

**The Actuarial Profession**  
making financial sense of the future

Reserving Seminar  
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# Lloyd's Reserving Update

21 June 2012

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## Agenda

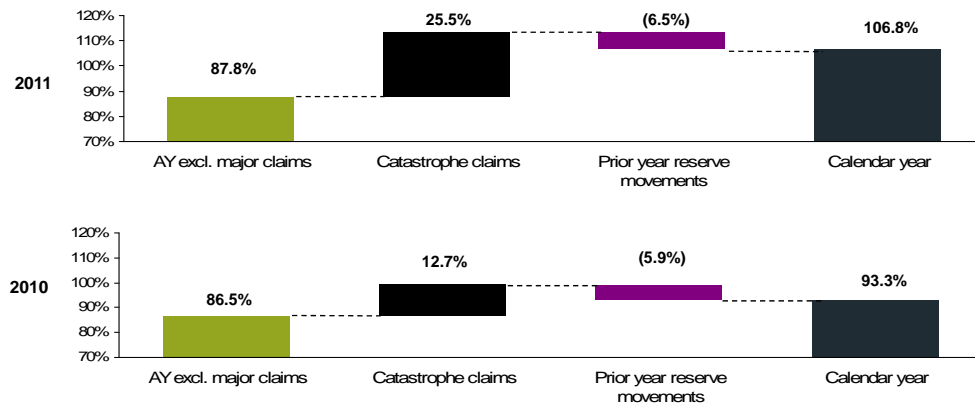
- **Year-end 2011 results**
- **Recent experience**
  - including the cycle
- **Focus for 2012**
- **Solvency II update**
- **Summary & Questions**



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## Impact of Reserves on Lloyd's 2011 results

Combined ratios



Source: Lloyd's pro forma basis

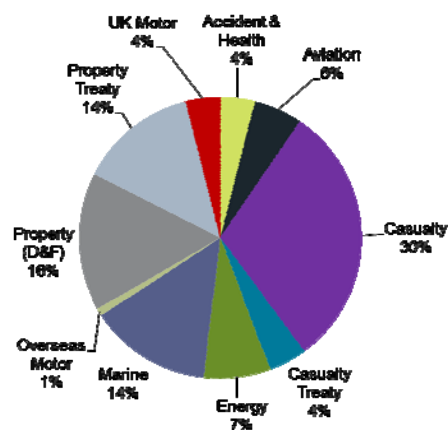
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## The Cat events have led to an increase in the overall reserves despite the releases...

High level COB	Net of Reinsurance £m	
	Earned Reserves	Unearned Reserves (net of DAC)
Casualty	9,988	1,115
Property (D&F)	4,146	1,668
Marine	4,011	1,101
Property Treaty	4,296	695
Energy	2,105	679
Aviation	1,653	404
Casualty Treaty	1,478	124
Accident & Health	1,086	361
UK Motor	1,047	398
Overseas Motor	252	67
<b>Total</b>	<b>30,062</b>	<b>6,613</b>

2010 equivalent : 26,730 6,271

Source: Lloyd's 2011 SRD database. Figures are net of reinsurance and exclude ULAE.



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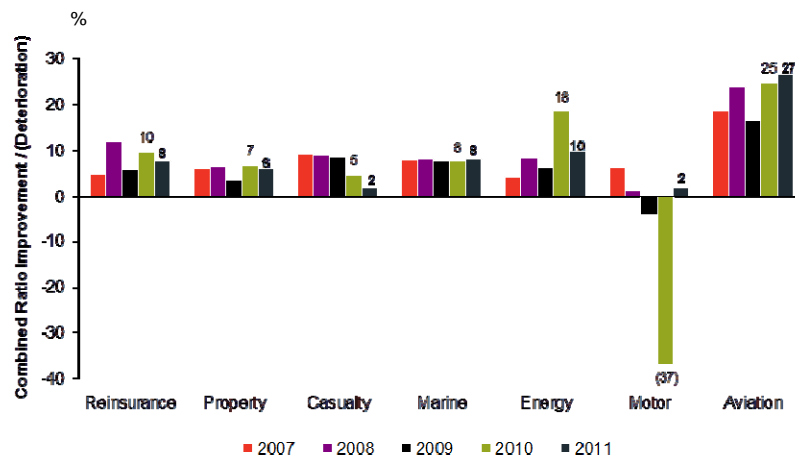
## ...so where are the releases coming from?

- Seventh year in a row for reserve releases
  - last 5 years have been significant
- Releases have been seen over
  - most “back” years of account...
  - and most classes
    - especially property and reinsurance
- Surpluses have been generated by favourable experience
  - consistent with Lloyd's “Early Warning” results
  - and based on our own analysis we are comfortable

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## Have seen fairly consistent releases over most classes over the last 5 years....

