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Update from The Bank of England

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Chief Actuary for General Insurance

24 October 2018



Content

- Our work with the Chief Actuary community
- “*Dear Chief Actuary*” letters
 - the actuarial function
 - reserving
- Oversight of firms’ actuarial function activities
- Insights from other technical work
- Future areas of focus
- Q&A



the actuarial function

6.1

01/01/2016

(1) A firm must provide for an effective actuarial function to:

- (a) coordinate the calculation of technical provisions;
- (b) ensure the appropriateness of the methodologies and underlying models used, as well as the assumptions made in the calculation of technical provisions;
- (c) assess the sufficiency and quality of the data used in the calculation of technical provisions;
- (d) compare the best estimate against experience;
- (e) inform the governing body of the reliability and adequacy of the calculation of technical provisions;
- (f) oversee the calculation of technical provisions in the cases set out in Technical Provisions 12;
- (g) express an opinion on the overall underwriting policy;
- (h) express an opinion on the adequacy of reinsurance arrangements; and
- (i) contribute to the effective implementation of the risk-management system referred to in 3, in particular with respect to the risk modelling underlying the calculation of the SCR and MCR and to the firm's ORSA.

(2) The actuarial function must be carried out by persons who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the firm's business, and who are able to demonstrate their relevant experience with applicable professional and other standards.

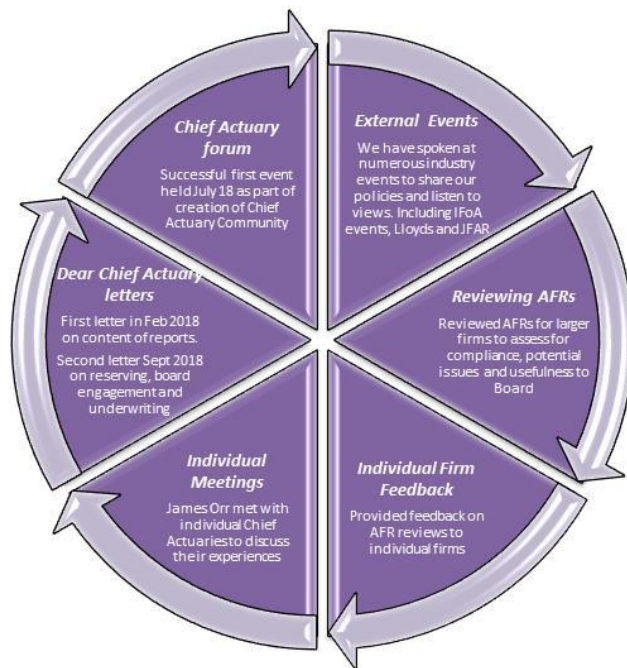
[Note: Art. 48 of the Solvency II Directive]

- Nearing end of 3rd year of “*existence*”
 - a technical function
 - not a reserved role
 - relevant knowledge and experience



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Our work with the “Chief Actuary” community



What do we do...

How we can influence...

How you can influence...



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Dear Chief Actuary letters – the actuarial function

