



Agenda for today

- Overview of GRIT
- Summary of key issues
- Summary of recommendations
- Implementation

GRITERS

- Core Team Membership:
Peter Copeman, Lis Gibson, Tony Jones, Nick Line,
Julian Lowe, Paul Martin, Peter Matthews, Dave Powell

Why is GRIT important

- Fallout from Reserve Cycle Working Party
 - 'Bad Press'
 - We are not confident in each other
 - Life and Pensions have had problems
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Talking with you

- actuarial e-questionnaire
 - GIRO 2004
 - Current Issues Seminar
 - Staple Inn July 18
 - Consultation Paper 2005
 - GIRO 2005
 - Final Report
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GRIT Table of Contents

- Foreword
 - Section 1: Overview
 - Section 2: Creating GRIT's Work Programme
 - Section 3: Communicating with our Stakeholders
 - Section 4: Applying existing methods more consistently
 - Section 5: Understanding the Business Better
 - Section 6: Helping Actuaries Manage and Communicate Uncertainty Better
 - Section 7: Making Our Methodology More Cycle Proof
 - Section 8: Behavioural Issues and Third Party Influence
 - Section 9: Measuring the Past
 - Section 10: Other Topics
 - Appendix A: Questionnaire and summary results
 - Appendix B: Understanding the Business Better
 - Appendix C: GRIT's Terms of Reference
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Scope

- 'Actuarial Assessment' not 'Selection for Purpose'
 - Reserves definition
 - Morris
 - General Communication Skills
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Good News

- Actuaries have a very strong brand
 - Reserving is interesting and exciting. It is the place to be.
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Key Issues: 1

- We need to make reserving more transparent
 - Provide more insight into the key reserving issues and assumptions
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Key Issue:2

- We need to give more information on the uncertainty in reserves.
- Provide a quantitative indication of the range of outcomes

Key Issue: 3

- Understanding the business better should be an integral part of the actuarial methodology

Key Issue: 4

- Recommendations for applying standard reserving methods more consistently

Key Issue: 5

- The underwriting cycle does exist, and this has significant implications for reserving.

Key Issue: 6

- Need to focus on helping actuaries to counterbalance the pressure that they experience

Key Non-Issue: 1

- More sophisticated mathematical/statistical methods not a priority currently
- Focus must be:
 - Business understanding
 - Allowing for the reserving cycle
 - More sophisticated diagnostics
 - Data
 - Exposure based reserving methods

Conclusions: What we can learn from the Past

- Not a lot
- Actuaries think reserving OK
- How can we monitor ourselves in future
- Do reserves deteriorate?
- Reasons for run-off deficits

Uncertainty – Key Issues

- Uncertainty not understood
 - By our stakeholders
 - By us?
- Confusing communication
 - Best estimate
 - Reasonable range
- How do we measure uncertainty?
- Mandatory Quantification

Uncertainty - Recommendations

- Introduce a clear and common vocabulary
 - Some illustrative definitions in the report for discussion
- Amend professional guidance to beef up communication of uncertainty
- Compulsory to provide “some quantitative measure of uncertainty in outcome” in all formal reserving reporting
- Target 2007 for implementation

Understanding the Business Better

- A lot more we should do
 - Policy database diagnostics
 - Claims database diagnostics
 - Major Open Risks
 - Underwriting
 - Claims
 - Reinsurance
 - Processing and data integrity
 - Terms and Conditions
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More Consistency in our Methods

- Improve use of common reserving methods
 - Controls and documentation of reserving process
 - Testing the data
 - Extend training syllabus and CPD
 - More Specialised GI qualification?
 - Inventory of market-level exposure reserving
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Enhancing our Reserving Methods

- Underwriting cycle affects claims. Beware the perfect storm.
 - Claims and premiums correlated
 - No-one researching impact of cycle
 - Proposed method, needs more research
 - GN12 requirement on cycle.
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Behaviour and Pressure

- Actuaries need to understand human nature
 - Buddy systems
 - Talk to accountants about audits
 - Play actuaries and underwriters
 - Share experiences more
 - Evidence beyond underwriter assertions
 - Better back casting
 - Track yourself?
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Implementation

- External Consultation?
 - PR?
 - A change management process
 - Reserving will be more work
 - GIB sub-group devoted to reserving
 - Communication programme with the industry
 - Coordinate with CAS
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Feedback

- Feedback please
 - grit@actuaries.org.uk
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Questions and Comments