Prior years surplus / (deficit)

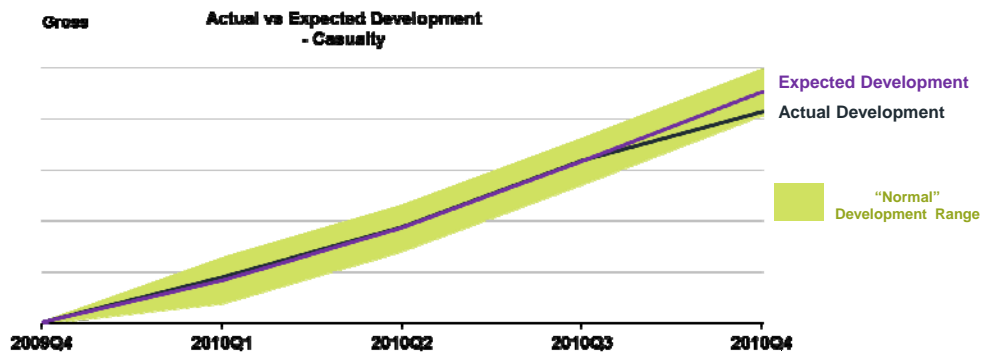


Source: Lloyd's pro forma basis at syndicate level

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## ...supported by favourable underlying experience – start with Casualty in 2010.....

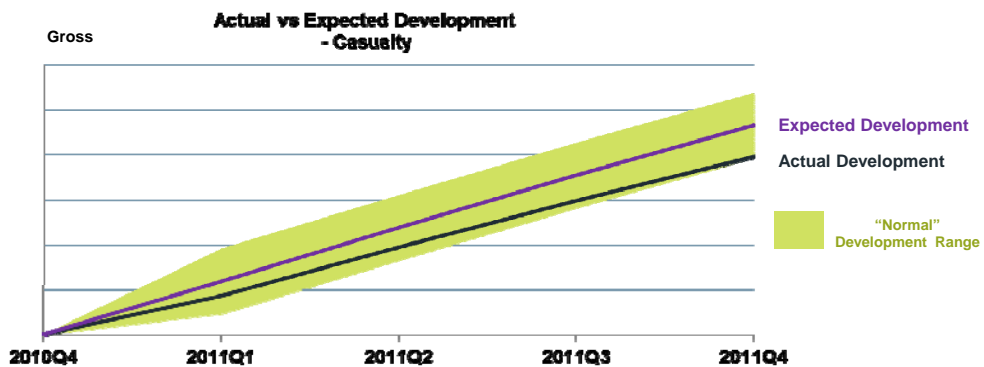


Source: MRC Early Warning exercise. MRC projections vs MRRQ incurred data converted at y/e 2009 exchange rates. Figures are gross of reinsurance  
Excludes 2010 year of account

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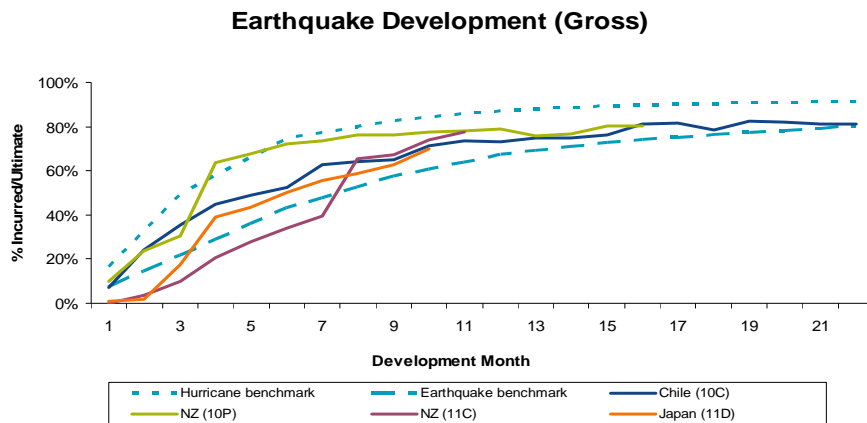
## ...and the trend continued through 2011



Source: MRC Early Warning exercise. MRC projections vs MRRQ incurred data converted at y/e 2010 exchange rates. Figures are gross of reinsurance  
Excludes 2011 year of account

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## There is also stability in catastrophe estimates