- Key messages coming out from our discussions with chief actuaries

- Board engagement

Generally seen as good but could be improved upon

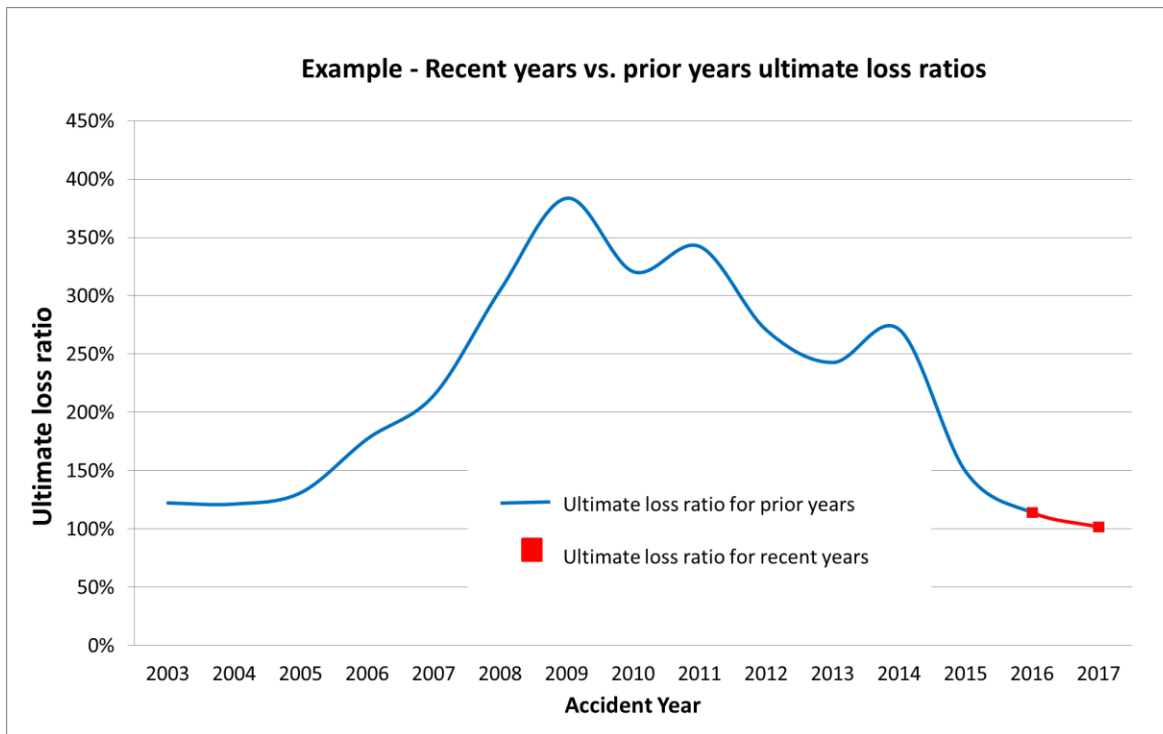
- Technical areas

Tend to be more comfortable with reserving and reinsurance requirements than underwriting

