
Chief Actuary & Finance Director Forum

Presentation to the Lloyd's Market

8 July 2019

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2020 Key Messages

Working together to define and deliver the market strategy

- We have reviewed processes based on market feedback
- We are being more transparent and joined-up on our approaches and have adapted methods based on the input of your teams through working groups and consultation
- We will take consistent approaches across the market
- We expect boards to consider the causes of loadings and discuss any areas of uncertainty with the Lloyd's team
- We are raising queries to your teams in advance of the review process this year. We expect boards to have visibility of these as part of capital approval
- CFO is engaged with the CPG process
 - It is not acceptable for loadings to be applied as plasters for multiple years
 - Appeals process is for exceptions

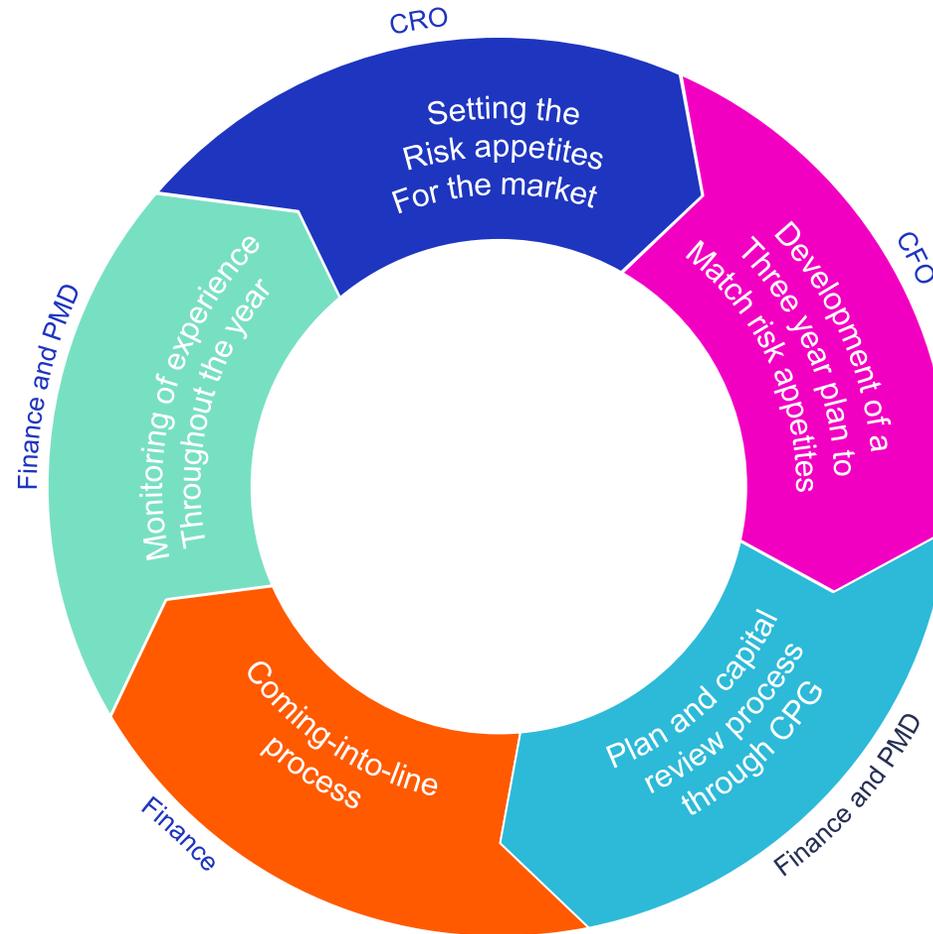
Cycle of market strategy and execution

Successful execution requires a joined-up approach

Underpinned by risk appetite

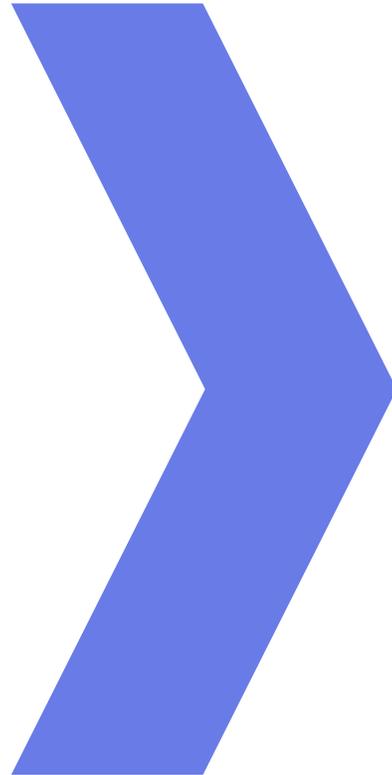
Considered by CPG with Executive oversight

