Regulatory requirement to risk reporting: Experiences of a capital actuary

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James Toller
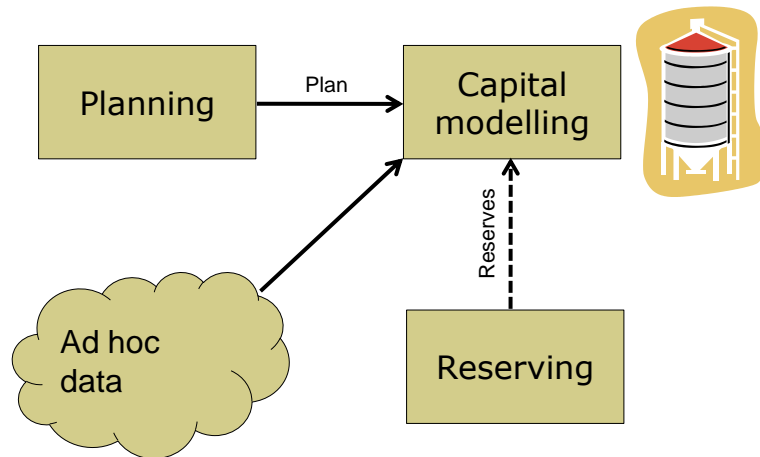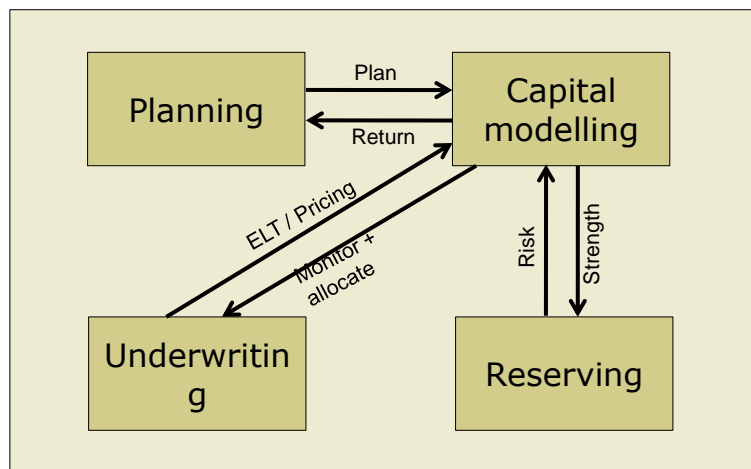
Institute and Faculty of Actuaries

Agenda

- Regulatory requirement to risk reporting
- Historical developments
- Challenges and approach
  - Buy in / use
  - Entities / granularity
  - Governance
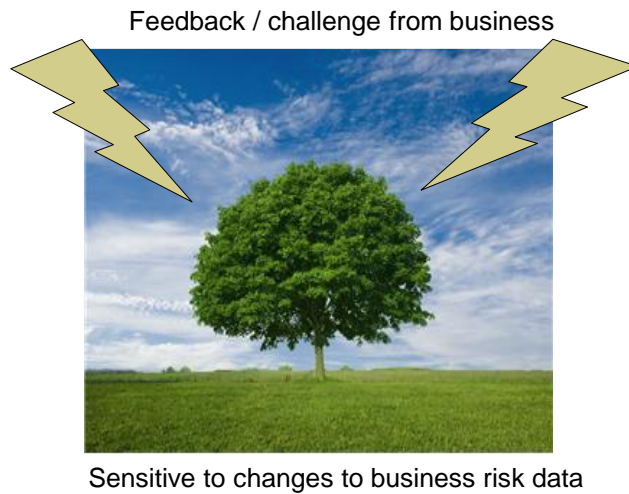
Regulatory requirement driven initial model

