Practical experience with GN12

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Background
- GN12 revised 1 June 2006
- Guidance now under the control of the Board for Actuarial Standards (BAS)
- GI PSC and GI Board would like to understand practical experience
- We have also had input from FSA and Lloyd's on compliance
Survey

- Sent to all members with an interest in GI
- Thanks to Wendy Hawes, Alex Lee and Matthew Wheatley for comments and suggestions on survey
- Thanks to Peter Stirling and Fiona McNeil for survey implementation and analysis
- Thanks to Sally Kattan for additional analysis of results
- Thanks to all 176 people who submitted responses (133 of whom were anonymous)

Background on respondees

![Survey Results]

- Where do you work?
  - Consultant - 66.1%
  - Company/managing agency - 30.5%
  - Other - 3.4%

- What is your main area of work?
  - Reserving - 47.1%
  - Pricing - 29.9%
  - Capital - 14.9%
  - Other GI - 5.7%
  - Combination of above - 2.3%

Based on about 200 reports

![Survey Results]

- How many GN12 reports have you signed under the current GN12?
  - None - 19.5%
  - One - 12.2%
  - Two - 10.6%
  - Three - 8.1%
  - Four - 4.1%
  - Five or more - 67.0%

- Have any of these also been signed by another actuary?
  - No - 33.0%
  - Yes - 67.0%
A better report for the end-user?

In your view have the revisions to GN12 led to a better report for the end-user?

Responses: 93 / 176

Revisions practicable for the actuary?

In your view have the revisions to GN12 been practicable for the actuary producing a report?

Responses: 91 / 176

Changed approach to reporting?

How has the introduction of the current GN12 changed your approach to reporting on actuarial work?

Responses: 97 / 176
Is GN12 clear as to whether your work needs to comply?

How clear do you feel as to whether the actuarial work you do needs to comply with GN12?

Responses: 96 / 176

Subdivided by type of actuary

- Very unclear: 15.6%
- Unclear: 32.3%
- Acceptable: 25.0%
- Clear: 24.0%
- Very clear: 3.1%

Subdivided by number of GN12 reports signed

- Very unclear: 15.6%
- Unclear: 32.3%
- Acceptable: 25.0%
- Clear: 24.0%
- Very clear: 3.1%

Subdivided by whether name was given

- Very unclear: 15.6%
- Unclear: 32.3%
- Acceptable: 25.0%
- Clear: 24.0%
- Very clear: 3.1%

Subdivided by area of work

- Very unclear: 15.6%
- Unclear: 32.3%
- Acceptable: 25.0%
- Clear: 24.0%
- Very clear: 3.1%

GN12 report not prepared when might have been required?

Since 1 June 2006 have you completed a piece of actuarial work which related to one or more of the circumstances specified in GN12 Section 1.2 for when a formal report is required, but for which no GN12 report was prepared?

Responses: 114 / 176

Subdivided by type of actuary

- No: 28.9%
- Yes: 71.1%

Subdivided by number of GN12 reports signed

- No: 28.9%
- Yes: 71.1%

Subdivided by whether name was given

- No: 28.9%
- Yes: 71.1%

Subdivided by area of work

- No: 28.9%
- Yes: 71.1%

Why was GN12 report not produced?

Please give reasons why a GN12 report was not produced for the work referred to in Q5 (please tick all relevant boxes)

- Practicability
- Reasonableness
- Terms of reference
- Would not have communicated effectively
- Employer or client explicitly requested that a GN12 report should not be produced
- Other comments

Responses: 39 / 176
Are reports completed before decision taken?

Are your GN12 reports generally completed before management or client decisions have been taken in relation to the actuarial advice given?

<table>
<thead>
<tr>
<th>Yes</th>
<th>25.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>74.3%</td>
</tr>
</tbody>
</table>

Responses: 109 / 176

Is room for judgement helpful?

Do you consider the use of the phrase "should normally" to be helpful?

<table>
<thead>
<tr>
<th>Yes</th>
<th>36.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>63.3%</td>
</tr>
</tbody>
</table>

Responses: 109 / 176

Do you consider the use of the principle of "practicability" to be helpful?

