
- Wellington
- Hardy



# The Hypothesis



Mark Graham

“A strong, independent Board, combined with robust underwriting disciplines and controls, are more important drivers of reserve adequacy than are actuarial review and sign-off”

S&P

S&P Report Blasts  
Actuaries



S&P

Insurance Actuaries –  
A Crisis of Credibility

“Actuaries are signing off on  
reserves that turn out to be wildly  
inaccurate”

“It’s an abysmal track record”

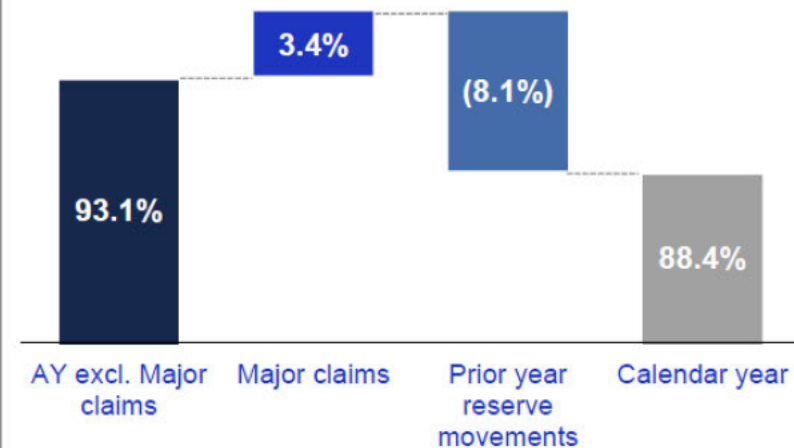


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## Underwriting profit of £2bn (10% of premium) driven by favourable prior year development...

2014 Combined ratio %



2015 Combined ratio %



Source: Lloyd's pro forma financial statements, 31 Dec 2015, 2014 results reflect new UK GAAP and supersede results reported last year, AY: accident year, Premium refers to net earned premium.

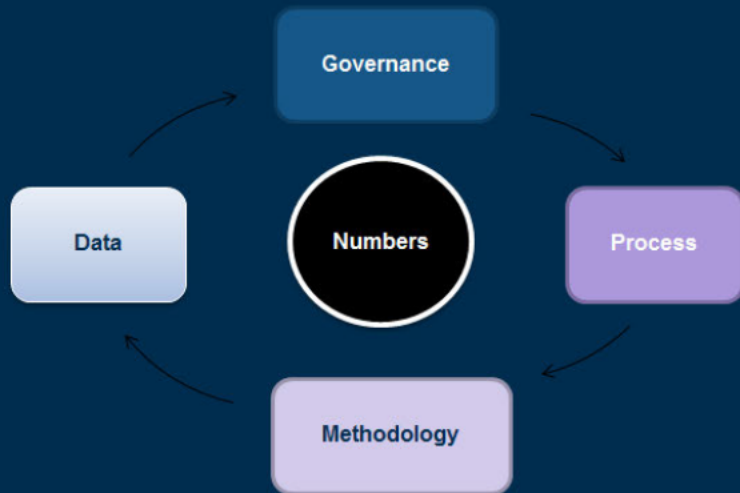




Current conditions & trends in the market

## Reserving Reviews

- PRA Reserving Adequacy Framework - Overview





## PRA Reserving Adequacy Framework - Governance

- Is the right expertise and regular involvement from the top in place for reserving?

	Areas of consideration
Board effectiveness	<ul style="list-style-type: none"><li>-Are Board members and NEDs able to understand and articulate how they satisfy themselves on fitness of reserving?</li><li>-Is there a universally clear understanding of the assumptions?</li></ul>
Organograms for reserving	<ul style="list-style-type: none"><li>-Is there a clear reserving governance structure? Is the right expertise present e.g. CRO?</li></ul>
Reserving policy including risk appetite	<ul style="list-style-type: none"><li>-Goal of a best practice reserving function is to produce unbiased estimates and to communicate the uncertainty within these estimates to the Board.</li></ul>
Board members, Chair of Audit Committee, Head of Reserving, Reserving Actuary, Head of Claims	<ul style="list-style-type: none"><li>-Level of personal credibility of the Chief Actuary and the standing of the reserving function within the organisation.</li></ul>



# Questions

# Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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