- AFRs are still seen by many firms as a regulatory requirement



Dear Chief Actuary letters– Reserving work

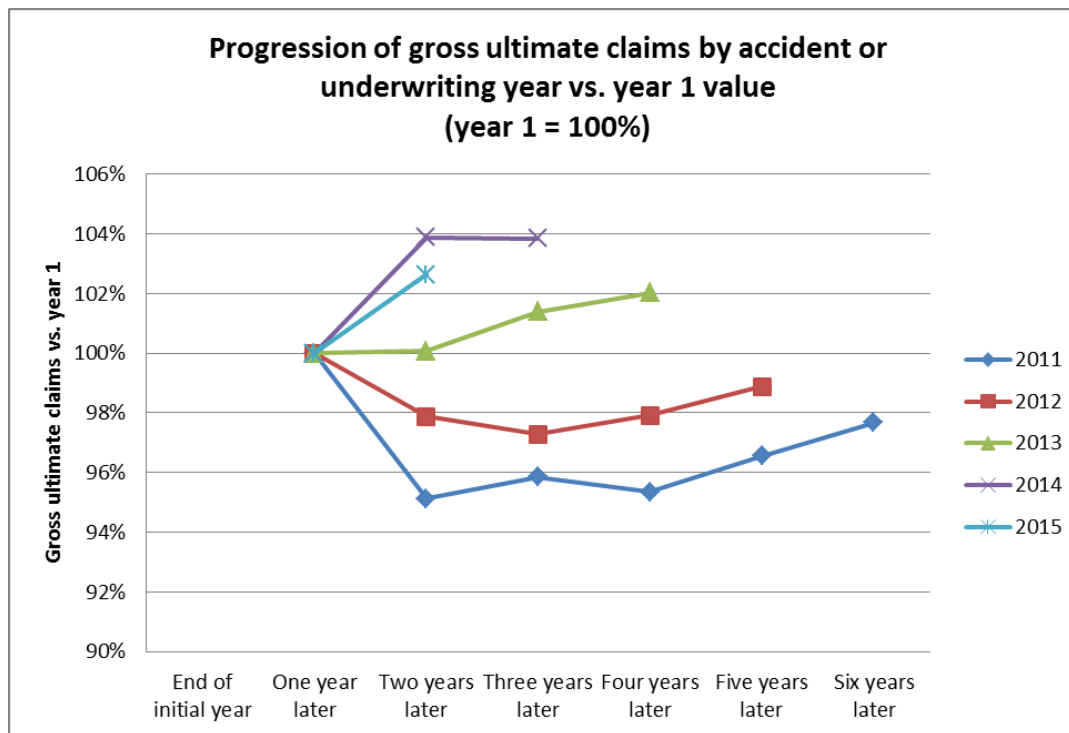


Source: Figure 1 of PRA's Dear Chief Actuary Letter dated 17 September 2018. Derived from aggregated SII data extracted from National Specific Templates for a sample of firms reporting on an accident year basis.



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Dear Chief Actuary letters– Reserving work

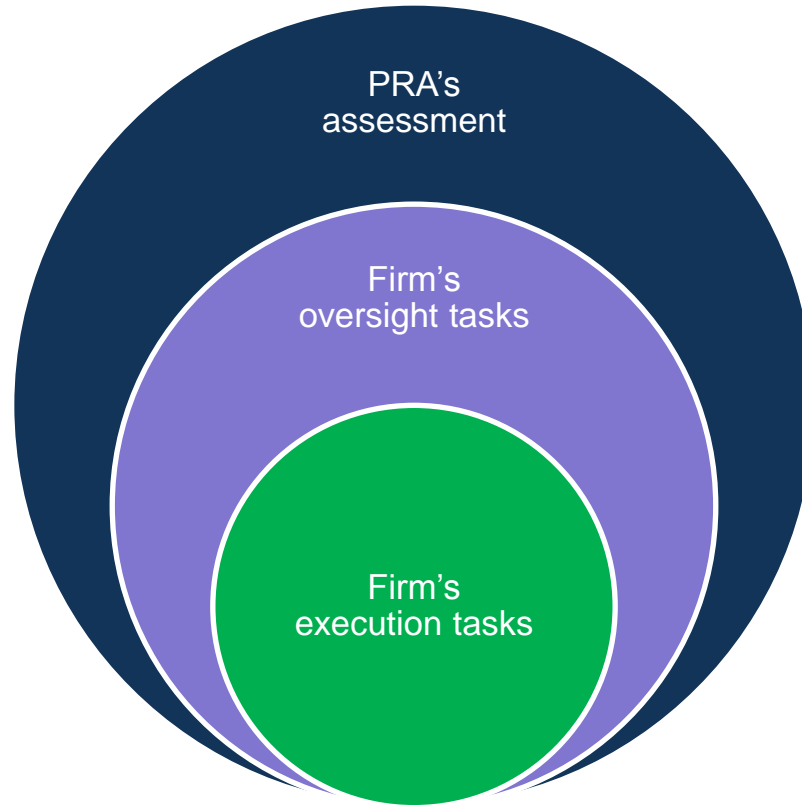


Source: Figure 2 of PRA's Dear Chief Actuary Letter dated 17 September 2018. Analysis of gross ultimate claim triangulations from publicly available annual report and accounts as at year end 2017 for a sample of firms included within our review. See Dear Chief Actuary September letter for further details.

