The Lloyd’s Vision
[ or what we have learnt from 4 years of actuarial function reporting and how we’d like to see this develop in the future]

Richard Rodriguez & Catherine Scullion

7 September 2016
Agenda

• Introduction
• Actuarial Function at Lloyd’s: A brief history
• Actuarial Function at Lloyd’s: 2016
• Observations on what we’ve seen so far
• Actuarial Function at Lloyd’s: The future

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Introduction: What are we trying to achieve?

• High quality reporting reflecting AF work
• Informative and influential to the board
• Beyond fulfilling requirements to provide insight and drive improvements
• Don’t forget the basics:
  – What makes a good report?
  – Emphasis on tailoring to audience
Actuarial function at Lloyd’s: A brief history

• 2012: First submissions
• Not prescriptive as to how requirements should be met
• Reviewed against questions targeted at requirements
• Completion of questionnaire and required outstanding actions provided to syndicates
• Some items ‘recommended’, some required
Actuarial function at Lloyd’s: 2016

• 2016: Guidance updated, self-assessment against questionnaire

<table>
<thead>
<tr>
<th>Sub-Requirement</th>
<th>Quest #</th>
<th>Question</th>
<th>Response (Y/N/P)</th>
<th>Comment</th>
<th>Reference</th>
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<td></td>
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<td>Does the report express a conclusion on the adequacy and reliability of the Technical Provision process?</td>
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<td>S. Information submitted to the administrative, management or supervisory body on the calculation of the technical provisions shall at least include a reasoned analysis on the reliability and adequacy of their calculation and on the sources and the degree of uncertainty of the estimate of the technical provisions. That reasoned analysis shall be supported by a sensitivity analysis that includes an investigation of the sensitivity of the technical provisions to each of the major risk underlying the obligations which are covered in the technical provisions. The actuarial function shall clearly state and explain any concerns it may have concerning the adequacy of technical provisions.</td>
<td>2.1</td>
<td>Does the analysis include an explicit comment on any limitations of the process and, where relevant, discuss recommendations to address these.</td>
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<td>Does the report give an indication of how significant deviation from the derived best estimate may arise (e.g. from examples of areas with greatest uncertainty or materiality)?</td>
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<td>2.3</td>
<td>Have sensitivity analyses of the areas of material risk been conducted and results commented on?</td>
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• Lloyd’s review of template submissions and thematic aspects
Actuarial function at Lloyd’s: 2016 Timetable/Process

Cross reference with business planning, exposure management, risk management and more…

- May: TPs and risk management
- August: Feedback provided
- January: Feedback provided
- November: UW and RI
The Good…

• When results are clearly explained, with attention drawn to meaningful/material areas

• Signposting for further information

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The Good…

- Clear, reasoned analysis with informative output
- Breakdown of movements into drivers (illustration not exhaustive!)
  - Tabular or graphical
  - Targeted commentary
  - Drivers interlinked
The Good…

• Demonstrated use of benchmarks
  – Development profiles
  – ENIDs
  – Inflation
  – Rate changes
  – Large loss % incurred/paid

• Only informative if the information is linked to the specific circumstances
The Good…

• Comprehensive analysis providing informative opinion to the board
  – Not limited to the obvious…
  – Draw attention to specific, key uncertainties
  – Realistic alternative plans/outcomes
  – Links to historical experience and risk appetite/tolerance
  – Intelligent links to SCR/ORSA

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the Bad…

- When detail/information hasn’t been used/considered
the Bad...

• Data
  – Descriptions generally comprehensive
  – Checks outlined
  – Limitations an area for improvement
    • Is there anything else that would be used/considered?
    • Binders, reinsurance, rate changes, cashflows, benchmarks
    • Often appear in other areas of the report, e.g. reinsurance recoveries provided at an average level across classes
  – Needs to be collected in advance of being used

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the Bad…

• Feedback loops
  – How does the AvE feed in to the current exercise?
    • Not just claims: rate changes, territories
  – Why is there divergence?
  – Should any changes be made?
  – A decision to make no change is still part of the loop
the Bad…

• Recommendations to the board
  – Action to be taken
  – Future investigation
  – Future investment/prioritisation – systems, data etc.
  – Definitive, clear, reasoned
  – Drawn out clearly
the Ugly...

- Self-explanatory...
the Ugly…

• What is the conclusion?
  – “Given the analysis undertaken it could not be said, on a basis of not unreasonable analysis, that the work undertaken, by the actuarial function and others, suggests that the conclusions drawn would not be seen as reasonable”
the Ugly...

• Statements of opinion
  – “Given the analysis undertaken it could not be said, on a basis of not unreasonable analysis, that the work undertaken, by the actuarial function and others, suggests that the conclusions drawn would not be seen as reasonable”

• Any statement of opinion should be clearly made
  – SIMR strengthens accountability
  – Prescribed requirement of the AF – and the Chief Actuary

• Can include reliance/limitation

• Recommendations to improve

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the Ugly…

• Report volume/structure
  – “I’m sorry I could not have written a shorter letter, but I didn’t have the time”
  – Average over 100 pages
  – Conclusions not clear
  – Board are the audience
  – Recommendations and supporting analysis is key
  – No need for repetition
…The Future

- Key function with input and visibility across the business
- Important aspect of market oversight review
- Engage as a market and profession to develop best practice
- Potential developments:
  - Different reporting format
  - More prescription

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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.