Agreement of paid in capital to support plans



Tier 1: Risk appetite pillar determines plan and capital paid-in

Sustainability
(Tier 1 pillar)



- Plan COR 2020 < Plan COR 2019

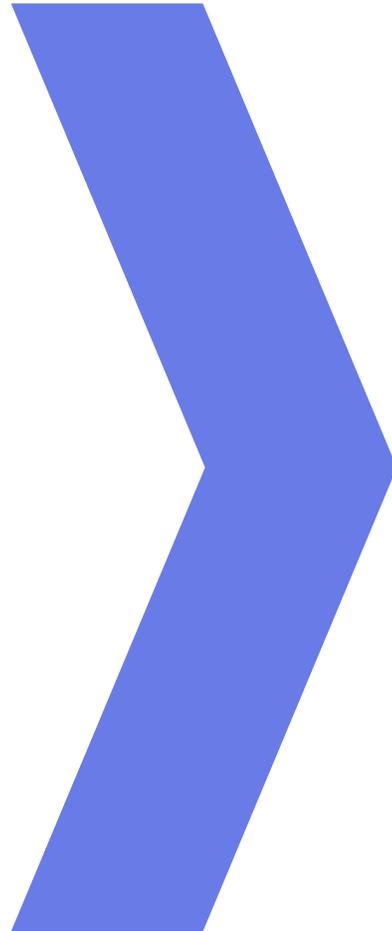
The sustainability pillar protects central fund and ensures adequate and needed ratings

Planning Process / CPG Process

Execution is key

PMD Measure 2019

- Growth
- Performance
- Expenses
- Reinsurance Optimisation



Objectives for CPG

- 1) 2020 COR must be in line with risk appetite
- 2) Plan and measures must be applied reasonably fair across the Market
- 3) Plans are based on reasonable assumptions and ensure sound underwriting to protect central fund and ratings.
- 4) Plans, assumptions and judgement has to be documented appropriately.

Capital-paid-in (1)

Principles:

- Annual process to determine amount of capital needed to continue underwriting.
- Capital-paid-in:
 - is computed for existing and planned business
 - is based on the ultimate syndicate risk capital
 - is based on past and current experience, in particular for reserving & premium risk

Capital-paid-in (2)

Computation:

1. Getting the starting point right
 - Projection of the 2019 year end COR
 - Update the capital-paid-in for the written business
 - Applying the 2019 and prior COR experience on the planned business for the 2020 underwriting year
2. Providing for uncertainty / volatility

Capital review needs clear evidence that both the starting point and volatility are appropriate

