

Institute  
and Faculty  
of Actuaries

# Casualty Reserving in the Lloyd's Market

Lydia Rhodes



15 June 2016

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Outline

- 1. Are casualty recent years actually under reserved?
- 2. Why has this happened?
- 3. What should be done?

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Some healthy disclaimers..

- Not finger pointing but thought provoking..
- There is a range – not everyone is in the same boat
- Analysis provided is based on the Lloyd's market data

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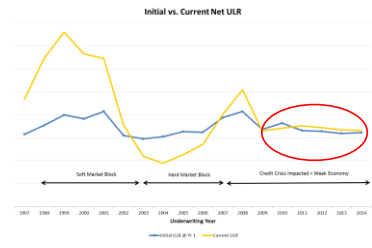
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ULRs pushing out



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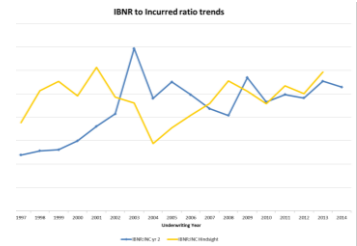
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Driven by strengthening in IBNR



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And a low initial ULRs for the most recent years

Gross Earned ULRs	2009	2010	2011	2012	2013	2014	2015
At 12 months	6%	11%	5%	4%	2%	3%	0%
At 24 months	10%	8%	5%	5%	2%	5%	
At 36 months	7%	7%	5%	6%	5%		
At 48 months	9%	7%	7%	7%			
At 60 months	4%	6%	9%				
At 72 months	3%	7%					
At 84 months	5%						



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Results in ULRs being strengthened..

Gross Earned ULRs	2009	2010	2011	2012	2013	2014	2015
At 12 months	6%	11%	5%	4%	2%	3%	0%
At 24 months	10%	8%	5%	5%	2%	5%	
At 36 months	7%	7%	5%	6%	5%		
At 48 months	9%	7%	7%	7%			
At 60 months	4%	6%	9%				
At 72 months	3%	7%					
At 84 months	5%						



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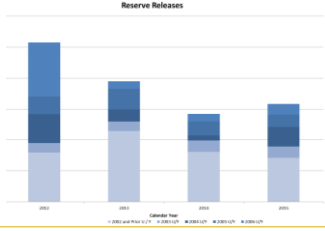
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Casualty result driven by reserve releases on the most recent years



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Results on a Solvency 2 best estimate basis aren't any better..

Gross Earned ULRs	2011	2012	2013	2014	2015
At 12 months	10%	10%	0%	1%	0%
At 24 months	4%	3%	3%	4%	
At 36 months	2%	4%	3%		
At 48 months	4%	4%			
At 60 months	5%				



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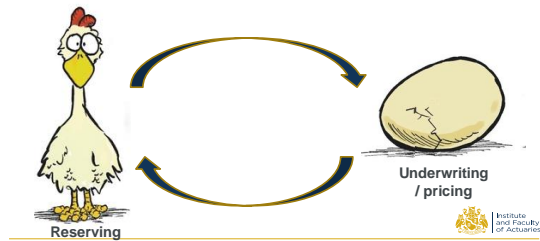
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The chicken and egg debate!



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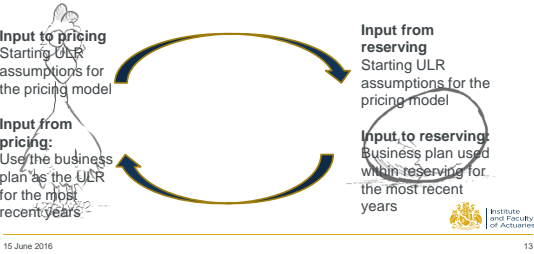
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The chicken and egg debate - explained!



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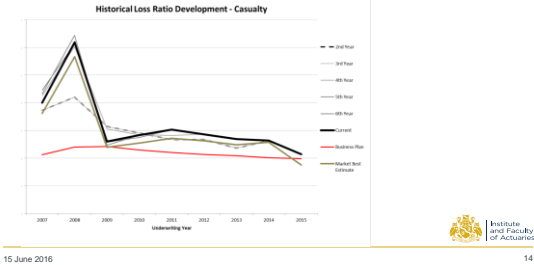
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Optimistic business planning...