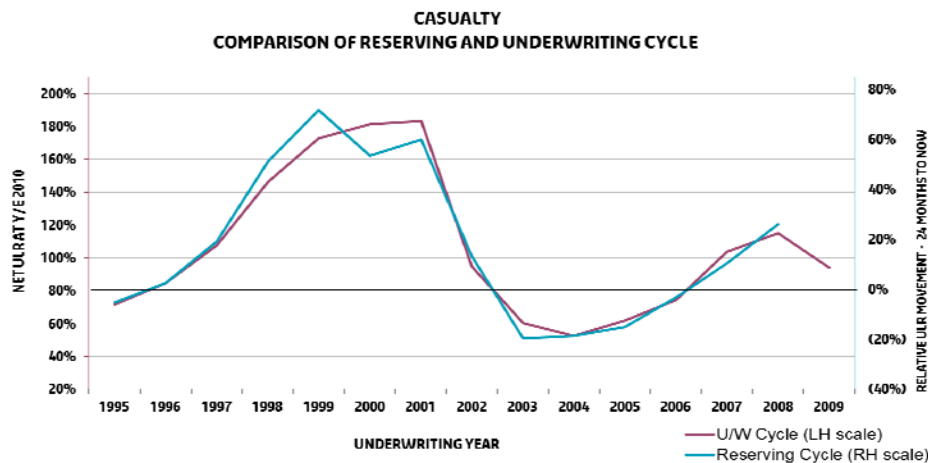
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## Reserving focus for 2012 will mainly be a continuation of 2011...

- Continued benign development on the back years
  - and the associated impact on surplus
- “Old issues” remain in focus
  - Motor
    - including looking at PPOs
  - Italian Med Mal
- Large Cat loss reserves
  - but no real “new” reserving issues
- Issuing updated reserving guidance (in consultation)
- More emphasis on recent years of account, including....

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## ...maintaining a focus on the reserving cycle.....



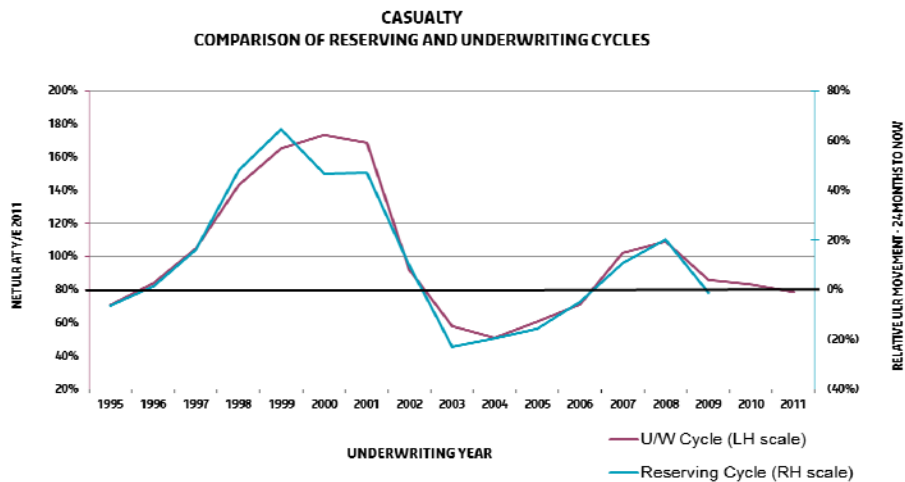
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## ...we did write (again) to CFOs about reserving...

- Generally positive response from original letter
  - FSA sent similar themed letter in April 2011
- Letter sent to CFOs again in early December 2011
  - a general letter to all this time (not just about cycles)
  - as ever, we will be in touch separately on any “specifics”
- Aim to give some support to the Market's reserving functions
  - not designed to be critical
  - part of our reserve oversight

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## ... and the early signs at year-end 2011 are positive



Source: Lloyd's provisional SRD database. Net of reinsurance

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## Don't forget to look at simple measures: Paid Loss Ratios

- Paid loss ratios can give an indication of "quality of business"

