GIROC Survey Findings
London Market and Stakeholders

19 May 2014
GIROC Survey 2013

• GRIT 2004 to 2006
  – Range of recommendations

• Aim of 2013 study:
  – what has changed since GRIT?
  – are there any barriers (if any) that may have prevented the development or uptake of new techniques
So who did we talk to?

Practitioners
- Personal lines Reserving Actuaries
- London Market Reserving Actuaries

Stakeholders
- Ratings agencies
- Regulatory bodies
- Other Stakeholder Groups (CRO Forum, CFO forum etc.)
- Investment analysts
- Executive and non-executive directors/Senior management
GIROC Survey

• London Market
  – High level findings
  – How have we moved on since GRIT?

• Stakeholder views

• Discussion topics
London Market Reserving Process

Frequency
• Quarterly
• Annual or 6 monthly
  • with interim AvsE

Reporting
• 3-9 days after close
• 1-2 months after close

Data
• Early close - month before
• As at quarter end

Classes
• 50 or less
• 100
• More than 100

11 respondents
Where is most of the actuarial effort spent?

Despite improvements in data for majority, through:
• Data warehouses
• Dedicated IT teams
• Pushed to finance

Other: Internal processes, large losses
Where should the effort be spent?

- Minority satisfied (two)

Communication

😊 too many splits
😊 diverse business demands
😊 parent requirements
😊 some glad of more time for this

Less time on data
- Even those who have automated, still have improvements to make

More time on analysis
Key constraints

- Time
- Data
- SII
- Resources
- Nothing

No consensus

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GRIT recommendations - 2006

• Communicating
  – transparency in methods and assumptions
  – uncertainty

• Understanding the business better
  – applying actuarial reserving methods consistently
  – implications of the underwriting cycle

• Understand how behaviour can affect the reserve estimation process
Uncertainty

Bootstrap feeding into capital model - most common

Some use bootstrap to start with but then introduce judgement, e.g. review CoVs

Majority also use stress and scenarios too

Other
- ICRFS
- Uncertainty around development factors
- Frequency and severity
- CoVs by u/w yr – back test

Sizeable minority do not bootstrap at all
Communication of uncertainty

Key concerns – scenarios

Percentiles

Demand from management

Scenarios that would get you to percentiles

RAG alerts by class

Still more work to be done
# Understanding the business better

## Qualitative data

<table>
<thead>
<tr>
<th>Prior loss ratios</th>
<th>Rate changes</th>
<th>Discussions with underwriters</th>
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| – most involve interaction with business plan but in different ways  
• from plan  
• to feed into plan  
• are knowingly different | - but are either  
• not well filled in, or  
• part of reliable model for monitoring adequacy | • Metrics  
• SOX  
• Embedded actuaries – pricing and reserving role |

All doing but in different ways
Methodology

• CL and BF still king
  – ACPC
  – Bespoke e.g. asbestos/PPOs/exposure based – needs driven

• ABC

• Underwriting/reserving cycle

No desire for new methods
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What we’ve asked to stakeholders

1. How do you use actuarial reserving estimates?
2. What do you look for from actuaries/how do you see the reserving role?
3. How well are actuaries delivering this?
4. Do you have any examples of good and/or bad practice you have encountered (specify how recent this is).
5. Have you seen any changes in reserve reporting in the last seven years or so?
6. Would you like to see more investment in reserve research?
How do you use actuarial reserving estimates?

• Direct users find them useful to manage the business
  – Pricing
  – Capital management
  – Strategy

• Indirect users find them useful for:
  – Statutory accounts
  – Portfolio management
  – Profitability/sustainability study
Actuaries role and delivery (1)

For all participants, actuaries are…

• Core to the business…
  …but not the only ones

• Independent & transparent

• High quality/standards technical experts
  • Whistleblowers

But…
Actuaries role and delivery (2)

For nearly all participants, development could be achieved in

- Being challenging and challengeable
- Communicating uncertainty
- Being forward looking (e.g. BMA skills)

Divergence of participants’ views on…

… how structurally independent actuaries should be!
Improvements in the last 7 years?

Yes!!

… Better data drives better estimate
… Better modelling in some sectors
… Better communication but still to perfect
… Better training

But spending time on research is not consensual!
Summary

• Some questions remain, as participants’ view diverge:
  – How practically independent?
  – Do we need to spend more time on research?

• But being forward looking and improving communication could be the next step according to nearly all participants!
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Should reserving actuaries be more forward looking?

- see things early
- feeds business planning
- things have been benign for a while, but we still remember when US casualty was under-reserved in 2001

Motor market experience

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Actuarial structure

- Ensures best estimate
- Understanding the data
- Forward looking

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Booking reserves

- Impact of Lloyds’ benchmarks
- Investment markets
- SII – measure of risk margin?
Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

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