



Institute  
and Faculty  
of Actuaries

# TORP – update from the working party

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# TORP – update from the working party

The fast close process (or: “you want what? By when??”)

ertise  
ponsorship  
Thought leadership  
Progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support

# Agenda

- Introduction
- Reporting
- Actual vs. expected
- Roll-forward
- Issues impacting the process
- Conclusions

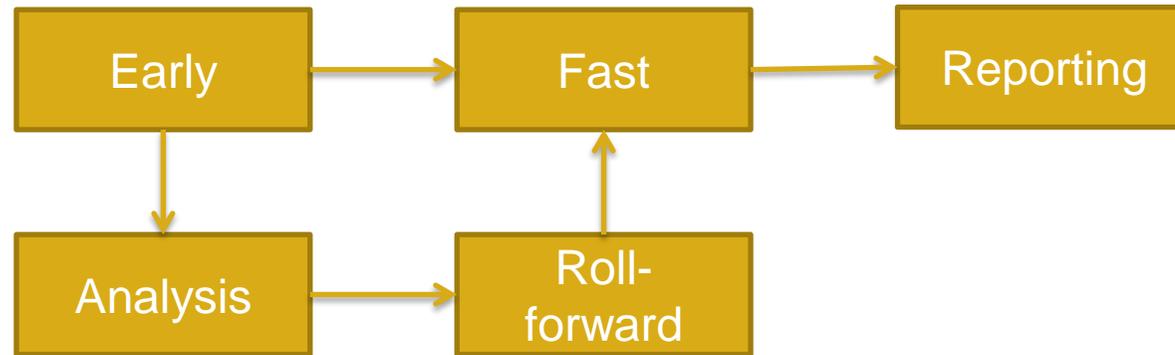
# The problem:

- **Limited time** between receipt of as at data and reporting deadline.
- **Increasing reporting** requirements are reducing the time available to study the data.
- **Less time for analysis** means less accuracy/ increased potential for inconsistency/ increased operational risk.
- Topical or recent events may get **disproportionate** management attention.
- **Unexpected issues** can derail the process.
- Management focus can be **misaligned** with actuarial processes.

# Background

- Reporting requirements have been expanding steadily.
- Most initial processes were based on “add-ons” to convert from one basis to another.
- Organic development of processes is unlikely to be enough – a step change is usually required, and firms are at different points along this process.
- Our working party is aimed at spreading the expertise gained from those further along the process, to those not as far advanced (see our AvE work last year as an example).
- We aim to develop practical thoughts around the design and operation of the reserving process to share current practices and issues.
- We are considering the maximum amount of reporting, but not all of this will apply to all firms.

# Early/fast close



- **Early:** previous full analysis that sets expectations for future experience. Can be a month, quarter or longer (up to a year?) before reporting as at date. Will usually take 4-8 weeks.
- **Fast:** key point is that there isn't time to complete a full analysis at the as at date in the time available (typically a week to report final reserves etc.).
- Analysis may use AvE or other techniques to provide diagnostics.
- Roll-forward represents the confirmation or adjustment of ultimates.
- Fast includes any mechanical processes required to derive the reserves, and any additional "numbers" for reporting.

# Reporting requirements

- Reserving report
- Board Summary
- Best estimate/margin split
- Investor briefing
- Lloyd's Trust funds
- Lloyd's QMR
- FSA returns
- Reserve ranges/ adequacy
- GAAP (if not primary basis)
- Solvency II Technical Provisions
- Cashflow projections
- Future development expectations
- Allocation/ aggregation
- Audit recs
- Tax reserves
- Management exhibit on ultimates
- Statement of Actuarial Opinion
- Bad debt
- ULAE

There are a lot of reporting requirements as part of the reserving process

It seems difficult to produce all of these in a very short timeframe as well as producing revised estimates

# Reporting requirements

- Reserving report
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Use the amount of expert judgement required in each output to prioritise (and allocate time) to the update

# Reporting in fast close

Updated manually	Updated mechanically	Unchanged in fast close
Reserving report	Lloyd's Trust funds	Mngmnt exhibit on ults
Board Summary	Lloyd's QMR	SAO
Best estimate/margin split	FSA returns	Bad debt
Investor briefing	Reserve ranges/ adequacy	ULAE
	GAAP (if not primary basis)	
	Solvency II TPs	
	Cashflow projections	
	Future development expectations	
	Allocation/ aggregation	
	Audit recs	
	Tax reserves	

