
Lloyd's Reserving

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20/06/2017

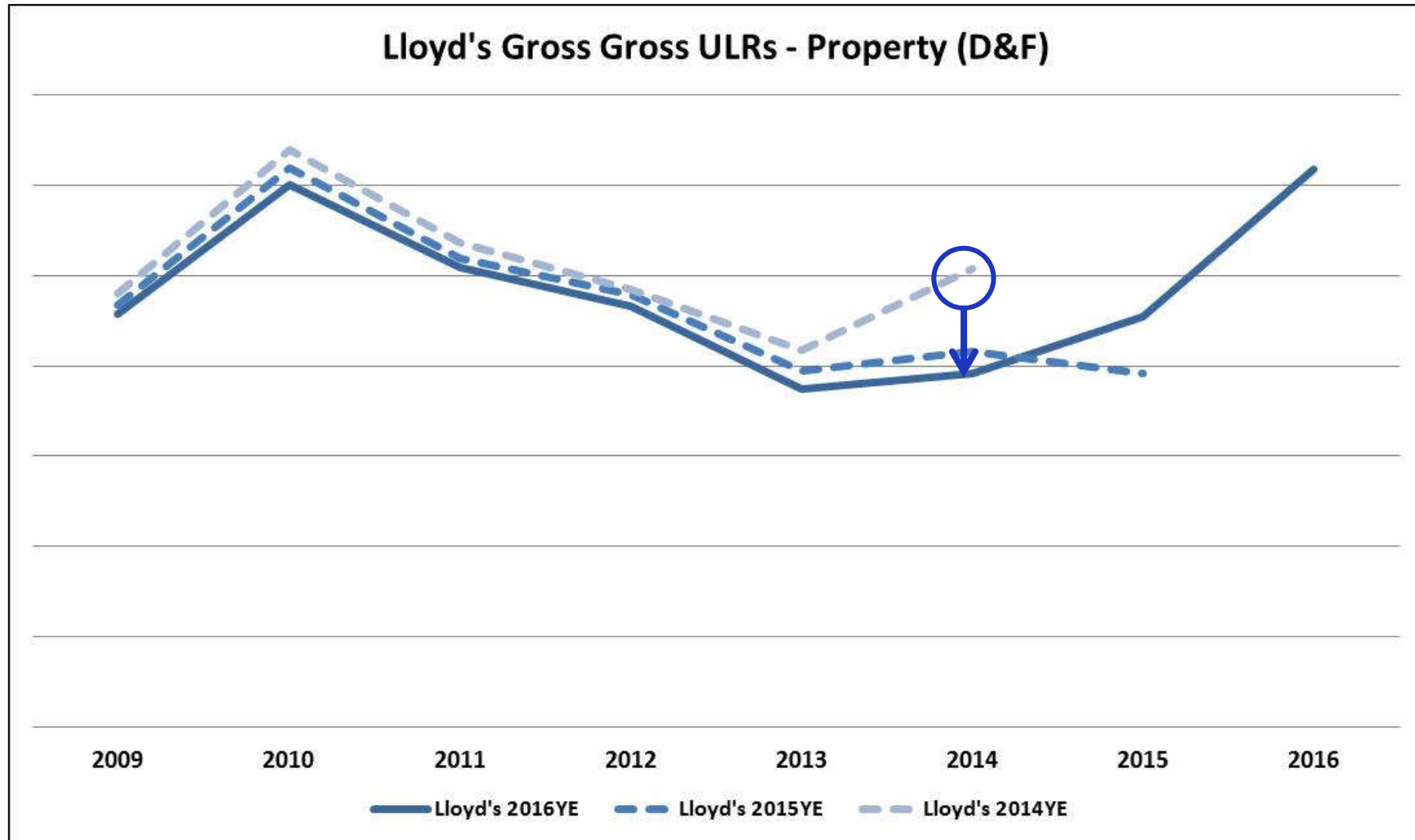
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Reserving over time

