Update from The Bank of England

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Chief Actuary for General Insurance

24 October 2018
Content

- Our work with the Chief Actuary community
- “Dear Chief Actuary” letters
  - the actuarial function
  - reserving
- Oversight of firms’ actuarial function activities
- Insights from other technical work
- Future areas of focus
- Q&A
Nearing end of 3rd year of “existence”

- a technical function
- not a reserved role
- relevant knowledge and experience
Our work with the “Chief Actuary” community

What do we do...

How we can influence...

How you can influence...

Chief Actuary forum
Successful first event held July 2018 on creation of Chief Actuary Community

Dear Chief Actuary letters
First letter in Feb 2018 on content categories. Second letter Sept 2018 on reserving, board engagement and underwriting

External Events
We have spoken at numerous industry events to share our policies and listen to views, including IAPA, events, Lloyd’s and IFAn

Individual Meetings
James Driscoll met with individual Chief Actuaries to discuss their experiences

Reviewing AFRs
Reviewed AFRs for large firms to assess for compliance, potential issues, and usefulness to Board

Individual Firm Feedback
Provided feedback on AFR reviews to individual firms

Colour palette for PowerPoint presentations

Dark blue
R17 G52 B88

Gold
R217 G171 B22

Mid blue
R64 G150 B184

Secondary colour palette

Light grey
R220 G221 B217

Pea green
R121 G163 B42

Forest green
R0 G132 B82

Bottle green
R17 G179 B162

Cyan
R0 G156 B200

Light blue
R124 G179 B225

Violet
R128 G118 B207

Purple
R143 G70 B147

Fuscia
R233 G69 B140

Red
R200 G30 B69

Orange
R238 G116 29
Dear Chief Actuary letters – the actuarial function

- Key messages coming out from our discussions with chief actuaries
  - Board engagement
    - Generally seen as good but could be improved upon
  - Technical areas
    - Tend to be more comfortable with reserving and reinsurance requirements than underwriting
  - AFRs are still seen by many firms as a regulatory requirement
**Dear Chief Actuary letters– Reserving work**

**Example - Recent years vs. prior years ultimate loss ratios**

Source: Figure 1 of PRA’s Dear Chief Actuary Letter dated 17 September 2018. Derived from aggregated SII data extracted from National Specific Templates for a sample of firms reporting on an accident year basis.
Dear Chief Actuary letters – Reserving work

Source: Figure 2 of PRA’s Dear Chief Actuary Letter dated 17 September 2018. Analysis of gross ultimate claim triangulations from publicly available annual report and accounts as at year end 2017 for a sample of firms included within our review. See Dear Chief Actuary September letter for further details.
PRA’s oversight of firms’ actuarial function activities

PRA’s assessment

Firm’s oversight tasks

Firm’s execution tasks

October 2018
PRA’s oversight of firms’ actuarial function activities

PRA’s comparative analysis across firms

Firm A  Firm B  Firm C  .....  Firm X

PRA’s core activities - quality of execution and robustness of oversight
Insights from PRA’s other technical work

- General Insurance Stress Test (GIST)
- Monitoring the Market (MtM)
- Internal Model Output (IMO)
- Assessment of exposure management in firms
- External factors – climate change
Insights ...GIST

• Participants to past exercises (2015 and 2017) have been
  – largest firms only (Category 1 and 2) & General Insurers only

• For future exercises we are considering
  – extending to largest Life Insurers albeit in a more limited manner
  – possibly including smaller firms and specific sectors

• Additional considerations
  – Cost Benefit Analysis: additional supervisory insights vs. burden on firms (given learnings in 2015 & 2017)
  – avoid duplication with similar exercises, or where data is available through other means: in the past, scope of PRA insurance stress testing did not include Life insurers as their main risks are fairly systemic and coverage through EIOPA stress tests
  – ability to obtain a consistent view across the whole financial sector
Insights .... GIST

GIST 2017: Nat Cat events footprints
Insights …MtM

Source: Chart 3 and 4 are from the PRA’s Dear CEO Letter dated 31 May 2018.
Insights … IMO SCR movements

Movements in Internal Model Firms Total 1Yr SCR

2016YE  Chg in res risk  Chg in prem risk  Chg in mkt risk  Chg in credit risk  Chg in Op risk  Chg in other risk  Chg in diversification due to chg in mix  Chg in diversification due to chg in corr  Chg in uw profit  Chg in investment income  Chg in mean credit, Op and other risks  2017YE

SCR (£m)
Insights …IMO Reserve and Premium Risk movements

Movements in IM Firms Total Reserve Risk (Deviation from Mean)

Movements in IM Firms Total Premium Risk (Deviation from Mean)
Insights …IMO Cross-risk Dependency As-if Analysis
Insights …experience from 2017 losses in EM

• Insured losses from 2017: noteworthy not only because of the total losses
• Exposure management reviews gave us insight in two areas:

  1) Non-modelled element from 2017 losses
     – Harvey: flood element and motor claims
     – HIM: clustering of major hurricanes
     – California wildfires: not only an attritional loss

  2) Exposure management practices could improve:
     – difficulty for firms to quantify exposure at risk in a timely manner
     – lack of interconnectivity across firm’s activities
     – over-reliance on tools unfit to serve all purposes
Insights from PRA’s other technical work – climate change

Governance
- Board to understand risks and long-term view
- Identify senior manager with responsibility

Risk management
- Use existing risk management framework
- Consider possible accumulation of risk in investments

Scenario analysis and stress testing
- Do scenario analysis
- Both short term and long term

Disclosure
- Make disclosures
- Consider Taskforce for Climate related Financial Disclosure (TCFD)
PRA’s Future areas of focus

• Reserving
• Optimistic business plans
• Rate adequacy
• Capital implications of the above areas
• Claims inflation
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