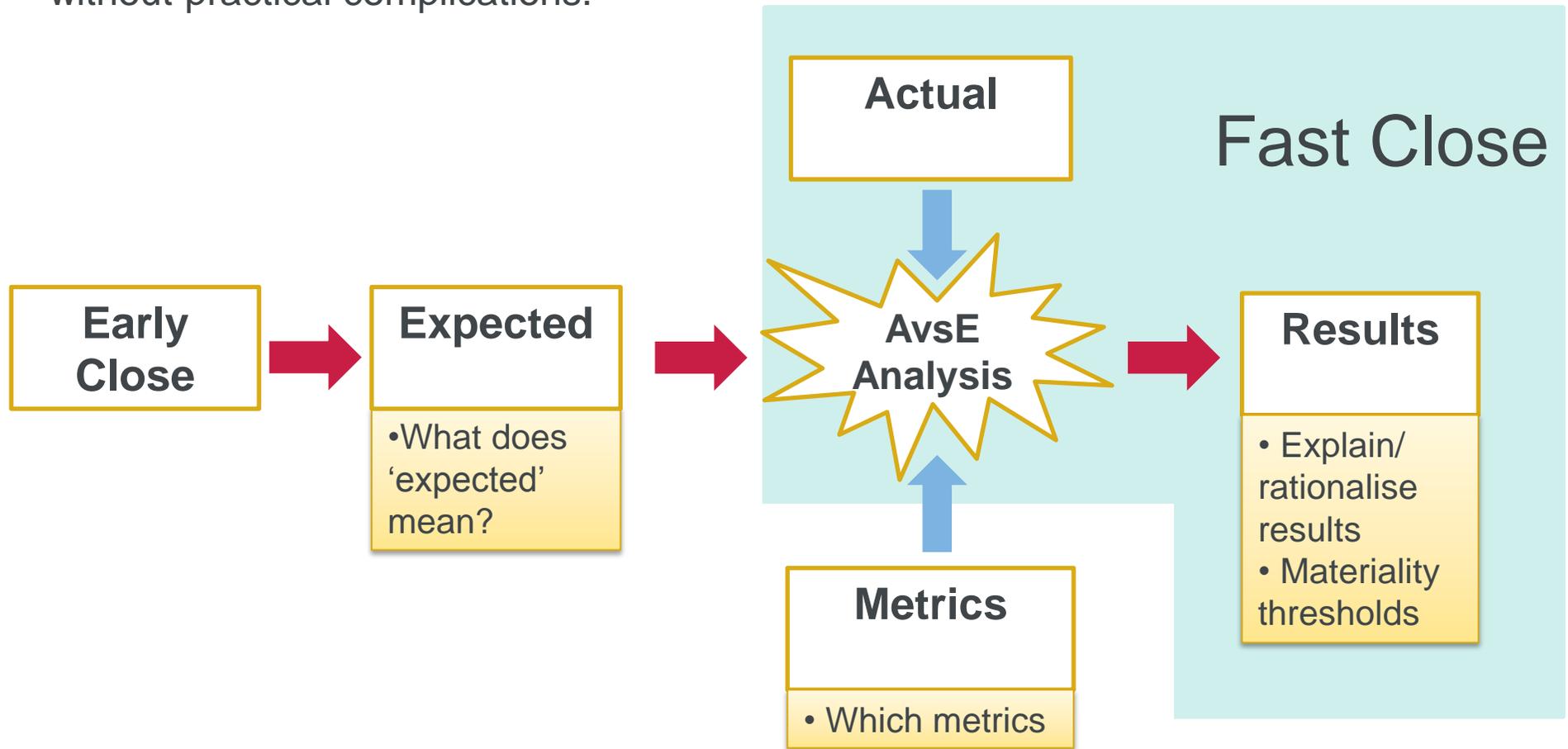
*The most important outputs?*

*Can we leave some reports untouched?*

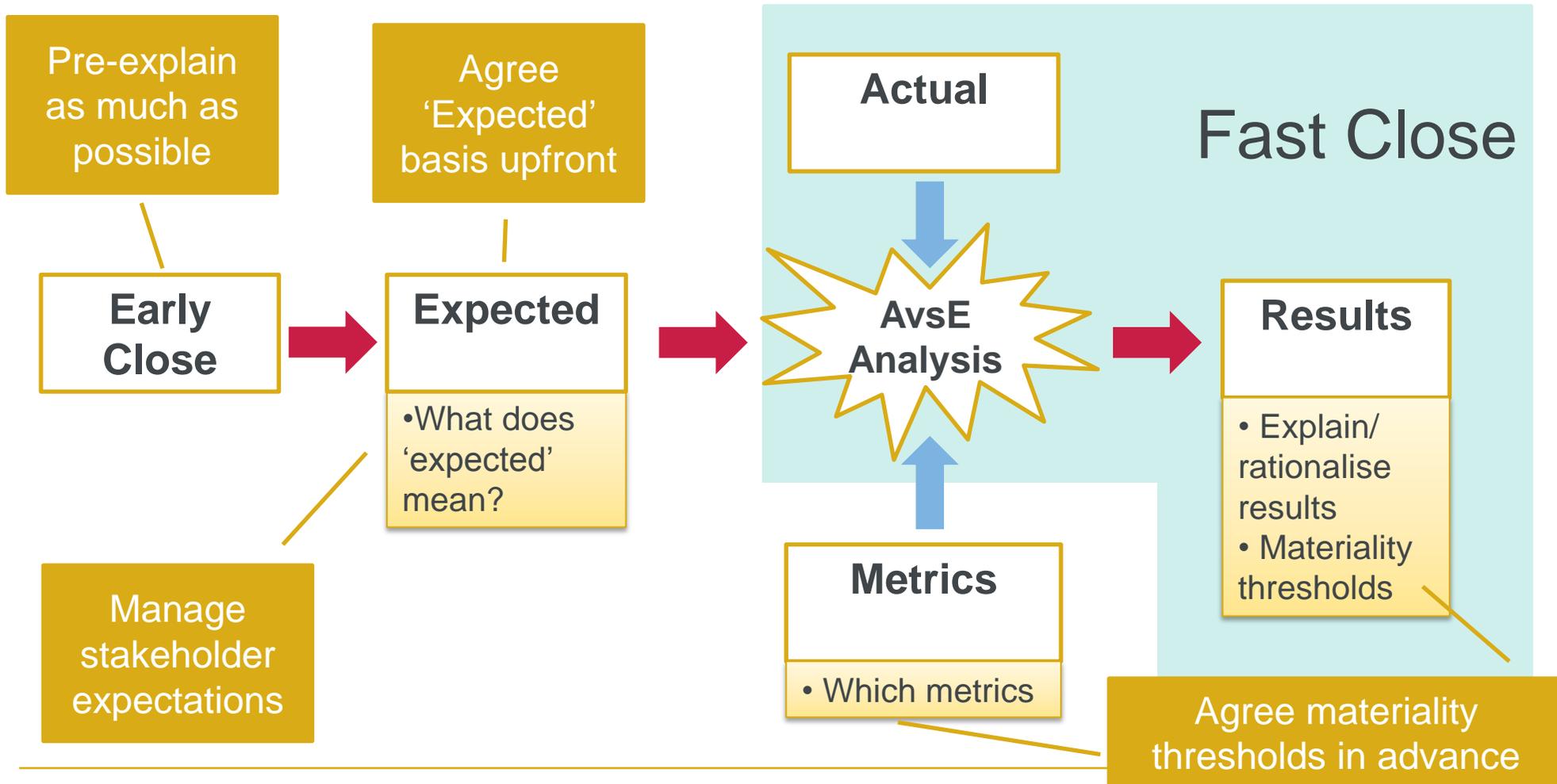
*No manual intervention, other than sense checks?*

# A vs E in Fast-Close Situation

- A vs E analysis lends itself well to lean process in a fast-close situation, but it is not without practical complications.

