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GIRO Conference 2022

21-23 November, ACC Liverpool

#GiroConf22





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Inflation: Living in interesting times

Emma Stewart, Lloyd's of London
Owen Morris, Aviva

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Lots of things going on in the world



The risk of inflation has been highlighted to actuaries



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Risk Alert
www.actuaries.org.uk
31 August 2022



RISK ALERT

The impact of high inflation on actuarial practice

KEY MESSAGE

Significant global economic pressures are taking measures of inflation to high levels which increases the risk of economic uncertainty and may affect actuarial practice. It is important that actuaries fully account, and carefully consider, the nature of the market conditions, how these are likely to rapidly change and how this affects their work.

Current inflation will impact the expectation of future inflation, the rationale for selections of methodologies used and the quantification of outcomes.

Bank of England

Prudential Regulation Authority

Nylesh Shah

Chief Actuary for General Insurance
Co-Head of Division, General
Insurance Risk Specialists,
nylesh.shah@bankofengland.co.uk

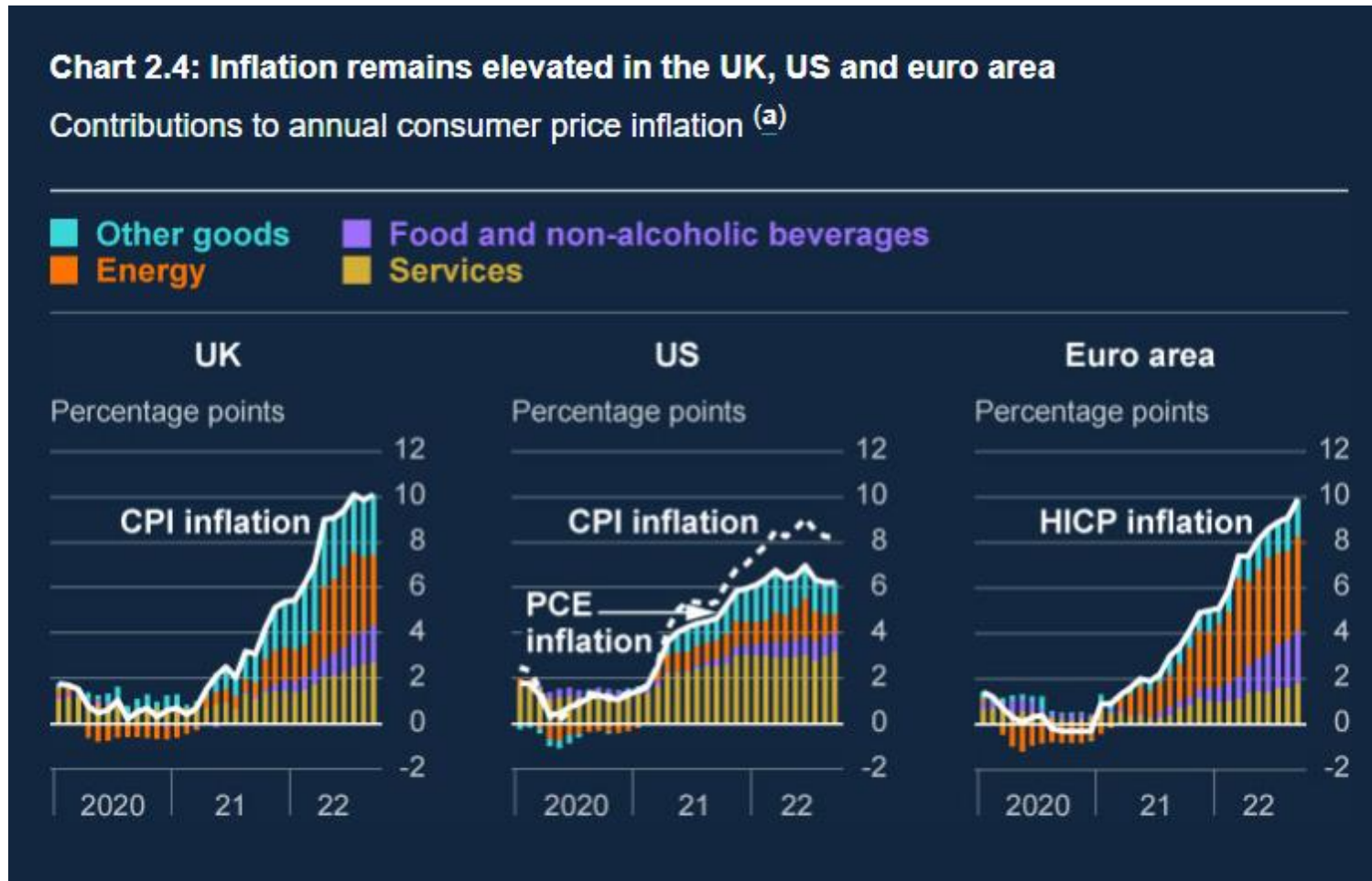
20 October 2022

Dear Chief Actuaries of general
insurance firms and Lloyd's
Managing Agents regulated by the
PRA

