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LLOYD'S AND LONDON MARKET

SEMINAR

27 JULY 2007, LONDON

Claims and Reserving Issues

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Claims Issues at Lloyd's

Claims Agenda:

- Overview of Claims Environment
- Claims Minimum Standards
- Coverholders / TPAs
- Professional Indemnity Static Claims
- ECF

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Current Claims Environment

- Across the market there continues a generally benign claims environment
- No shocks in most lines
- Good for results but can mean more pressure on already softening rates

Can too few claims become an issue

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## Current Claims Environment - Cont.

- Catastrophes
  - Little activity on the 2005 hurricanes during 2007
  - Too early to accurately assess the UK floods
  - Plenty of issues to consider such as demand surge and loss adjuster availability
- Marine
  - Some losses during 2007 (WD Fairway/MSD Napoli/Sea Diamond)
  - Little claims in other areas of division
- Aviation
  - Some smaller losses during 2007
  - No room for catastrophes

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## Current Claims Environment - Cont.

- Property
  - Is it worth keeping an eye on power machinery claims?
- Casualty
  - apparent stabilisation of back years
  - No major new claims
  - Linked to strength of the economy?
  - Possible concerns
    - US sub-prime lending?
    - hedge fund collapses?

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## Claims Minimum Standards

- Lloyd's Claims Minimum Standards were introduced in 2005 and 2006 by FPD Claims
- Introduced a "best practice" framework including:
  - timely, efficient and accurate claims reserving;
  - proactive management of third parties & experts;
  - and performance measurement
- Lloyd's and the market has worked hard to implement
- Compliance could involve changes to processes which could impact patterns

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## Claim Minimum Standards – Cont.

- Areas of current and ongoing focus:
  - Ensuring all claims are reviewed at least once every 12 months
  - Performance management and delivery against claims business plans
  - Management of claims handled under delegated authority
- What are the implications of non-compliance?
  - Increased operational risk?
  - Increased reserving risk?
  - Claims drive pricing, wordings and reinsurance recoveries

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## Coverholders / Third Party Administrators

- Quality and timeliness of underwriting/claims handling by coverholders/TPAs could still be improved
- Large claim shocks have emerged from coverholders in the past
- Lloyd's is developing an enhanced on line application and data system to enable closer monitoring of coverholder management and performance
- Lloyd's performance framework relating to management of third parties with claims handling authority is under review
- Working with LMA Delegated Underwriting Committee to improve standards

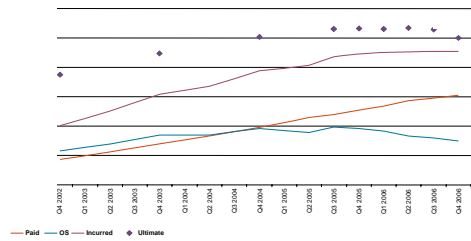
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## Professional Liability Static Claims – 1998-2002 YOA

- Market exercise to actively review all PL claims that had not been reviewed for 12 months
- Exercise to review 5,580 non-moving claims
- Currently 700 claims remain non-moving
- Of those claims reviewed over 70% should have been closed leading to redundant reserves of approx £40m
- Could be a market wide issue?

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## Professional Liabilities (1998-02): Gross Incurred and Ultimate Development



Source: Lloyd's PI Return and SRD 2006

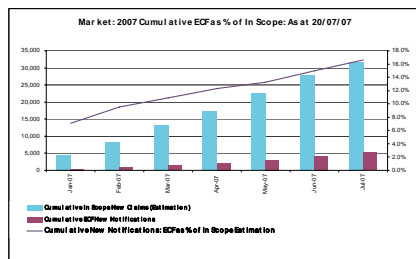
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## Electronic Claim Filing (ECF)

- Electronic Claim Filing has been live since Sept 2006
- Improve efficiency in the market – speed & cost
- Improve end to end claim transparency – available 24/7
- Target of 100% all new in scope claims processed electronically by year-end 2007; 30% by end of Q2 and 60% end of Q3.
- Progress is good but still work to be done
  - At 20 July, 28.5% of all new in scope claim advices were transacted electronically.
  - New Notifications: 5,776 from live date

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## Electronic Claim Filing (ECF) – Cont.



Source: FPD Claims

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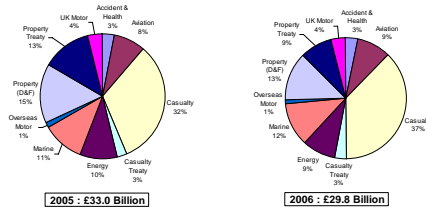
## Reserving at Lloyd's

### Reserving Agenda:

- Overview of Reserves
- SAO Uncertainty
- Stability in Casualty back years?
- Reserve Benchmarking

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## Overview of Gross Reserves – natural reduction in reserves following a quiet 2006

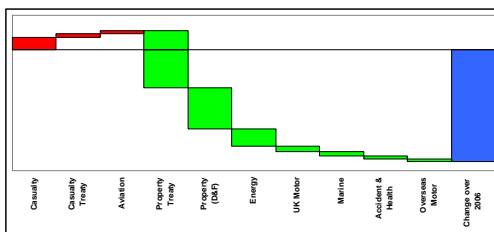


Source: SRD 2006 converted at year-end 2006 exchange rates

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## Overview of Reserves – analysis of movements by class

- As expected, Property classes saw the biggest decrease during 2006



Source: SRD 2006 converted at year-end 2006 exchange rates

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## SAO Large Loss Wordings – Reducing Uncertainty?