Risk reporting – information pipes and feedback

Keeping it live; up to date and relevant

Feedback / challenge from business

Sensitive to changes to business risk data

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Historical developments

Build / embed   Growth

Buy in / use

Entities / granularity

Governance

2004   2006   2008   2010   2012   2014

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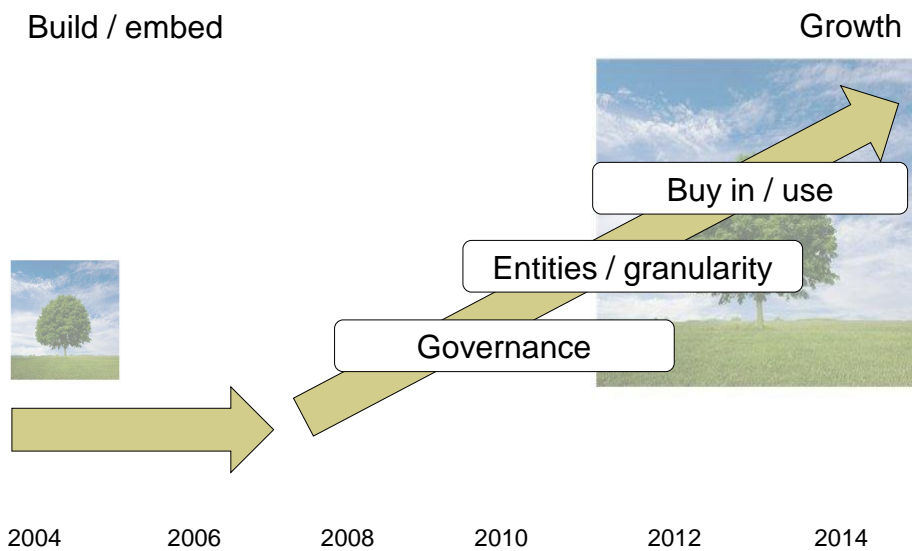
Challenges and approach

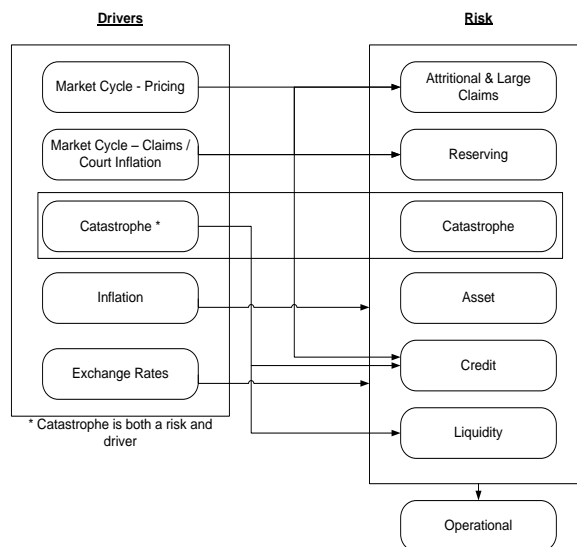|	
Buy in / use	• Drivers of risk: • *Insurance market cycle, link between risk and capital*
Entities / granularity	• Single model for all entities • Modular structure • Reference model, scenarios and sensitivity

Governance	• Board knowledge requirements:
	  • *Define responsibilities*
	  • *Define frequency of meeting*

Buy in / use: Drivers of risk

Drivers | **Risk**

- Market Cycle - Pricing → Attritional & Large Claims
- Market Cycle – Claims / Court Inflation → Reserving
- Catastrophe * → Catastrophe
- Inflation → Asset
- Exchange Rates → Credit
- → Liquidity
- → Operational

* Catastrophe is both a risk and driver
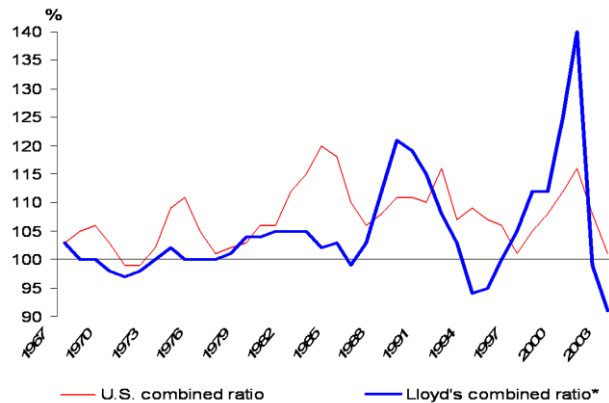
Buy in / use: Drivers of risk

