

## Understanding the Business Better for Reserving Working Party

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## Understanding the Business Better for Reserving Working Party

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## Agenda

- Terms of Reference
- "Effective" Reserving
- Case Studies
- Interactions with the business
- International implications

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## Terms of Reference

- Working party aims:
  - Document a number of case studies where certain features of the business made actuarial claims reserving considerably more difficult and the reserve estimates more uncertain.
  - Explore the key interactions with business for more effective reserving and practical ideas to take forward
  - International considerations
- Intended to aid newly and recently qualified actuaries who are beginning to have significant interaction with the wider business
- Paper to be issued after GIRO
- Open to other contributions on case studies for documentation



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## Effective Reserving

- Duel context:
  - The way information (qualitative and quantitative) is considered to improve the actuaries' understanding of the business and to adapt the reserving assumptions and methodology to the issues in order to obtain a reserve estimate
  - When the business places credibility on the reserves, and they are actively used as a tool to steer and manage risk of the business.



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## Case Studies



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## Case Studies: Learning from the Past

- Background
  - Issues and implications to Reserving
  - What happened
  - Lessons
- Case Studies:**
1. North American Extended Warranty – Byas Mosley
  2. Legal expenses
  3. Reinsurance market spiral (LMX)
  4. Market wide large losses (WTC & KRW)
  5. US Liability
  6. Cashback

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### Case Study 1: North American Extended Warranty – Byas Mosley

- Broker extended warranty business line slip
- Issues for reserving:
  - Long exposure period
  - Late emergence of poor experience
  - Not able to apply standard actuarial reserving techniques
- Lessons
  - Protection from moral hazard
  - Importance of monitoring performance of business
  - Value of specialist opinion and market steering committee

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### Case Study 4: Market wide large losses (1/4)

- Events affect market – man-made and natural perils
  - Eg 2001 US terrorist attacks ("WTC"), Enron, Worldcom, Laddering, sub-prime, North Atlantic hurricanes, European windstorm, UK floods, Asia Pacific tropical storms and various earthquakes around the world
- Impact to industry and reserving implications:
  - Unique features of the loss
  - Timing in the insurance cycle – runoff, able to bear losses
  - Financial impact
  - How the actuarial profession sought to quantify the size of the loss for reserving

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## Interaction themes

Interactions can be broadly summarised into:

- Communication
- Feedback
- Data & Information



## Interaction - Communication

- Reserve estimates – what they represent, include/exclude. Different messages may be needed for management and other parties
- Uncertainty associated with the reserve estimates – differentiating between gross and net
- Assumption setting – underwriting, pricing, reinsurance, large losses



## Interaction - Feedback

- Emerging issues
- Implications – RI purchase, commutations, capital modelling
- Business planning
- Process and controls, signoff and peer reviews



### Interaction – Data & Information

- Input and output of reserving process – assumptions, consistency
- Management information & KPIs
- Understanding of underlying issues – large losses, claim cycle
- Information for reporting – finance, management, regulators, external parties



### Practical ideas to take forward

- Formalised processes – communication, roles and responsibilities, consistent definitions and approaches
- Communication – frequency, level, language, coverage
- Questions to ask
- Understanding of why, not just how
- Demonstrate value in integrated reserving process



### International implications

- Multiple reserving basis
- Regulations
- Products – same name, different animal
- Role of actuary
- Communication difficulties – language, culture

