GIRO Convention
23-26 September 2008
Hilton Sorrento Palace
Workshop B11 – Lloyd’s Issues
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Agenda

- Introduction & PMDP – Henry
- Capital & ICAs - Veekash
- Claims, Reserving & Solvency II – Jerome
- Lloyd’s Interim Results (25th September)
PMDP - Goals

- Performance Management Data Project
- Collection of data:
  - Cumulative premium and rate change
  - New, renewed and non-renewed business
  - Risk level
  - Monthly
- Main benefits:
  - Accuracy of information
  - Syndicate aggregation to support business planning & capital setting
  - Market aggregation to understand conditions and trends
  - Data extends beyond PIM (e.g. geographical region)

PMDP - Current Status

- Pilot completed (data from 10 agents)
- Pilot very useful
  - Confirm feasibility
  - Identify data issues
  - Improve data validation
  - Results support more detail
- Development of system and MI
- Roll out in progress

PMDP - Next Steps

- Complete roll out meetings with all agents
- Finalise data collection and MI processes
- Testing Nov-Dec 2008
- 1 January 2009 – key date
- Mandatory UAT Q1 2009
- First submission April 2009 - data for Q1 2009
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Brief Update

- Syndicate ICA Reviews
- Lloyd’s Society ICA
- Capital Systems Upgrade

Syndicate ICA Reviews

- ICAs for active Syndicates being reviewed
- Generally premiums down, loss ratios up and ICAs as a % of net premium up
- Modelling techniques similar to previous year
- Specific questions on Solvency II
The Lloyd’s Society ICA

- 2008 ICA reviewed and accepted
- Work starts on the 2009 review as soon as we have agreed the Syndicate ICAs – November 2008
- Policy decisions made as soon as we have an idea of the relationship between central and member capital:
  - Economic Capital Uplift
  - Minimum Capital Requirement
- The 2010 LSICA will be modelled using the new tool

Capital Systems Upgrade

- Project started April 2007
- Complete revamp of all capital setting tools used in Market Reserving Capital:
  - Syndicate ICA benchmark tool
  - Members Capital Allocation
  - Lloyd’s Society
- Interlinked to form a capital advantages platform
- Meet Solvency II actuarial modelling requirements
- Market and external quality assurance provided over time

CSU – Syndicate ICA Benchmark

- New tool will be used alongside RBC to benchmark the final submissions.
- Assesses insurance risk using the Syndicate Business Forecast information
- Market assumptions
- Can allow for Syndicate specific assumption
- Will be used for new syndicates
- And to benchmark new lines of business
- Will be expanded for other FSA risk groups over time
CSU – Member Capital Allocation

- April 2009 delivery
- Web based application next summer
- The new system will be more robust and flexible
- Market consultation nearer the time

CSU – Lloyd’s Society ICA

- November 2009 delivery
- On the same platform as the benchmark and MCAT models
- Take into account internal model approval requirements during the build
- One platform: Capital Advantages benefit from Lloyd’s Three Year Plan can more easily be tested
- Market input welcome

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Claims
- increased large risk loss activity in 2008

- Several medium to large Property losses most notably:
  - Severstal Steel (PD and BI)
  - Sunrise Propane Gases explosion in Toronto ("Buncefield + Asbestos")
  - Sempra Energy alleged to have caused California wildfires
- Continued poor fortunes in the Aviation market:
  - BA undershoot runway at Heathrow
  - Spanair crash in Madrid
  - Hopes that rating action will follow at next renewals

Claims
- sub-prime/credit crunch/liability

- "Sub-prime" - not a large issue for Lloyd’s to date
- Wider credit crunch / liquidity issues have currently not generated significant claims to Lloyd’s
- The general state of world economies could lead to increased claim activity
  - Have seen an increase in liability claim numbers

Claims
- sub-prime/credit crunch/liability (2)

[Graph showing non-US P/I claims count by year of account]

Source: Lloyd’s FPD Claims. Note this will be affected by ECF wave in respect to December only.
Claims - 2008 Hurricanes - Ike

- Most severe from insurance point
  - Top 5 US losses
- Current model industry estimates $7-12bn loss – combined onshore and offshore
- Mix of loss drivers
  - Strong Cat 2 storm – footprint larger than Katrina
  - Number of platforms affected given size of footprint
  - Cost could be higher due to price of oil
  - Sea surge component
  - Uncertainty re flooding - NFIP

Claims - 2008 Hurricanes - Gustav

- Gustav is not looking as severe – “Took a late turn”
- Losses are expected to be manageable
- Lines mainly expected to be impacted are:
  - Property (mainly primary)
  - Energy – not as adverse as initially expected
- Lloyd’s have issued a MLR for both Ike & Gustav

Reserving Cycles – they exist

We can track the movement in ULRs set after 2 years to the current position:

![Graph showing market gross ULR relative movement from Dev Year 2 to Y/E 2007]
Reserving Cycles
– link to underwriting cycle
Overlay the underwriting cycle onto the reserving cycle:

![Graph showing Comparison of Reserving and Underwriting Cycle](image)

Reserving Cycles
– dominated by casualty
The movement on casualty is more extreme:

![Graph showing Market Gross ULR Relative Movement from Dev Year 2 to Y/E 2007 for Casualty and Whole Market Excl Casualty](image)

Reserving Cycles
– other major classes
The reserving cycle does exist in other major classes:

![Graph showing Market Gross ULR Relative Movement from Dev Year 2 to Y/E 2007 for Property (D&F) and UK Motor](image)
Reserving Cycles
- Lloyd’s role

- Market reserving will be focusing on reserving cycles at year-end.
- Will be asking managing agents:
  - Are you aware of reserving cycles?
  - Have you made allowance for them in year-end reserves?

Year-end 2008
- Valuation of Liabilities Rules

- 2008 Valuation of Liabilities / FAQs expected to be posted on Lloyds.com next week
- Some cosmetic changes but essentially the same
- Basis for sign-off unchanged on Worldwide and US opinions
- Dates for SAOs and reports similar to this year

Year-end 2008
- SAO reports

- The reports accompanying the SAOs were of a high standard again this year
- Notable areas of change:
  - Improved description of large loss wording selections
  - More quantification of uncertainty
- Key area for improvement is the analysis of emerging experience:
  - 91% of reports included a comparison of ultimates
  - Only 38% of reports included an Actual vs. Expected analysis
Year-end 2008 - SAO reports

If you are thinking of signing opinion then come and have a chat
Currently propose doing signing actuaries round table forum – probably December
Reminder that electronic copies of reports are very useful

Solvency II - update

Central project at Corporation
Completed QIS4 as did a number of agents
Attention turning to internal models:
  - Embedding
  - Approval
  - Documentation
Role of the actuary
Major issue for everyone