

## GIRO conference and exhibition 2010 Henry Johnson & Jerome Kirk – Lloyd's

# Workshop A07 Lloyd's Update

12-15 October 2010

# Agenda

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- **Year to date**
  - results
  - ICAs
- **Dry Run**
  - 2010 & 2011
  - QIS5
- **LIM**
- **Looking forward**
  - reserving
  - year-end 2010 & beyond
- **Summary & Questions**

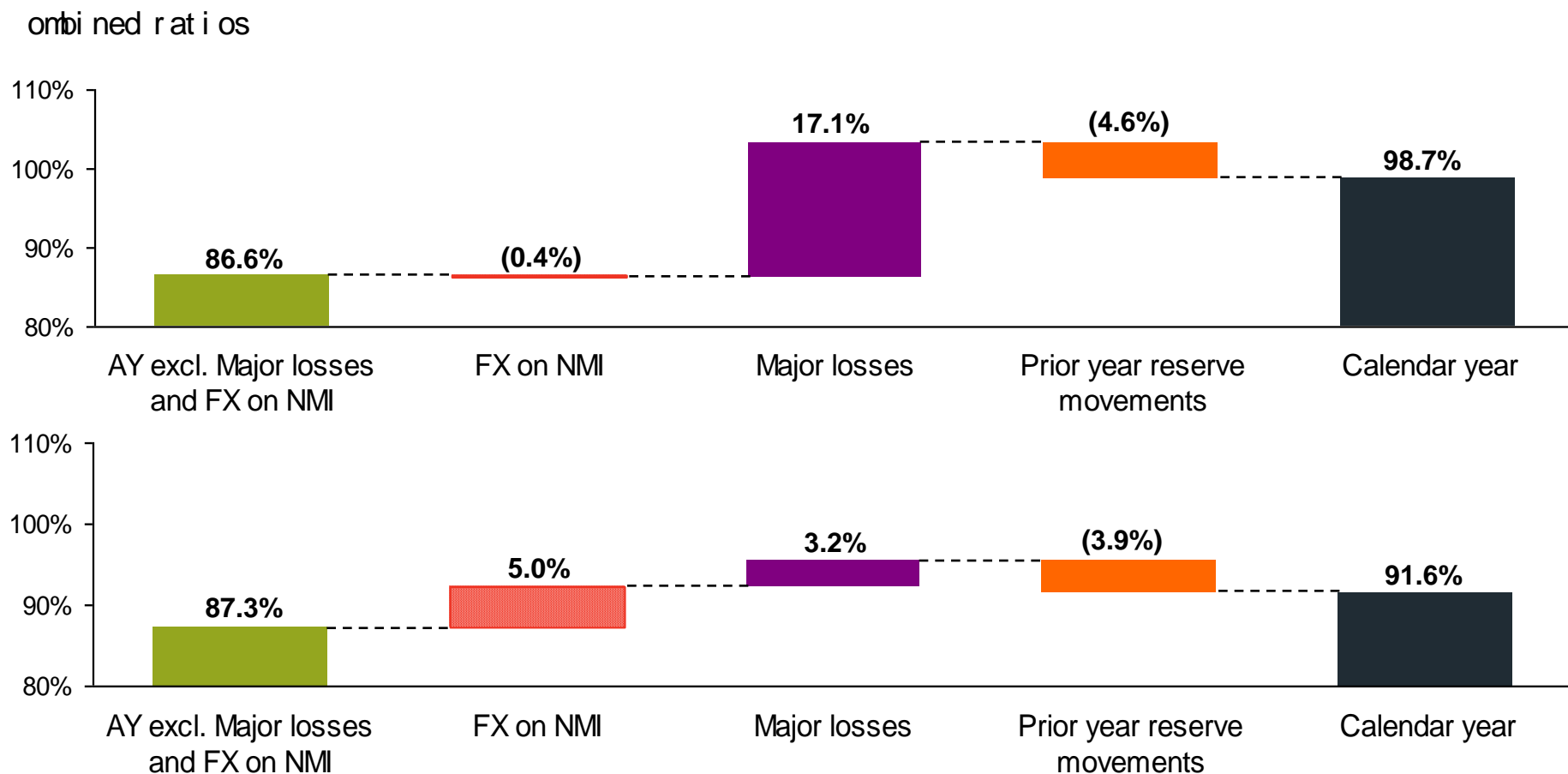


# Profits are down and the first half of the year has been challenging

£m	June 2008	June 2009	June 2010	% change	Dec 2009
Gross written premiums	9,983	13,462	<b>13,490</b>	0	21,973
Net earned premiums	6,362	8,086	<b>8,285</b>	2	16,725
Net incurred claims	(3,407)	(4,461)	<b>(5,403)</b>	21	(8,624)
Net operating expenses <sup>1</sup>	(2,256)	(2,947)	<b>(2,775)</b>	(6)	(5,712)
Underwriting result	699	678	<b>107</b>	(84)	2,320
Investment return <sup>2</sup>	346	708	<b>597</b>	(16)	1,769
Other income / expenses <sup>3</sup>	(96)	(64)	<b>(76)</b>	19	(221)
Profit before tax	949	1,322	<b>628</b>	(52)	3,868
Combined ratio	89.0%	91.6%	<b>98.7%</b>		86.1%

Source: Lloyd's pro forma basis, 1) Technical account 2) Return on syndicates' assets, members' funds at Lloyd's and central assets 3) Non-technical account

# H1 2010 dominated by large losses with some offset from reserve releases

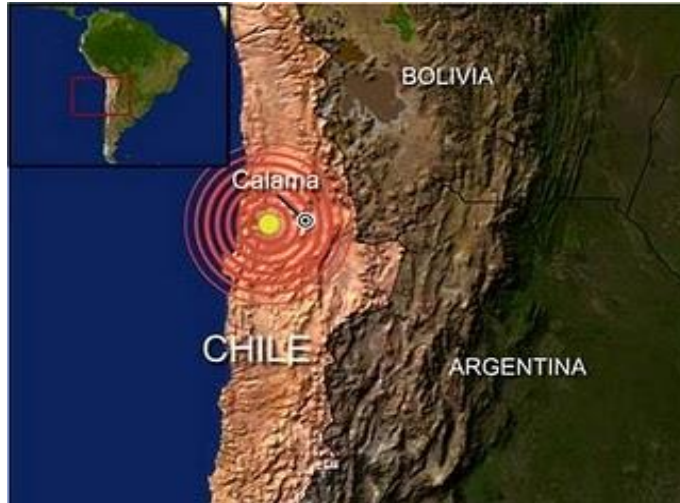


Source: Lloyd's pro forma basis

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# Here is a quick recap on major events.....