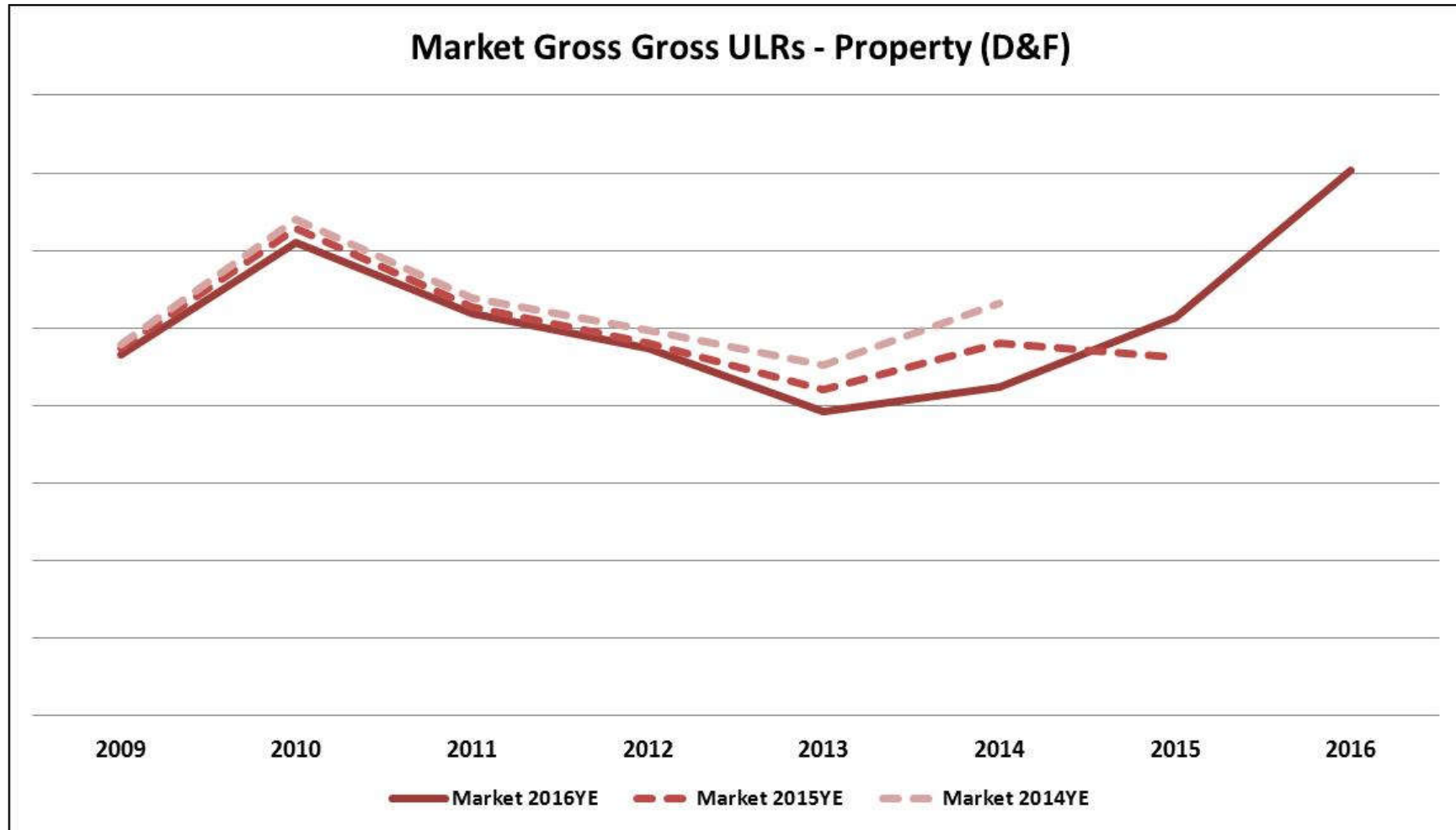
Lloyd's estimates

Property – Direct and Facultative



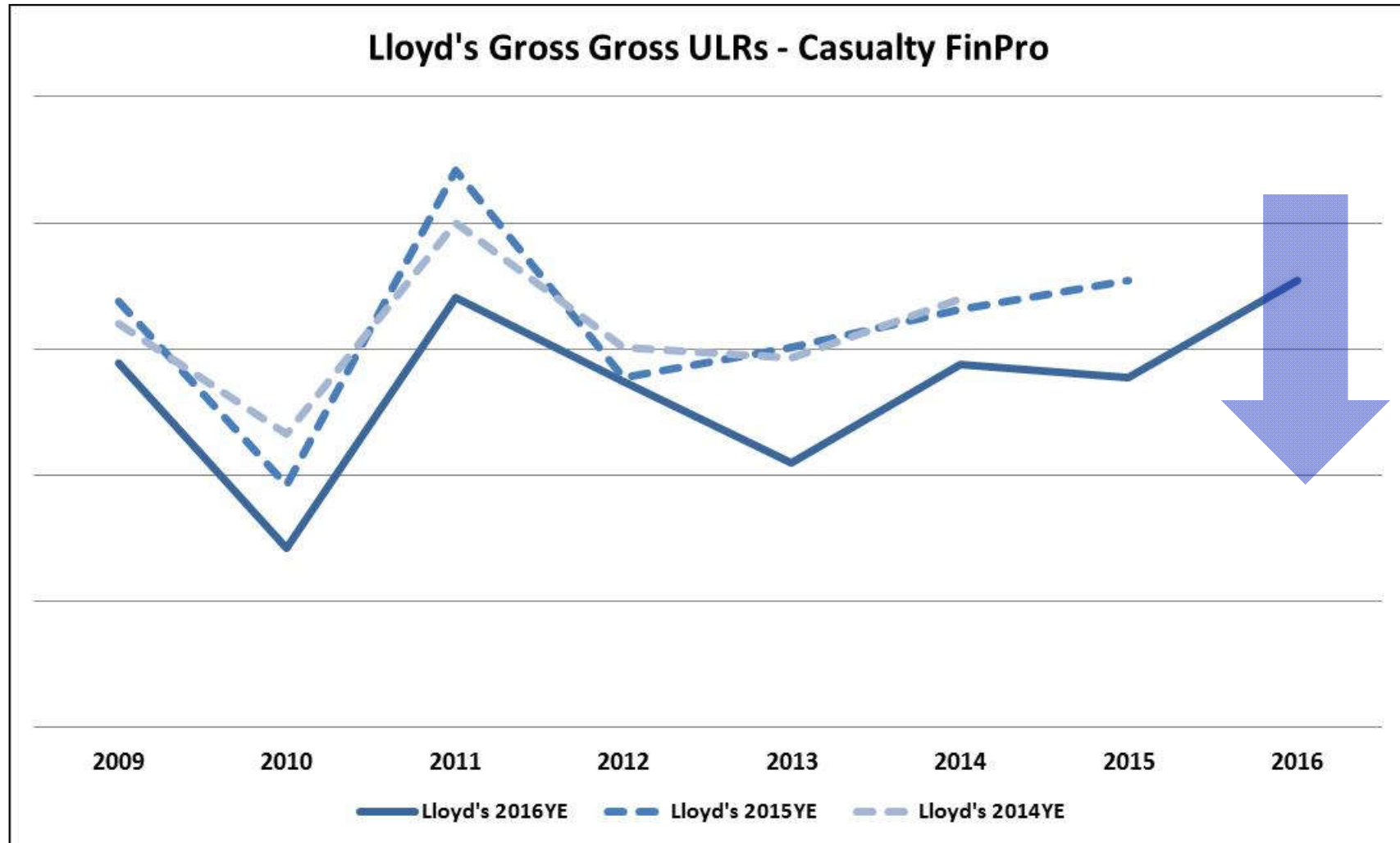
Market estimates

Property – Direct and Facultative



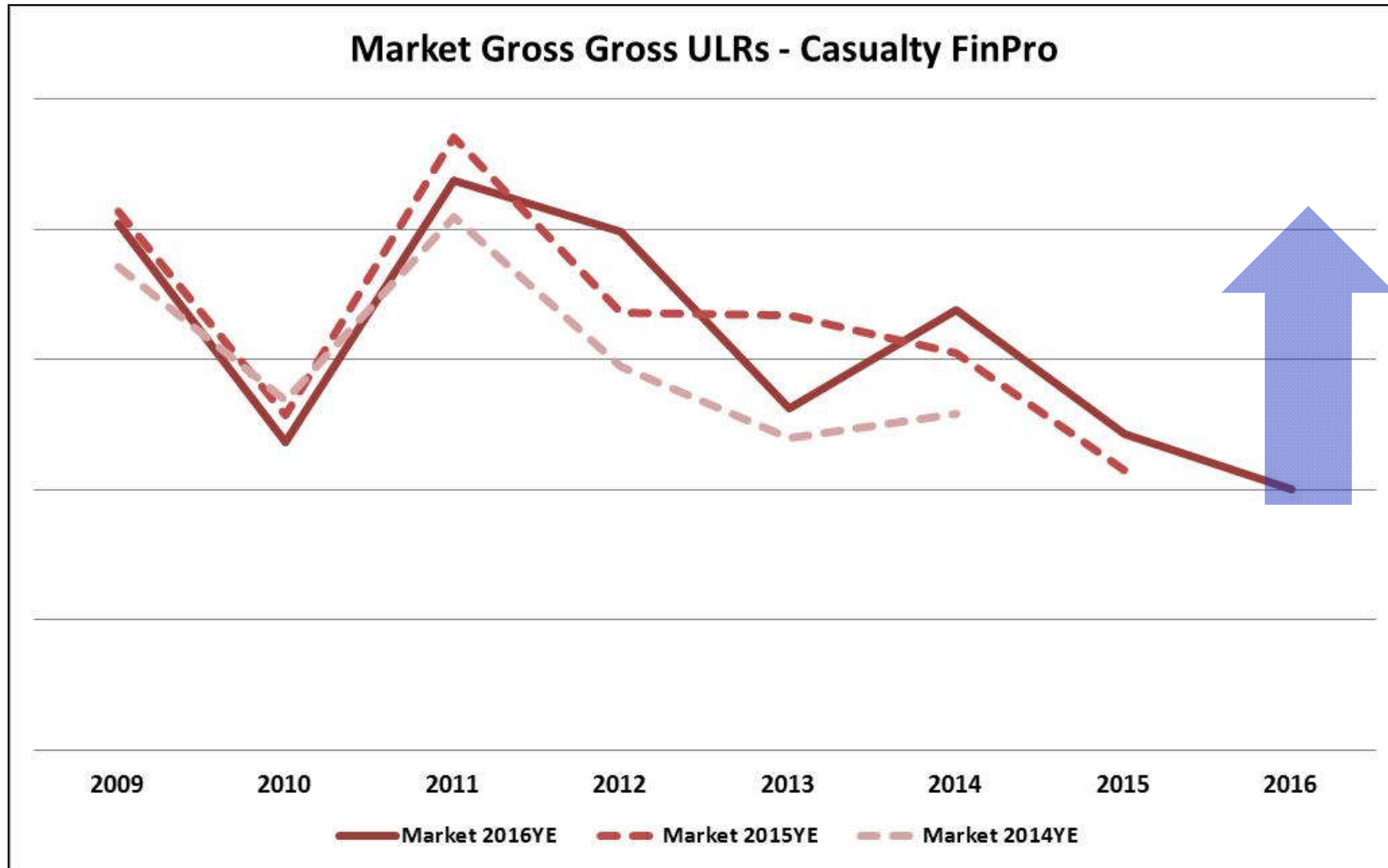
Lloyd's estimates

Casualty - Financial and Professional lines



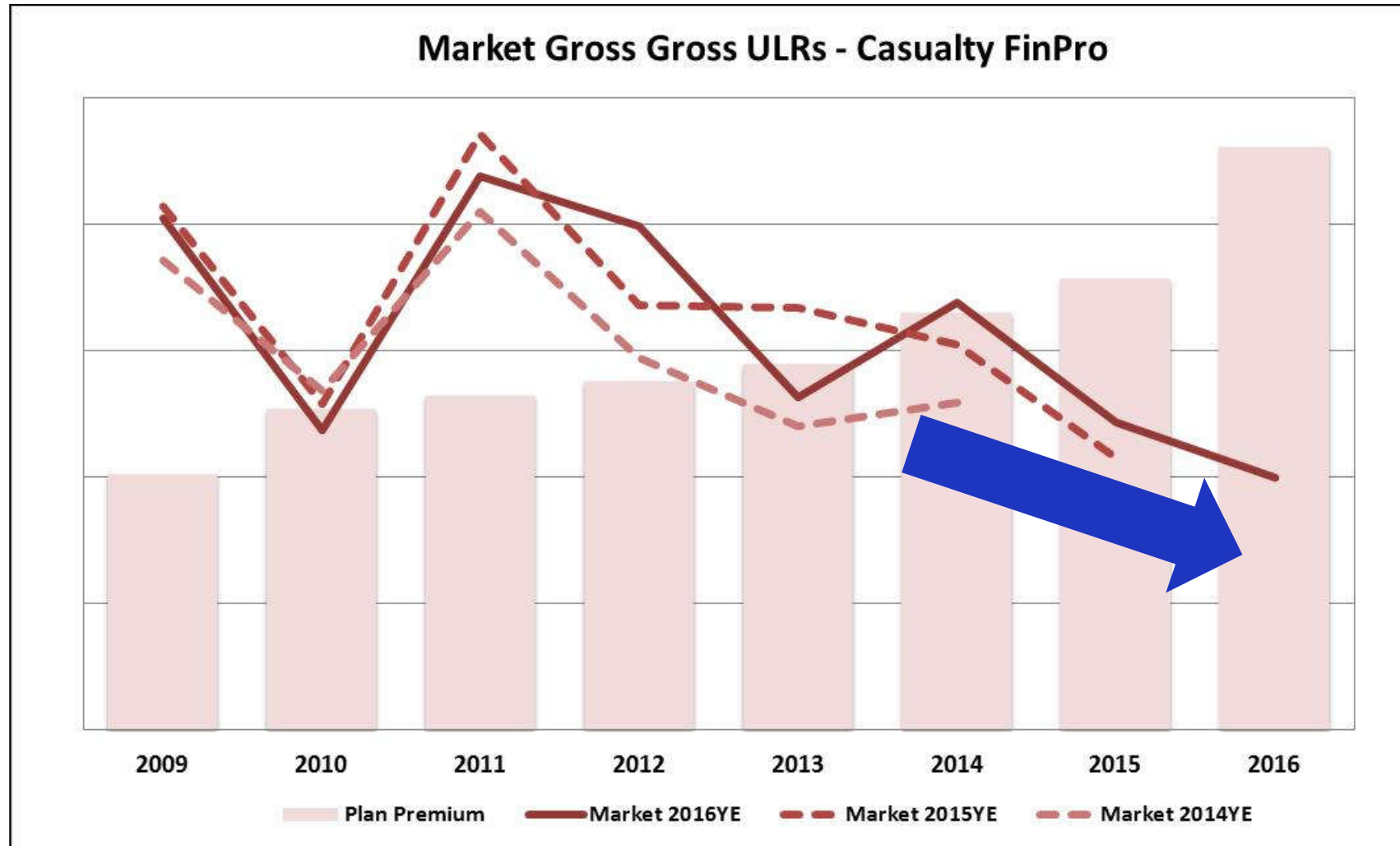
Market estimates

Financial and Professional lines



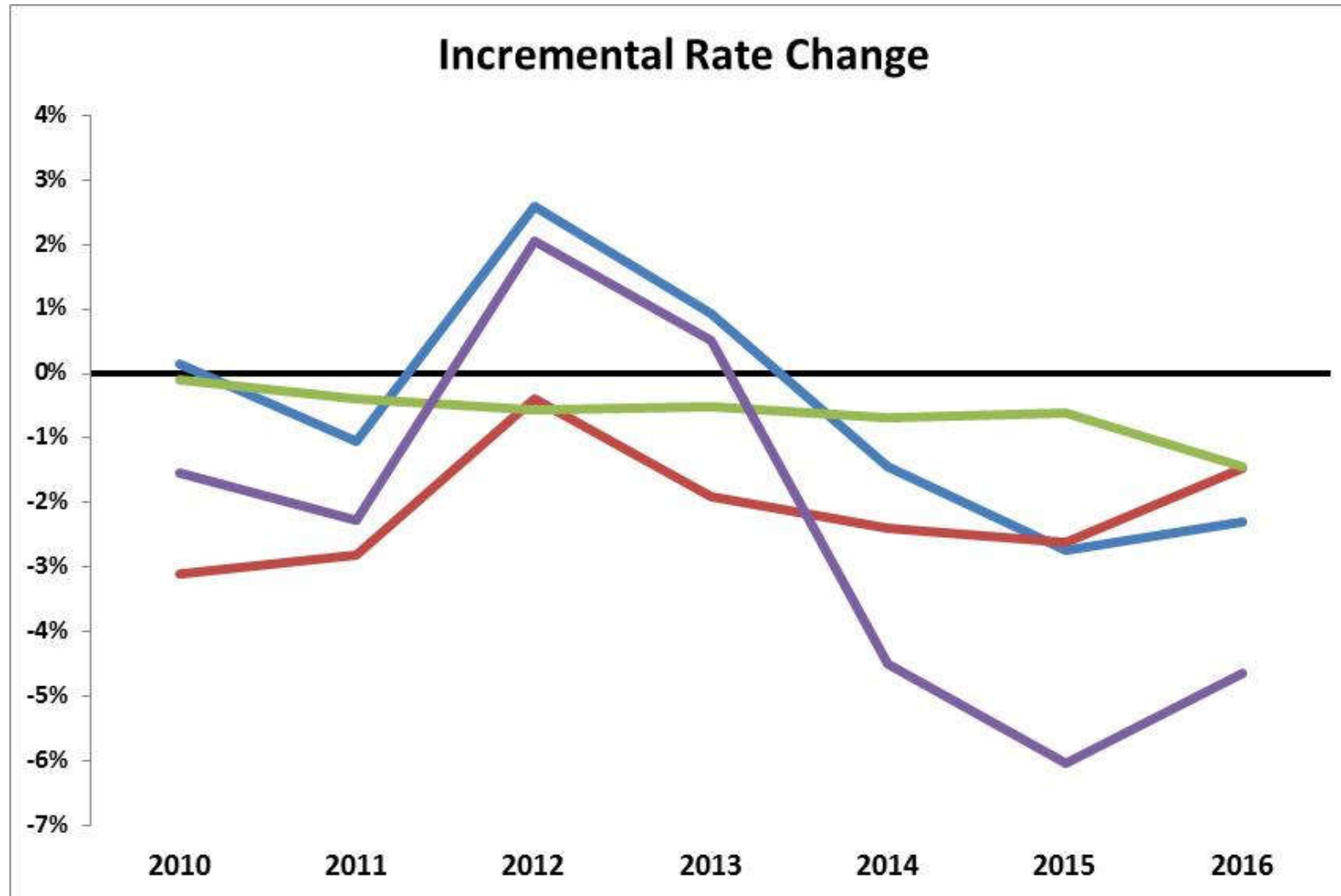
Market estimates

Financial and Professional lines



Underwriting cycle – we are in a soft market