Capital review

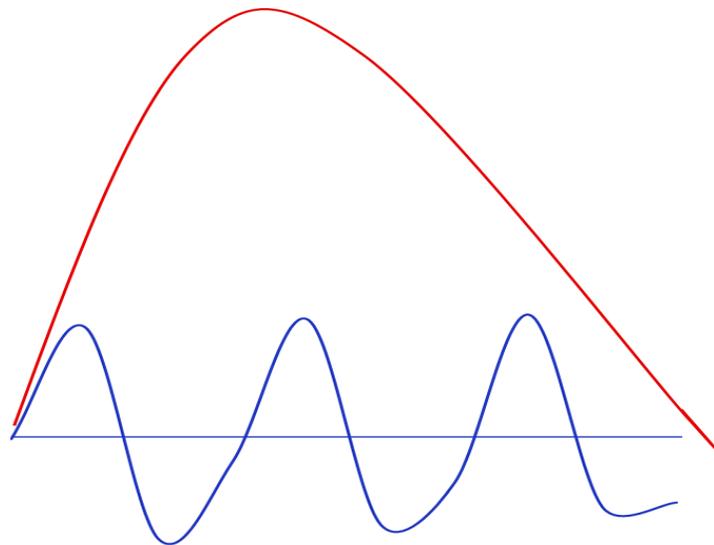
Responsibility of Managing Agent board

Getting the starting point right

Consider uncertainty of outcome

Review by Finance function and recommendation to CPG

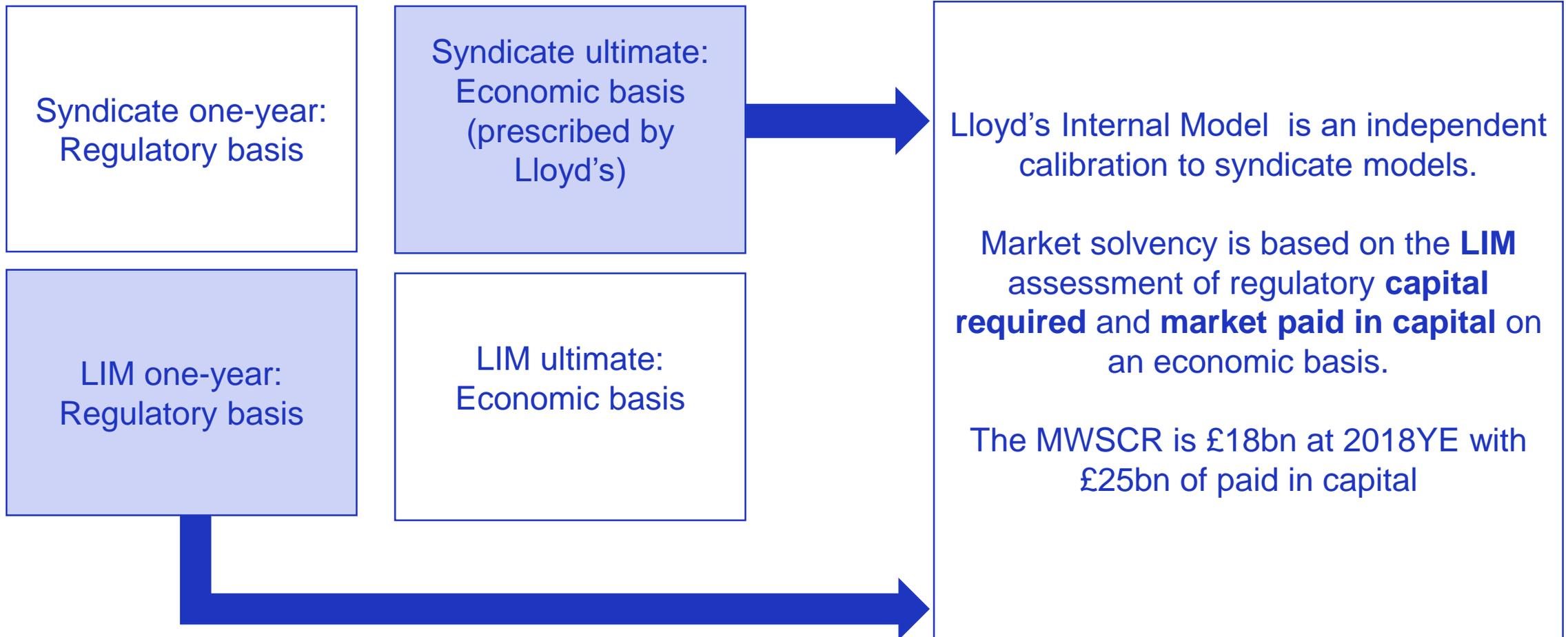
CPG consideration



- We expect boards to consider areas flagged by Lloyd's
- We have shared our approaches
- We will apply these consistently