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Chilean Earthquake  
**\$1.4bn**



Deepwater Horizon  
**\$300m - \$600m**

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**.....and UK Motor has deteriorated beyond the strengthening seen in 2009**

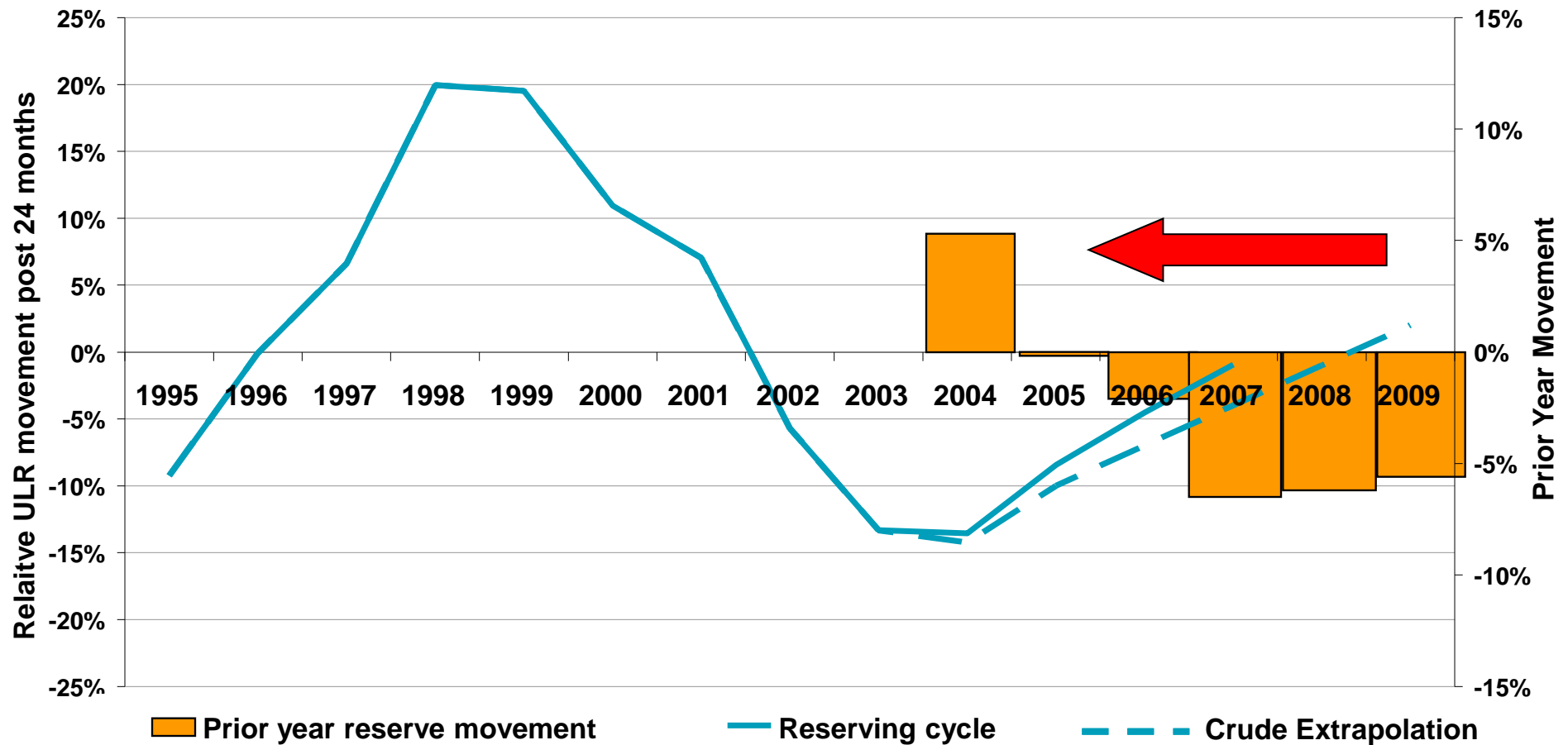
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**2009 COMBINED RATIO**

<b>ACCIDENT YEAR</b>	<b>104.5%</b>
<b>PRIOR YEAR RESERVE MOVEMENT</b>	<b>3.9%</b>
<b>CALENDAR YEAR</b>	<b>108.4%</b>

