

The Actuarial Profession
making financial sense of the future

GRIT

33rd ANNUAL GIRO CONVENTION

Hilton Vienna Hotel, Am Stadtpark

Agenda

- Goodbye GRIT
- Members of new committee
- Short-term action plan
- IAN
- Resourcing
- Working Parties
- Next steps

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Goodbye GRIT...

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It's a Committee...
Overseeing the process for
change...

Dealing with Reserving...



So what could we possibly call it??



General Insurance
Reserving Oversight Committee

“ROC”



Members of New Committee

- Caroline Barlow
- Peter Copeman
- Lis Gibson
- Ian Hilder
- Tony Jones – Chairman
- Paul Martin
- Richard Winter

Additional Support:

- Neil Hilary
- Peter Stirling
- Peter Matthews
- Simon O'Shea

Short-term action plan

- Reporting of Uncertainty
- Resourcing
- Research – Working Parties

Reporting of uncertainty - IAN

- Who is IAN??
- Issues under consideration
 - Interpretation of existing guidelines
 - Describing the causes of uncertainty
 - The quantitative measure of uncertainty
 - Other areas
- What happens next

Resourcing



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Working Parties

- Effectiveness of reserving methods - Richard Winter
- The implications of the underwriting and reserving cycles for reserving - Caroline Barlow
- Best estimates and estimating uncertainty - Lis Gibson
- Reserving: Making allowance for changes in terms and conditions and other coverage issues - Ian Hilder

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Effectiveness of Reserving Methods

It has been said that an actuary drives down the road by looking in the rear view mirror. This working party aims to confirm that preconception. We aim to discover:

- With the benefit of hindsight, just how well would different methods have performed
- Under which circumstances do specific methods predict the outcome really well (or really badly)
- What effective diagnostics can you use to make sure your methodology is robust

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Effectiveness of Reserving Methods

But that all sounded a bit boring

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Effectiveness of Reserving Methods

The real questions are

- Which actuarial method(s) are the root of all evil and should never be used under any circumstance
- Which methods provide the answer to life, the universe and everything
- Do the actuarial methods do a better job than "reserving by eye"?
- How can you be more certain that you are doing something sensible, and better understand the likely limitations and flaws

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The implications of the underwriting and reserving cycles for reserving

PROBLEM:

The underwriting cycle gives rise to features which may not be sufficiently recognised by standard approaches:

- Lengthening of claim development pattern in soft market
- Rate indices failing to capture degree of rate softening

This can result in a "perfect storm" of a disaster:

- Worsening experience hidden by longer tail
- Initial expected loss ratios inadequate
- Expected ultimate loss ratios deteriorate over time as actual experience emerges
- Reserving process fails to detect underlying trend

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The implications of the underwriting and reserving cycles for reserving

TERMS OF REFERENCE

- Review previous work on this topic (2003 GIRO WP, GRIT paper, etc) and identify areas for further research
- Investigate further the effect of the u/w cycle on traditional reserving methods and how to compensate for this
- Undertake/commission research to
 - Enhance understanding of drivers of reserving cycle
 - Develop actuarial methods for dealing with the u/w cycle, eg cycle invariant curve fitting
 - Design and validate rate indices
- Consider whether actuarial guidance on this topic would be beneficial

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Best Estimates and Estimating Uncertainty

Structure of the Working Party Chair – Lis Gibson

Committee

- 6-8 FIA/FFA
- Make decisions and report on progress

Working Group

- Open to anyone
- Carry out research and analysis

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Best Estimates and Estimating Uncertainty Terms of Reference

Things to Think About:

- What does/should “best estimate” mean?
- Uncertainty of outcome
 - Process, model, parameter
- How do we explain our uncertainty methods
 - Do we need special vocabulary?
- Recommendations for future R&D

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Best Estimates and Estimating Uncertainty Terms of Reference

Things to Do:

- Create shortlist of methods publicly available
- Not looking at particular software applications
- Look into popularity of use and common variants
- Catalogue features, strengths/weaknesses
- Tests the methods against data sets

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Making Allowance for Terms & Conditions

Motivation: Changes in T&Cs can change & affect liabilities of insurance contracts

- Profitability
- Development profile
- Shape of claims distribution

Quantification of these effects needs to be incorporated into reserving methodology

Making Allowance for Terms & Conditions: Terms of Reference

Focus

- Key lines where impact material – London Market

State of Play

- Identify what has changed in the past, where we now are, and how to track going forwards

Toolkit

- Develop methodologies/benchmarks for quantification of impact of changes to use in reserving

Making Allowance for Terms & Conditions

Structure of Working Party

- Chair – Ian Hilder
- 8-10 FIA/FFA
- Mix of Consulting/In-House experience
- London Market focus

Regular progress reported into ROC

Next steps

- Training
 - Developing material
 - Extension to professionalism course
- Establish links with other professional bodies
 - CAS, auditors etc.
- Engage with industry
 - Raise profile of the profession
 - Begin programme of communication
 - Uncertainty
 - Data