Prolonged rate reductions observed across a range of casualty lines



Reserve Strength

Casualty example

OS: Incurred

Year	1	2	3	4	5
2012	92%	82%	65%	50%	39%
2013	89%	81%	71%	58%	
2014	86%	85%	68%		
2015	83%	77%			
2016	60%				

IBNR: Incurred

Year	1	2	3	4	5
2012	336%	152%	80%	44%	22%
2013	508%	185%	97%	52%	
2014	414%	170%	82%		
2015	428%	180%			
2016	242%				

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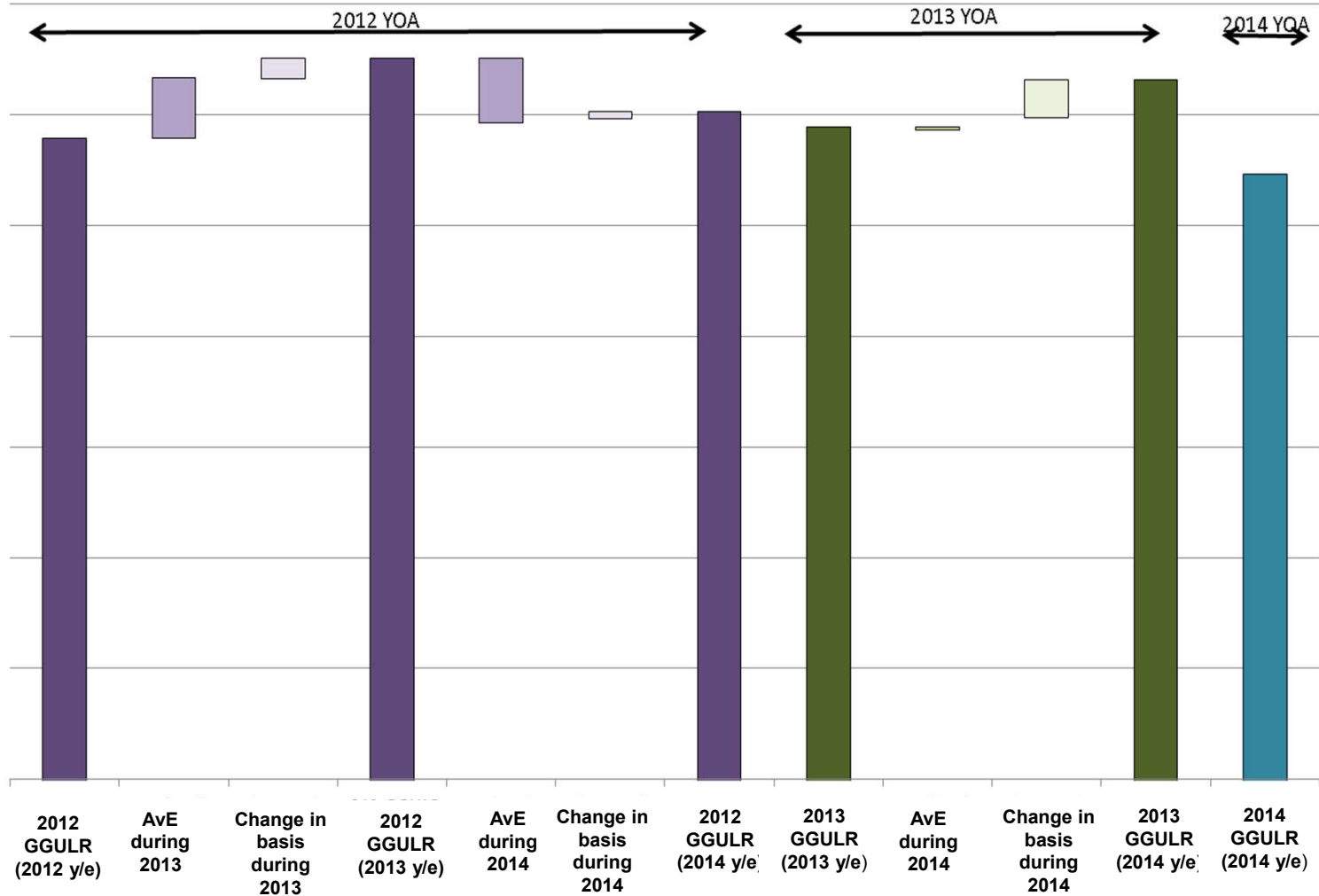
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**ULR increase
by 30%**