Market regulatory and economic capital have different bases and purposes

Capital review



Reserving Messages

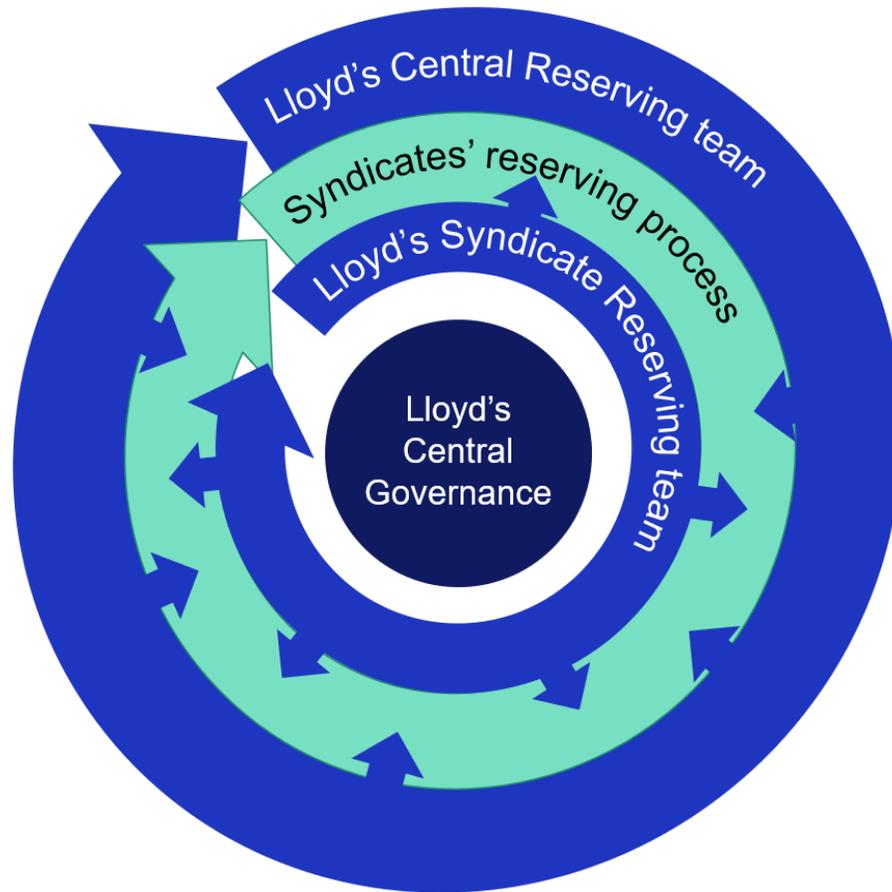
Emma Potter, Chief Actuary and Head of Reserving (interim)

- Thematic Loadings
 - Reserving Process
 - Balance Sheet Roll Forward
 - Performance Against Plan
- Collaboration
- Part VII update

Lloyd's reserving oversight has two key objectives

Reserve oversight

Lloyd's reserving oversight structure



Utilises a top-down and bottom-up approach to monitoring the adequacy of reserves

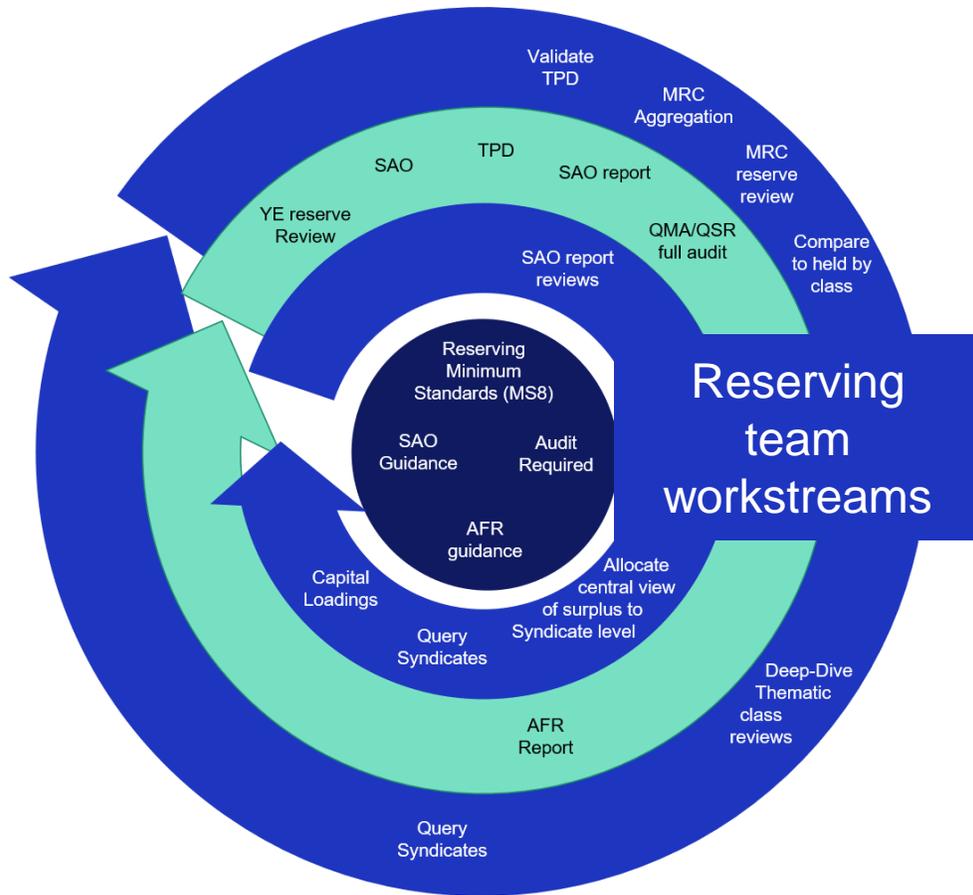
Lloyd's reserving oversight is an integrated process implemented to achieve two key objectives:

- Reserves are adequate.
- Reserves are appropriate for syndicate's wider business implications.