Insights from PRA thematic review of general insurance reserving and capital modelling

We are writing to share insights from our recent thematic review across the general insurance sector focusing on the effect of claims inflation on general insurance claims. By claims inflation we are referring to the increase in the cost over time to settle general

The “look how bad inflation is” graphs



Source: Bank of England Monetary Policy Report November 2022

In September 2022

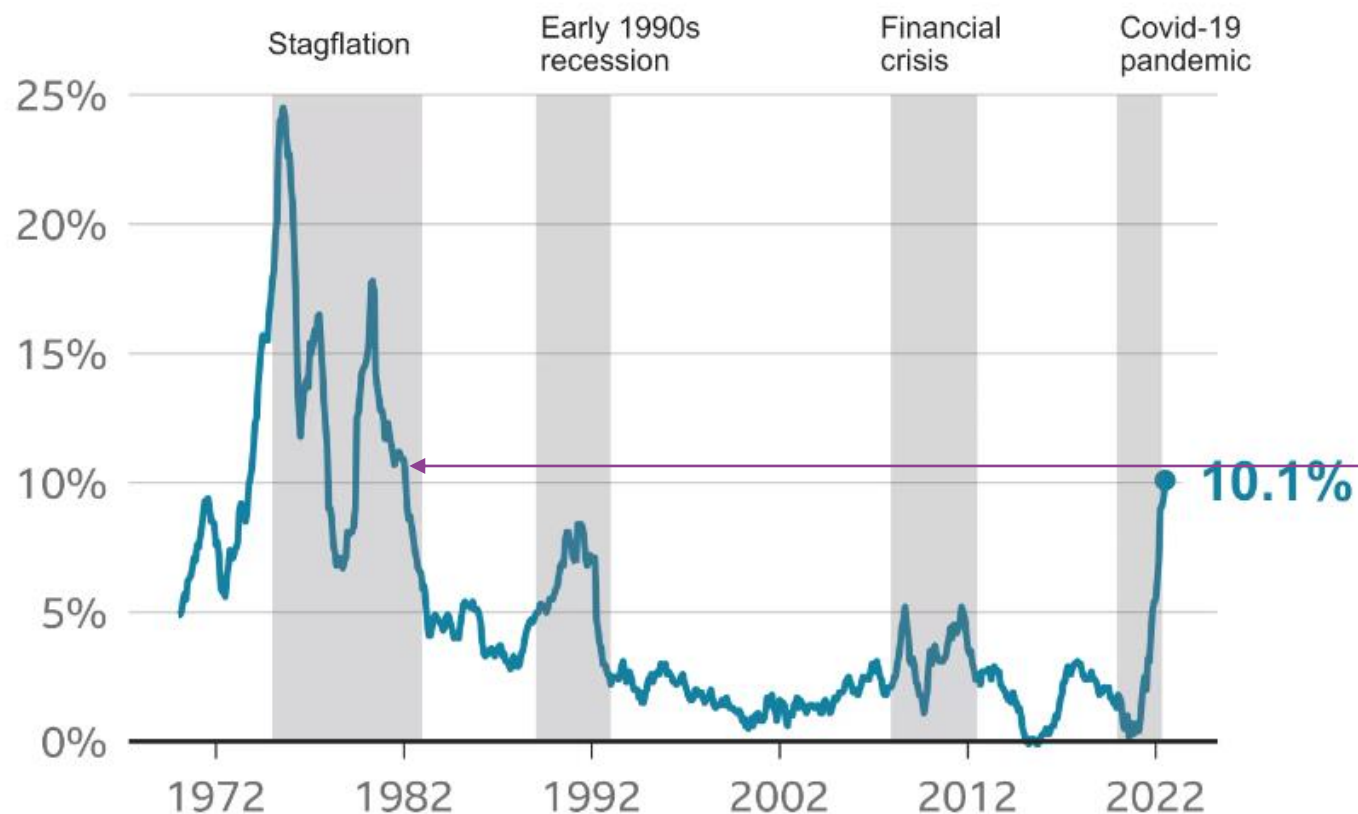
- UK annual CPI inflation at 10.1%
- US annual headline CPI inflation at 8.2%
- Euro area annual HICP inflation 9.9%