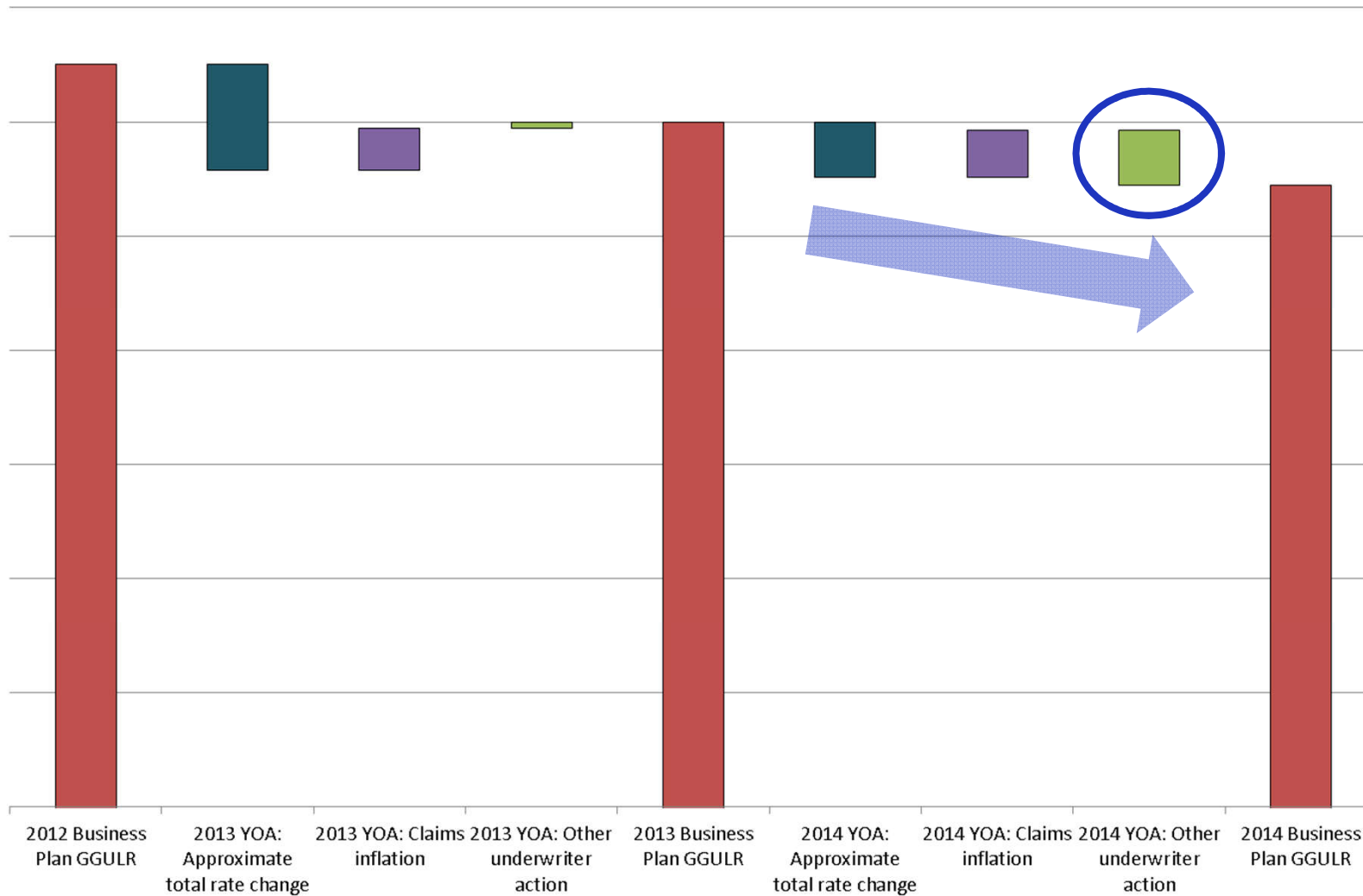
So far...

- Initial estimates for Casualty reserves are potentially optimistic
 - loss ratios pushing out over time
 - reducing reserve ratios on recent developments
- Don't reserve in a bubble – so how does this relate to plan?

Bridging analysis for market shows lower 2014 ULR

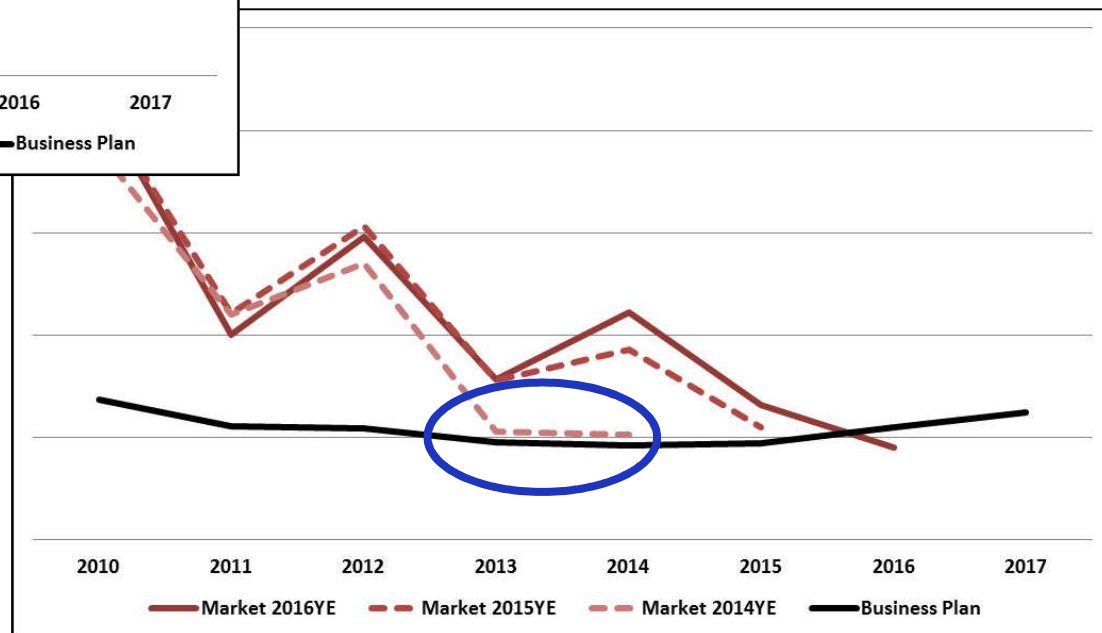
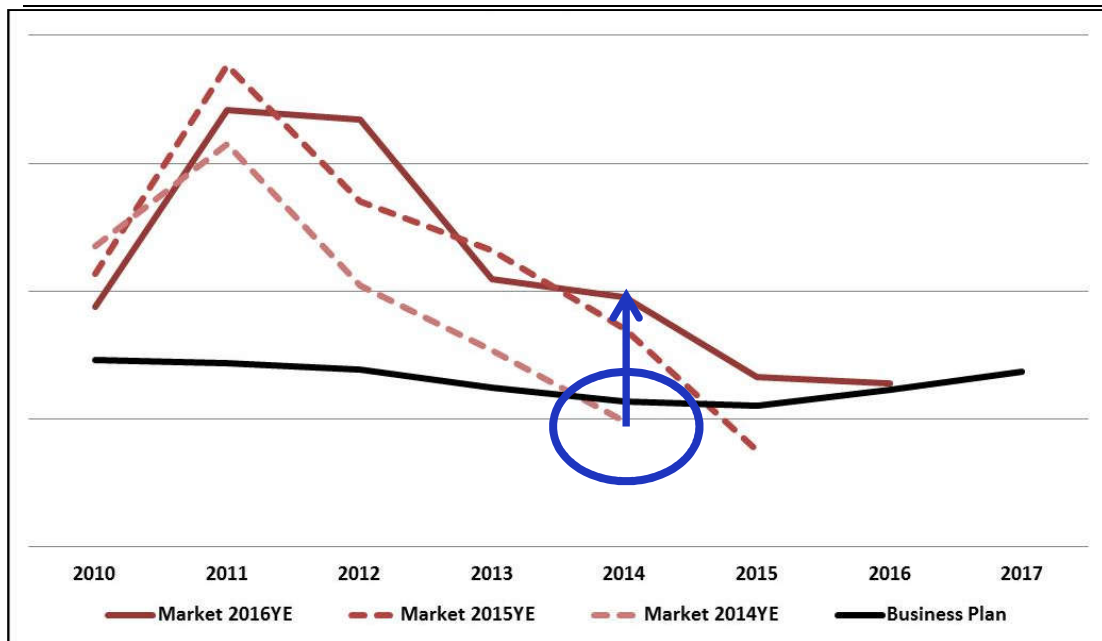


...explained by rate improvements and underwriter actions



What about against plan?