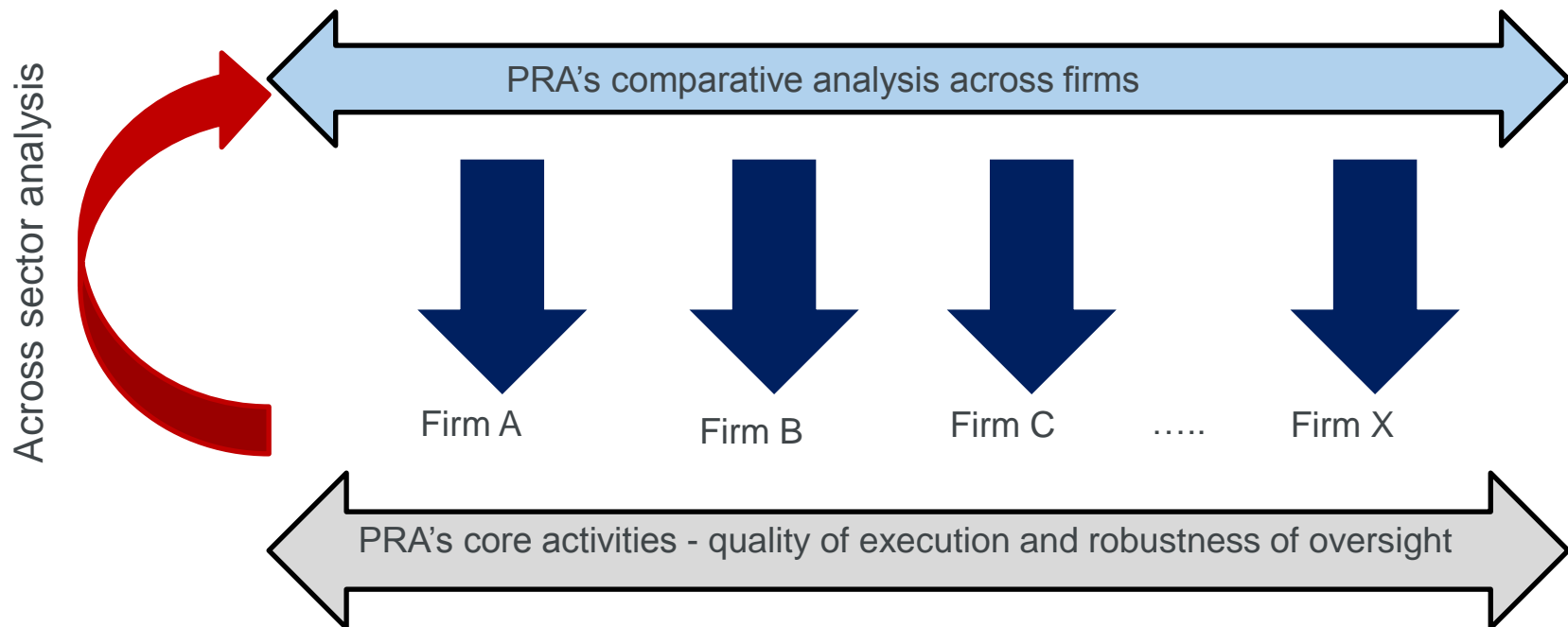


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PRA's oversight of firms' actuarial function activities



PRA's oversight of firms' actuarial function activities



Insights from PRA's other technical work

- General Insurance Stress Test (GIST)
- Monitoring the Market (MtM)
- Internal Model Output (IMO)
- Assessment of exposure management in firms
- External factors – climate change