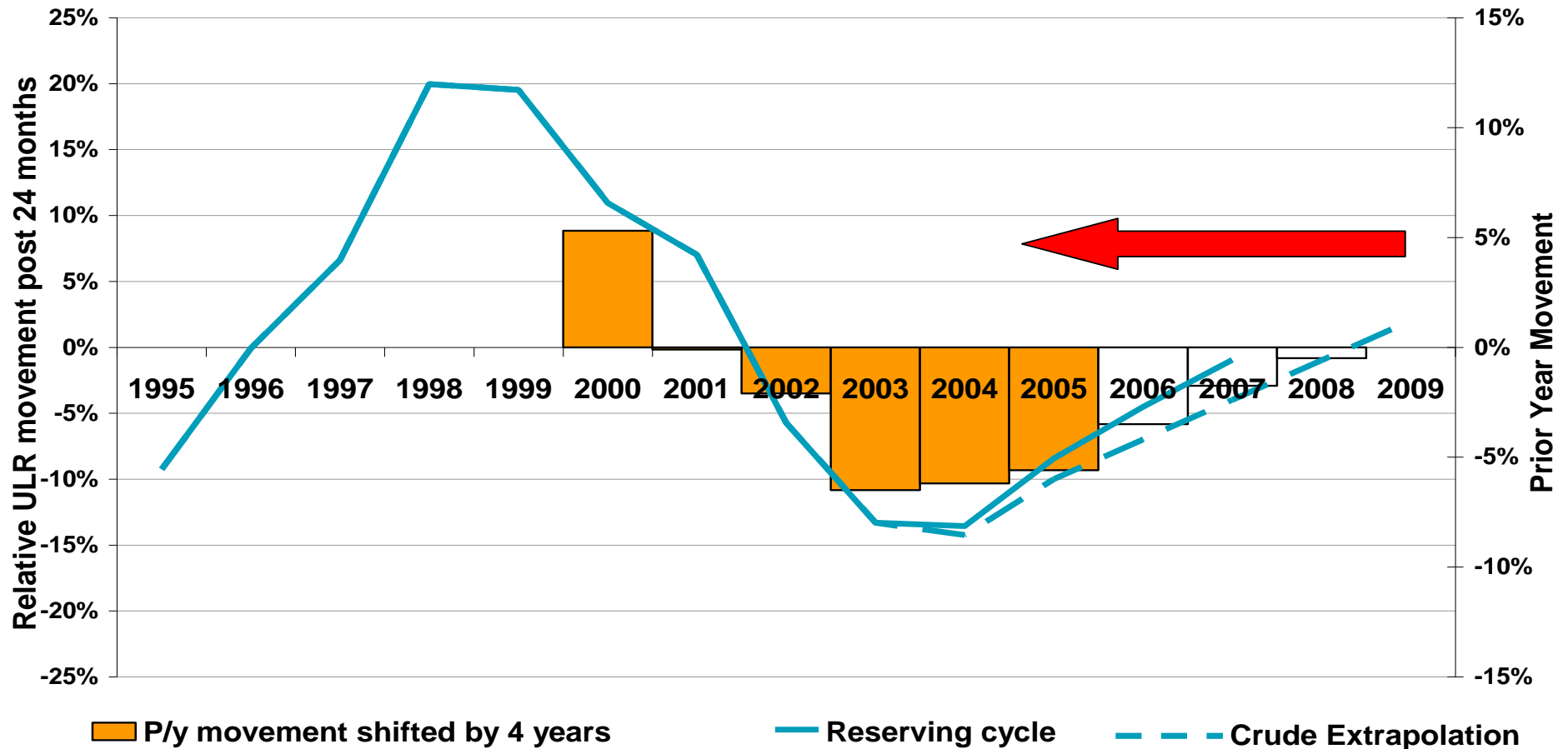


# Continue to estimate a lag of 4 years between reserve cycle and observed releases...



Source: Lloyd's SRD and Annual Report

# ...which would imply future releases will exist but reduce over the coming years



Source: Lloyd's SRD and Annual Report

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# Streamlined 2011 ICA Process....

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## Approach

- Streamlined for 2011 capital setting
  - intended to free up market resources for Solvency II dry run
  - does not remove need for appropriate ICA
- Heavily dependent on ICP benchmark movement
- Tier 1 syndicates (ICA < £100m)
  - reduced pro-forma
- Tier 2 syndicates (< £150m)
  - full pro-forma
- Tier 3 syndicates (> £150m)
  - full pro-forma plus analysis of change
  - more detail for “big” syndicate (> £300m)

## ...and already a long way through process

Date	Non-Aligned	Aligned
Initial ICA	9 July	9 July
Final SBF	10 September	1 October
Final ICA	11 October	25 October
Coming into Line	29 November	29 November