Casualty examples



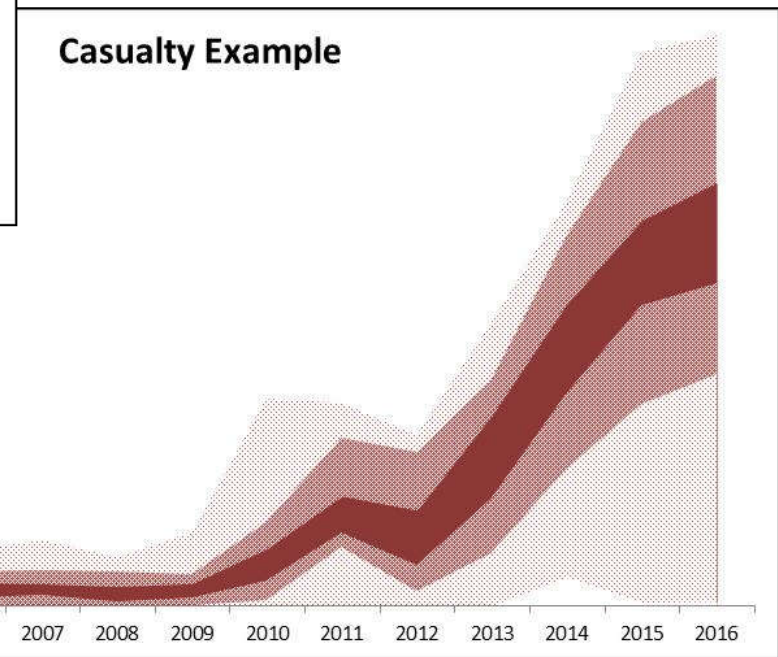
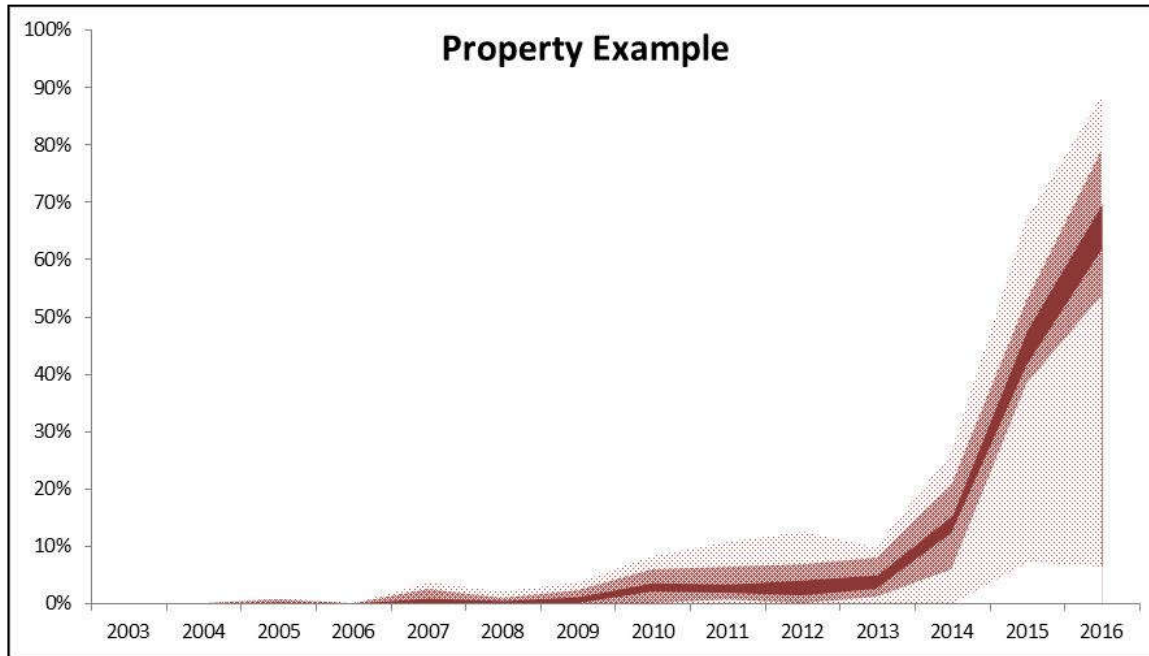
Validation...validation...validation!

- What has happened historically?
- Do market conditions support my estimate?
- Joining up underwriting and reserving

Lloyd's Statistics

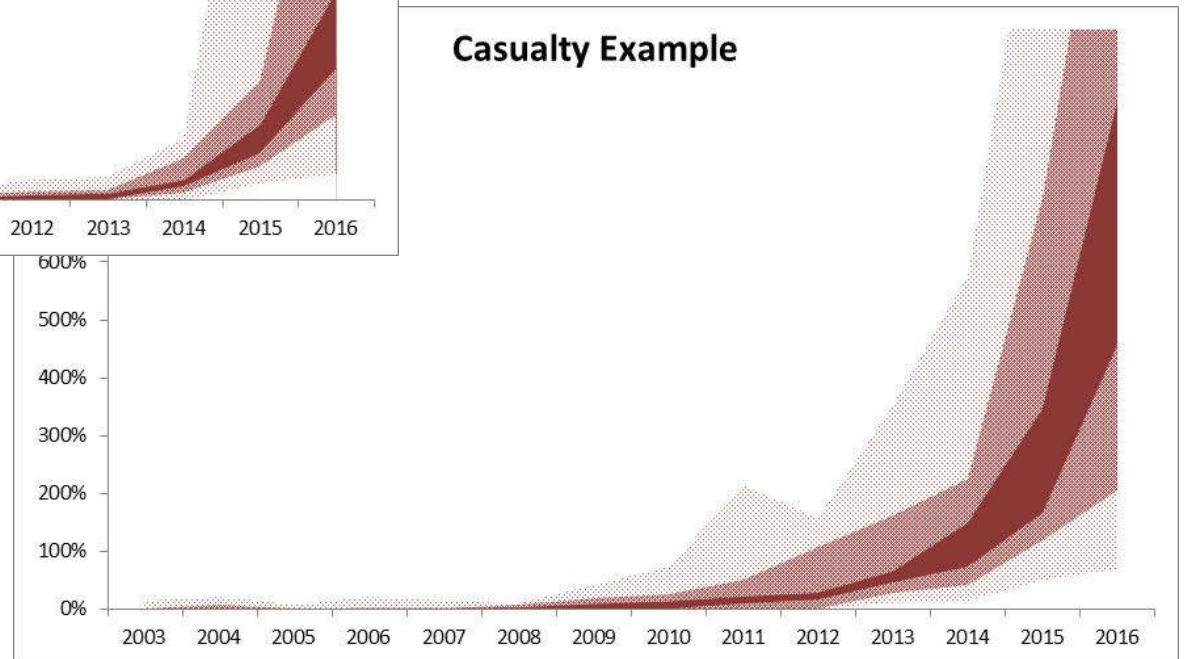
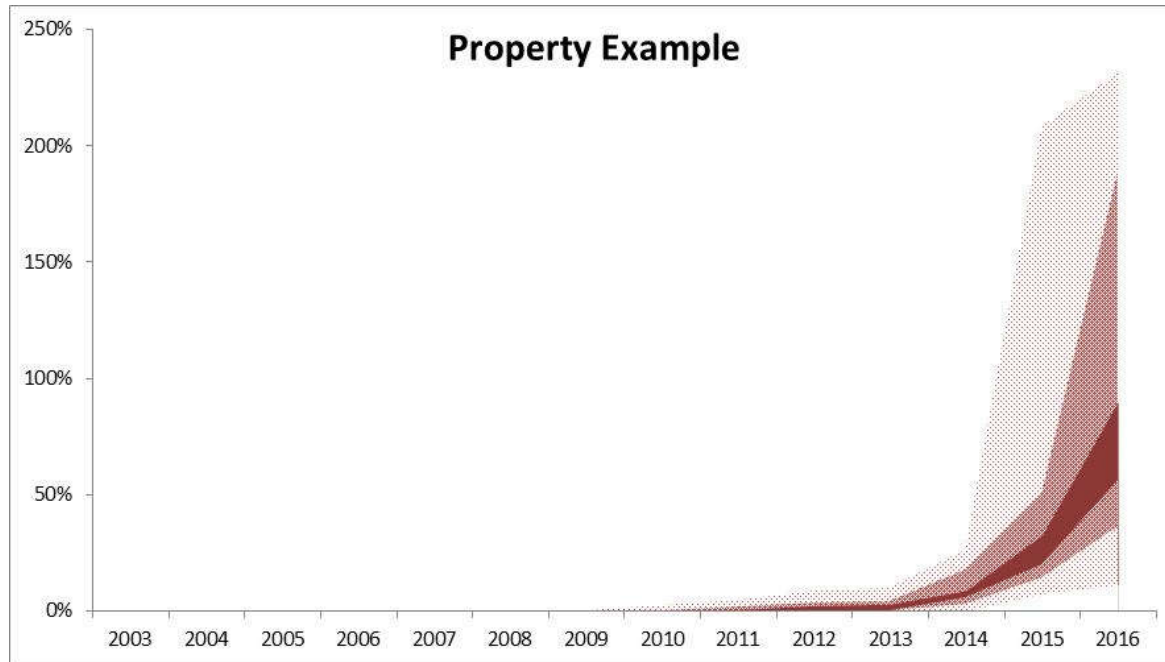
Reserve strength ranges