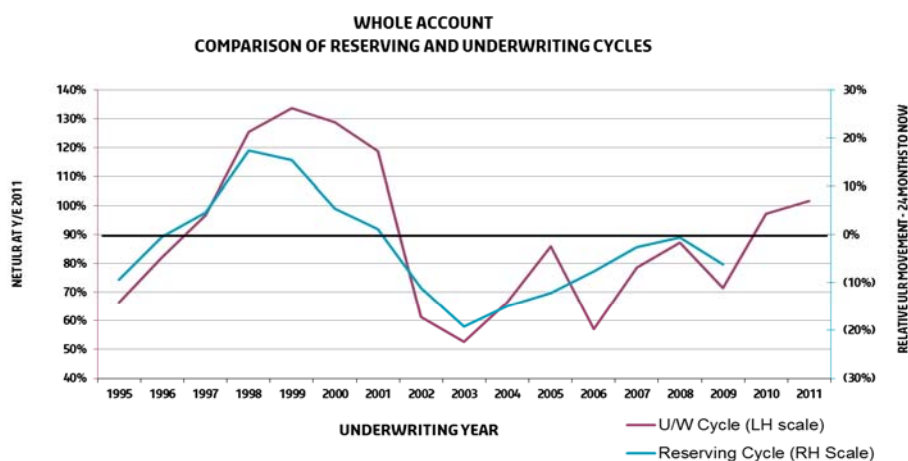
As at year-end 2002		As at year-end 2007		As at year-end 2011	
YOA	Net Paid Loss Ratio	YOA	Net Paid Loss Ratio	YOA	Net Paid Loss Ratio
1998	97%	2003	40%	2007	60%
1999	92%	2004	50%	2008	60%
2000	71%	2005	55%	2009	41%
2001	37%	2006	20%	2010	35%
<b>Average</b>	<b>70%</b>	<b>Average</b>	<b>41%</b>	<b>Average</b>	<b>49%</b>

"Bad"
"Good"
"Medium?"

Source: Lloyd's SRD database – casualty classes. Net of reinsurance.

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## Cat events do make the picture less defined at a whole account level



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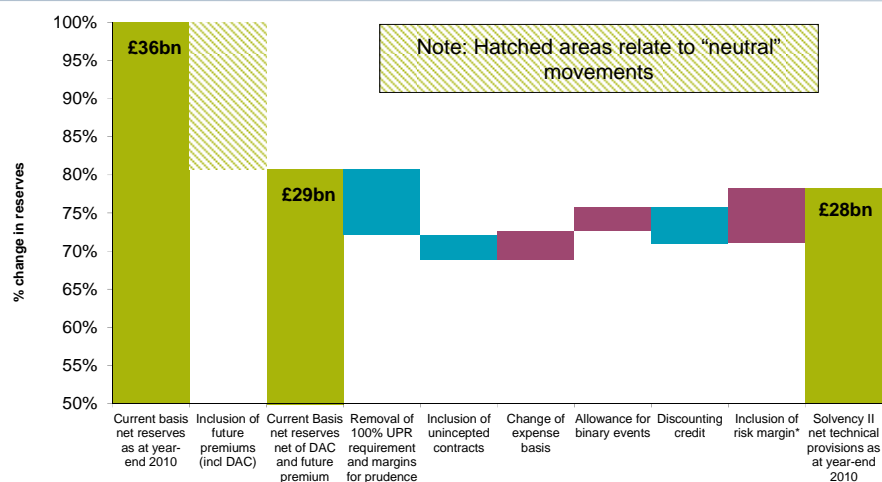
## Solvency II preparations continue...

- Now calculated Solvency II TPs several times as a Market
  - through QIS exercises and Dry Run
- Will use SII TPs (as at 30 June) for 2013 YoA capital setting
  - subject to review audit
  - Lloyd's oversight will extend to allow for new basis
- Have converted reserving detailed market returns to a SII basis
  - now collecting as BAU (GQD/TPD)
- Collected Actuarial Function reports from syndicates in April
  - nearing end of review - wide variety of approaches!
  - will feedback over the summer

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## ...and the impact is potentially large



Source: y/e 2010 SRD and May 2010 TP submissions

Note: excludes some syndicates so that a like for like comparison can be made

Note: Solvency II TPs include estimated risk margin of 10%

Source of change in reserves

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## Latest High Level Results

- During 2011, technical provisions on both basis have increased due to catastrophe activity.....but have not moved by the same proportions

(£m)	YE 2010	YE 2011	% movement
Current basis net reserves (Gross of DAC)	35,577	39,977	12%
Solvency II basis net TPs	27,817	30,291	9%
% movement	(22%)	(24%)	

Source: Lloyd's provisional May 2011 TP submissions, YE 2010 SRD, YE 2011 TPD.

Note: Excludes a small number of syndicates to enable a like for like comparison (so not entire market). YE 2011 amounts yet to be validated so included for illustration only.

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## Summary

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### Year-end 2011 Results

- Impact of Cat losses mitigated by back year reserve releases
- Releases driven by favourable experience

### 2012 Reserve Focus

- No “new” issues (there will be run-off of new Cat reserves)
- Less concern on reserving cycle but still a point of attention

### Solvency II

- Continued development of techniques and returns
- Now moving to BAU

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## Any questions or comments?

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