- Tier 1 syndicates have option to elect the benchmark at times during process

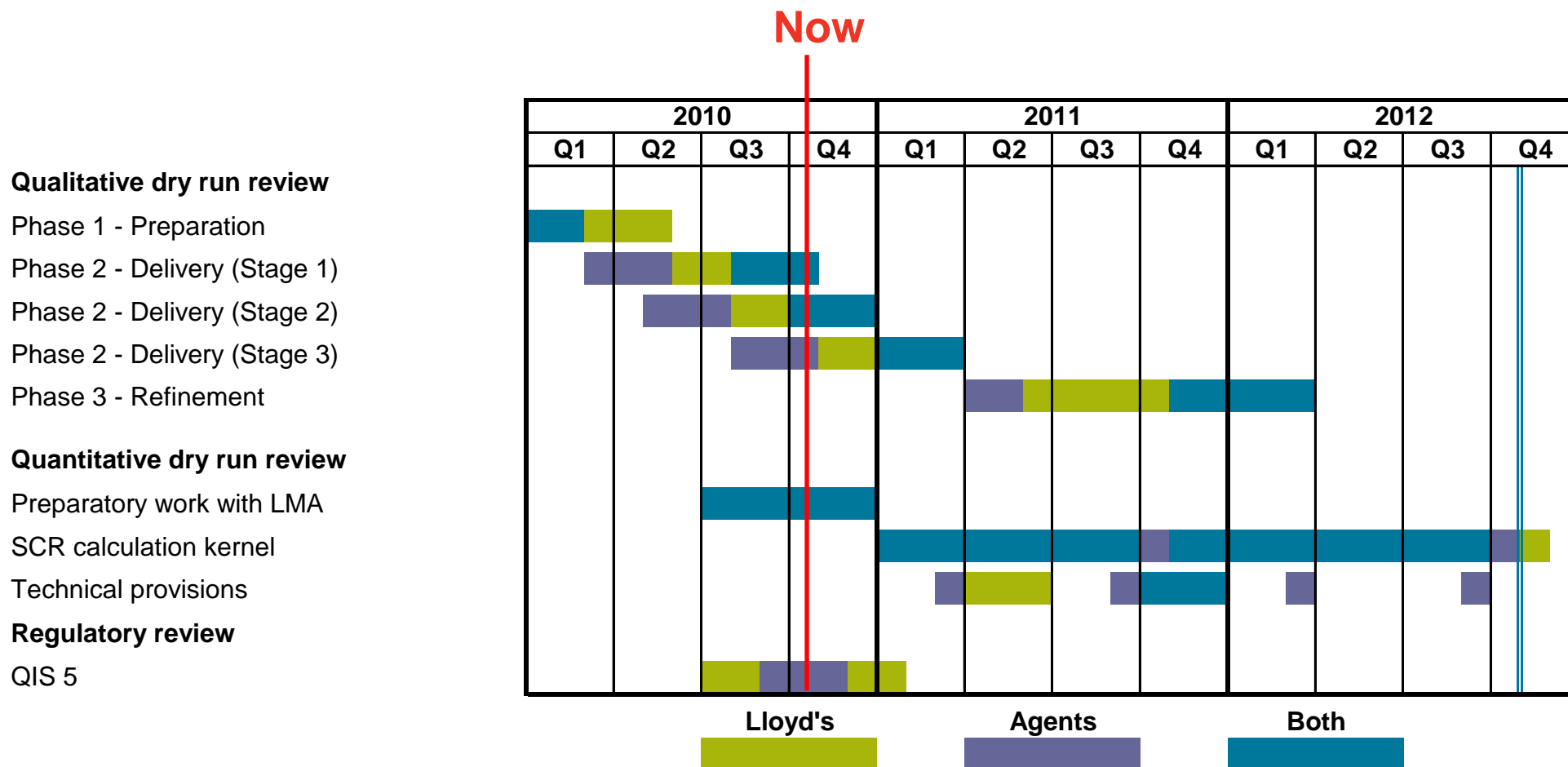
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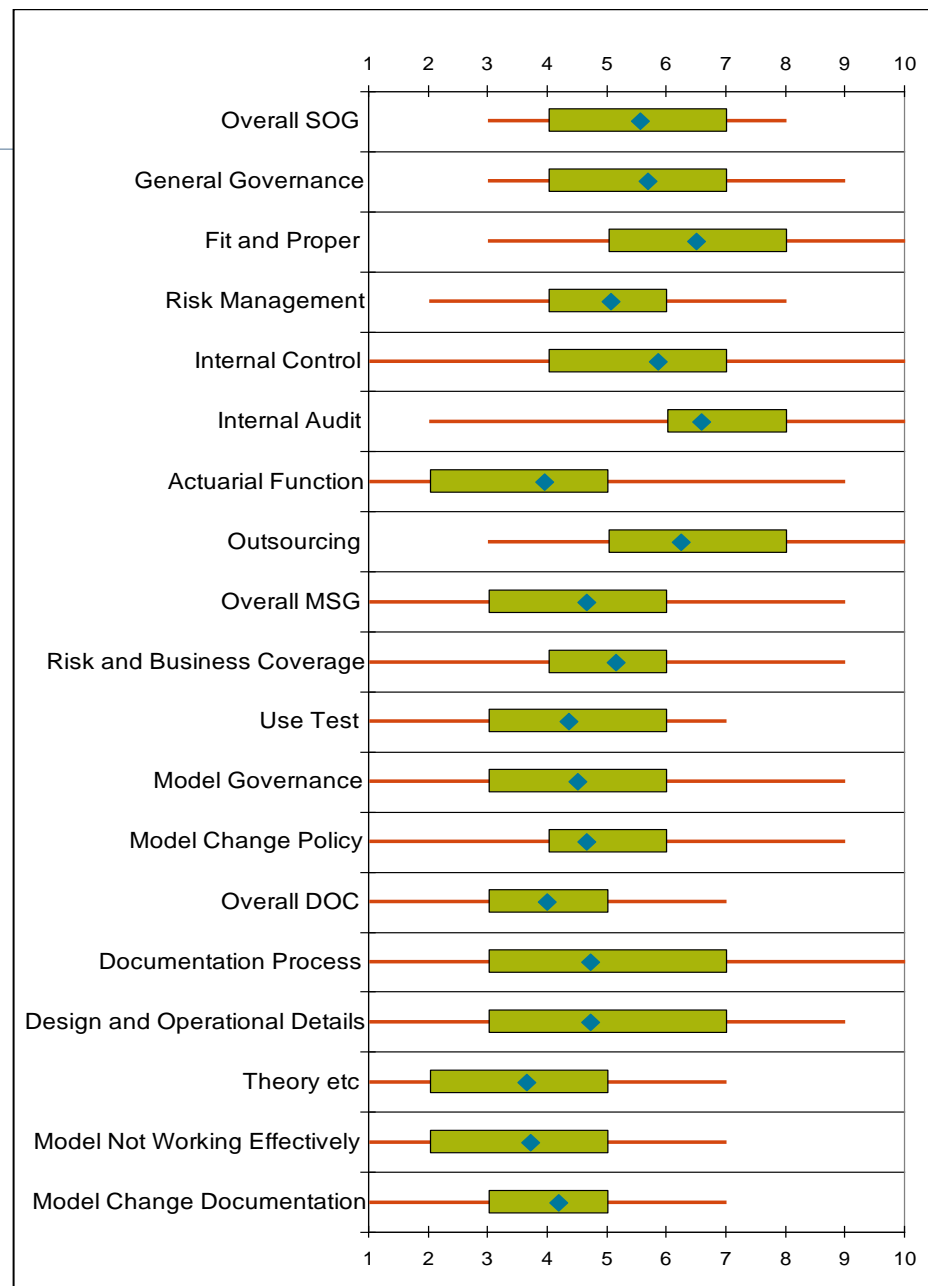