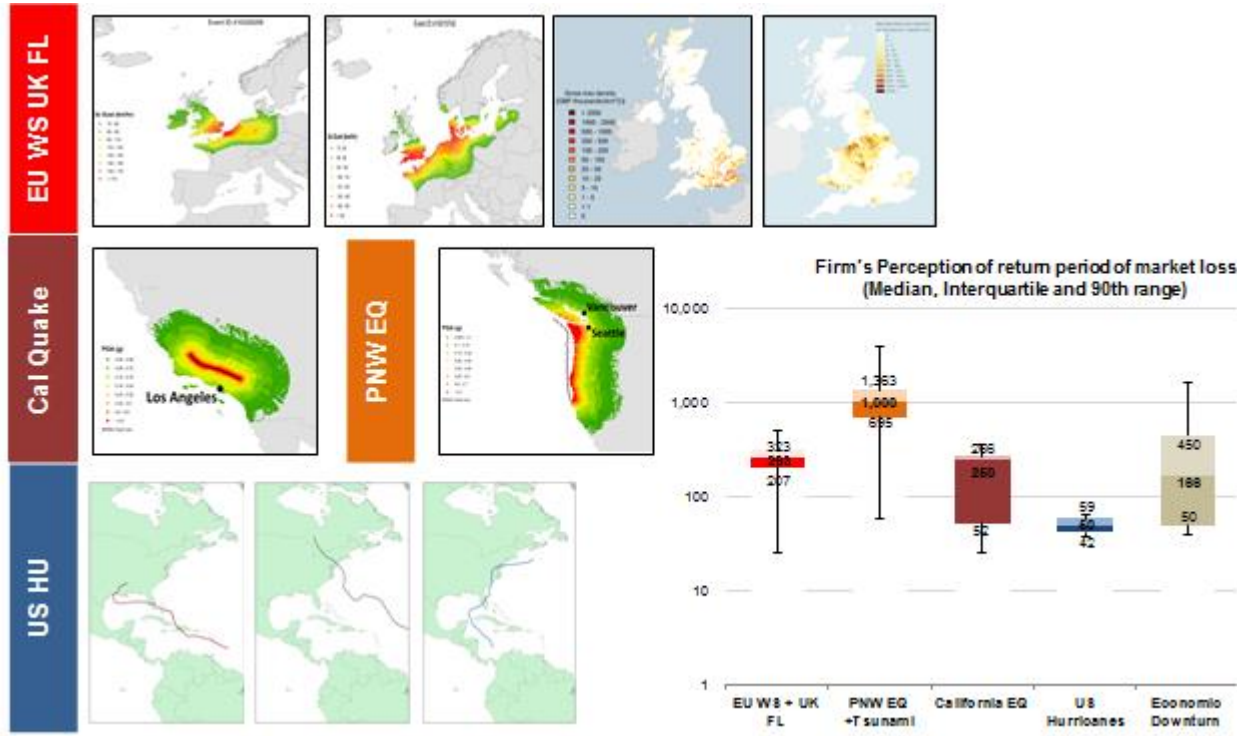
Insights ...GIST

- Participants to past exercises (2015 and 2017) have been
 - largest firms only (Category 1 and 2) & General Insurers only
- For future exercises we are considering
 - extending to largest Life Insurers albeit in a more limited manner
 - possibly including smaller firms and specific sectors
- Additional considerations
 - Cost Benefit Analysis: additional supervisory insights vs. burden on firms (given learnings in 2015 & 2017)
 - avoid duplication with similar exercises, or where data is available through other means: in the past, scope of PRA insurance stress testing did not include Life insurers as their main risks are fairly systemic and coverage through EIOPA stress tests
 - ability to obtain a consistent view across the whole financial sector



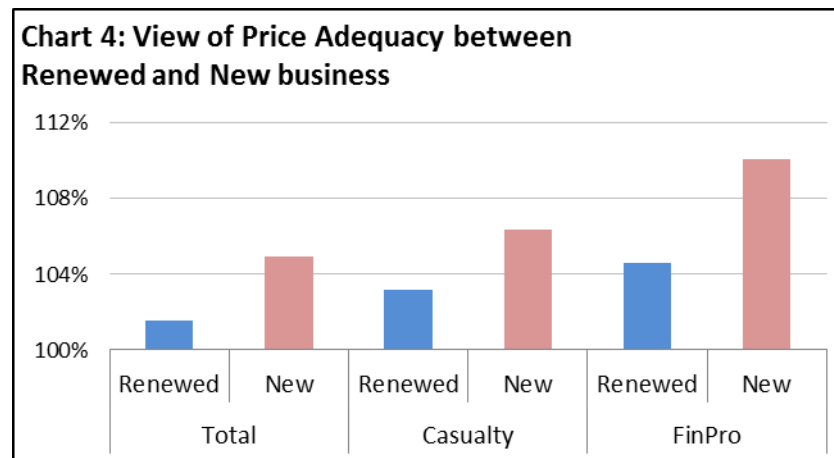
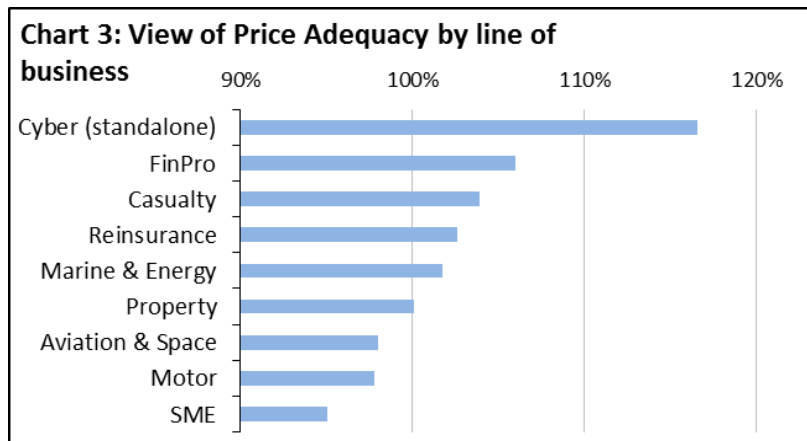
Insights GIST

