

# Risk Management for GI Actuaries

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29 September 2006

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## Overview

- Why is the talk relevant to you
- Four key questions when considering negligence
- Some Do's and Don'ts for the GI actuary
- Questions

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## Where the actuarial profession today

- "... there is often a significant 'understanding gap' between users of actuarial services and their advisers" (Sir Derek Morris)
- "One has the impression that actuaries have at times acted as if they were fully qualified in accountancy, law and other disciplines so as to need no outside support" (Lord Penrose)

### Current criticisms of actuaries

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## Why is the talk relevant

- Revised format and content of advice:
  - ensuring it is understood by the layman/directors.
  - ensuring that all uncertainties and limitations are quantified and clear
- Increased criticism of and challenges to your work by
  - clients / the Board of Directors
  - the Regulator
  - the Profession

What is changing about the environment you work in

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## Consider one scenario

- IHI's management information systems have not been set up with your needs in mind
- The chief executive is very dominant and the chairman is ineffective
- You are never invited to present the findings in your year end report to Board or the Audit Committee
- The company collapses after a subsidiary you reported on is found to have under-reserved by £1bn

You are the in-house actuary at "IHI"

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## The caveat in your Report

*"There is always uncertainty in estimating future liabilities for general insurance business.*

*In evaluating whether reserves make a reasonable provision for unpaid losses, it is necessary to project future loss. Actual future losses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, in most classes of business, the scope for adverse development exceeds the scope for favourable development ..."*

Beware standard wording

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## Example allegations

- It is not a sufficient discharge of your duties to simply say that there is “always uncertainty”. What are you being paid for otherwise
- It is not sufficient to say that you were not allowed access to the Audit Committee/Board. You are a professional and should have insisted
- Your caveat acknowledges the one sided nature of the potential liability. How can you still say that figures were a best estimate

The benefit of hindsight ...

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## The Four Key Questions: Question 1

- Addressee of Report: Always
  - Restriction on wider circulation
  - Reference back to terms of engagement
- Others: Only if you are deemed to have assumed a duty of care to them
  - Use of release letters, confirming no duty is owed
  - Only give caveated oral assurances to third parties

“To whom do I owe a duty?”

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## The Four Key Questions: Question 2

- Scope as defined by engagement letter/opening section of report
  - Exclude duties to others
  - Specify clearly what other people will be responsible for (e.g. lawyers, auditors, the Board)
- Contractual protection
  - Exclusion of liability
  - Limitations on liability, e.g. no liability for loss of profit

“What is the scope of that duty?”

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### The Four Key Questions: Question 3

- "... the ordinary skilled man exercising ... that special skill. [He] need not possess the highest expert skill ... it is sufficient if he exercises the ordinary skill of an ordinary competent man exercising that particular art ..."
- Practical risk management issues
  - Peer reviews
  - Note risks in reviewing and commenting on the works of others
  - Be careful about claims made in publicity material, e.g. "best in class service"

"What standard of work is expected of me?"

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### The Four Key Questions: Question 3 (cont)

- 2 schools of thought
  - Reasonable range/bracket approach
  - Process approach
- What the Canadians say

Standard of work in valuation cases

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### The Four Key Questions: Question 4

- Is there a loss? E.g. Company can reclaim overpaid tax
- Did the actuary cause the loss? E.g. No link between the negligent work and the loss
- Was the loss reasonably foreseeable? E.g. Company pays excessive staff bonus thereby missing other business opportunities

"What loss (if any) am I liable for?"

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## Some Do's and Don'ts for the GI Actuary

- Evidence the advice given and actions agreed
  - Keep all letters and emails
  - Make detailed notes of meetings and telephone calls
- Evidence of what you were told and the questions you asked
- Comply with PCS /Guidance Notes/published materials

Do ...

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## Some Do's and Don'ts for the GI Actuary

- Forget to organise your working papers (both electronic and paper). It is always difficult to recall your thought process years after you did the work
- Forget to complete your "audit trail". It can hurt your credibility to back track later
- Send "unhelpful" internal or external emails: "*Oops, I think we made a mess of this one*"

Don't ...

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## Risk Management for GI Actuaries

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