<table>
<thead>
<tr>
<th>Yes</th>
<th>34.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>65.3%</td>
</tr>
</tbody>
</table>

Responses: 109 / 176

Do you consider the use of the principle of "proportionality" to be helpful?

<table>
<thead>
<tr>
<th>Yes</th>
<th>41.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>58.2%</td>
</tr>
</tbody>
</table>

Responses: 109 / 176

Is enabling another member to form an opinion appropriate and practicable?

Do you consider section 3.3 ("detail sufficient for another suitably experienced member to form an opinion") to be appropriate and practicable?

<table>
<thead>
<tr>
<th>Yes</th>
<th>54.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>45.3%</td>
</tr>
</tbody>
</table>

Responses: 109 / 176

Subdivided by type of actuary:

- Company/managing agency: 54.7%
- Consultant: 45.3%
- Other: 45.3%
Is analysis of emerging experience appropriate and practicable?

Do you consider section 5 ("Analysis of emerging experience") to be appropriate and practicable?

Yes  | 77.2%
No   | 22.8%

Responses: 92 / 176

Is the section on uncertainty appropriate and practicable?

Do you consider Section 8 ("uncertainty") to be appropriate and practicable?

Yes  | 69.7%
No   | 30.3%

Responses: 89 / 176

How has reserving uncertainty been communicated?

In reserving reports how have you communicated the uncertainty surrounding the results? (Tick all relevant boxes)

- Percentiles of ultimate outcomes: 64.0%
- Sensitivity analysis on key assumptions: 47.0%
- Scenario analysis: 44.8%
- Range of possible outcomes: 38.6%
- Range of reasonable best estimates: 35.3%
- Descriptive summary: 7.2%
- Sensitiv ity analysis on key assumptions: 7.2%
- Percentiles of ultimate outcomes: 7.2%

Other: 2.9%

Responses: 83 / 176
How has quantification of ultimate reserving uncertainty been quantified?

In reserving reports, when you quantified the uncertainty in terms of percentiles or ranges of ultimate outcomes, how have you done this? (tick all relevant boxes)

- Bootstrap 67.6%
- Mack 33.1%
- Other stochastic methods 32.4%
- Bayesian Bornhuetter-Ferguson 18.1%
- Judgement 14.6%
- Other 12.4%

Responses: 74 / 176

Reasons for not quantifying uncertainty?

If you have produced a formal report, but not quantified the uncertainty, please indicate why not (tick all relevant boxes)

- Not practicable 48.2%
- Not helpful to recipient of report 27.1%
- Employer or client explicitly requested me not to do this 22.4%
- Confidentiality reasons 11.6%
- Other 13.6%

Responses: 29 / 176

Conclusions from survey

- Mixed responses to many questions
- Would be very difficult to please everybody
- Some differences between employed/consultants, between reserving/pricing/capital and between those who have produced a GN12 report and those who haven’t
- 36% think revisions have led to a better quality report for end-user (25% worse)
- 67% think revisions have been practicable (or the same) for the actuary (33% not practicable)
Conclusions from survey (cont’d.)

- 73% think the revised GN12 is acceptably clear as to when it applies
- The majority of those who gave an opinion think that the scope for applying judgement in preparing a GN12 report is helpful
- 70% think the uncertainty section is appropriate and practicable
- Enabling another member to form an opinion is not considered to be appropriate or practical by a narrow majority of company actuaries responding

Some personal views

- We will never agree or even reach 90% consensus
- Why? Many different types of work and many different audiences
- Mostly not statutory
- Regulators (and auditors) need more than company management
- Consultants need to do more to protect themselves (but don’t company actuaries as well?)

More personal views

- Reserves are largest and most judgemental item on balance sheet
- Why wouldn’t you want to document the reasons for the judgement?
- But good communication and good documentation are two separate aspects
Options

- No change
- Principles based rather than rules based
- More guidance on how to apply judgement in reporting including examples
- Separate company/consultants
- Separate by type of work
- No guidance

Next steps

- Consideration by GI PSC and GI Board of survey results, GIRO feedback and FSA/Lloyd’s views
- Consider whether and how to seek views of other end-users
- If appropriate, liaison with BAS

Your views?

Discussion