GIST 2017: Nat Cat events footprints



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Insights ...MtM

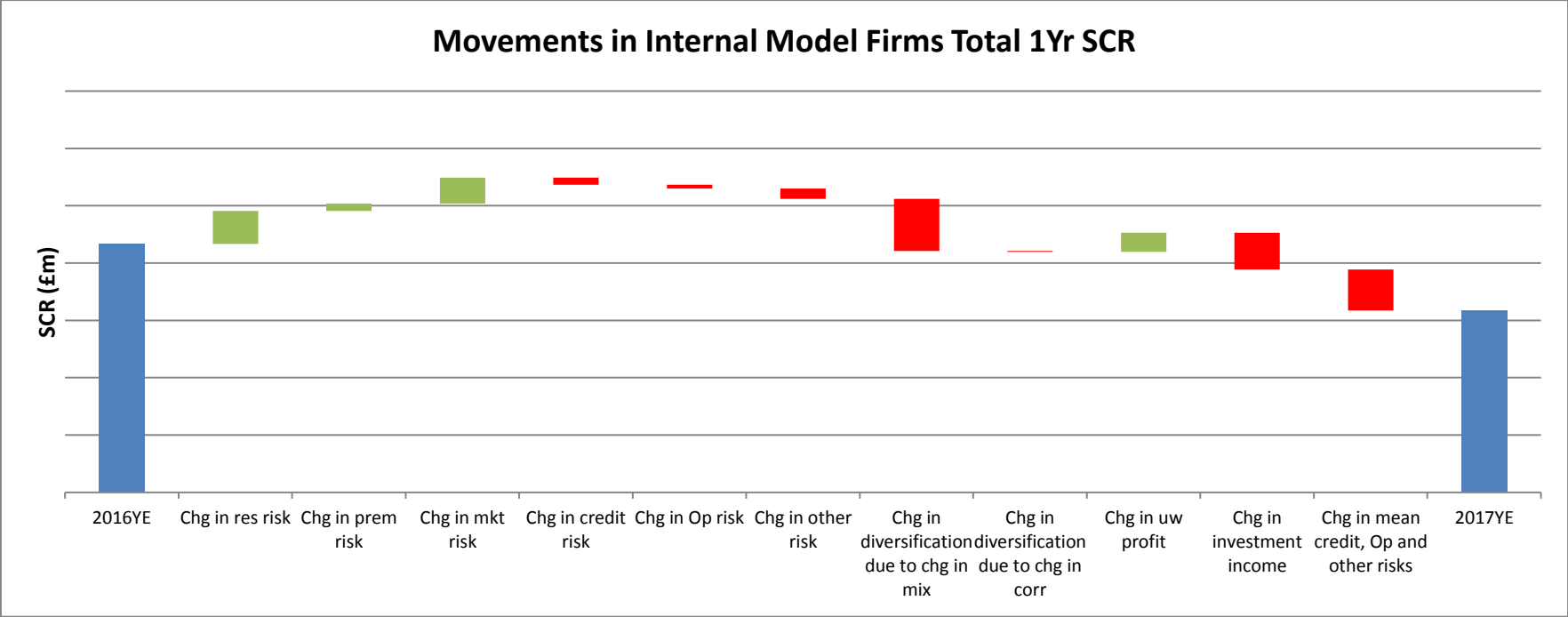


Source: Chart 3 and 4 are from the PRA's Dear CEO Letter dated 31 May 2018.