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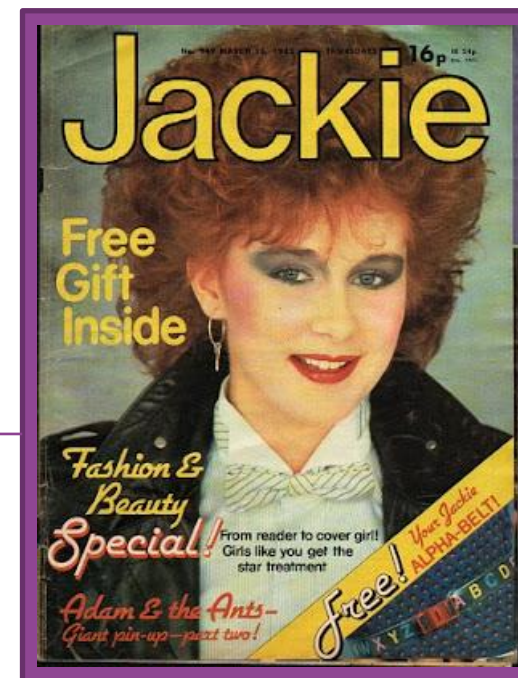
Inflation is at its highest since 1982

Consumer Prices Index



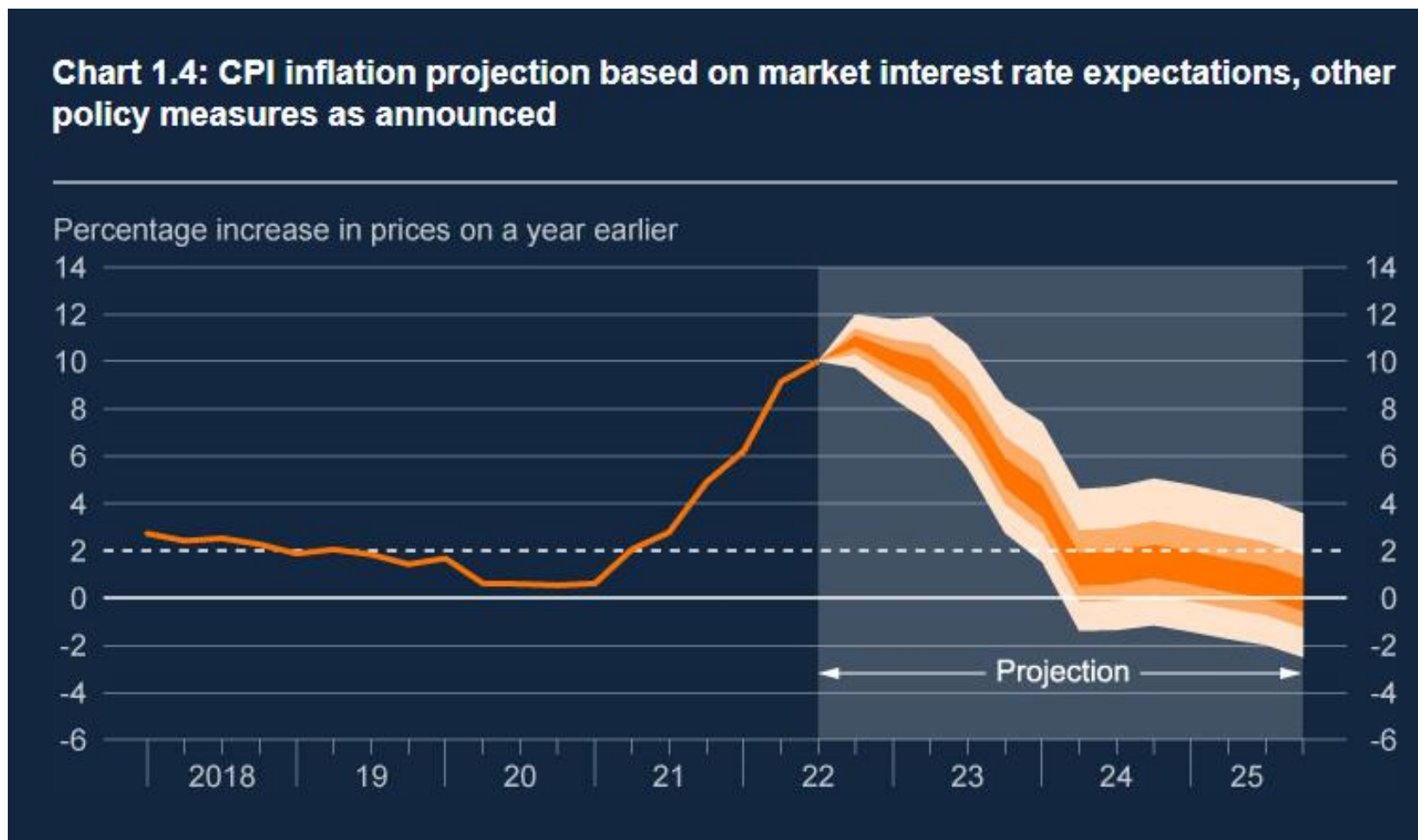
Source: Office for National Statistics

BBC



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The “look how bad inflation could get” graph



Source: Bank of England Monetary Policy Report November 2022

- The issue isn't just how high inflation could rise
- And the uncertainty of it
- It's also the speed and drivers of the transition



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Looking Inwards

Inflation impacts MOST areas of the business:

- Pricing and underwriting
- Business planning and budgeting for expenses
- Reinsurance cover and spend
- Exposure management and Cat modelling
- Claims handling
- Policy administration and operations
- Reserving
- Accounting
- Capital
- Investment strategy
- ...



