



The Actuarial Profession

making financial sense of the future

Responsibilities of the Actuarial Function James McPherson and Marcus Tarrant



Underwriting Review

22nd January 2012

Underwriting Review

Let's start with the Big Picture

Key Questions

- What role should the actuarial team play? Perform? Review?
- What do we mean by an opinion on the Underwriting Policy?
- What are the key activities that will support this opinion?

Underwriting Review

A view on current work being performed

- **Areas typically addressed**
 - Areas covered in draft Level 2 advice
 - Linkage to Lloyd's Minimum Underwriting Standards
- **Areas less commonly addressed**
 - Interaction and communication between the four Solvency II functions and the business
 - Adequacy of Pricing Methodology
 - Link to Business Plan and Risk Appetite
 - Role of the actuary: two schools of thought

Underwriting Review

Draft Level 2 Advice (1 of 4)

3.312.

- In relation to Article 48(1)(g) and (h), **the Actuarial Function shall annually express an opinion on the overall Underwriting Policy** and the adequacy of the significant Reinsurance Arrangements, as well as expected cover under stress scenarios and report these views to the administrative, management or supervisory body and senior management.
- In the provision of these opinions the Actuarial Function shall not only address **possible deficiencies** and the possible consequences these may have, but also make constructive **suggestions for improvements**.

Source: CEIOPS-L2-Final-Advice-on-System-of-Governance.pdf on the EIOPA website

Underwriting Review

Draft Level 2 Advice (2 of 4)

3.313.

- In CEIOPS' view the requirement on the Actuarial Function to express an opinion on the overall Underwriting Policy and the adequacy of the Reinsurance Arrangements does not imply that the Actuarial Function may not be involved in the original decisions on these issues.
- However, “justification” of decisions taken by the Actuarial Function or with its involvement requires more detailed explanations and a decided examination of other possible decision options.

Underwriting Review

Draft Level 2 Advice (3 of 4)

3.314.

- Commenting on the overall Underwriting Policy does not require expressing views on every single policy, but on the undertaking's **underwriting in general**.
- The scope of the view expressed is determined by what is relevant information for the administrative, management or supervisory body in reviewing the undertaking's underwriting policies.

Underwriting Review

Draft Level 2 Advice (4 of 4)

- Regarding the overall Underwriting Policy, the opinion to be expressed by the Actuarial Function should at least include the following issues:
 - a) Analysis of the **sufficiency of the premiums to cover future losses**, notably taking into consideration the underlying risks, the impact of expenses directly associated with future claims and of unallocated loss adjustment expenses and the impact of embedded options and guarantees on future liabilities; and
 - b) Considerations regarding **inflation, legal risk, change of mix, anti-selection and adequacy of bonus-malus system(s)** implemented in specific line(s) of business.

Underwriting Review

Practical Advice

Actuarial Function report could include:

1. **Report: story behind the opinion** on the underwriting policy
2. Interactions between the **four Solvency II Functions** and the business in arriving at opinion
3. Interactions between the **Board and Actuarial Function**

Underwriting Review

Practical Advice for Reporting

Actuarial Function Reports

- Report of around 20-30 pages
- Should not repeat other Solvency II documentation
- Appropriate length for Board review
- Evidence of criteria which support the conclusions made
- Example characteristics of strong reports

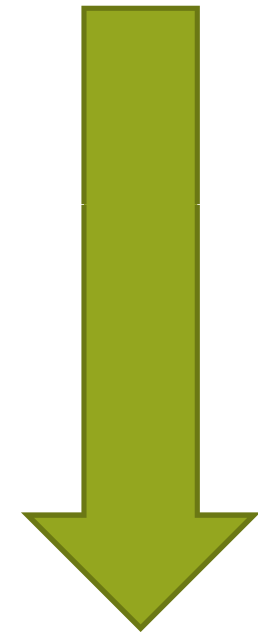
Underwriting Review

Practical Advice for reporting on Underwriting Policy

Possible Treatment

- Analysis of latest and historical ULRs
- A v E rate changes by class
- Sensitivity analysis – inflation, rates, business mix
- Scenario analysis – adequacy in stressed scenarios
- Breakdown of profitability by rating factors
- Formal pricing reviews

Less Complex



More Complex

Underwriting Review

Practical Advice for reporting on Underwriting Policy

Other Areas to Consider

- Analysis of inflation and changes in portfolio composition
- Variability around estimate of expected profitability
- Adherence to underwriting guidelines
- Monitoring implementation of Business Plan
- Controls in place to reduce risk of anti-selection for new business
- Quantify likelihood of losses in excess of certain amounts

Underwriting Review

A Final Thought

Scenario

- If you are a Chief Actuary....
- ...under what circumstances would you **not** sign the opinion on the overall Underwriting Policy?

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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