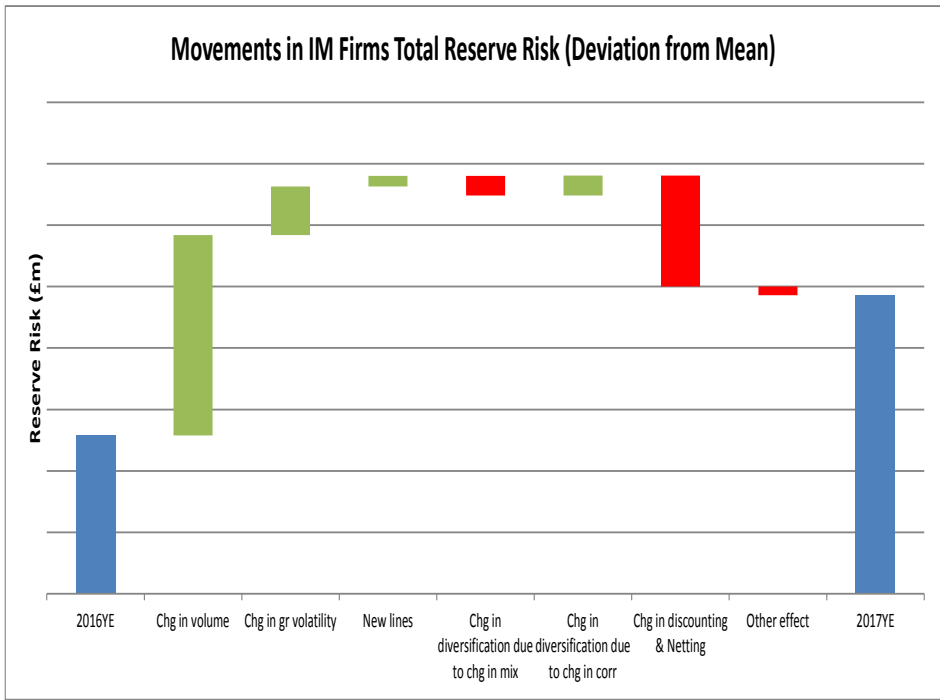
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Insights ... IMO SCR movements