As actuaries it is our responsibility to contribute to:

- *analysis of the impacts of inflation, and*
- *appropriate decision making in light of this.*



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Looking Outwards



Customer

FREE

METRO

INSIDE TODAY

MATCHZONE

YOUR GUIDE TO ALL THE WEEKEND FOOTBALL ACTION

PERFECT STORM

■ PAYBACK TIME AS WE EMERGE FROM PANDEMIC

■ HOUSEHOLD ENERGY BILLS TO ROCKET 54%

■ BACK-TO-BACK RATE RISE IS THE FIRST SINCE 2004

■ COST OF OUR FOOD BILLS AND COMMUTE SOAR

■ AND NATIONAL INSURANCE RISE COMES IN APRIL

■ £350 TO HELP FACE HARDEST ERA IN 32 YEARS

IT'S EATING OR HEATING

PERFECT STORM 2

PARTY'S OVER AS FOUR QUIT No.10

Pump price of unleaded petrol (average per litre)

Jun 6 2022 175.6p

Year	Price (p)
2018	100
2019	120
2020	110
2022 (Jun 6)	175.6

RF graphics. Source: Department for Business, Energy & Industrial Strategy

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16 November 2022

10

Aviva: Internal

Customers

Figure 1: CPI, CPIH and HCIs have all seen sharply increasing inflation in recent months

12-month growth rates of CPI, CPIH and HCIs, UK, January 2006 to May 2022



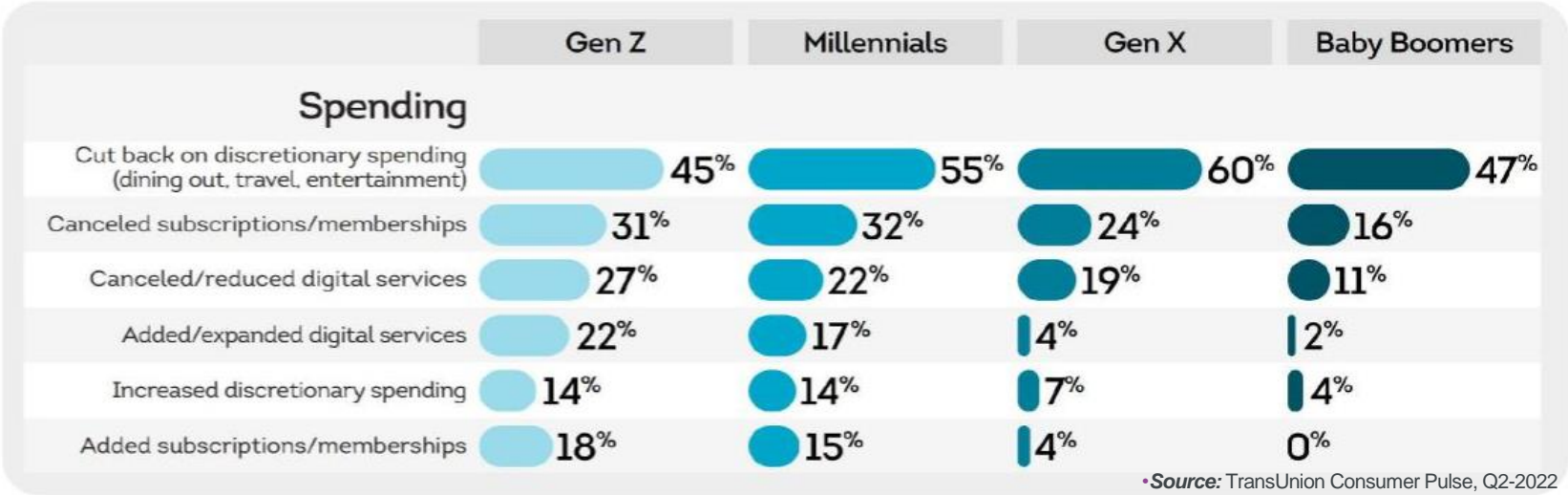
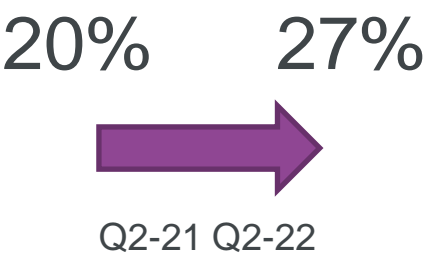
Source: Office for National Statistics – Consumer price inflation



