

GIRO Convention

23-26 September 2008
Hilton Sorrento Palace

Workshop B11 – Lloyd's Issues

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Agenda

- Introduction & PMDP – Henry
- Capital & ICAs - Veekash
- Claims, Reserving & Solvency II – Jerome
- Lloyd's Interim Results (25th September)

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PMDP

- Goals

- Performance Management Data Project
- Collection of data:
 - Cumulative premium and rate change
 - New, renewed and non-renewed business
 - Risk level
 - Monthly
- Main benefits:
 - Accuracy of information
 - Syndicate aggregation to support business planning & capital setting
 - Market aggregation to understand conditions and trends
 - Data extends beyond PIM (e.g. geographical region)

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PMDP

- Current Status

- Pilot completed (data from 10 agents)
- Pilot very useful
 - Confirm feasibility
 - Identify data issues
 - Improve data validation
 - Results support more detail
- Development of system and MI
- Roll out in progress

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PMDP

- Next Steps

- Complete roll out meetings with all agents
- Finalise data collection and MI processes
- Testing Nov-Dec 2008
- 1 January 2009 – key date
- Mandatory UAT Q1 2009
- First submission April 2009 - data for Q1 2009

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Brief Update

- Syndicate ICA Reviews
- Lloyd's Society ICA
- Capital Systems Upgrade

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Syndicate ICA Reviews

- ICAs for active Syndicates being reviewed
- Generally premiums down, loss ratios up and ICAs as a % of net premium up
- Modelling techniques similar to previous year
- Specific questions on Solvency II

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The Lloyd's Society ICA

- 2008 ICA reviewed and accepted
- Work starts on the 2009 review as soon as we have agreed the Syndicate ICAs – November 2008
- Policy decisions made as soon as we have an idea of the relationship between central and member capital:
 - Economic Capital Uplift
 - Minimum Capital Requirement
- The 2010 LSICA will be modelled using the new tool

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Capital Systems Upgrade

- Project started April 2007
- Complete revamp of all capital setting tools used in Market Reserving Capital:
 - Syndicate ICA benchmark tool
 - Members Capital Allocation
 - Lloyd's Society
- Interlinked to form a capital advantages platform
- Meet Solvency II actuarial modelling requirements
- Market and external quality assurance provided over time

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CSU – Syndicate ICA Benchmark

- New tool will be used alongside RBC to benchmark the final submissions.
- Assesses insurance risk using the Syndicate Business Forecast information
- Market assumptions
- Can allow for Syndicate specific assumption
- Will be used for new syndicates
- And to benchmark new lines of business
- Will be expanded for other FSA risk groups over time

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CSU – Member Capital Allocation

- April 2009 delivery
- Web based application next summer
- The new system will be more robust and flexible
- Market consultation nearer the time

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CSU – Lloyd's Society ICA

- November 2009 delivery
- On the same platform as the benchmark and MCAT models
- Take into account internal model approval requirements during the build
- One platform: Capital Advantages benefit from Lloyd's Three Year Plan can more easily be tested
- Market input welcome

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Claims

– increased large risk loss activity in 2008

- Several medium to large Property losses most notably:
 - Severstal Steel (PD and BI)
 - Sunrise Propane Gases explosion in Toronto ("Buncefield + Asbestos")
 - Sempra Energy alleged to have caused California wildfires
- Continued poor fortunes in the Aviation market:
 - BA undershoot runway at Heathrow
 - Spanair crash in Madrid
 - Hopes that rating action will follow at next renewals

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Claims

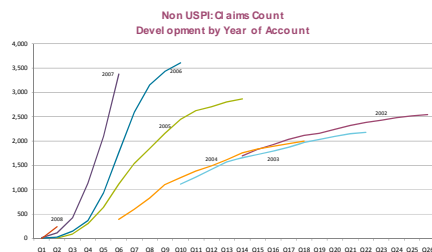
- sub-prime/credit crunch/liability

- "Sub-prime" - not a large issue for Lloyd's to date
- Wider credit crunch / liquidity issues have currently not generated significant claims to Lloyd's
- The general state of world economies could lead to increased claim activity
 - Have seen an increase in liability claim numbers

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Claims

- sub-prime/credit crunch/liability (2)



Source: Lloyd's FPD Claims. Note this will be affected by ECF and is therefore for illustration only