OS:Incurred



Reserve strength ranges

IBNR:Incurred



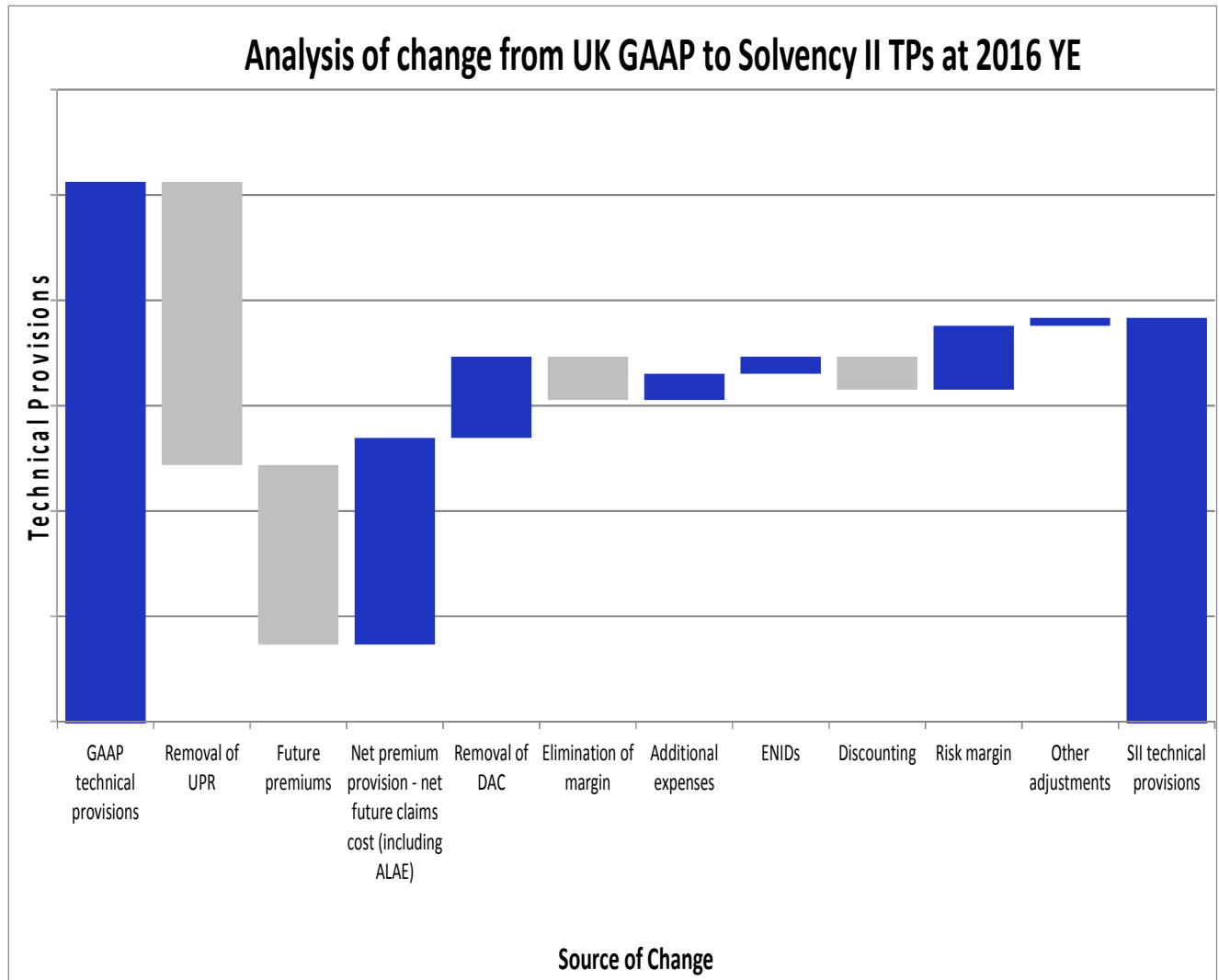
SIITP Statistics – Pillar III and QMC

In order to obtain the technical provisions on a Solvency II basis, a number of adjustments have to be made to the figures under UK GAAP.

The type of adjustments made was included as part of Lloyd's SFCR under Pillar III. The accompanying waterfall chart from this report is shown here.

This chart gives an indication of the materiality of each of these adjustments at a total Lloyd's level.

In the market, we would typically expect to see variation around these figures at a syndicate level, given the specialised classes each syndicate writes.



SIITP Statistics – Pillar III and QMC

Statistics have been derived using market-wide data from 2016YE

These provide statistics for certain adjustments, calibrated to the 25th-75th percentiles of the market.

These figures were determined on a net of reinsurance basis

It should be noted that a Syndicate may find they will be outside of this range.

Key:

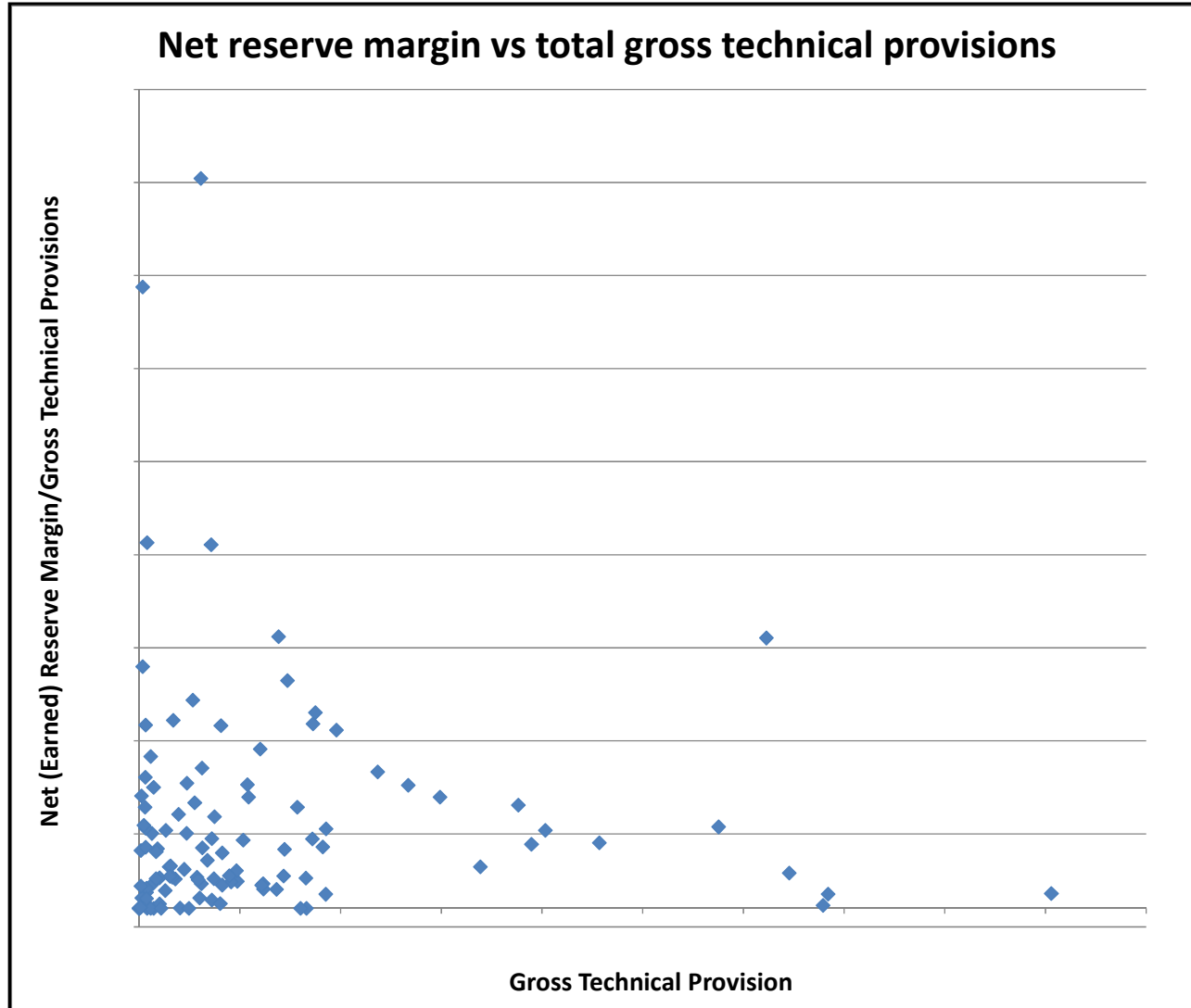
*TP is used to denote 'Technical Provision'

*CP is used to denote 'Claims Provision'