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Affordability is more nuanced

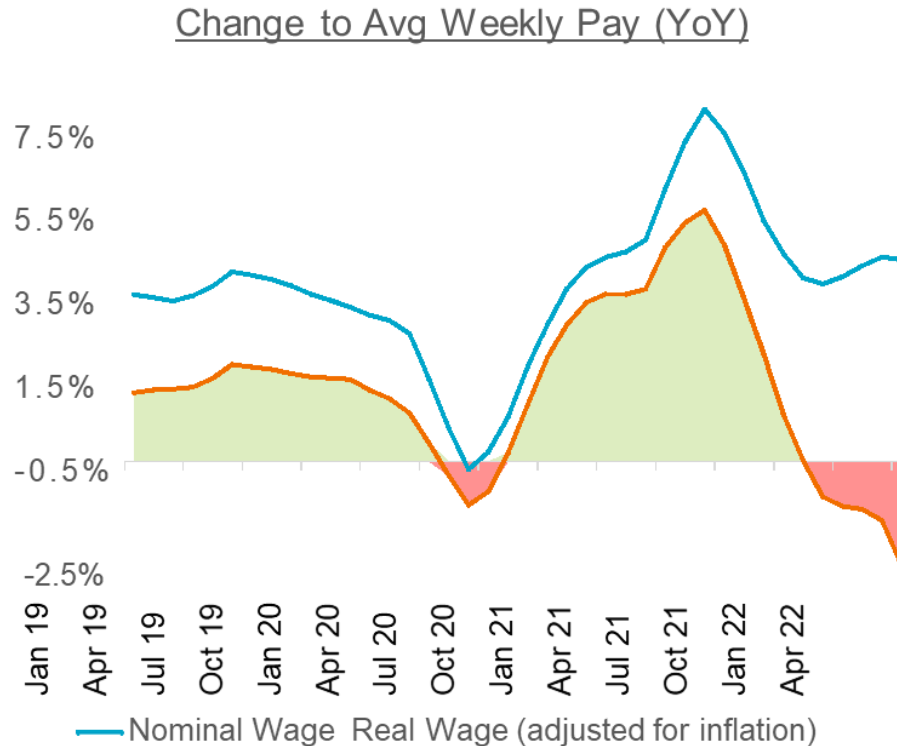
Increase in consumers expecting to be unable to pay current commitments in full



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Our Teams

Inflation impacts our customers and our people



Market

esureFLEX

Quote me
happy.com
Essentials



Hastings
ESSENTIAL



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Balancing needs of different groups

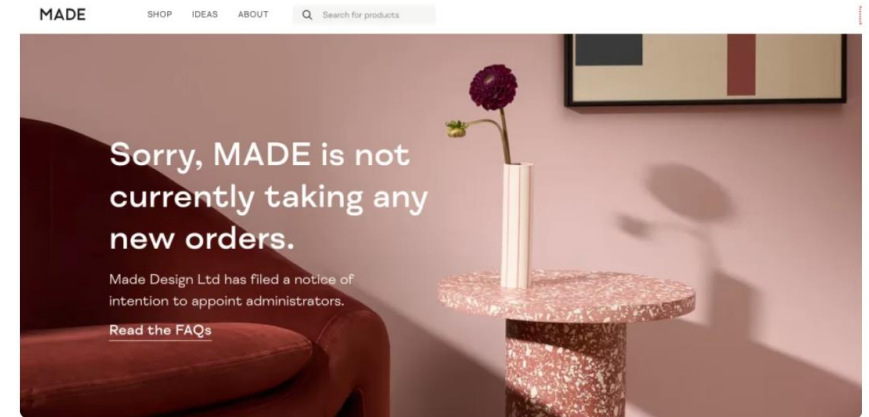
- In some ways inevitable costs need to be passed on
- Unaffordability and Vulnerable Customers
- Customer groups impacted differently
- Our people and teams own challenges



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Don't forget our commercial lines customers

- “Nearly 40% of small businesses in the US failed to pay rent in October” source: [Alignable](#)
- “Bakery owner who changed recipes to use less butter” source: [i](#)



