Agenda for today

- Overview of GRIT
- Summary of key issues
- Summary of recommendations
- Implementation

GRITERS

- Core Team Membership:
  Peter Copeman, Lis Gibson, Tony Jones, Nick Line,
  Julian Lowe, Paul Martin, Peter Matthews, Dave Powell
Why is GRIT important

- Fallout from Reserve Cycle Working Party
- ‘Bad Press’
- We are not confident in each other
- Life and Pensions have had problems

Talking with you

- actuarial e-questionnaire
- GIRO 2004
- Current Issues Seminar
- Staple Inn July 18
- Consultation Paper 2005
- GIRO 2005
- Final Report

GRIT Table of Contents

- Foreword
- Section 1: Overview
- Section 2: Creating GRIT’s Work Programme
- Section 3: Communicating with our Stakeholders
- Section 4: Applying existing methods more consistently
- Section 5: Understanding the Business Better
- Section 6: Helping Actuaries Manage and Communicate Uncertainty Better
- Section 7: Making Our Methodology More Cycle Proof
- Section 8: Behavioural Issues and Third Party Influence
- Section 9: Measuring the Past
- Section 10: Other Topics
- Appendix A: Questionnaire and summary results
- Appendix B: Understanding the Business Better
- Appendix C: GRIT’s Terms of Reference
Scope

- ‘Actuarial Assessment’ not ‘Selection for Purpose’
- Reserves definition
- Morris
- General Communication Skills

Good News

- Actuaries have a very strong brand
- Reserving is interesting and exciting. It is the place to be.

Key Issues: 1

- We need to make reserving more transparent
- Provide more insight into the key reserving issues and assumptions
Key Issue: 2

- We need to give more information on the uncertainty in reserves.
- Provide a quantitative indication of the range of outcomes

Key Issue: 3

- Understanding the business better should be an integral part of the actuarial methodology

Key Issue: 4

- Recommendations for applying standard reserving methods more consistently
Key Issue: 5

- The underwriting cycle does exist, and this has significant implications for reserving.

Key Issue: 6

- Need to focus on helping actuaries to counterbalance the pressure that they experience

Key Non-Issue: 1

- More sophisticated mathematical/statistical methods not a priority currently
- Focus must be:
  - Business understanding
  - Allowing for the reserving cycle
  - More sophisticated diagnostics
  - Data
  - Exposure based reserving methods
Conclusions: What we can learn from the Past

- Not a lot
- Actuaries think reserving OK
- How can we monitor ourselves in future
- Do reserves deteriorate?
- Reasons for run-off deficits

Uncertainty – Key Issues

- Uncertainty not understood
  - By our stakeholders
  - By us?
- Confusing communication
  - Best estimate
  - Reasonable range
- How do we measure uncertainty?
- Mandatory Quantification

Uncertainty - Recommendations

- Introduce a clear and common vocabulary
  - Some illustrative definitions in the report for discussion
- Amend professional guidance to beef up communication of uncertainty
- Compulsory to provide “some quantitative measure of uncertainty in outcome” in all formal reserving reporting
- Target 2007 for implementation
Understanding the Business Better

- A lot more we should do
  - Policy database diagnostics
  - Claims database diagnostics
  - Major Open Risks
  - Underwriting
  - Claims
  - Reinsurance
  - Processing and data integrity
- Terms and Conditions

More Consistency in our Methods

- Improve use of common reserving methods
- Controls and documentation of reserving process
- Testing the data
- Extend training syllabus and CPD
- More Specialised GI qualification?
- Inventory of market-level exposure reserving

Enhancing our Reserving Methods

- Underwriting cycle affects claims. Beware the perfect storm.
- Claims and premiums correlated
- No-one researching impact of cycle
- Proposed method, needs more research
- GN12 requirement on cycle.
Behaviour and Pressure

- Actuaries need to understand human nature
- Buddy systems
- Talk to accountants about audits
- Play actuaries and underwriters
- Share experiences more
- Evidence beyond underwriter assertions
- Better back casting
- Track yourself?

Implementation

- External Consultation?
- PR?
- A change management process
- Reserving will be more work
- GIB sub-group devoted to reserving
- Communication programme with the industry
- Coordinate with CAS

Feedback

- Feedback please
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