# Solvency II dry run timetable - reminder



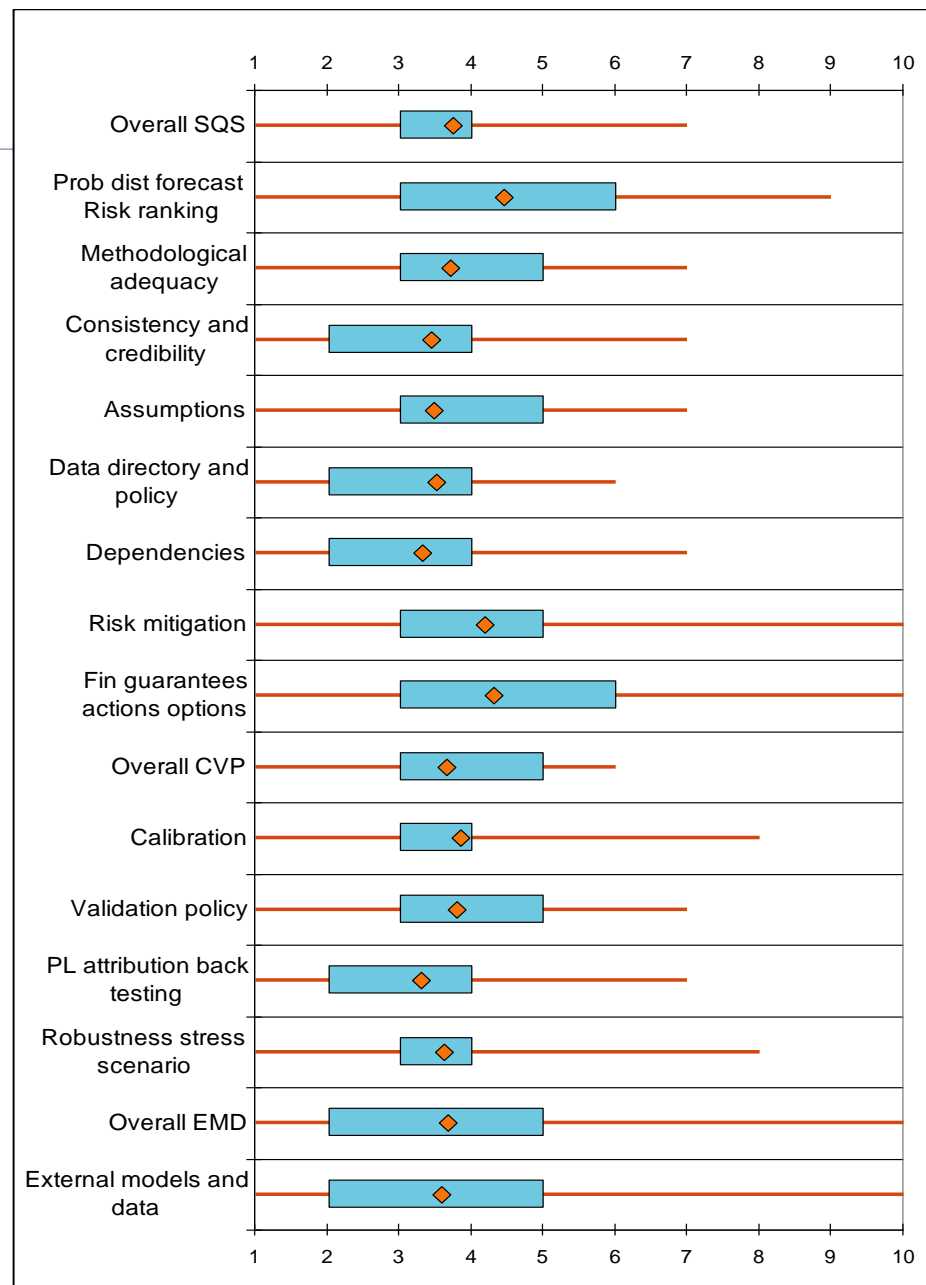
# Dry Run update – Stage 1

- Initial review of Stage 1 evidence completed
- Lloyd's scores allocated and detailed feedback being given to all agents
- Scoring sheets being provided to substantiate scores
  - also cover expectations going forward
  - original 1-10 basis still applies – just trying to provide more specific detail
- Feed into agent ratings



# Dry Run update – Stage 2

- As for Stage 1, wide range of submitted scores
- Ongoing review of all areas
  - Statistical quality standards
  - Calibration, Validation and P&L Attribution
  - External Models and Data
- More technical detail than Stage 1 reviews
- Developing scoring sheets as we go through review process



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# Dry Run update – Stage 3

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- Stage 3 templates due to be submitted by 1 November
- Technical provisions as well as reporting and ORSA
  - quantitative elements via QIS5 but qualitative to be covered by dry run
- As for previous stages full completion of templates required
- Same 1-10 scoring basis should be applied
- Be as descriptive as possible on evidence and don't list if it is not available
- Lloyd's will aim to turn around requests as quickly as possible
  - likely to request everything that is available unless it refers to ICA

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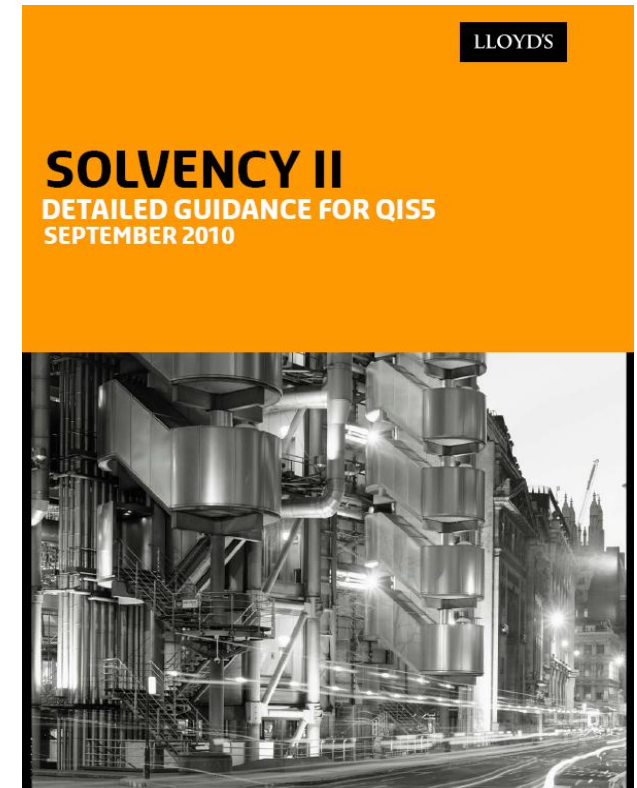
# What happens after Stage 3 ?