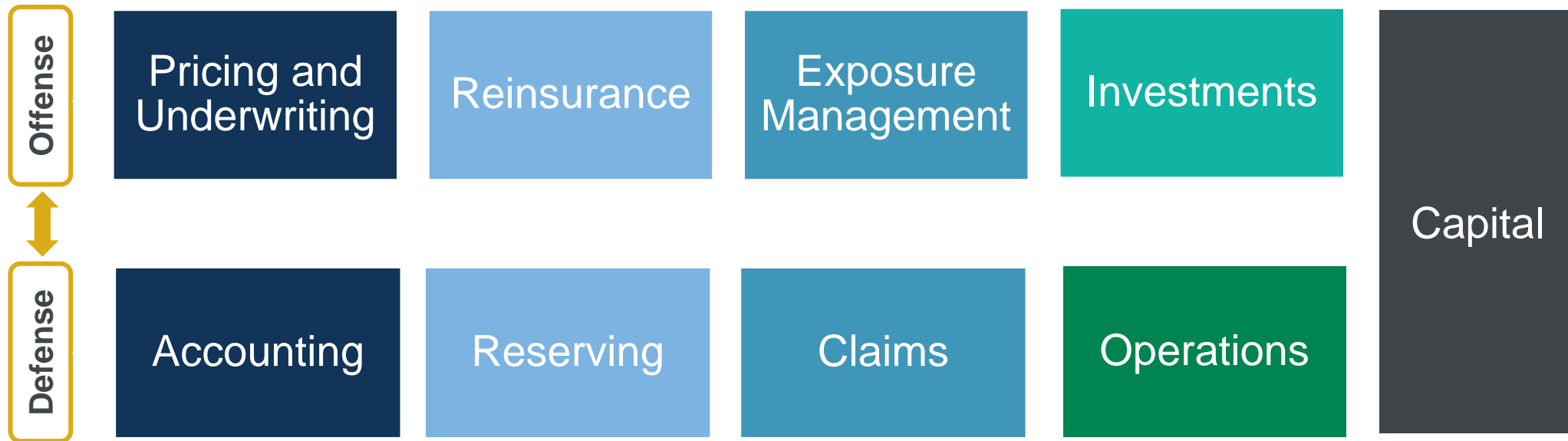
- Inflation isn't just about costs (also liquidity)
- Smaller businesses will feel it more
- We should take responsibility to consider the impacts on our commercial lines customers.



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Back to looking inwards

Inflation impacts MOST areas of the business



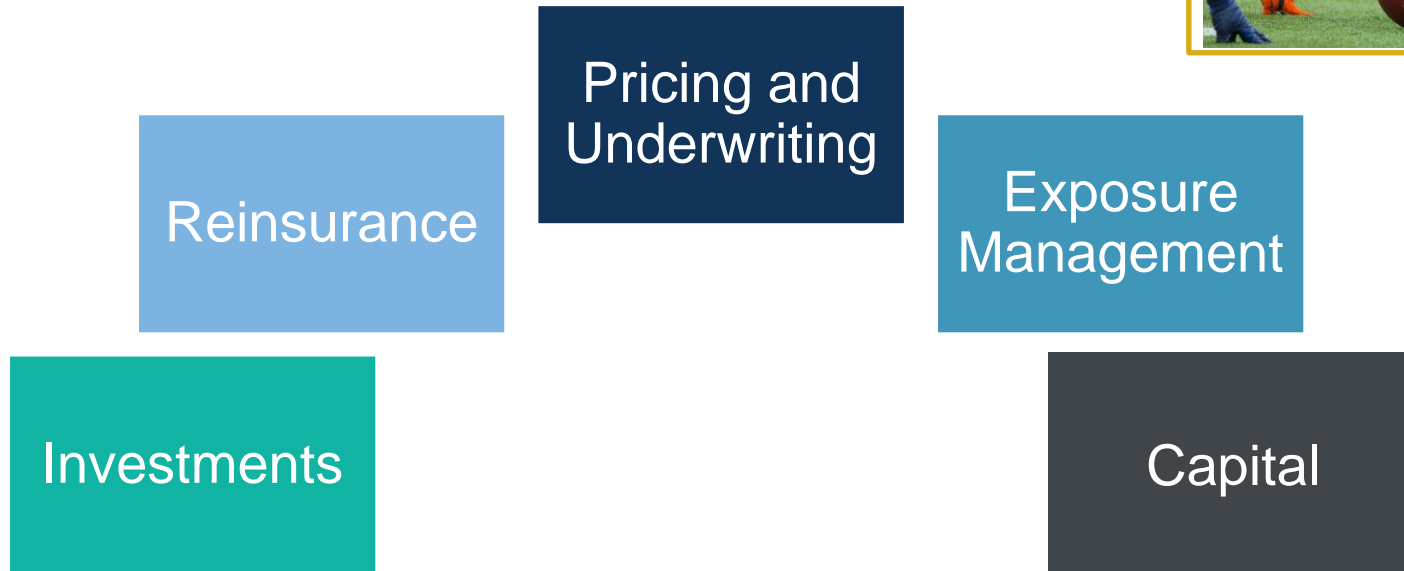
All these and more...



