18. How are you estimating your binary events loading? Comments Below:

Looking at max exposure based on limits of all policies then taking a damage factor. This is a totally pointless part of the calculation and it needs to be kept as simple as possible

Explicit loading based on class considering excess nature, exposure to unknown risks, ability to restrict cover, discovery period of class

Yet to be decided.

mix of above

N/A as in run-off

Scenario based with stochastic overlay and separate stochastic validation

Lloyd’s curtailed distribution approach

None

Essentially Scenario based with stochastic overlay

29. Which specific areas would you like to be clarified? Please list these.

Operational risks and capping of any deferred tax assets

More clarification is required from Lloyd’s on the Actuarial Function, not just for the Technical Provision but also for Capital and Pricing.

Premium provisions and inclusion of binding authorities.

Contract Boundaries, Reinsurance Correspondence & Future Management Actions, Binary Events. Necessity of separation into underlying currencies

Interaction with the internal model

Contract boundaries Opinions on underwriting and reinsurance

Binary events Corespondence of future reinsurance premium Allocation of future premiums between claim and premium provisions

Contract recognition Expense allowance and allocation

Binary events

Clarification is needed regarding what the regulator is trying to achieve with this methodology. The two most important and useful parts are documentation (audit trail) and detailed analysis of cashflows. These are the only two parts that add any value. No one has stopped to ask "Why are we doing this?".
how to deal with reinsurance specific issues, e.g. data is not available in same granularity as for
direct writers (no claim counts, split motor liability versus property damage etc) legal boundaries for
premium provision & data availability

Acceptable Risk margin approximations Acceptable Binary event loading methods Acceptable
obligated business adjustments Arease of interaction between the model and the TPs and level of
consistency required

Binary events and risk margins

binary events expenses contract certainty

Acceptable Inflation - explicit/implicit, Practical guidelines for handling the items that move from the
SI balance sheet to the SII technical provisions, Clarification of relationship between SII provisions
and booked reserves.

Definition of legal obligation. How/if components of technical provisions should be split between
claims and premium provisions, especially premium cashflows and expenses. We have received
conflicting opinions. Exactly which types of expenses belong to technical provisions.

Binary events - some example stress tests would be useful

Ideally, I would like further guidance on binary events.

Premium Provision, reinsurance & interaction between SII, GAAP & IFRS

Approximations allowed in the calculation Application of binding authorities as incepted premium
Currency allocations and materiality Risk margin calculations including discounting Calculation and
use of illiquidity premium on yield curves for future periods within the capital model Treatment of
unallocated cash balances within balance sheet or technical provisions and how to allocate these if
in TP

the value of the additional largely spurious work over current practice

Technical Standards Renewals after balance sheet - if contracts not onerous is zero a proportional
answer? That a simple conservative approach to expected defaults is proportional

Treatment of worldwide policies Treatment of binders in terms of 1 consistent approach

Binary events Contract boundaries especially binders

methodologies for reserving for reinsurance recoverables -methodologies for reserving for binary
events -methodologies for separating large claims and reserving separately -clarification which cash
inflows to include in premium provisions and which cash inflows to include in claims provisions

contract boundaries need for stochastic or not

Contract Boundaries, Tacit Renewal Valuation, Simplifications available due to materiality

Premium provisions
How to produce earned and unearned payment patterns if reserving is done on an underwriting year basis (i.e. converting UW basis payment patterns to AY payment patterns)

Technical provisions

30. What areas would you like the working party to concentrate on? Please list these

Just clarification from FSA re reporting formats

Data simplification methods Clarification on expert judgement - Who and When Stochastic vs Deterministic methods and what would be acceptable under Solvency II

Expenses, Binary Events, Unincepted Obligated Business

As above

Communication/reconciliation of various bases for management understanding and reporting

Proposing market standards for contentious issues.

Contract boundaries Opinions on underwriting and reinsurance

Binary events Correspondence of future reinsurance premium

Methods / advice / tools for providing clear explanation to management

Integration of TPs into reserve risk module How best to report on TPs Feedback loops

Binary events

Audit trails, what is the easiest way to track and document everything that was done/decided. This would be very useful.

as above

Areas of interaction between the model and the TPs and level of consistency required

binary events contract certainty

Establishing industry interpretations of the above in Q29.

Binary Events loadings The applicability of simplifications for Risk Margin

Binary events!

SII

Standard exhibits to help in explaining the basis compared to other accounting bases Guidance on what is meant by "simplified methods" Level of documentation, validation and back testing required for underlying assumptions
Communicating widely that this is shocking waste of actuarial resource for no additional insight into reserves

Process - especially the inter-action with Disclosure of cash flows. Reconciliation between IFRS and S2

Providing potential industry standard approaches for some of the newer elements such as expenses or binary events

Consistency of interpretation see above

Providing specific guidance explaining potential methodologies that can be used to tackle common issues