- The following table gives a breakdown of the large loss wording contained in the 2006 year-end SAOs
- Overall shows a downwards migration
- Increase in "Other" wordings 2 was seen due to Thompson Ruling

	2	3	4
WTC Wording	28	13	1
2005 Hurricanes	34	25	0
2004 Hurricanes	5	4	0
PI/Enron	6	6	0
Other	14	3	2
2006 Total	87	51	3
2005 Total	67	76	4

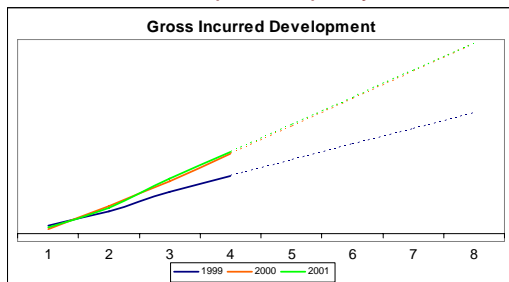
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## Stability in back years?

- The casualty class for years of account 1999-2001 has historically caused concern in the market
- Was this justified?
- Has it stabilised enough to gain more comfort?
- The incurred development shows some clear patterns:

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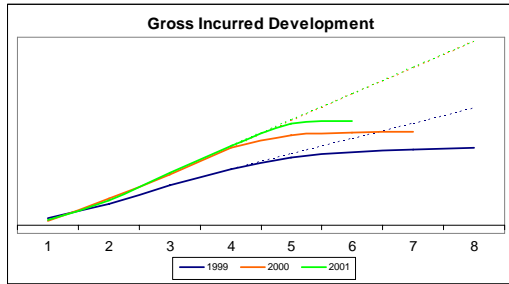
## Stability in back years – Casualty YOAs 1999-2001 development up to year 4



Source: SRD 2006 converted at year-end 2006 exchange rates

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## Stability in back years – Casualty YOAs 1999-2001 development to date



## Reserve Benchmarking

- MRC have produced and circulated the 2006 year-end relative reserve benchmarking packs
- Similarly to last year the four areas of focus are:
  - Reserve Strength
  - IBNR Utilisation
  - Reserving over Time
  - Quality of business
- Introduced an index based on proportional deviations from benchmark
- Information on index quartiles included in the packs

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## Reserve Benchmarking – sample for dummy agent

GROSS	Quantile	Portfolio	Benchmark	Deviation
Reserve Benchmarking Index	②			
1. Reserve Strength	②			
	1.1 Reserve as % Ultimate Claims	31.8%	28.1%	2.5%
	1.2 IBNR as % Ultimate Claims	12.2%	12.8%	(0.6%)
	1.3 Case Reserve as a % of Incurred	22.1%	18.8%	3.4%
	1.4 General Ratio (Index)	2.3	2.3	0.0
2. IBNR Utilisation	③			
	2.1 IBNR Burn (1 year) During 2006	50.3%	35.8%	(14.5%)
	2.2 IBNR Burn (1 year) During 2005	47.4%	39.2%	(8.1%)
	2.3 IBNR Burn (1 year) During 2004	20.8%	30.4%	9.6%
3. Reserving over time	②			
	3.1 Ultimate (now) as % Ultimate (YOA)	97.3%	98.8%	1.6%
	3.2 Ultimate (now) as % Ultimate (YOA+2)	99.2%	99.4%	0.1%
4. Quality of business	③			
	4.1 Paid Loss Ratio	62.3%	60.3%	(2.0%)
Other NP's				
5. Reinsurance	N/A			
	5.1 % Premium Ceded	32.8%	30.5%	2.3%
	5.2 RI L/R	97.3%	100.0%	(3.8%)
	5.3 RI Ultimate as % of Gross Ultimate Claims	34.7%	36.2%	(1.5%)
	5.4 RI Reserve as % of Gross Reserve	28.1%	28.3%	(0.1%)
6. Ultimate Loss Ratio	N/A			
	6.1 L/R	91.9%	85.0%	(6.9%)

Source: MRC Dummy Agent Pack

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## Summary

- Benign claims experience
  - but softer market
- Claims Process Reforms
- Reduction in reserves
- Stability in back years
- Looking at value added activities such a reserve benchmarking

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## Questions

- Questions?

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