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- Detailed plans for 2011 being worked on internally
  - follow up on qualitative aspects
  - cover quantitative reviews
  - preparation for “soft test” in Q4 2011
- Ongoing quarterly submission of templates will be required
  - likely to begin with submission in January 2011 of position as at Q4 2010
- Template submission dates and 2011 process will be confirmed as soon as possible

# Current status of QIS5 at Lloyd's

- Lloyd's to complete central aggregate return to be supplied to FSA
- Syndicates to complete QIS5 and submit to Lloyd's
  - mandatory for all syndicates in Lloyd's Dry Run
- Detailed guidance issued Sept 2010
- Workshops held 7 / 8 September
- FAL / trust fund underlying assets issued FAQs on Lloyds.com
  - approaching 100



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# QIS5

## - common issues

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- No real surprises
  - doesn't mean it's easy!
- Common issues:
  - USPs
  - non-life Cat risk
  - TP calculations
  - data
  - market risk
- Early signs are that:
  - TPs are down but not if allowing for future premiums
  - results look high – especially NL cat risk

$$NP_{lob} = \sqrt{\frac{1 + \left(\Omega_{lob}^{net} / M_{lob}^{net}\right)^2}{1 + \left(\Omega_{lob}^{gross} / M_{lob}^{gross}\right)^2}}$$

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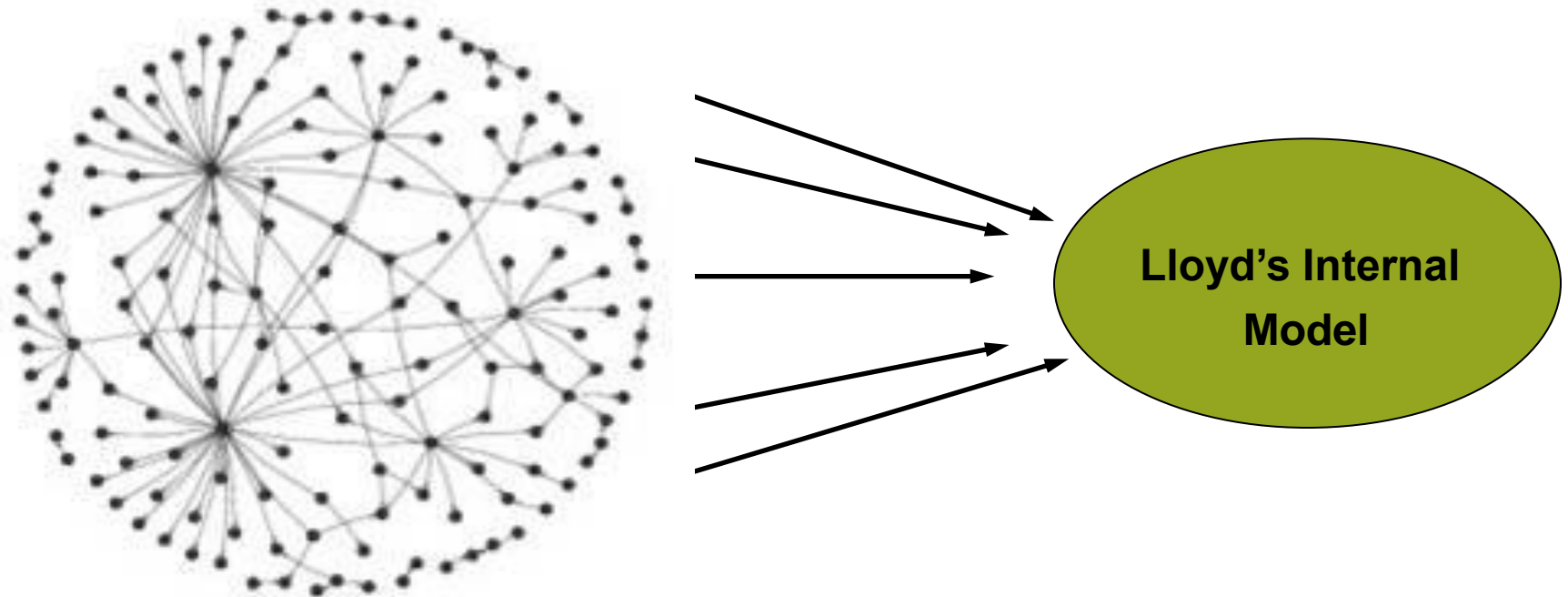
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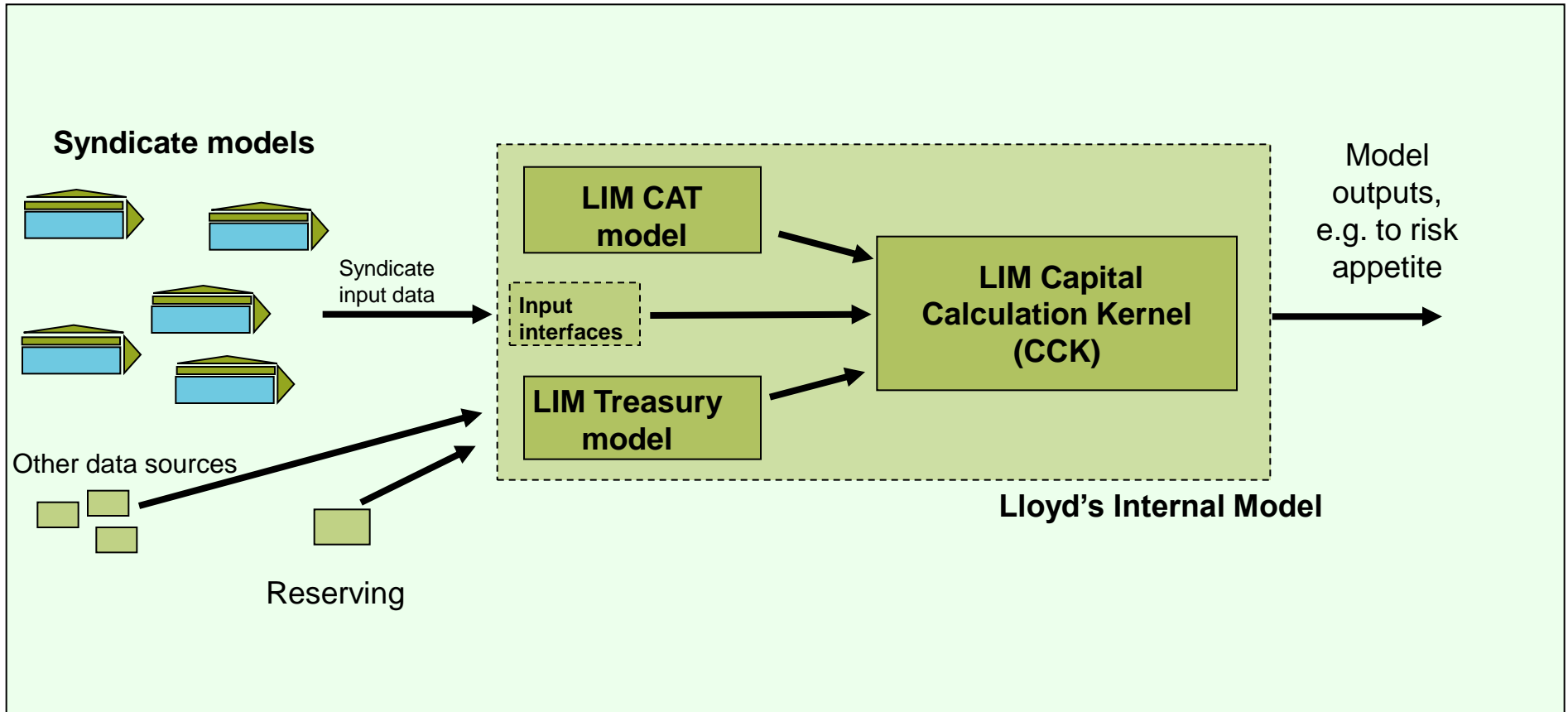
# The LIM will depend on syndicate internal models...