- Correlation between premiums and reserve
- Correlation between classes
- Correlation between insurance risk and major reinsurer default

Buy in / use: Drivers of risk – Class specific factors

- Linking detailed factors impacting risk to capital

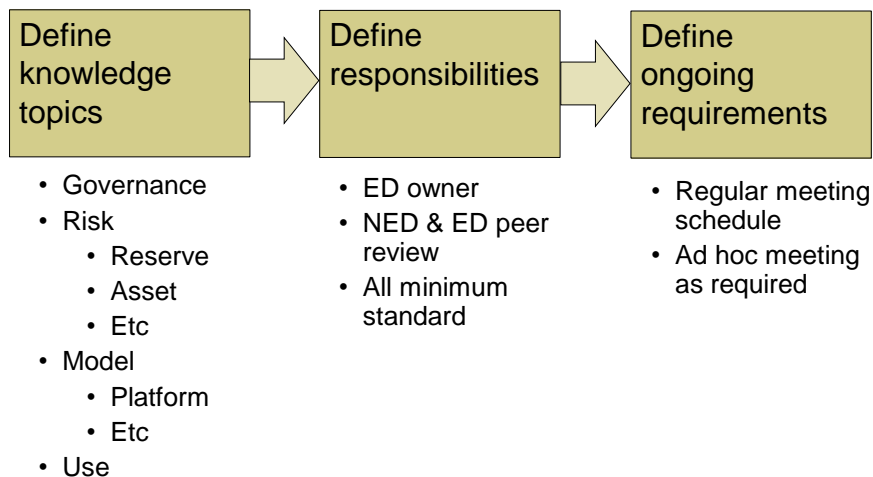| Class	Client sophistication, business complexity…
Control	Alignment of underwriter incentives, level of delegation…
Pricing	Competitive position, knowledge of true price, growth…
Reinsurance	Availability, completeness…
Claims	Tail length, inflation risk, uncertainty of case estimate…

Entities / granularity: Modelling approach

| Cat | Asset | etc |

Overall

X

Entity share of each risk

Scenarios

Sensitivity tests
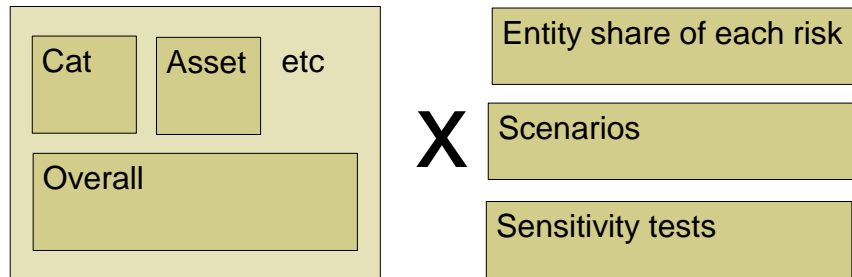
- Single model for all exposure
- Modular structure
  - Governance
  - Use

- Base model with functionality exclude and scale all risks

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Governance: Board knowledge requirements

| Define knowledge topics | → | Define responsibilities | → | Define ongoing requirements |

- Governance
- Risk
  - Reserve
  - Asset
  - Etc
- Model
  - Platform
  - Etc
- Use

- ED owner
- NED & ED peer review
- All minimum standard

- Regular meeting schedule
- Ad hoc meeting as required

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Summary

- Integration with business processes
  - Input and feedback; Keeping it live
- Challenges and approach
  - Buy in / use $\rightarrow$ Drivers of risk and the market cycle
  - Entities / granularity $\rightarrow$ Single modular model
  - Governance $\rightarrow$ Clear process and responsibilities

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