

REINSURANCE BAD DEBT PROVISIONS
WORKSHOP

RICHARD BULMER

1998 GENERAL INSURANCE CONVENTION
AND
ASTIN COLLOQUIUM

GLASGOW, SCOTLAND: 7-10 OCTOBER 1998

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Working Party Members

Richard Bulmer (Chairman)

Peter Green

David Hart

Peter Matthews

Gaynore Moss

William Mulcahy

Simon Sheaf

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- 1 Statements of actuarial opinion provided to Lloyd's in respect of individual syndicate solvency reserves as at 31 December 1997 specifically *excluded* any consideration by reporting actuaries of reinsurance bad debt provisions. However, the overall solvency reserves on which actuaries will opine as at 31 December 1998 will *include* reinsurance bad debt provisions, and actuaries will be required to consider the appropriateness of such provisions.
- 2 The scope of the reinsurance bad debt provisions includes:-
 - currently unpaid reinsurer balances
 - future expected reinsurance recoveries, including recoveries corresponding to gross IBNR claims
 - reinsurance disputes as well as reinsurer insolvency.
- 3 There is currently no standard actuarial approach to the assessment of reinsurance bad debt provisions. Against this background, the working party adopted the following terms of reference:
 - to prepare a paper on reinsurance bad debt provisions to be discussed at a meeting of the London Market Actuaries Group. The paper should include:-
 - the principal actuarial issues which need to be considered when setting reinsurance bad debt provisions

- possible methodologies which could be applied by actuaries who are providing statements of actuarial opinion to Lloyd's as at 31 December 1998
 - some suggestions regarding future actions to be taken by the actuarial profession in respect of reinsurance bad debt provisions for Lloyd's syndicates
 - to assist the General Insurance Board in its drafting of additional wordings in Guidance Note 20 relating to reinsurance bad debt provisions
- 4 The first draft of the working party's paper was discussed at the June meeting of the London Market Actuaries Group.
 - 5 At the time of writing (early August 1998), the paper remains in draft form. It is anticipated that the paper will be finalised in September following consideration by the General Insurance Board and Lloyd's, and that copies of the final paper will be circulated to actuaries who are interested in Lloyd's opinions.
 - 6 Additional copies of the paper will be available at the workshop. Please contact the chairman of the working party if you are attending the workshop and would like a copy of the paper in advance of the General Insurance Convention.
 - 7 The workshop will provide the opportunity for:-
 - further discussion of the paper in the context of statements of actuarial opinion to be provided to Lloyd's as at 31 December 1998
 - a more general discussion regarding methods which can be used to estimate future reinsurance bad debts.