



The Actuarial Profession  
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# 32<sup>nd</sup> ANNUAL GIRO CONVENTION

18-21 October 2005, The Imperial Hotel, Blackpool

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# Lloyd's Issues

Henry Johnson, Lloyd's



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# Agenda

- In and Out
- Annual Accounting and Guidance Notes
- Reserving
- Liability Classes Project
- Katrina
- ICAs
- Lloyd's actuarial seminar



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## In and Out

- In: Jerome Kirk
  - Recruited from KWELM
  - Focus on non-capital issues
  - Reserving but also new projects
- In: several students
  - Increased support for Jerome and on capital matters
  - Overall team expected to exceed 20 by end 2006
- Out: Peter Tavner
  - Amlin's gain!

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## Annual Accounting and Guidance Notes

- Valuation of Liabilities
- Opinions and GN20
- GN 18, 33
- SAO timetable

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## Annual Accounting and Guidance Notes: Valuation of Liabilities

- Lloyd's AA is based on UK GAAP but with some differences:
- *No Discounting*
- *Written Premium*
  - Premium is not written until the policy is bound
  - eg a policy that will incept after the end of the year under a binder that itself has commenced, is now not counted as written
  - so a year of account can have premiums written in more than one calendar year
  - but note may still need URP

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## Annual Accounting and Guidance Notes: Valuation of Liabilities (2)

- *Unearned Premium Reserve (UPR) and DAC*
  - Lloyd's will expect actuaries to take UPR and DAC as given
- *Unexpired Risk Provisions (URP)*
  - "managed together" – Lloyd's will accept syndicate level
  - discounting not permitted for solvency
  - in common with UK GAAP, must consider contracted-for premiums incepting after the Balance Sheet
- *Non-monetary items and exchange rates*
  - Year End closing rates must be used for all liabilities and reinsurers' share irrespective of accounting treatment for non-monetary items such as UPR or DAC

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## Annual Accounting and Guidance Notes: Valuation of Liabilities (3)

- *Future Premium*
  - No longer subtracted from provisions
- *Future R/I costs*
  - Allocate to future years at least in proportion to UPR
- *Reinstatement premiums*
  - Inwards not netted off claims
  - Outwards usually netted off recoveries, but follow treatment chosen by accountants
  - Possibility of mismatch

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## Annual Accounting and Guidance Notes: UPR and DAC

- Opinion remains a one way test on total technical provisions for solvency but ...
- ... "allowing for accounting requirements," so ...
- ... no cross subsidy between Earned and Unearned
- Considered requiring actuary to assess basis for calculating UPR
  - But checking basis for DAC too much extra scope
- Lloyd's will tell actuaries that they may rely on UPR and DAC as stated (and audited)
- Actuarial Profession needs to consider this

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Annual Accounting and Guidance Notes:  
URP “managed together” and on unwritten premium

- Lloyd’s will tell managing agents that they may take whole open year as managed together
- Actuaries may follow Agent’s decision (in Lloyd’s view)
- Note need for URP on premiums not yet written, but contracted for, if considered to be inadequate

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Annual Accounting and Guidance Notes:  
GN20

- Draft version consistent with Valuation of Liabilities
- Will expose for comment in November
- Should become Guidance in January
- Admittedly tight

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Annual Accounting and Guidance Notes:  
GN33, GN18

- GN33 draft parallels GN20
- Minimal extra changes
  - though more radical changes may be needed eventually, following US requirements
  - Kendra Felisky leading
- GN18: no change for now
  - Change with GN33 possibly for year end 2006

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## Year End timetable: SAOs later and some flexibility

### Worldwide

- Solvency returns and SAO:  
Thurs 2 March 2006
- Reports:  
Thurs 28 April 2006 (tbc) (direct to MRRU)

### US situs

- US opinion and electronic US situs packs:  
Fri 10 February 2006 (tbc)
- US Reports:  
Thurs 28 April 2006 (tbc) (direct to MRRU)

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## Reserving

- Reviewed 2004 reports in some detail
  - Will feed back to consultants ahead of 2005 report writing
  - Detail required of reports will be clarified in new GN12
- More proactive and more resource going forward
  - Market Reporting responsibility, using multi-discipline approach
  - Cf ICA approach
  - Actuarial resource seen as key

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## Reserving – Liability claims

- Project started Sept 2005 in concert with Claims (David Owen)
- Review focus on non-cat claims
- Market actuaries and consultants involved
- Fed data back to Agents
- Requesting data from Agents as at Q3
  - To include "flight path" – cf AvE
  - Timetable?

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## Reserving - Katrina

- Working with Claims department (Kent Chaplin)
- Consider “task force” approach (like WTC)
- Consider special wordings? (like WTC)

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## ICA Update

- “Teams” approach with Steering Group
- Has operated well
- Actuarial input has been influential in most ICAs and in review
- On schedule to review all ICAs to timetable
  - Katrina disrupted this, but expect to accommodate changed ICAs
- Lloyd’s asked for increases to about half of ICAs submitted
- Economic Capital Uplift caused some confusion

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## ICA 2007 YOA

- Begun to consider design of system for 2006 calendar year
- May look at methods over longer time-span and numbers more briefly later in the year
- Need to co-ordinate with any changes eg to Economic Capital Uplift

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## Lloyd's actuarial seminar

- 18 November, half-day (0900-1230 plus lunch)
- At Lloyd's
- All welcome (free!)
  - Places limited to 80 so may need to restrict
- Current issues, specialist sessions, panel discussion
- See flyer

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