More Than The Sum of the Parts

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Aspen Insurance Holdings

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Aspen – Who We Are

- Bermuda-domiciled Specialty Insurer and Reinsurer
- $2.6 billion gross written premiums in 2012
- Industry-leading underwriting expertise

Underwriting Specialty Insurance

- Is the need for actuarial expertise greater or lesser for underwriting specialty risks compared to more homogenous portfolios such as life, motor?
- Do not necessarily have the predictability of relying on past experience to give a guide to the future.
- How do you allow for things that haven’t happened yet?
  - Probabilistic v experienced based rating
  - Problem solving v evidence based
Two Types of Underwriter?

• The discriminating salesman
  – Product tightly defined from the centre including coverage, exclusions, pre coded pricing methodology, focus on overall portfolio and sales/marketing

• The technically minded entrepreneur
  – Business builder, entrepreneurs, focus in detail risk by risk, classic London market model

• Often very different in character and approach
• For actuaries - key to adapt style of working to each type

The Value of Actuaries

• Capital Modelling
  – Overall capital requirements
  – Allocation for ROE maximisation and pricing
  – Portfolio construction, optimisation of risk/reward and efficient selection of exposures, risk retention, risk transfer

• Pricing
  – Providing and maintaining tools for underwriters
  – Individual risk pricing/more complex deals
  – Key portfolio performance metrics (price adequacy, change)

• Reserving
  – Seeking stable results on volatile business
  – Early warning system of trends/emerging experience
The Actuarial Mind?

“Algorithms, driven by vast troves of data, are the new power brokers in society, both in the corporate world as well as in government.

They have biases like the rest of us. And they make mistakes. But they’re opaque, hiding their secrets behind layers of complexity.

How can we deal with the power that algorithms may exert on us?

How can we better understand where they might be wronging us?”

Nicholas Diakopoulos, Rage Against the Algorithms, The Atlantic

General Observations of Actuaries

• Communication, at the right level, know your audience, help with decision making

• Management and leadership

• Logical, rigorous thought process is valuable, anecdote can be dangerous

• Risks of overly linear thinking. Answer 7.22324 or 0 to 15

• Be clear on the limitations of model and assumptions
  – Models can’t be better than the assumptions and data
  – Be more sceptical, models often ‘wrong’ in the past…
  – False sense of security around point estimates