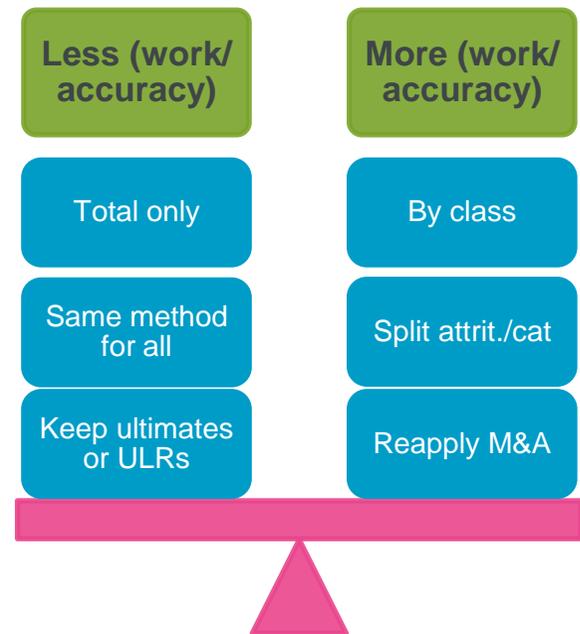


# Practical Application of A vs E



# Roll-forward process

- Aim is to **confirm/ adjust ultimates** based on the information available (including output from analysis).
- Various options are available when selecting ultimates, e.g.:
  - Static ultimates
  - Static ULRs
  - Static IBNRs
  - Roll forward methods & assumptions on new data
- A balance needs to be struck:
- **We would suggest:**
  - Do it at a granular level (to facilitate drill-down and reporting).
  - Apply an automated decision rule
  - Any top level adjustments are held as margin (or are specified at a detailed level).



# Roll-forward process

## Challenges:

- Likely to need different approaches for different segments (Short tail vs. Long tail, lumpy vs. smooth development).
- The process of selection should be very quick, using various indicators/ defaults to ensure time is spent on the more difficult decisions (automated decision rules, RAG status flags etc.).
- Reinsurance may require a different approach entirely.
- Need to ensure sum of detailed decisions makes sense compared to total diagnostics.
- Raises some cultural questions:
  - Will Boards be happy with “no change”?
  - Will actuaries be happy with “no change”?
  - Does this achieve sufficient accuracy for tertiary uses (base for planning etc.)?
  - Can this approach be extended to replace a “full” quarterly reserving process?
- We suggest that the aim of the exercise is to ensure that movements are based on a limited number of specific known issues/effects to reduce amount of explanation and increase clarity and speed of reporting

# Major Issues & Potential Solutions

Internal	External
<b>Data/Systems/Processes</b>	<b>Catastrophes/Major Events</b>
<ul style="list-style-type: none"> <li>• Earlier Data Extracts</li> <li>• Regular Catch-Ups with SMEs</li> </ul>	<ul style="list-style-type: none"> <li>• Daily Analysis of Updated Data</li> <li>• Constant Communication with Claims</li> <li>• Stakeholder Management</li> </ul>
<b>Management Interaction</b>	<b>Regulators/Court Rulings/3rd Parties</b>
<ul style="list-style-type: none"> <li>• Early &amp; Continuous Engagement</li> <li>• Range of Results/Implications</li> <li>• Reserving Policy/Materiality Thresholds</li> </ul>	<ul style="list-style-type: none"> <li>• Regular Internal Catch-Ups</li> <li>• Regular External Catch-Ups/SLAs</li> <li>• Key Internal Contacts in Place</li> </ul>

- **Any other major issues? e.g. FX fluctuations.**

# Conclusions

- Set out **process** and get it agreed by all stakeholders (“rules of engagement”), including thresholds for intervention.
- Ensure **communication** lines kept open.
- **Automate** where appropriate to focus on value adding analysis.
- Identify outputs that require manual intervention and determine **critical path**.
- Use prior detailed analysis to deal with known critical issues in advance of the fast close.
- Consider **contingency processes** in case of emergency...

Not much different to a normal review...!

# Our team

- Camilla Bennett
- Neil Bruce (Chair)
- Cameron Heath
- Tim Jenkins
- Katherine Laidlar
- Alastair Lauder
- Gregory Overton
- Joe Ryan
- Keith Taylor
- Chi Wong