

Five years, and still rocking!

Lis Gibson reports on the response by the profession to the Morris Review in relation to General Insurance reserving; the work of the General Insurance Reserving Issues Task Force (GRIT) and the Reserving Oversight Committee (ROC) to date and plans for the future.

The Beginning

After GRIT's formation in 2004, under the able and charismatic leadership of Tony Jones and thanks to a significant effort from the core team and many inputs from a wider supporting group, the GRIT report "A Change Agenda for Reserving" was finalised in March 2006. It considered how actuaries could improve their approach to reserving. GRIT reached out to the UK profession, and developed thoughts and recommendations which were aimed at facilitating the Profession's debate on reserving.

The GRIT report contained a useful bank of professional knowledge as well as important recommendations for change; arguably the most significant recommendation being the call for greater communication and quantification of uncertainty in reserving.

GRIT Recommendations

The GRIT recommendations can be found on The Actuarial Profession's website in the GRIT report and are grouped under the following headings:

- A. Points of Principle or Issues with Broader Application than GI
- B. Change Existing Actuarial Working Practices
- C. Training Requirements
- D. Research/Moving our methodology forward
- E. Working with Others
- F. Formal Reporting

Of the 34 main recommendations, 11 are the responsibility of the General Insurance Practice Executive Committee (GI PEC) and/or the Board for Actuarial Standards (BAS), being those contained in Sections A and F. GRIT and ROC have been responsible for the other 23 recommendations in B to E, and of these 20 have now been addressed at least in part. We therefore believe it is timely for us to update the profession on our progress.

GRIT and ROC Research and Development

A key impact of GRIT and ROC has been to raise the profile and level of activity on research and development of actuarial reserving in GI, and figure 1 shows the papers and presentations produced to date and the current working parties in progress.

Figure 1

GRIT and ROC papers and previous working parties:

“A Change Agenda for Reserving”:

presented to the Institute of Actuaries on 27 March 2006

“Quantification and reporting of uncertainty for GI reserving”

Paper Finalised August 2007

“Reserving: Making Allowances for Changes in Terms and Conditions and Other Coverage Issues”:

Working Party Paper - GIRO 2007

“Effectiveness of Reserving Methods”:

Interim Report - GIRO 2007

Presentation of Initial Findings - GIRO 2008

“Underwriting and Reserving Cycles”:

Interim Report - GIRO 2007

Working Party Paper - GIRO 2008

“Best Estimates and Reserving Uncertainty”

Working Party Paper - GIRO 2007

Working Party Update - GIRO 2008

“General insurance reserving: Actuarial best estimates and proxy methods”

Paper Finalised January 2008

ROC 2008/2009 session working parties:

Reserving under Solvency II

Effectiveness of reserving methods

Understanding the business better for reserving

These papers can be found on the ROC webpages at
http://www.actuaries.org.uk/general_insurance/giroc

A detailed list of GRIT recommendations and the actions undertaken to date to address each recommendation can be found in the ROC section of the Actuarial Profession’s website. A short summary follows here.

Version 4.0 of GN12 (released in June 2006) addressed a number of the recommendations which were aimed to change existing actuarial working practices, including the need for more rigour, transparency and improved communication in reporting. The ‘Reserving: Making Allowances for Changes in Terms and Conditions and Other Coverage’ working party report included thoughts on how actuaries can understand the business better. Work on the improvement of consistency of applying existing methods has been considered by the

'Effectiveness of Reserving Methods' working party, who presented initial findings at GIRO 2008 and continue to be active.

The new education syllabus has addressed the recommendation to extend the training syllabus. From 2010 there will be two GI Specialist Technical examinations (ST7 and ST8) instead of the current one (ST3). The recommendation to address the demands of professionalism, such as dealing with pressure, has been dealt with via input to the Professionalism course; the GIRO 2008 paper (not ROC) 'Defence against the Dark Arts' also considers how individual behaviour affects reserving and looks to provoke thought and debate about how we use judgement in reserving and the importance of understanding ourselves better as individuals.

An area of significant input and activity has been research on moving GI methodology forward. A variety of working parties have contributed. They have reported on subjects such as reserving uncertainty, making allowances for changes in terms and conditions and other coverage issues and the underwriting and reserving cycles. In some areas the debate has become so well developed that commercial firms have now picked up the baton and are developing commercial tools to address the challenges identified. The hard work of the working parties has been supplemented by commercially funded research projects.

What is next for ROC?

There is more work to do, however, and in the year to come three working parties will continue the work, namely:

Reserving under Solvency II – led by Kendra Felisky – with the purpose to engage the UK actuarial profession in thinking about the implications of Article 76 of the draft directive, which comments on what a best estimate should be equal to and based on under Solvency II.

Effectiveness of Reserving Methods – continuing to be led by Steven Fisher – after a successful presentation at GIRO 2008, the working party will continue to analyse the reserving work provided by the 60+ volunteers and, amongst other work streams, they will begin to investigate how actuaries react to different features of data.

Understanding the Business Better for Reserving – led by Hanna Kam – with the purpose of learning from past experiences of actuaries in reserving, exploring the interaction within the business required for more effective claims reserving and gathering ideas for practical consideration in reserving specific classes.

In addition to the three ongoing working parties ROC will be collating its work to date on uncertainty into a Sessional Meeting Paper, which will be presented to the profession in November.

ROC is a fine example of the Profession bringing together an enormous effort, without commercial incentive. Over 250 GI actuaries have been involved which compares with around 650 qualified GI actuaries in the UK. We have enjoyed a high degree of international collaboration with liaison covering the Casualty Actuarial Society in the US, the Institute of Actuaries of Australia, the Society of Actuaries of Ireland, and the Groupe Consultatif as well as individual contributions

from actuaries from South Africa, Germany, Hong Kong, Switzerland and France. We have a fine record of collaboration in the UK GI Profession, epitomised by the collegiate annual event of GIRO. Long may this outstanding tradition continue as we each repay a little more of our debt to the Profession (and yes, you guessed it, we will be asking for more volunteers).

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