External

External Influences

What external influences may have affected the level of risk or the development pattern of the claims?

- Claims environment – for example solicitor behaviour, rise of a new claim type, class actions and so on
- Legislative environment – for example LASPO, trigger litigation for asbestos, Thompstone v Tameside case where PPOs were linked to ASHE
- Class actions, already in progress, or in the pipeline
- Consumer behaviour – propensity to claim, fraud, driving habits etc
- Insurer behaviour: motor repair costs, referral fees, competitor strategy
- Inflation: claims, RPI/CPI, medical inflation, earnings inflation, legal costs and so on
- Economic environment - particularly for certain classes of business like Mortgage Indemnity Guarantee (MIG) or Professional Indemnity
- Weather: particularly in relation to catastrophe risk. Also consider long term changes.
- Regulatory Issues: for example what should or should not be allowed for in best estimate guidance from PRA or Lloyd's on classes where concern lies
- Emerging market practices, for example from PPO and Asbestos Working Party best practice, emerging market benchmarks
- Reinsurer behaviour and availability of reinsurance in future
- Possible rating agency pressures
- Not at fault income from repair and salvage on motor.

Reserving Cycle

There seems to be a tendency for insurers to over-reserve when underlying loss ratios are low (hard market) and to under-reserve when underlying loss ratios are high (soft market)

Some suggested causes are:

- "Actuarial" methods go wrong (ie are skewed) because they are driven by the rating cycle, economic cycle or other influences
  - Suggested that IELR used in BF "dampens" good or bad news initially as based on prior years out-turns
  - Tail-length may be correlated with loss ratio, but not picked up by chain ladder (CL) methods
- Judgements applied to the methods may be skewed. For example by overriding figures that appear to be too extreme but turn out to be realistic
- It may be that reserves are not set using actuarial methods – the methods actually used may be distorted by the rating cycle (over-reliance on loss ratios from underwriting)
- Actuaries or management may deliberately choose to move away from best estimate figures at different stages in the cycle
- Anchoring to other benchmarks, for example. a third party review
- Ranges themselves can fuel the reserving cycle. Executives may not want to see adverse scenarios, and they cannot really be presented alone so that then provides a lower estimate they can choose. However without them, they cannot understand the risk well.

We have chosen to describe what we mean by each element very simply - by just listing examples of the kinds of uncertainty that may be encountered. This is not intended to be an exhaustive list and ***we actively discourage use of the framework as a checklist***.