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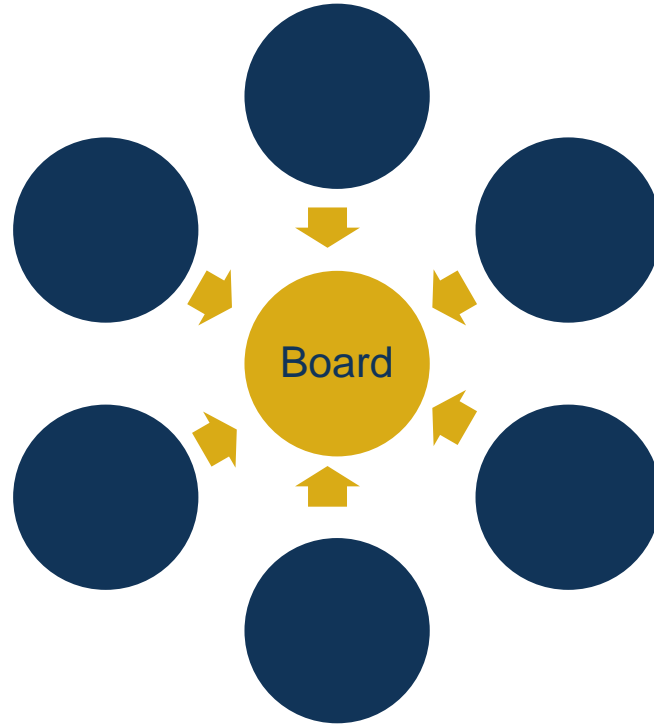
Joining the dots – how complete is your picture?

James Orr, Cassandra Archer, Jenny Xu,
Amanda Istari, Geraldine Finucane

PRA, Bank of England



Joining the dots – holistic view of risk



Dear Chief Actuary Letters

February 2018

Observations on AFRs, including looking across underwriting, reserving and reinsurance to provide effective analysis to help the board.

September 2018

“Joining the dots” underwriting, capital, reserving – specific observations and interactions

November 2019

Focus on reserving and claims, with observations on feedback loops between functions. In tandem with Dear CEO letter

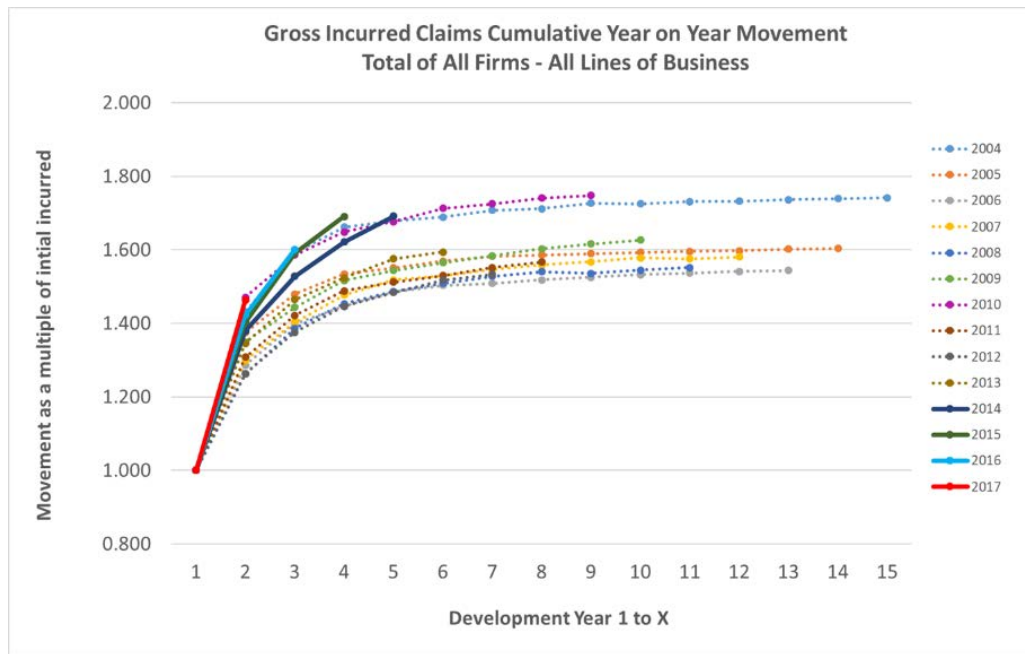
- Initially only to SMF20 holders – emphasising importance of Actuarial Function
- Most recent letter in parallel with Dear CEO letter - emphasising importance of consistent approach across firms