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Offensive

- Actions to overcome the potential impacts of inflation
- Crucial to ensure the sustainability of the business
- Urgency is very high to avoid missing the opportunity to course-correct



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‘Defensive’

- Reactions to respond to the impacts of inflation and to protect against further potential impacts
- Crucial to ensure the financial position of the business continues to be accurately understood
- Important to be able to inform your ‘offensive’ strategy

Claims

Reserving

Accounting

Capital

Operations



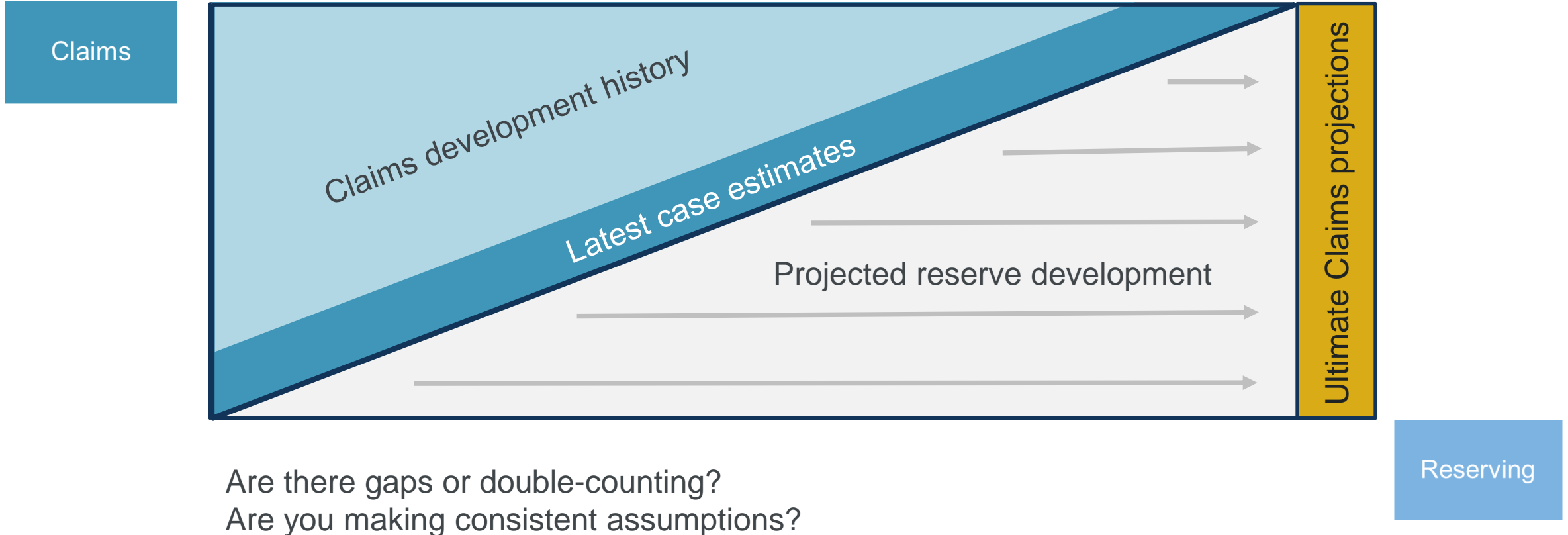
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Co-ordinating



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Co-ordination between claims and reserving



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Co-ordination on Inflation

- Who is leading on the co-ordination of inflation?
- Are you talking the same language?

Pricing and Underwriting	<i>Exposure Inflation</i>	+	<i>Other Inflation</i>
Reserving	<i>Historical Inflation</i>	+	<i>Excess Future Inflation</i>
Capital	<i>Economic Inflation</i>	+	<i>Excess Inflation</i>



Communicating

- It is really really hard to communicate this well
- How much information?
- What about emerging information?
- Clarity