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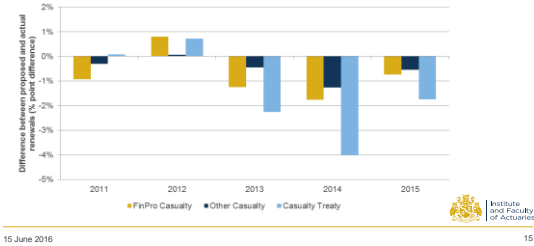
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Partly driven by proposed rate changes not being achieved...



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Amounts are then used as priors for the most recent years..

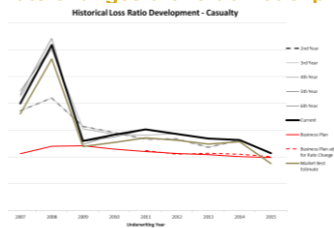
Volume of Premium		£10,000,000							
Book running at	Percentage developed	Business Forecast ULR	Rate reduction 'error'	Revised Business Forecast ULR	Proposed Reserves	Corrected Reserves	Understatement	% Understated	
65%	5%	65%	0.5%	65%	£6,175,000	£6,206,030	£31,030	0.5%	
65%	5%	65%	1.0%	66%	£6,175,000	£6,237,374	£62,374	1.0%	
65%	5%	65%	2.0%	66%	£6,175,000	£6,301,020	£126,020	2.0%	
65%	5%	65%	3.0%	67%	£6,175,000	£6,365,979	£190,979	3.3%	
65%	5%	65%	4.0%	68%	£6,175,000	£6,432,292	£257,292	4.2%	

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Rate changes alone do not explain the difference...



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## Reason 2: 'Actuarial Reserving' methods do not typically allow for changes in the business

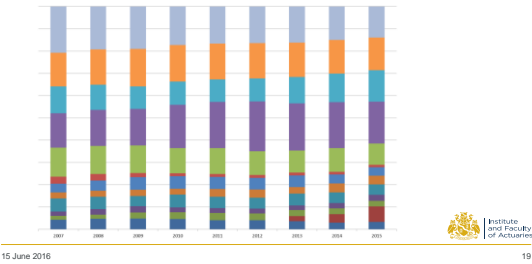
- Assume past is a guide to the future..
  - Therefore gradual changes in books are not allowed for
    - Change in the retentions
    - Changes in policy wording
    - Change in the terms and conditions
    - Changes in the location of risk
- Rely on assumptions of ULRs
  - Therefore heavily dependent on underwriter input
  - Requires an assumption on inflation
  - And rate change adequacy

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Gradual shifts in business are harder to identify..



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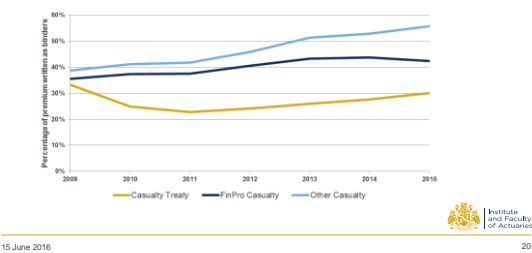
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And within classes there is also a shift towards behind binders



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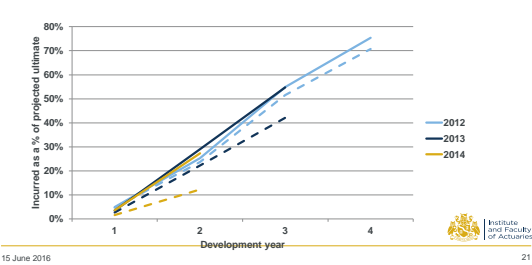
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Shift towards binders must be allowed for



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What should be done?



Option 1



Option 2



Option 3



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Understand the pricing..

- Spend time with the pricing teams
  - Understand how the book is being technically priced
  - The difference between technical price and price achieved
- Understand the business they are writing and market conditions
- Ensure this is reflected in the reserving ULRs



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...to ensure the reserving ULRs are appropriate

- Feedback obtained from the pricing teams is used within the reserving loss picks
- Changes in the mix of business are reflected in the development patterns and assumptions used
- Ensure this is reflected in the reserving ULRs...
- .... which are the input to the pricing ULRs

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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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