GIROC Survey Findings
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GIROC Survey 2013/14

• GRIT 2004 to 2006
  – Range of recommendations

• Aim of 2013 study:
  – what has changed since GRIT?
  – are there any barriers (if any) that may have prevented the development or uptake of new techniques
So who did we talk to?

**Practitioners**
- Personal lines Reserving Actuaries
- London Market Reserving Actuaries

**Stakeholders**
- Ratings agencies
- Regulatory bodies
- Other Stakeholder Groups (CRO Forum, CFO forum etc.)
- Investment analysts
- Executive and non-executive directors/Senior management
GIROC Survey

• High level findings
  – How have we moved on since GRIT?
• Stakeholder views
• Topics for debate
Where is most of the actuarial effort spent?

Personal Lines
13 respondents

London Market
11 respondents

Analysis
Communicating

Data
Cleaning data
Aggregating

Analysis
Communicating

Despite improvements in data for majority, through:
- Data warehouses
- Dedicated IT teams
- Pushed to finance

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Where should the effort be spent?

**Personal Lines**

**Analysis**

**Communicating**

**London Market**

Less time on data
- Even those who have automated, still have improvements to make

More time on analysis

**Communication**

😊 too many splits
😊 diverse business demands
😊 parent requirements

😊 some glad of more time for this

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Key constraints

Personal Lines
- Time
- Resources
- Granularity

London Market
- Time
- Data
- SII
- Resources
- Nothing
Understanding the business better

Personal lines

• Virtually all said good or very good

• Issue driven
  – Demand from business

• The rise of diagnostics
# Understanding the business better

## London Market

## Qualitative data

<table>
<thead>
<tr>
<th>Prior loss ratios</th>
<th>Rate changes</th>
<th>Discussions with underwriters</th>
</tr>
</thead>
<tbody>
<tr>
<td>– most involve interaction with business plan but in different ways</td>
<td>-but are either</td>
<td></td>
</tr>
<tr>
<td>• from plan</td>
<td>• not well filled in, or</td>
<td>• Metrics</td>
</tr>
<tr>
<td>• to feed into plan</td>
<td>• part of reliable model for monitoring adequacy</td>
<td>• SOX</td>
</tr>
<tr>
<td>• are knowingly different</td>
<td></td>
<td>• Embedded actuaries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– pricing and reserving role</td>
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</tbody>
</table>

All doing but in different ways
Uncertainty

- Bootstrap - most common

- Some use bootstrap to start with but then introduce judgement, e.g. review CoVs

- Majority also use stress and scenarios too

Other

- Capital model
- ICRFS
- Uncertainty around development factors
- Frequency and severity/large loss distributions
- CoVs by u/w yr – back test

Sizeable minority actively do not bootstrap at all

25%
20%
Communicating uncertainty

Key concerns – scenarios

Percentiles

RAG alerts by class

Demand from management

Scenarios that would get you to percentiles

Still more work to be done
Methodology

Chain Ladder and Bornhuetter Ferguson still king

- Average cost per claim
- Bespoke e.g. asbestos/PPOs/exposure based – needs driven

Personal lines

- Diagnostics
- Large claims modelling
- Granular reserving

Question of resources to try out - balance with how much value is it going to add

Want proven and pragmatic methods - no use sitting in a theoretical box

No desire for new methods

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GIROC Survey

• High level findings
  – How have we moved on since GRIT?

• Stakeholder views

• Topics for debate
What we’ve asked to stakeholders

1. How do you use actuarial reserving estimates?
2. What do you look for from actuaries/how do you see the reserving role?
3. How well are actuaries delivering this?
4. Do you have any examples of good and/or bad practice you have encountered (specify how recent this is).
5. Have you seen any changes in reserve reporting in the last seven years or so?
6. Would you like to see more investment in reserve research?
How do you use actuarial reserving estimates?

• Direct users find them useful to manage the business
  – Pricing
  – Capital management
  – Strategy

• Indirect users find them useful for:
  – Statutory accounts
  – Portfolio management
  – Profitability/sustainability study
Actuaries role and delivery (1)

For all participants, actuaries are…

• Core to the business…

  …but not the only ones

• Independent & transparent

• High quality/standards technical experts
  • Whistleblowers

But…
Actuaries role and delivery (2)

For nearly all participants, development could be achieved in
- Being challenging and challengeable
- Communicating uncertainty
- Being forward looking (e.g. BMA skills)

Divergence of participants’ views on…

… how structurally independent actuaries should be!
Improvements in the last 7 years?

Yes!!

… Better data drives better estimate
… Better modelling in some sectors
… Better communication but still to perfect
… Better training

But spending time on research is not consensual!
Summary

• Some questions remain, as participants’ view diverge:
  – How practically independent?
  – Do we need to spend more time on research?

• But being forward looking and improving communication could be the next step according to nearly all participants!
GIROC Survey

• High level findings
  – How have we moved on since GRIT?

• Stakeholder views

• Topics for debate
Actuarial structure

- Understanding the data
- Ensures best estimate
- Independence?
- Feed into business
Should reserving actuaries be more forward looking?

- Low engagement in strategy
- See things early
- Feed business planning

Motor market experience
Booking reserves

- Investment markets
- Impact of Lloyds’ benchmarks
- SII – measure of risk margin?
So where are we now?

- Developments in data (and communication)
- GRIT recommendations have had an influence
- London market practice varies considerably
- Little appetite for new methods

And where are we going?

- London Market: Data
- Personal Lines: Individual claims reserving
- Uncertainty
- Forward looking role?
- Reporting

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Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.