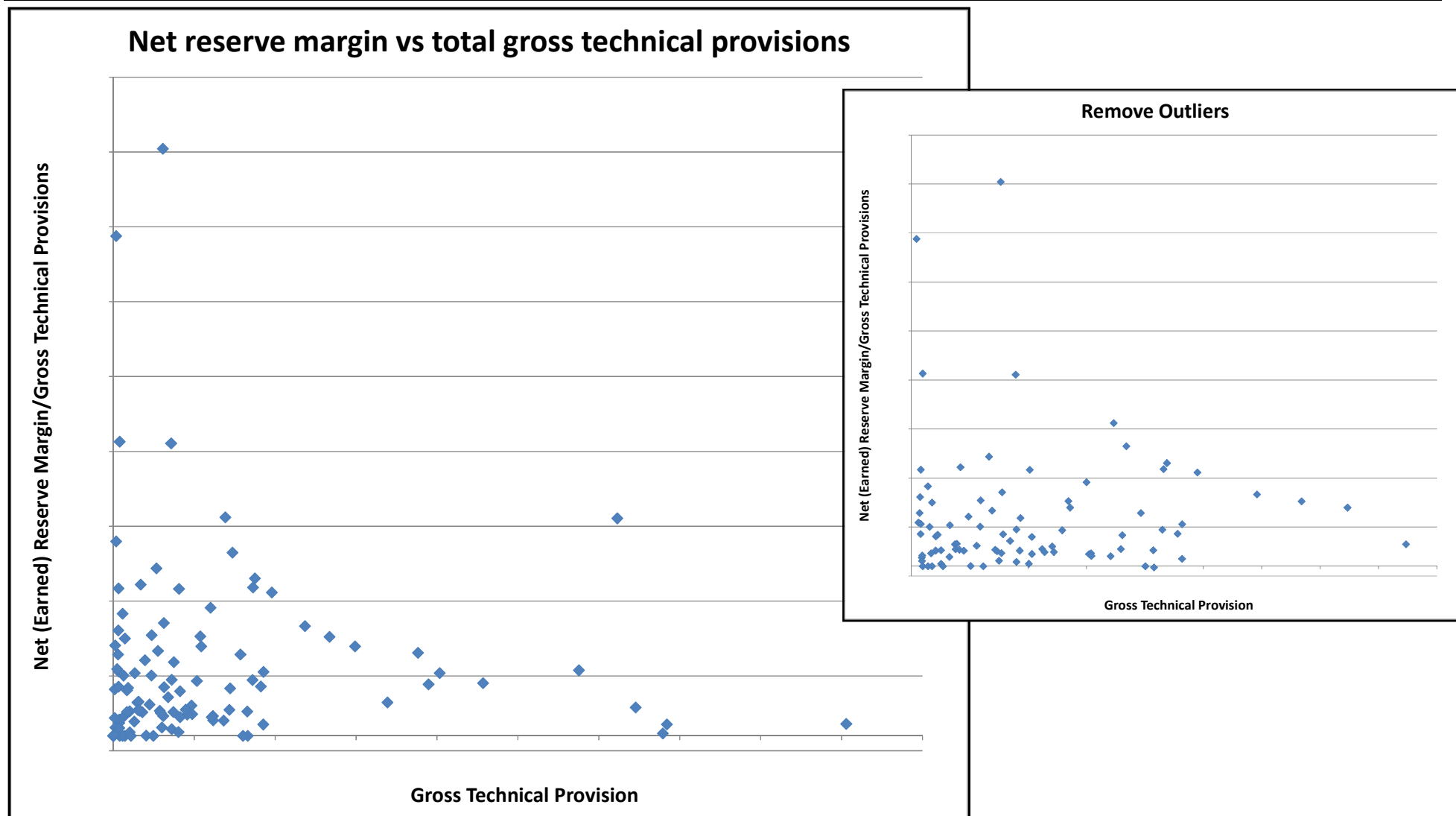
*PP is used to denote 'Premium Provision'

STATISTIC	RANGE (%)
$\frac{\text{SII TP (Undiscounted)}}{\text{GAAP TP}}$	60-100
$\frac{\text{SII Risk Margin}}{\text{Claims Reserves}}$	5-10
$\frac{\text{SII Discount Credit}}{\text{SII TP (Undiscounted)}}$	2-5
$\frac{\text{Additional SII Expenses}}{\text{GAAP TP} - \text{GAAP Margin}}$	2-6
$\frac{\text{PP for ENIDs}}{\text{PP for Future Claims}}$ (Undiscounted)	2-5
$\frac{\text{CP for ENIDs}}{\text{CP for Future Claims}}$ (Undiscounted)	1-5

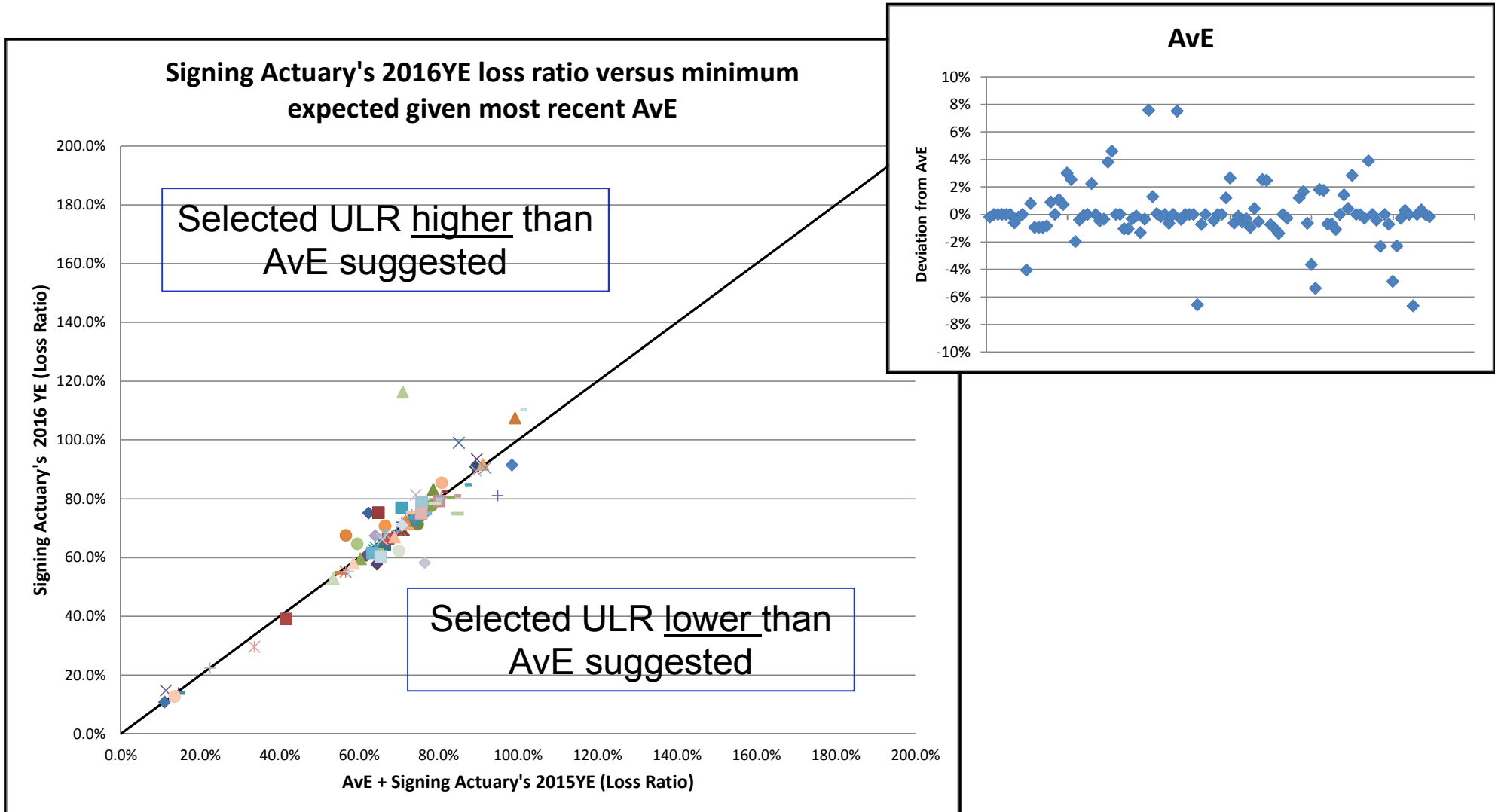
Net Reserve Margin Statistics – SAO Template



