

## **Reserving debate at GIRO 2009**

### **General insurance actuaries at the crossroads – Kathryn Morgan**

There seems to be a strong movement in the general insurance actuarial community that now is the time to grasp the nettle of change. Our life colleagues have already been down this road, and are able to say that they have set aside flawed methods and now have the best tools for the job. Is general insurance reserving at the same point? This is where actuarial work in general insurance started – have we rested on our laurels for too long? Should we be learning from the life actuaries and fundamentally addressing what we do in order to use current science; better understand uncertainty; and communicate results better.

The first session on Friday morning at GIRO is a key debate that will affect all general insurance actuaries. Some sessions at GIRO are talked about for years afterwards – the Michael Bright interview; Derek Newton's non-appearance presentation. This debate is one of key sessions of GIRO 2009 – if you're in Edinburgh, you need to be there, and we intend that it will be talked about long after GIRO is over.

We have traditionally held some of our most important and thought provoking sessions on the final Friday morning of GIRO, so that delegates go away with a real sense of purpose for change. This year will be no different.

So what is this debate about? At first glance a debate on reserving methods seems to be a re-run of the GRIT / ROC stuff we have covered so many times over the last few years.

What's new? And why is it important?

There is a lot of pressure on reserving techniques and actuaries who use them to open them up to scrutiny, to communicate the uncertainty around results, and to identify different sources of risk. This is coming from the BAS Standards, as well as from a move to more risk-based regulation of insurers. In some areas, general insurance actuaries are lagging behind life actuaries in assessing risk and uncertainty in the numbers we supply to management. There are also examples of different reserving methods developed and used in other countries that address these issues.

The topic for debate is "This house believes that deterministic reserving methods should no longer be used."

One question to be addressed is model risk – we use hypothesis testing to test our parameters, and goodness of fit techniques to assess the suitability of the model choice, which often implies distribution choices. But do we UK actuaries do enough model testing of the "link ratio" approaches? Or are we complacently sitting on our established techniques and claiming that our understanding of the business compensates for the lack of technical rigour or innovation? Ben Zehnworth's paper

(<http://www.casact.org/dare/index.cfm?fuseaction=view&abstrID=5144>) sets out the problem and proposes a solution – this should be pre-debate reading for all GI actuaries.

We consider that this debate is a watershed for the general insurance actuaries – after this we either carry on as we are or we fundamentally change the way we set technical provisions. Thus, the debate is essential for all GI actuaries and may lead to a complete change in the way we work. This is reflected in the quality and experience of the speakers :

For the motion: Roger Hayne and Dewi James

Against the motion: Lis Gibson and Peter Green

(Note that the speakers are not necessarily arguing for their own personal position.)

To get the ball rolling, we have arranged for a discussion forum on the Profession's website.

To access this, go to the General Insurance Forum site [here](#), log in (top right hand corner of the screen) and add your comments. Feel free to challenge – the greater the amount of debate and discussion we can generate ahead of and during GIRO, the better. So have your say on, for example: Stochastic models – do they work? can we do better than ratios? are stochastic methods well understood enough; are we falling behind Europe and other areas? Are we clinging onto the past?

So remember, Friday morning, 9:30, plenary session – the debate everyone will be talking about. And the first step on a journey of no return.

Kathryn Morgan

*Kathryn is a member of the General Insurance Practice Executive Committee, so will play an active part in the development of this issue in the profession. She will be chairing this seminal debate at GIRO."*