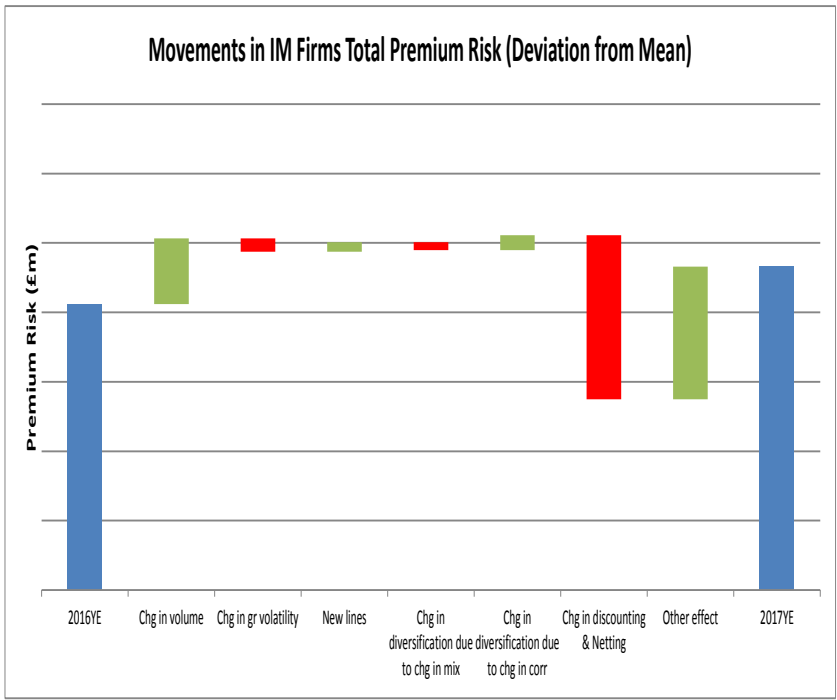


Insights ...IMO Reserve and Premium Risk movements

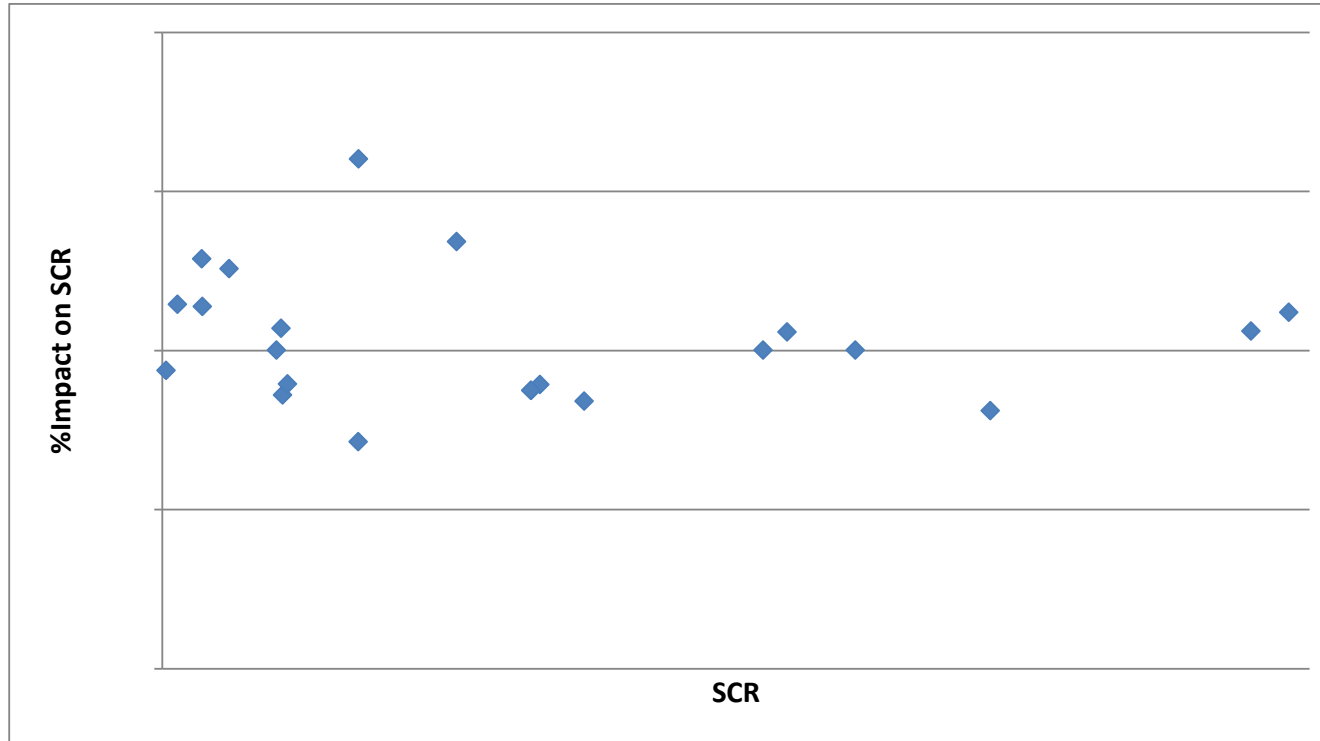
Movements in IM Firms Total Reserve Risk (Deviation from Mean)



Movements in IM Firms Total Premium Risk (Deviation from Mean)



Insights ...IMO Cross-risk Dependency As-if Analysis



Insights ...experience from 2017 losses in EM

- Insured losses from 2017: noteworthy not only because of the total losses
- Exposure management reviews gave us insight in two areas:



1) Non-modelled element from 2017 losses

- Harvey: flood element and motor claims
- HIM: clustering of major hurricanes
- California wildfires: not only an attritional loss



2) Exposure management practices could improve:

- difficulty for firms to quantify exposure at risk in a timely manner
- lack of interconnectivity across firm's activities
- over-reliance on tools unfit to serve all purposes



Insights from PRA's other technical work – climate change

Governance

- Board to understand risks and long-term view
- identify senior manager with responsibility

Risk management

- use existing risk management framework
- consider possible accumulation of risk in investments

Scenario analysis and stress testing

- do scenario analysis
- both short term and long term

Disclosure

- make disclosures
- consider Taskforce for Climate related Financial Disclosure (TCFD)



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PRA's Future areas of focus

- Reserving
- Optimistic business plans
- Rate adequacy
- Capital implications of the above areas
- Claims inflation



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Questions

Comments

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