Net Reserve Margin Statistics – SAO Template



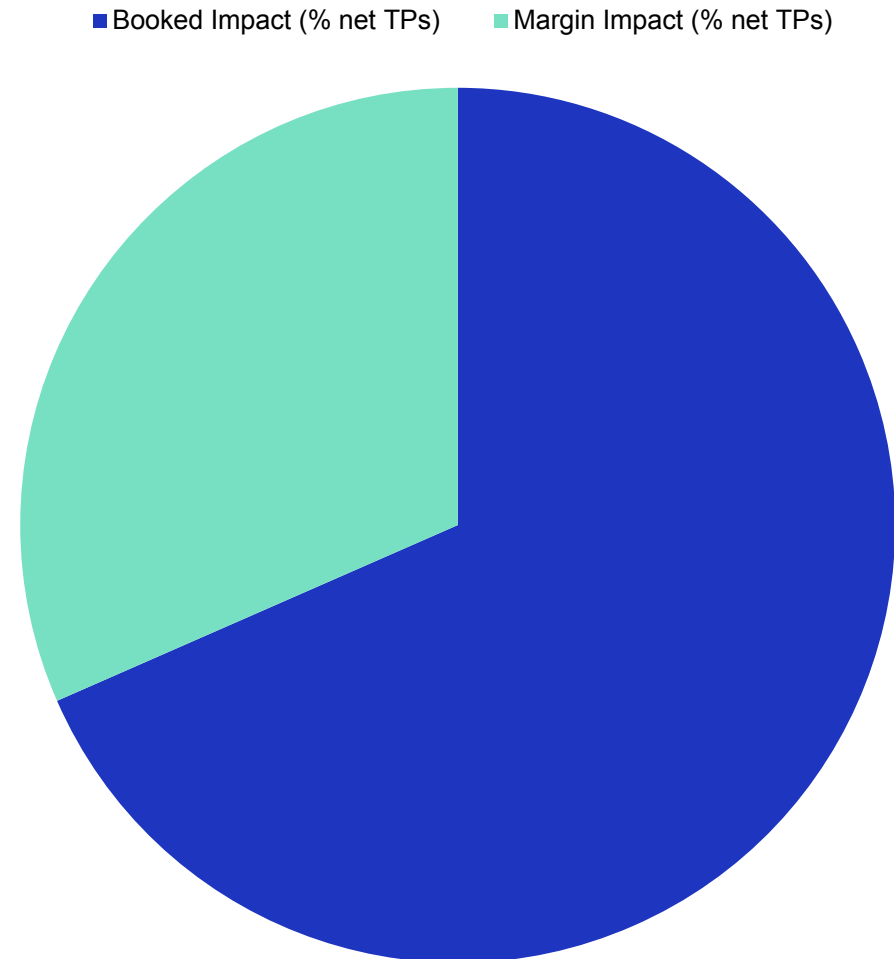
AvE Statistics – SAO Template



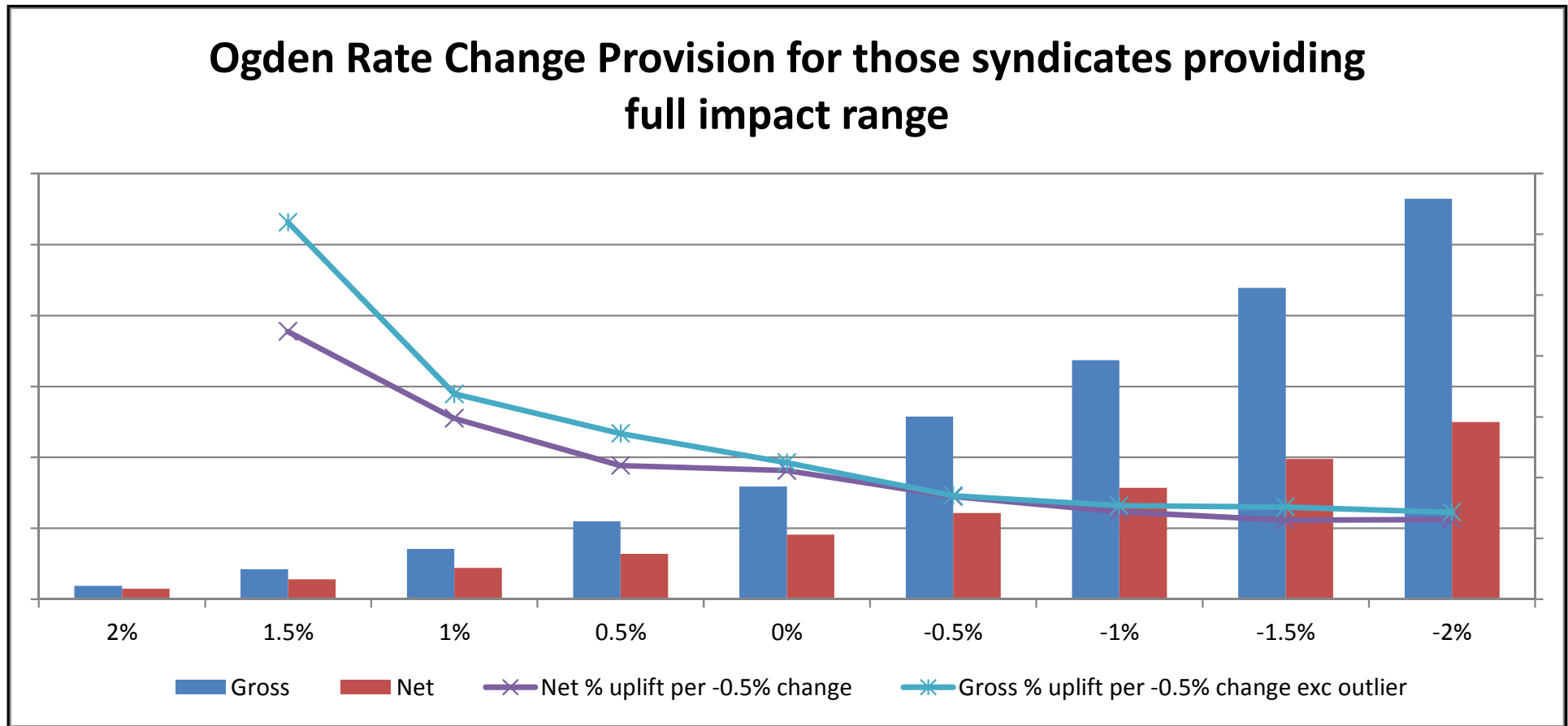
Ogden Statistics - Impact

Market Net Reserves

- In anticipation of a change in the Ogden rate Lloyd's requested information from Signing Actuaries on their best estimate provision for the Ogden Rate change provision and an indication of the provision at a range of discount rates
- Prior to the announcement the market expected the ODR to reduce to around 1%
- Following the February announcement that the ODR would fall to -0.75%, some syndicates deemed the impact material and resubmitted their QMA and SAOs
- The remaining syndicates who did not restate their accounts were required to adjust the margin claimed in the QMC for the impact of the Ogden rate change



Ogden Statistics –Relative Impact of the different Ogden Rates



Summary

- Market level deterioration in casualty reserves
- Optimism on recent underwriting years?
- Differences between Syndicates
- Drive conversations between Syndicates and with Lloyd's

2017 YE SAO basis

Proposal: Extension of Signing Actuary view to cover appropriateness of profit in unearned premium

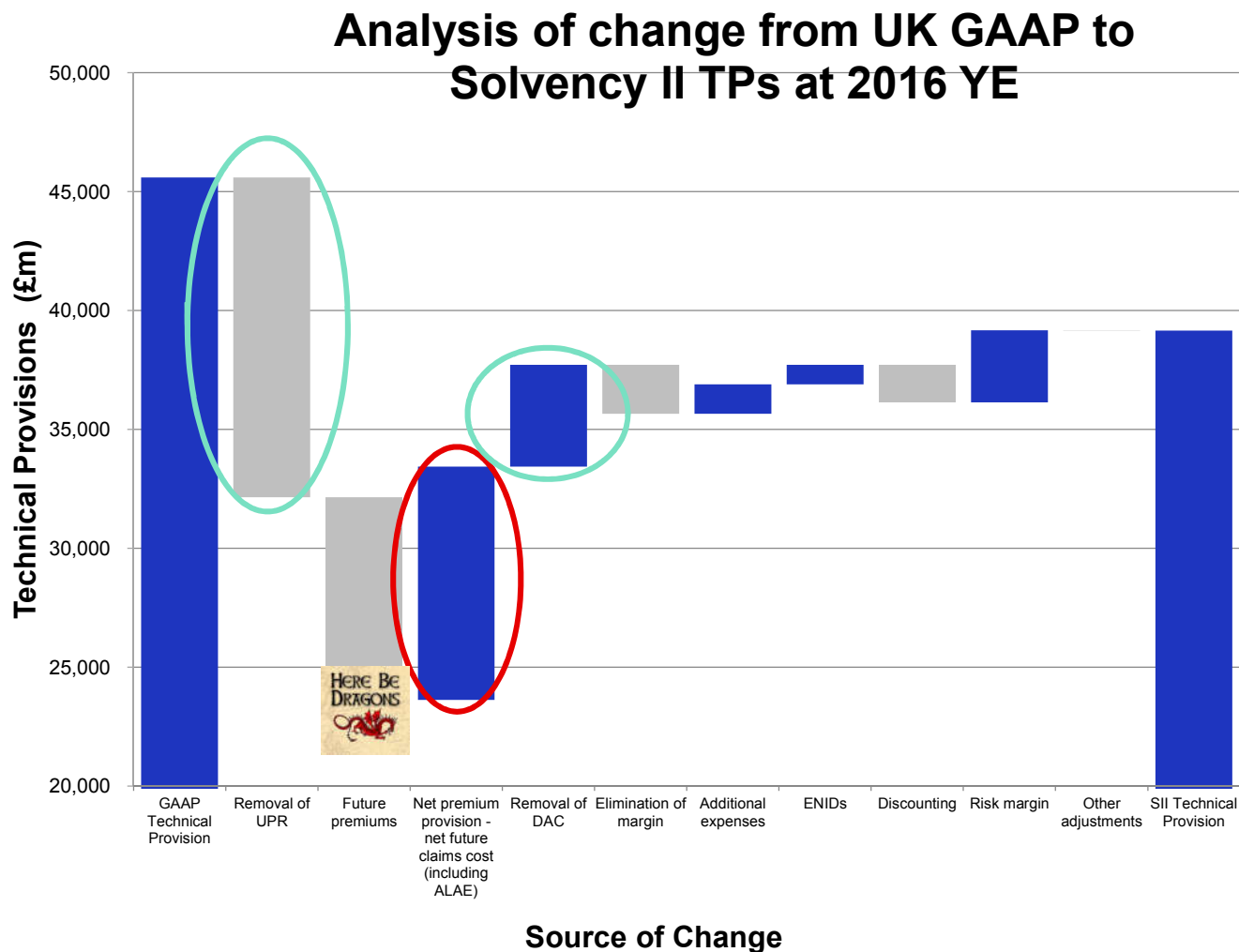
As for the earned reserve margin, the recognition of profit in the unearned business will be limited to a maximum of the level included in the signing actuary's estimate

Comparison of:

GAAP UPR on a net net of basis (Avoids SII premium basis)

Less claims associated with this premium (requires division of these claims into incepted and unincepted)

Essentially: How far away from any Unexpired Risk Provision (URP)



We want your views!

Consultation to Signing Actuaries and Chief Actuaries – views by 20th June (yes, today)

- Based on initial consultation and follows the majority view of this
- No change to opinion figures/wordings
- Uses information which already exists
- Adds value to syndicate and Lloyd's oversight

Please point out issues and ask for clarification on particular cases!





Questions



Comments

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.