32nd ANNUAL GIRO CONVENTION
18-21 October 2005, The Imperial Hotel, Blackpool

Lloyd's Issues

Henry Johnson, Lloyd's

Agenda

- In and Out
- Annual Accounting and Guidance Notes
- Reserving
- Liability Classes Project
- Katrina
- ICAAs
- Lloyd's actuarial seminar
In and Out

- In: Jerome Kirk
  - Recruited from KWELM
  - Focus on non-capital issues
  - Reserving but also new projects
- In: several students
  - Increased support for Jerome and on capital matters
  - Overall team expected to exceed 20 by end 2006
- Out: Peter Tavner
  - Amlin’s gain!

Annual Accounting and Guidance Notes

- Valuation of Liabilities
- Opinions and GN20
- GN 18, 33
- SAO timetable

Annual Accounting and Guidance Notes: Valuation of Liabilities

- Lloyd’s AA is based on UK GAAP but with some differences:
  - No Discounting
  - Written Premium
    - Premium is not written until the policy is bound
    - e.g. a policy that will incept after the end of the year under a binder that itself has commenced, is now not counted as written
    - so a year of account can have premiums written in more than one calendar year
    - but note may still need URP
Annual Accounting and Guidance Notes:
Valuation of Liabilities (2)

- **Unearned Premium Reserve (UPR) and DAC**
  - Lloyd's will expect actuaries to take UPR and DAC as given

- **Unexpired Risk Provisions (URP)**
  - "Managed together" - Lloyd's will accept syndicate level
  - discounting not permitted for solvency
  - in common with UK GAAP, must consider contracted-for
  - premiums incepting after the Balance Sheet

- **Non-monetary items and exchange rates**
  - Year End closing rates must be used for all liabilities and
  - reinsurers' share irrespective of accounting treatment for non-
  - monetary items such as UPR or DAC

Annual Accounting and Guidance Notes:
Valuation of Liabilities (3)

- **Future Premium**
  - No longer subtracted from provisions

- **Future R/I costs**
  - Allocate to future years at least in proportion to UPR

- **Reinstatement premiums**
  - Inwards not netted off claims
  - Outwards usually netted off recoveries, but follow
  - treatment chosen by accountants
  - Possibility of mismatch

Annual Accounting and Guidance Notes:
UPR and DAC

- Opinion remains a one way test on total technical
  provisions for solvency but
  
  - … “allowing for accounting requirements,” so …
  
  - … no cross subsidy between Earned and Uneared

- Considered requiring actuary to assess basis for
  calculating UPR
  
  - But checking basis for DAC too much extra scope

- Lloyd's will tell actuaries that they may rely on UPR and
  DAC as stated (and audited)

- Actuarial Profession needs to consider this
Annual Accounting and Guidance Notes:
URP “managed together” and on unwritten premium

- Lloyd’s will tell managing agents that they may take whole open year as managed together
- Actuaries may follow Agent’s decision (in Lloyd’s view)
- Note need for URP on premiums not yet written, but contracted for, if considered to be inadequate

Annual Accounting and Guidance Notes:
GN20

- Draft version consistent with Valuation of Liabilities
- Will expose for comment in November
- Should become Guidance in January
- Admittedly tight

Annual Accounting and Guidance Notes:
GN33, GN18

- GN33 draft parallels GN20
- Minimal extra changes
  - though more radical changes may be needed eventually, following US requirements
  - Kendra Felisky leading
- GN18: no change for now
  - Change with GN33 possibly for year end 2006
Year End timetable: SAOs later and some flexibility

Worldwide
- Solvency returns and SAO:
  Thurs 2 March 2006
- Reports:
  Thurs 28 April 2006 (tbc) (direct to MRRU)

US situs
- US opinion and electronic US situs packs:
  Fri 10 February 2006 (tbc)
- US Reports:
  Thurs 28 April 2006 (tbc) (direct to MRRU)

Reserving
- Reviewed 2004 reports in some detail
  - Will feed back to consultants ahead of 2005 report writing
  - Detail required of reports will be clarified in new GN12
- More proactive and more resource going forward
  - Market Reporting responsibility, using multi-discipline approach
  - Cf ICA approach
  - Actuarial resource seen as key

Reserving – Liability claims
- Project started Sept 2005 in concert with Claims (David Owen)
- Review focus on non-cat claims
- Market actuaries and consultants involved
- Fed data back to Agents
- Requesting data from Agents as at Q3
  - To include "flight path" – cf AvE
  - Timetable?
Reserving - Katrina

- Working with Claims department (Kent Chaplin)
- Consider "task force" approach (like WTC)
- Consider special wordings? (like WTC)

ICA Update

- "Teams" approach with Steering Group
- Has operated well
- Actuarial input has been influential in most ICAs and in review
- On schedule to review all ICAs to timetable
  - Katrina disrupted this, but expect to accommodate changed ICAs
  - Lloyd's asked for increases to about half of ICAs submitted
  - Economic Capital Uplift caused some confusion

ICA 2007 YOA

- Begun to consider design of system for 2006 calendar year
- May look at methods over longer time-span and numbers more briefly later in the year
- Need to co-ordinate with any changes eg to Economic Capital Uplift
Lloyd's actuarial seminar

- 18 November, half-day (0900-1230 plus lunch)
- At Lloyd's
- All welcome (free!)
  - Places limited to 80 so may need to restrict
- Current issues, specialist sessions, panel discussion
- See flyer