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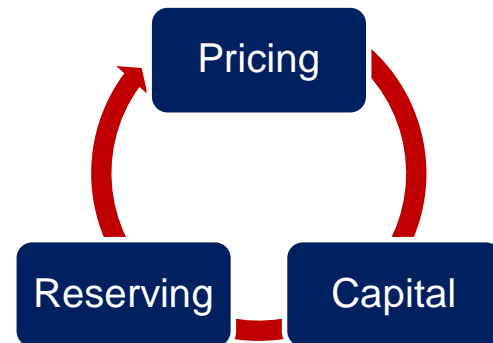
Reserving – Cassandra Archer

Deteriorating incurred claims experience...



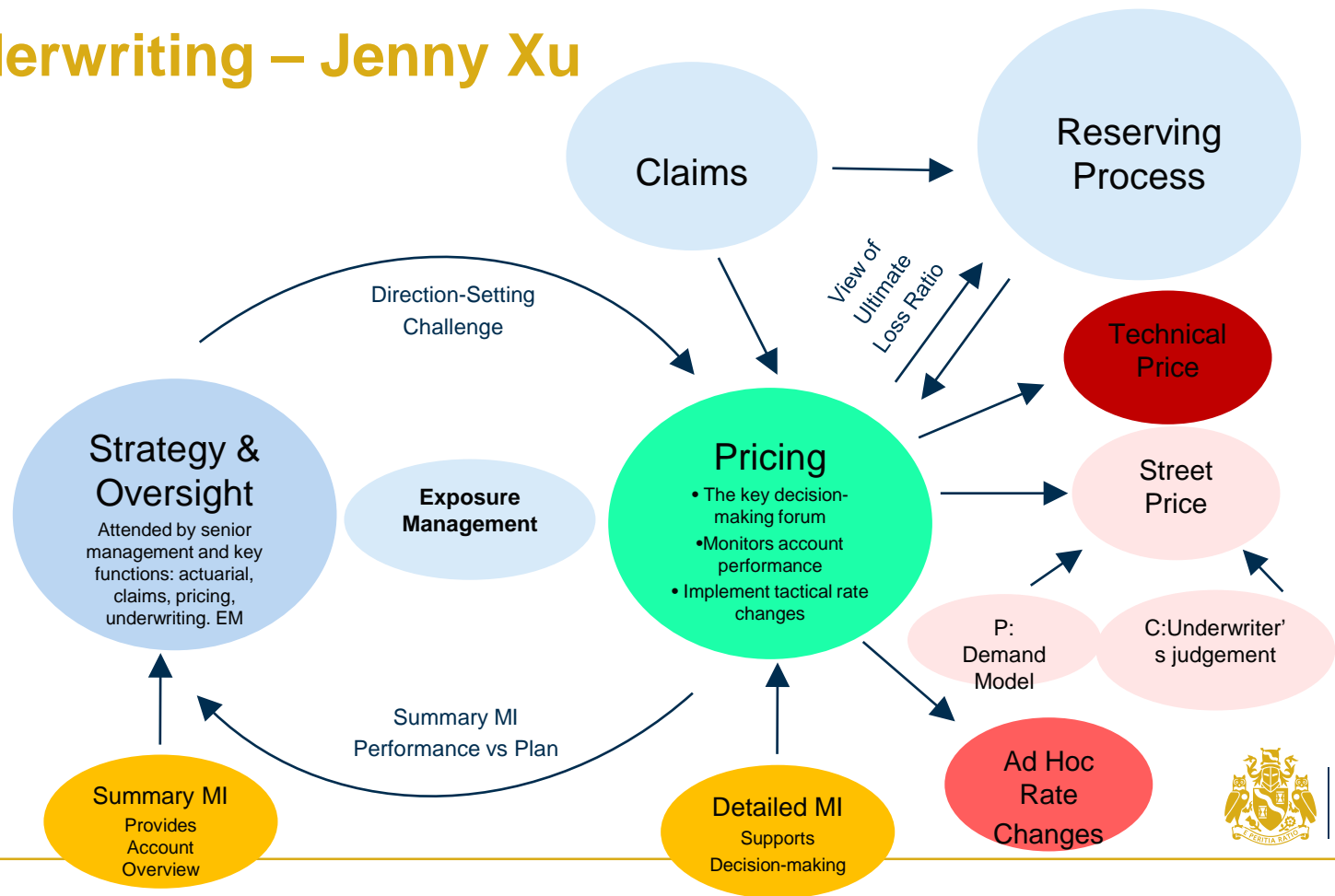
Source: PRA analysis of SII triangles as at Year end 2018, as shown in Figure 1 of PRA's Dear Chief Actuary Letter dated 5 November 2019. The graph indicates adverse reported incurred claims experience for accident and underwriting years 2014 and post compared to prior years. The graph shows the incurred movement after the 1st year of development. Note that years 2004 and 2010 are distorted due to large events occurring in year 2 but not in year 1 for firms reporting on an underwriting year basis. See November 2019 Dear Chief Actuary letter for further details.

