

The Actuarial Profession

making financial sense of the future

31<sup>st</sup> ANNUAL GIRO CONVENTION

12-15 October 2004, Hotel Europe, Killarney, Ireland

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Lloyd's Market Result Forecasts  
Or  
Who Needs Actuaries?

Mark Graham  
Chaucer Holdings PLC

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Development of Mid-Point Forecasts

Year	18 mths	21 mths	24 mths	27 mths	30 mths	33 mths	Close
1997	12%	12%	12%	12%	12%	12%	12%
1998	4%	3%	2%	1%	0%	-1%	-2%
1999	-2%	-3%	-4%	-5%	-6%	-7%	-8%
2000	-6%	-7%	-8%	-9%	-10%	-11%	-12%
2001	-8%	-9%	-10%	-11%	-12%	-13%	-14%
2002	-10%	-11%	-12%	-13%	-14%	-15%	-16%

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## Monetary amount of Deterioration

Year of Account	18-36 Month Deterioration (£m)
1997	-452
1998	-694
1999	-1,048
2000	-1,498
2001	-339
2002 (to 30 months)	-27
<b>Total</b>	<b>-4,058</b>

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## Observations

- Every year has deteriorated between the 18-month stage and the 36-month stage.
- Every year has deteriorated at every quarter between the 24-month stage and the 36-month stage.
- Under-reserving has been the main factor, although other factors (exchange rates, investment returns, etc.) have also impacted.
- Reserves throughout this period have been underpinned by actuarial opinions.

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## Not All Bad

- Two managing agents have beaten market-average forecast accuracy in all five years from 1997-2001, but are slightly below average at the 30-month stage of 2002.
- Seven managing agents have beaten market-average forecast accuracy in all six years from 1997-2002.

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## The “Outperformers ”

- SA Meacock
- Chaucer
- Kiln
- Amlin
- Beazley
- KGM
- Atrium
- Wellington
- Hardy

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## Common Features

- All independent (no insurance parent).
- Typically have a low level of actuarial involvement in management.
- Typically have a “blue chip” underwriting reputation ...
- ... and/or strong underwriting management.

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## The Hypothesis

“A strong, independent Board, combined with robust underwriting disciplines and controls, are more important drivers of reserve adequacy than are actuarial review and sign-off”

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