Reserving – How low can you go?

Joe Monk
Reserving – How low can you go?

Sarah MacDonnell
Development of Mid-Point Forecasts

18 mths
24 mths
27 mths
30 mths
33 mths
Close

1997
1998
1999
2000
2001
2002
### Monetary amount of Deterioration

<table>
<thead>
<tr>
<th>Year of Account</th>
<th>18-36 Month Deterioration (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>-452</td>
</tr>
<tr>
<td>1998</td>
<td>-694</td>
</tr>
<tr>
<td>1999</td>
<td>-1,048</td>
</tr>
<tr>
<td>2000</td>
<td>-1,498</td>
</tr>
<tr>
<td>2001</td>
<td>-339</td>
</tr>
<tr>
<td>2002 (to 30 months)</td>
<td>-27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-4,058</strong></td>
</tr>
</tbody>
</table>
The "Outperformers"

- SA Meacock
- Chaucer
- Kiln
- Amlin
- Beazley

- KGM
- Atrium
- Wellington
- Hardy
The Hypothesis

“A strong, independent Board, combined with robust underwriting disciplines and controls, are more important drivers of reserve adequacy than are actuarial review and sign-off”
S&P Report Blasts Actuaries

Insurance Actuaries – A Crisis of Credibility

“Actuaries are signing off on reserves that turn out to be wildly inaccurate”

“It’s an abysmal track record”
Underwriting profit of £2bn (10% of premium) driven by favourable prior year development...

2014 Combined ratio %

- AY excl. Major claims: 93.1%
- Major claims: 3.4%
- Prior year reserve movements: (8.1%)
- Calendar year: 88.4%

2015 Combined ratio %

- AY excl. Major claims: 94.4%
- Major claims: 3.5%
- Prior year reserve movements: (7.9%)
- Calendar year: 90.0%

Source: Lloyd's pro forma financial statements, 31 Dec 2015, 2014 results reflect new UK GAAP and supersede results reported last year, AY: accident year, Premium refers to net earned premium.
Current conditions & trends in the market

Reserving Reviews

- PRA Reserving Adequacy Framework - Overview

Diagram:
- Governance
- Data
- Numbers
- Process
- Methodology
Current conditions & trends in the market

PRA Reserving Adequacy Framework - Governance

- Is the right expertise and regular involvement from the top in place for reserving?

<table>
<thead>
<tr>
<th>Areas of consideration</th>
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</thead>
<tbody>
<tr>
<td><strong>Board effectiveness</strong></td>
</tr>
<tr>
<td>- Are Board members and NEDs able to understand and articulate how they satisfy themselves on fitness of reserving?</td>
</tr>
<tr>
<td>- Is there a universally clear understanding of the assumptions?</td>
</tr>
<tr>
<td><strong>Organograms for reserving</strong></td>
</tr>
<tr>
<td>- Is there a clear reserving governance structure? Is the right expertise present e.g. CRO?</td>
</tr>
<tr>
<td><strong>Reserving policy including risk appetite</strong></td>
</tr>
<tr>
<td>- Goal of a best practice reserving function is to produce unbiased estimates and to communicate the uncertainty within these estimates to the Board.</td>
</tr>
<tr>
<td><strong>Board members, Chair of Audit Committee, Head of Reserving, Reserving Actuary, Head of Claims</strong></td>
</tr>
<tr>
<td>- Level of personal credibility of the Chief Actuary and the standing of the reserving function within the organisation.</td>
</tr>
</tbody>
</table>

26 September 2016
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.