Joining the dots...and interdependencies...potential spiral?

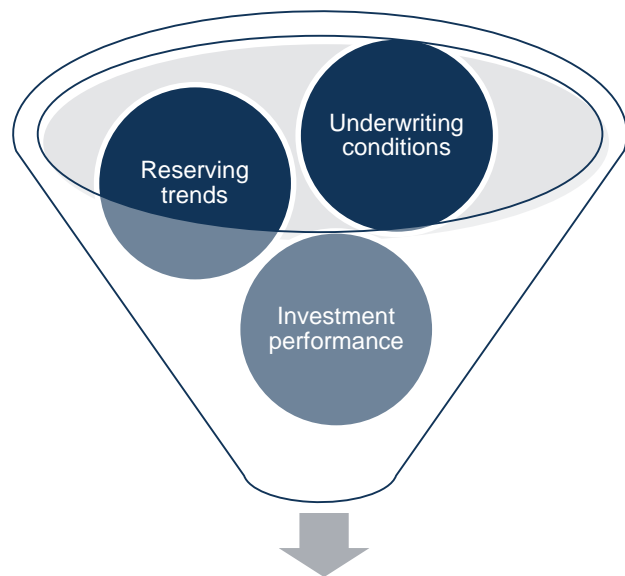


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Underwriting – Jenny Xu



Capital – Amanda Istari



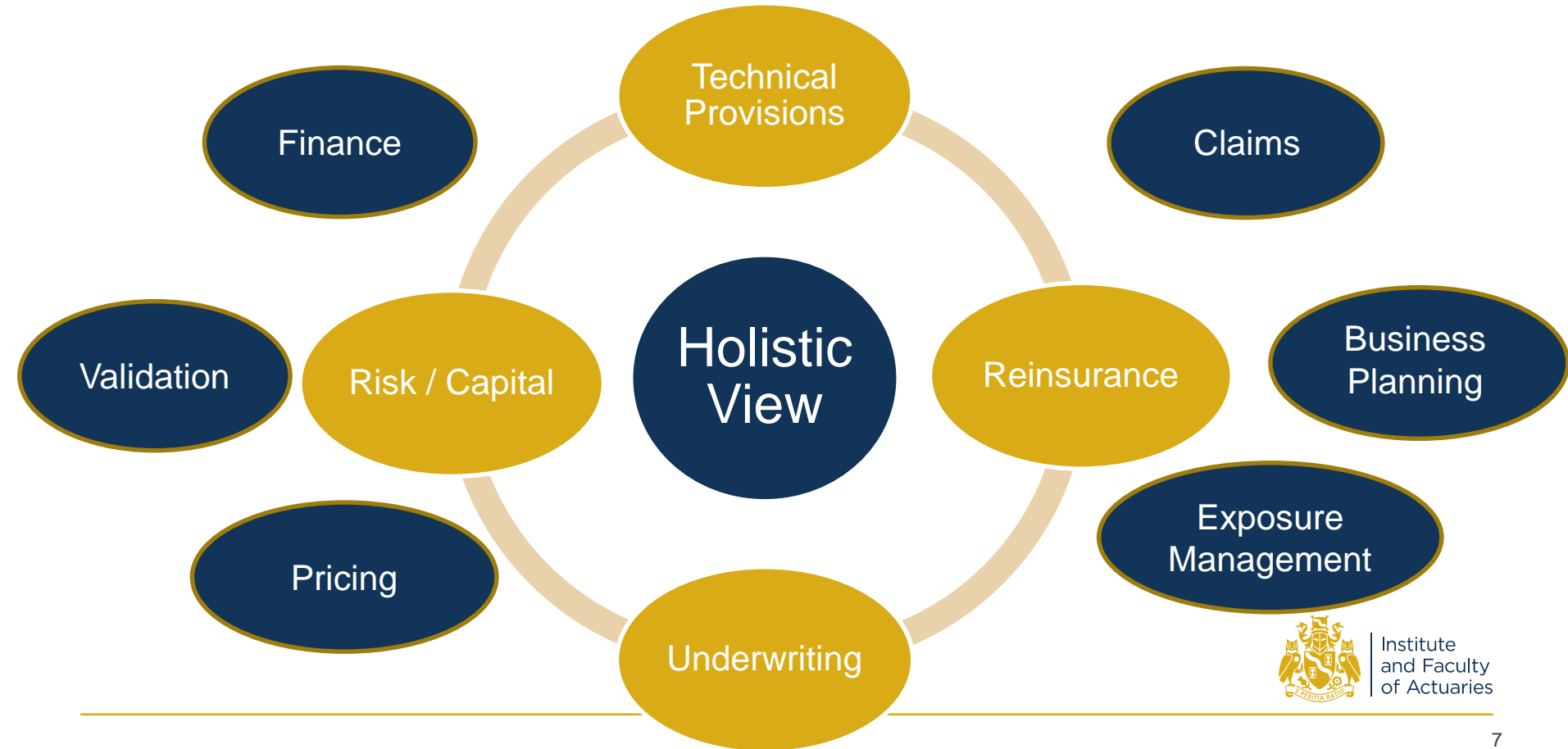
**Reflected in view
of risk and capital**