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... and both must meet Solvency II standards

# Overview of the LIM



# Current status of LIM

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- Working model, all risk types, end 2010
  - LIRM and LCM for Asset and Cat risk: on track
- Specifying “at risk”
  - iterative cycle of implementing, testing and specifying
- Refining during 2011
- On track, but a big and difficult project
- Making ICP Solvency II compliant
- Debating detail of member capital setting



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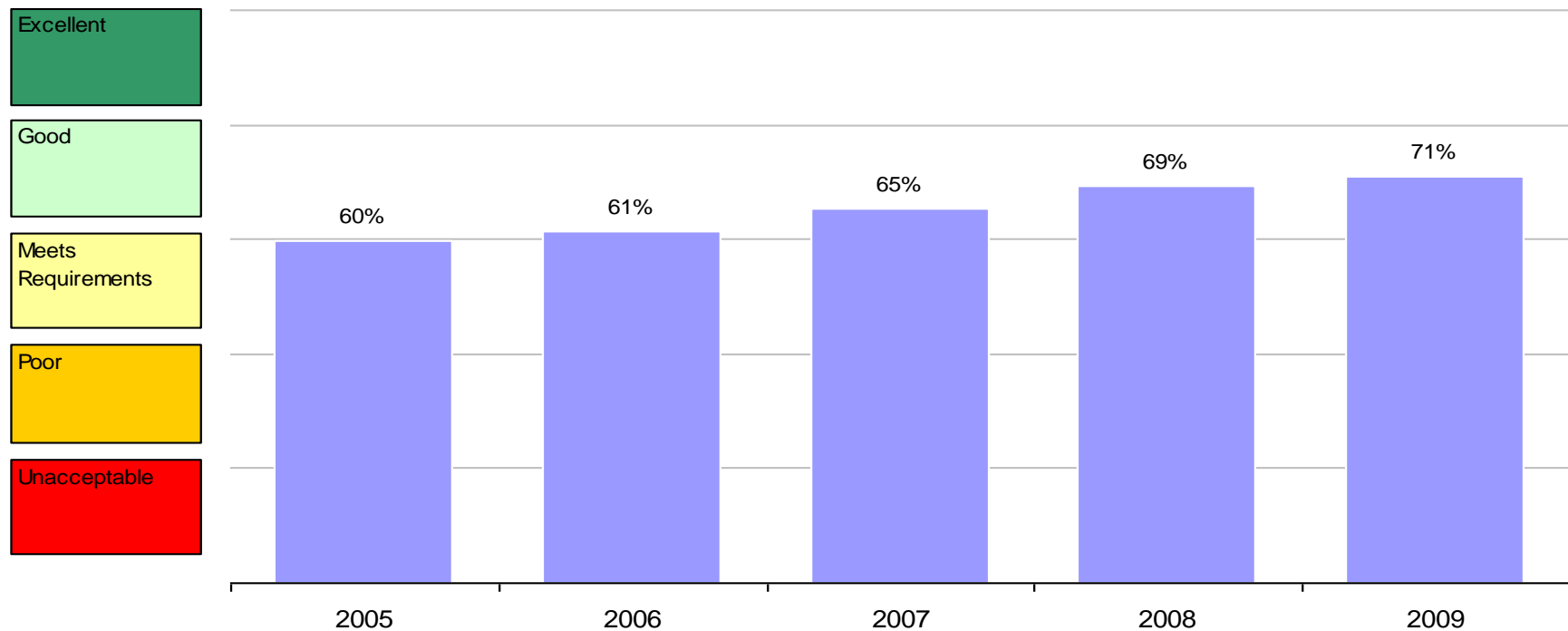
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# We have seen a steady increase in average SAO report “scores”