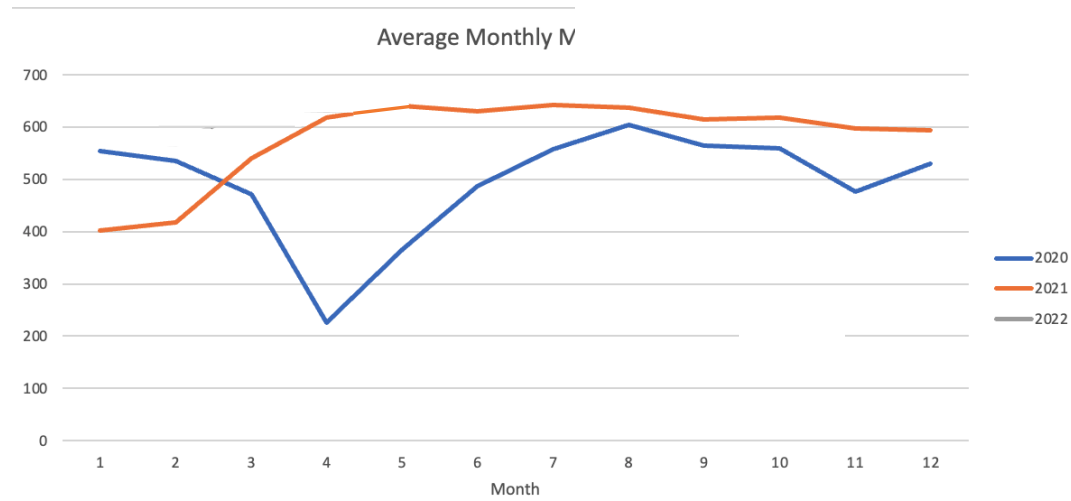
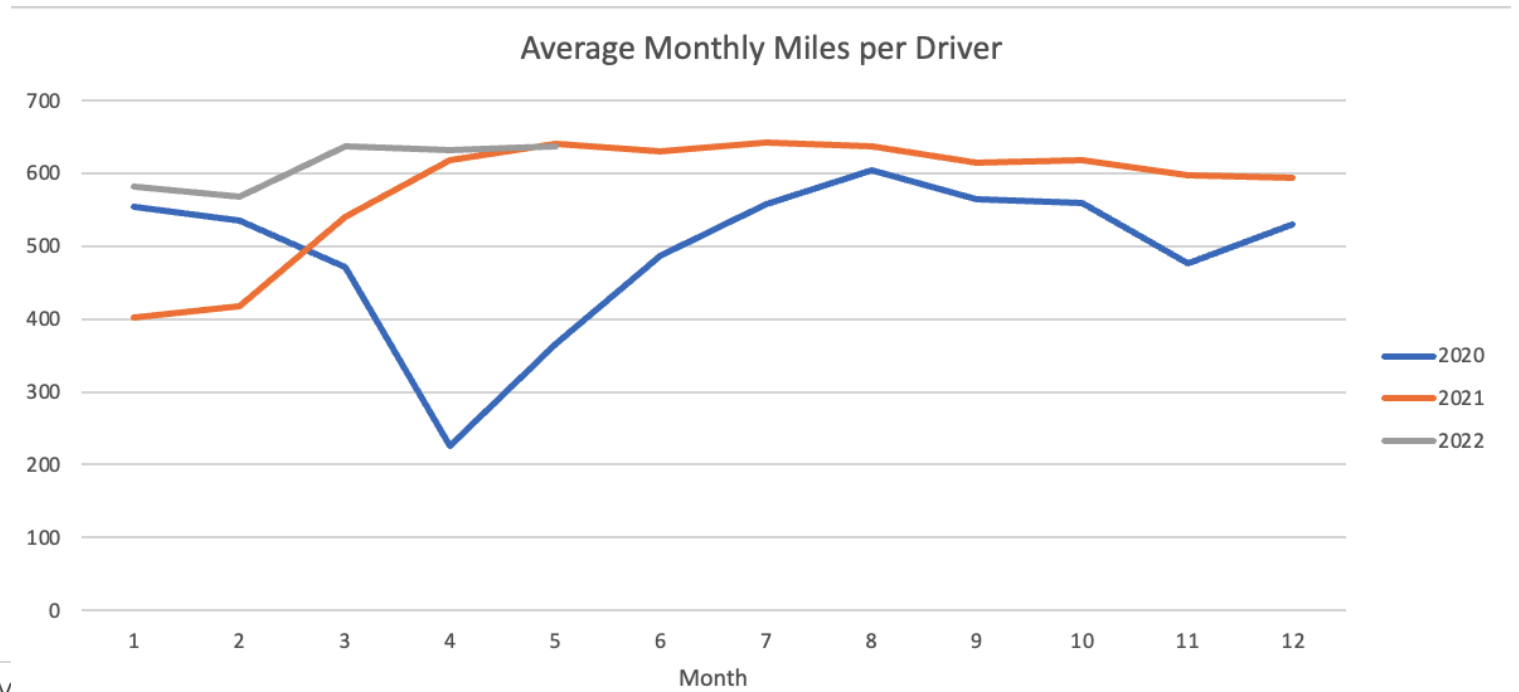
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Looking into the future

- Forward and backward
- More broadly thinking about recession
- No one cares about your 2020 model



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Getting the right approach

- Balancing act!
- Complexity vs simplicity
- Collaboration to support the business



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Getting the right approach for the future



- Outcome: We want a sustainable solution that considers customers
 - It's no help to anyone if we put ourselves out of business



- Method: Processes need to be future-proof
 - What happens when future inflation is less than recent history?



- Data: Experience should be captured accurately
 - What can we record today that will be helpful for the future?



- Protocols: Build a corporate memory for next time
 - How can we be better prepared for the future?



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Inflation: A call to Action for Actuaries in interesting times

- Interesting times require balancing of interests
- Look inwards, but also look outwards
- Look backwards and forwards (and even further forward)



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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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Thank you

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