- Model calibrations should be updated to incorporate differences to the previously assumed risk profile, such as:
 - Underwriting uncertainty
 - Reserving trends
- Cross functional engagement is key!

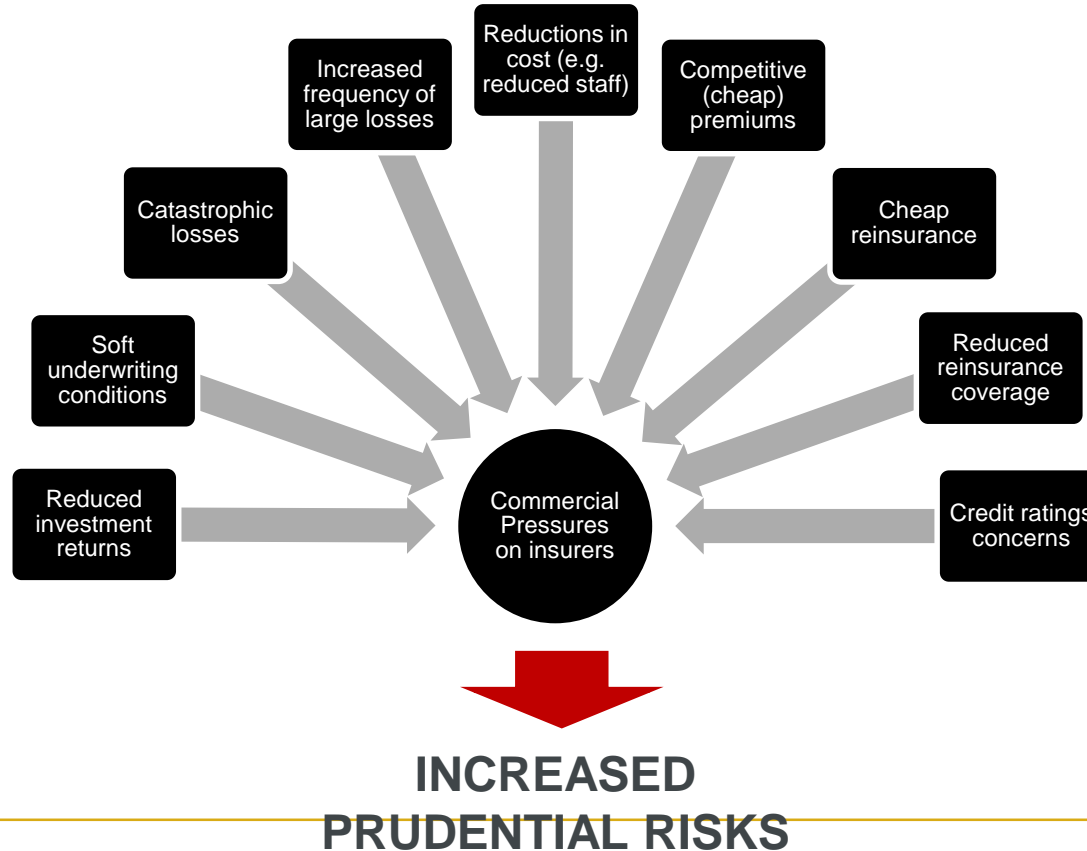


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Actuarial Function – Geraldine Finucane