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Claims

- 2008 Hurricanes - Ike

- Most severe from insurance point
 - Top 5 US losses
- Current model industry estimates \$7-12bn loss – combined onshore and offshore
- Mix of loss drivers
 - Strong Cat 2 storm – footprint larger than Katrina
 - Number of platforms affected given size of footprint
 - Cost could be higher due to price of oil
 - Sea surge component
 - Uncertainty re flooding - NFIP

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Claims

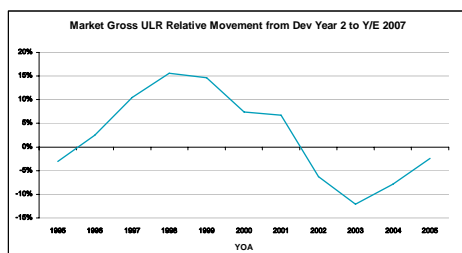
- 2008 Hurricanes - Gustav

- Gustav is not looking as severe – “Took a late turn”
- Losses are expected to be manageable
- Lines mainly expected to be impacted are:
 - Property (mainly primary)
 - Energy – not as adverse as initially expected
- Lloyd's have issued a MLR for both Ike & Gustav

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Reserving Cycles – they exist

We can track the movement in ULRs set after 2 years to the current position:

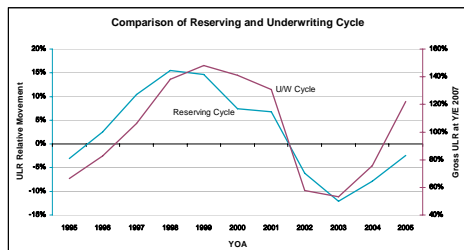


Source: Lloyd's SRD Database

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Reserving Cycles – link to underwriting cycle

Overlay the underwriting cycle onto the reserving cycle:

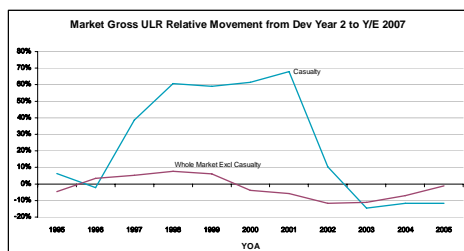


Source: Lloyd's SRD Database

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Reserving Cycles – dominated by casualty

The movement on casualty is more extreme:

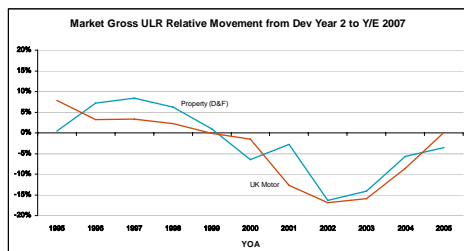


Source: Lloyd's SRD Database

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Reserving Cycles – other major classes

The reserving cycle does exist in other major classes:



Source: Lloyd's SRD Database

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Reserving Cycles

- Lloyd's role

- Market reserving will be focusing on reserving cycles at year-end
- Will be asking managing agents:
 - Are you aware of reserving cycles?
 - Have you made allowance for them in year-end reserves?

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Year-end 2008

- Valuation of Liabilities Rules

- 2008 Valuation of Liabilities / FAQs expected to be posted on Lloyds.com next week
- Some cosmetic changes but essentially the same
- Basis for sign-off unchanged on Worldwide and US opinions
- Dates for SAOs and reports similar to this year

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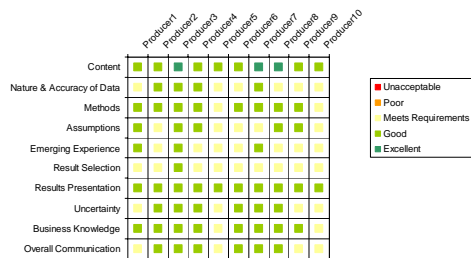
Year-end 2008

- SAO reports

- The reports accompanying the SAOs were of a high standard again this year
- Notable areas of change:
 - Improved description of large loss wording selections
 - More quantification of uncertainty
- Key area for improvement is the analysis of emerging experience:
 - 91% of reports included a comparison of ultimates
 - Only 38% of reports included an Actual vs. Expected analysis

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Year-end 2008 - SAO reports



Source: Lloyd's Market Reserving

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Year-end 2008 - signing actuaries

- If you are thinking of signing opinion then come and have a chat
- Currently propose doing signing actuaries round table forum – probably December
- Reminder that electronic copies of reports are very useful

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Solvency II - update

- Central project at Corporation
- Completed QIS4 as did a number of agents
- Attention turning to internal models:
 - Embedding
 - Approval
 - Documentation
- Role of the actuary
- Major issue for everyone

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