



Institute
and Faculty
of Actuaries

GIRO40

8 – 11 October, Edinburgh



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Board with Reserving

Mohammad Khan
PwC

erlise
 nsorship
 Thought leadership
 Progress
 Community
 Sessional Meetings
 Education
 Working parties
 Volunteering
 Research
 Shaping the future
 Networking
 Professional support
 Enterprise and risk
 Learned society
 Opportunity
 International profile
 Journals
 Support

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What to take away from this session?

1. Know what your Board want
2. Know what you want to communicate and what the one-three messages they should take after your communication
3. Remember proportionality e.g. focus on where the money is and on what can kill you

It's not just us



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What do we sometimes say?

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“There is no change to the methodology used therefore our reserves have only increased by 2%.”

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“A data error was discovered just before reserves were booked. We included a £10m allowance for this issue.”

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“Our prudential margin is 5%, consistent with the 62nd percentile.”

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“A similar increase in the correlation bands would bring about a proportional increase in the 65th percentile.”

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Exercise

Stand up



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Exercise

- What do you think a Board would interpret this to mean?

“We have bootstrapped the results to estimate the CoVs of the different classes.”

Exercise

- a) “Our clever actuaries have estimated the normalised measure of dispersion of the probability distributions between our classes of business.

I wish I could do that”

Exercise

- b) “Our clever actuaries have done something to the results to estimate something for each of our classes which means I know how much my reserves will vary. That would be useful for measuring risk.”

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Exercise

- c) “Our clever actuaries have done some sophisticated mathematical modelling to accurately and robustly determine something called the “CoV” between our different lines of business. I should take comfort from this.”

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Exercise

- d) “I have no idea but the actuaries clearly believe this is correct. I hope the PRA never ask me about this.”

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Exercise

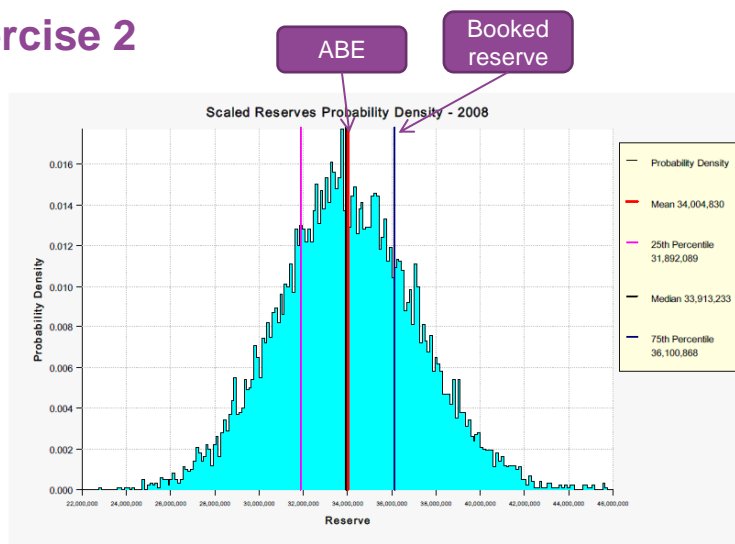
Stand up again



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Exercise 2



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Exercise 2

- a) “One out of every four years the claims will be higher than the reserves my actuaries have set.”

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Exercise 2

- b) “My reserves will never be more than £10m above my booked reserve. As long as there is enough capital to cover this we will never have a problem.”

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Exercise 2

- c) “My reserves are above the actuarial best estimate allowing some room for deterioration in experience. I am being prudent and protecting the shareholders.”

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Exercise 2

- d) “The actuaries say their best estimate is a prudent estimate. We are adding an additional margin on that which means my reserves are extremely prudent.”

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Exercise 2

- e) “Our reserving actuaries use this stochastic reserving technique. I think it is somewhat like what the capital actuaries do. It sounds really cool and means the reserves must be really accurate.”

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What do Boards want to know?

1. What's the reserve they should book?
2. How much more might they need for a rainy day? (Please note – this is not profit smoothing)
3. How variable are 1 and 2?

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Harold's Handy Hints

- Dress smartly
- How much does this cost?
- What's the impact on the business?

• Can you read this?



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Why is this important?

The future of our world is changing

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Why is this important?

The future of our world is changing

- IFRS Phase II is coming.....

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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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