Commercial Pressures – some of the drivers



Culture and support for control functions

- Sexual harassment and bullying reports
- Link to personal integrity, fitness and propriety of SMR function holders
- Link to wider culture within firms including ability of staff to raise concerns
- Board responsibility to maintain culture of risk awareness
- Link to commercial pressures – e.g. “asymmetric challenge” on actuarial judgements
- Board support for control functions and channels for key control functions
- Working closely with FCA and Lloyd’s

<https://www.bankofengland.co.uk/prudential-regulation/whistleblowing-and-the-pra>

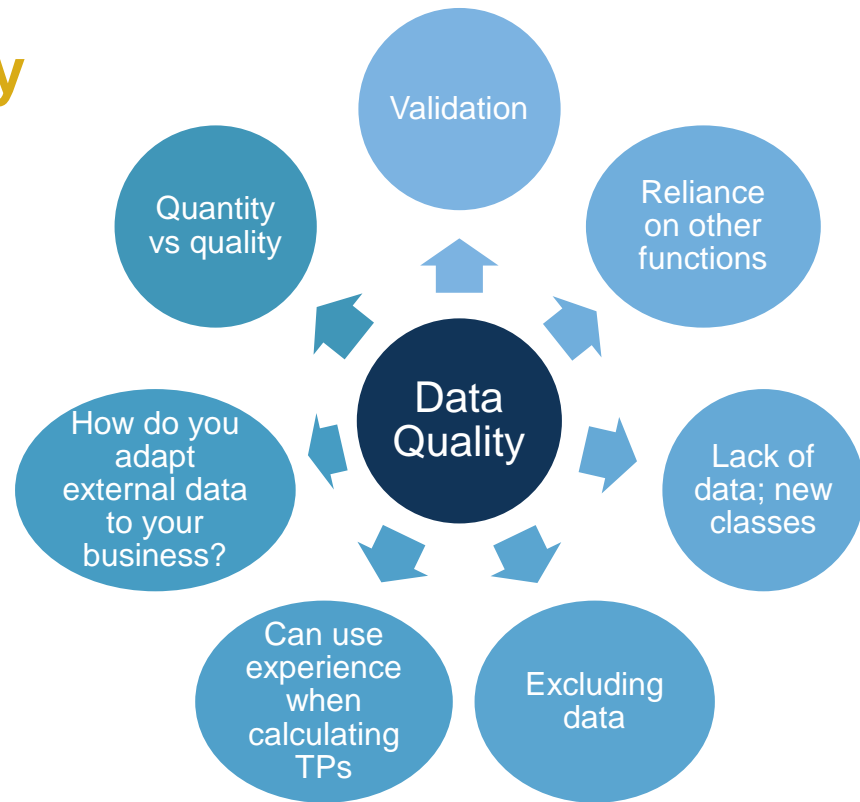
<https://www.fca.org.uk/firms/whistleblowing>



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Issues in assessing data quality

- Multiple data sources.
- Legacy systems.
- Reconciliation of data.
- Upstream / downstream users
 - different data quality needs.
- Some data can be subjective
 - e.g. rate changes on business written via binding authorities.
- Outward reinsurance data quality is a challenge



Key Messages (1)

Reserving

Claims experience for more recent years has been deteriorating. Interactions with other areas key to understand and validate these trends.

Underwriting

Validation of assumptions from other functions that feed into pricing calibrations.

Capital

Trends from underwriting & reserving (and other functions) should be considered in risk and capital.

Actuarial Function

Well placed to look across risks and consider how to use cross functional engagement to provide holistic view to the board.



Key Messages (2)

We will continue to look to and encourage firms to take a holistic approach. Not our place to tell firms *how* to do that, however:

1. Should reflect the **Governance** within the firm
2. **Culture** – should have environment in which employees can engage with relevant colleagues, and have appropriate access to the board
3. Where relevant, investment in necessary **processes and systems** to enable a holistic view of risk



Questions

Comments

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