Lloyd’s Market Result Forecasts
Or
Who Needs Actuaries?

Mark Graham
Chaucer Holdings PLC

Development of Mid-Point Forecasts
Monetary amount of Deterioration

<table>
<thead>
<tr>
<th>Year of Account</th>
<th>18-36 Month Deterioration (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>-452</td>
</tr>
<tr>
<td>1998</td>
<td>-694</td>
</tr>
<tr>
<td>1999</td>
<td>-1,048</td>
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<tr>
<td>2000</td>
<td>-1,498</td>
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<tr>
<td>2001</td>
<td>-339</td>
</tr>
<tr>
<td>2002 (to 30 months)</td>
<td>-27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-4,058</strong></td>
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</tbody>
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Observations

- Every year has deteriorated between the 18-month stage and the 36-month stage.
- Every year has deteriorated at every quarter between the 24-month stage and the 36-month stage.
- Under-reserving has been the main factor, although other factors (exchange rates, investment returns, etc.) have also impacted.
- Reserves throughout this period have been underpinned by actuarial opinions.

Not All Bad

- Two managing agents have beaten market-average forecast accuracy in all five years from 1997-2001, but are slightly below average at the 30-month stage of 2002.
- Seven managing agents have beaten market-average forecast accuracy in all six years from 1997-2002.
The “Outperformers ”

- SA Meacock
- Chaucer
- Kiln
- Amlin
- Beazley
- KGM
- Atrium
- Wellington
- Hardy

Common Features

- All independent (no insurance parent).
- Typically have a low level of actuarial involvement in management.
- Typically have a “blue chip” underwriting reputation …
- … and/or strong underwriting management.

The Hypothesis

“A strong, independent Board, combined with robust underwriting disciplines and controls, are more important drivers of reserve adequacy than are actuarial review and sign-off”