- Getting very close to our goal

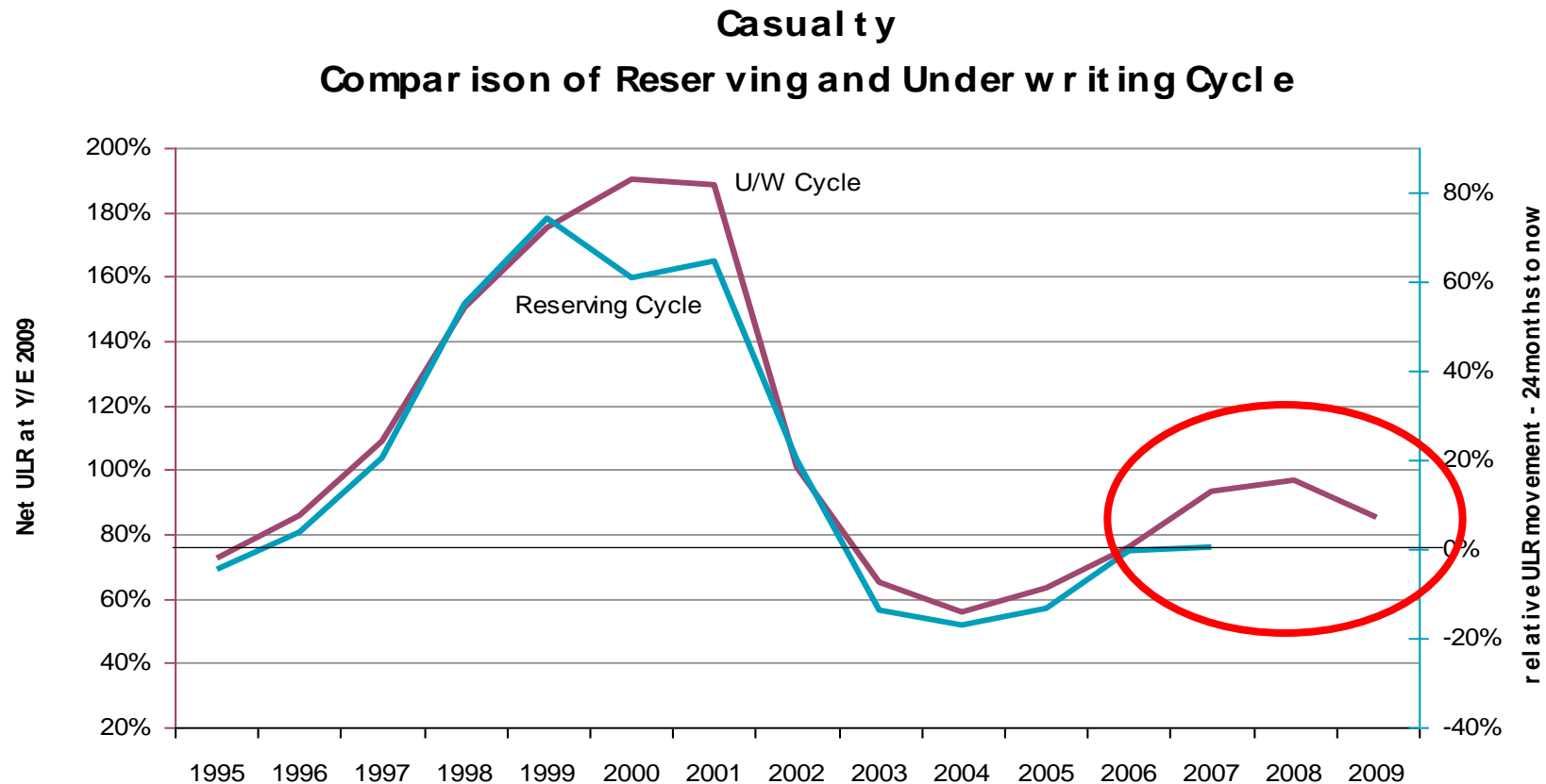
Overall performance for all producers by year-end



# Current Focus for Reserving

## - reserving cycles

- They exist – not just at Lloyd's - linked to underwriting cycle



Source: Lloyd's SRD database

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# Year End 2010 issues (1)

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## Reserving: Evidence of Boards seeing reserving issues

- We will be asking reserving actuaries to demonstrate that Boards have considered reserving issues...
- ...such as concerns about the soft market,...
- ...particular classes...
- ...and any agent specific issues

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# Year End 2010 issues (2)

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## Professional Guidance

- GN33: hope it will become AP2 by year end
- GN12: presume repealed?
- TAS R – signing actuary to assure him/herself of compliance
  - report must precede decision
- TAS D / GN20

## Process

- Valuation of Liabilities - Unchanged apart from dates
- Dates – reports by 31 March
- Signing Actuaries' Forum 6 December

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# ...and Beyond!

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## Reserving

- Evidence of Boards seeing reserving issues

## Begin to see influence of Solvency II basis?

- Best estimate
- Binary events
- Actuarial Function
- Future of the SAO?

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# Summary

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## Half year results affected by some big losses

- Reserve release but issues as well - signs of softening market?

## Solvency II

- Dry run / QIS5
- LIM / Member capital

## Year end

- Reserve governance
- Guidance changes
- Dates changing

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# Questions or comments?

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