2018 Reserving Issues
Lessons from the past for 2019 and beyond
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What we will cover today

• Summary of 2018 year end
• Have we seen this sort of experience before?
• Actuarial sign offs
• Challenge and pressures on reserving actuaries
• Professional Standards and their impact on reserving actuaries
• What might 2019 year end have in store
Summary of Market for 2018 Year End

- London Market continued to see adverse results in 2018
- Reserve releases still shown but the underlying picture is more adverse

- Cat development from 2017 events (Harvey, Irma, Maria)
- New catastrophes – Jebi, Florence, Michael, Californian Wildfires …
- Adverse liability development – Financial Institutions & other areas
- Pressure on Rates – Validity of Rate Changes / Rate Monitoring
- Ogden Rate change anticipation (Civil Liability Bill passed in Dec 2018)
- Motor BI issues
- Continued high inflation in certain areas (eg Motor TPPD) – future inflation?
- Capacity still readily available in the market
Have we seen this before?

Development of Mid-Point Forecasts 1997 to 2002

Actuarial Reserve Sign-off

- Internal
- External (SAOs)
- External (Audit)
Reducing the Reserves

Impact of External Pressures on Reserve Estimates

- Is Regulatory Pressure increasing?
  - PRA “Dear CEO letters”
  - Lloyd’s “Dear CEO and Dear Chief Actuary letters”
  - Section 166 reviews
  - Stronger audit processes?
  - Loss ratios – business plan vs capital model vs reserving basis

- How does this compare to the late 1990s?
Challenge/Pressure on Reserving Actuaries

“You need to be more commercial”

“But you don’t know the number with certainty so the management number is just as valid”

“The difference between the management picks and your numbers isn’t that large – you could just reduce your IBNR by 10%”.

Challenge/Pressure on Reserving Actuaries

“How can you know more than our internal actuarial team? – your reserves are much higher than theirs”

“It’s too early to make that decision, we need to see how this develops in future to see if you are right”

“You need to be more flexible in your approach. We are thinking about going out to tender next year / Being flexible and commercial is key if you want to be promoted to the Board”

“If we go with your numbers we’ll have to make some redundancies – is that what you really want?”
Professional Standards

Actuaries Code (new version 18 May 2019):

- **Integrity** – Members must act honestly and with integrity.
- **Competence and care** – Members must carry out work competently and with care.
- **Impartiality** – Members must ensure that their professional judgement is not compromised, and cannot reasonably be seen to be compromised, by bias, conflict of interest, or the undue influence of others.
- **Compliance** – Members must comply with all relevant legal, regulatory and professional requirements.
- **Speaking up** - Members should speak up if they believe, or have reasonable cause to believe, that a course of action is unethical or is unlawful.
- **Communication** – Members must communicate appropriately

TAS 100 & 200

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Professional Standards

- When does reasonable challenge become unfair pressure?
- What happens if you get estimates wrong?
  - Fine?
  - Credibility?
  - Explaining work done now several years into the future
You are not on your own …

• Consider what support network you have available …
  – Other actuaries in your firm
  – Non actuaries in your firm
  – External advisors (both actuaries and non-actuaries)
  – External auditors
  – Informal relationships (Eg ex colleagues)
  – IFoA

• With external signing actuary what role does the internal actuary play?

2019 Year End and Beyond – similar to 2018?

• Cat development from 2017 / 2018 events
• New catastrophe events?
• Continued Liability development
• Inflation
• Brexit
• Rate Changes / Rate Monitoring
• Ogden Rate change by August 2019
• Motor BI issues (upcoming Whiplash reforms)
• FCA pricing reforms?
Summary

• It is difficult being a reserving actuary with both commercial and regulatory pressures
• The 2019 year-end is going to be tough
• We can learn the lessons from the past
• Get support professionally both within your own firm and externally

Questions

Comments

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