Lloyd's reserving oversight has two key objectives

Reserve oversight

Lloyd's reserving oversight framework



Utilises a top-down and bottom-up approach to monitoring the adequacy of reserves

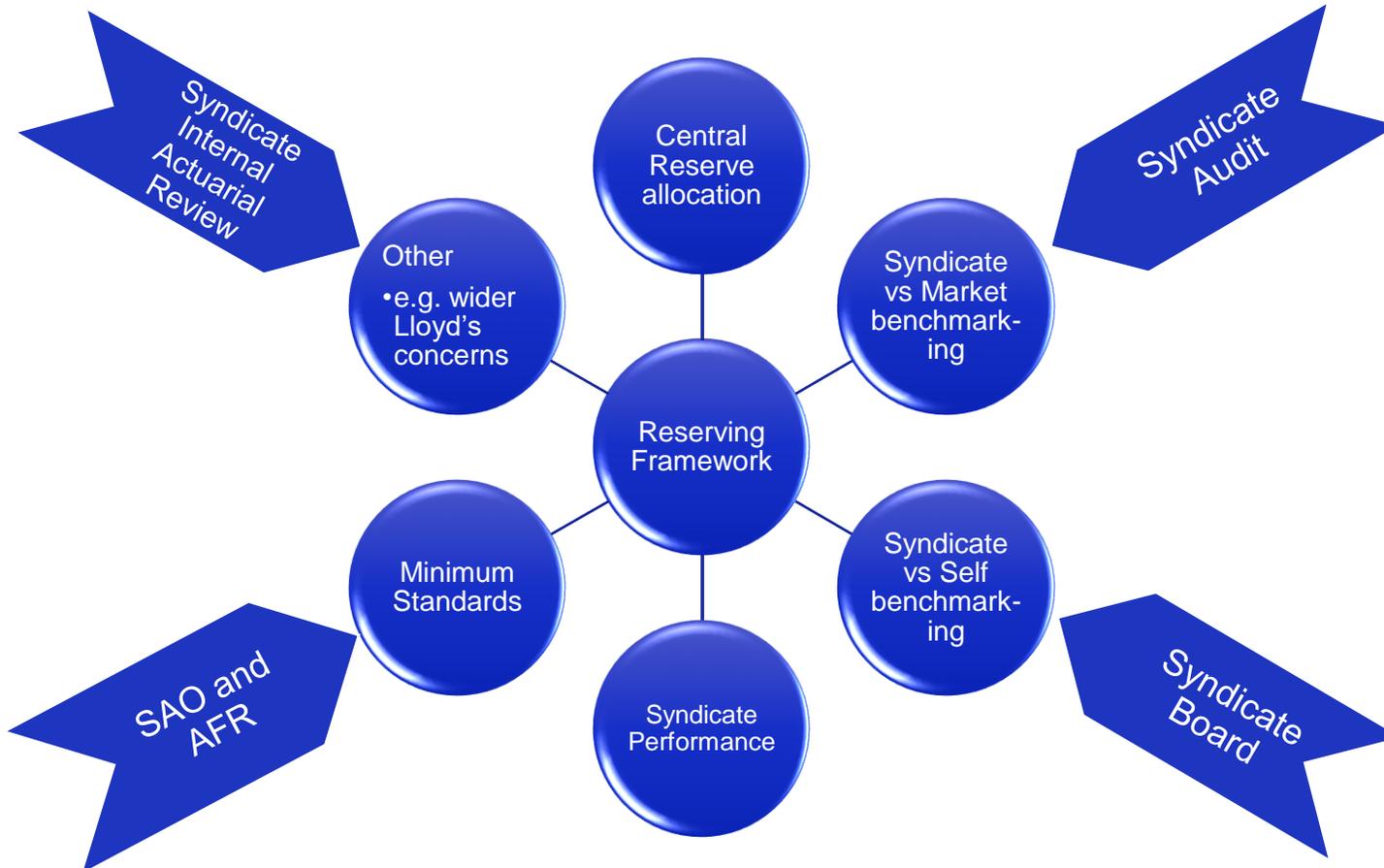
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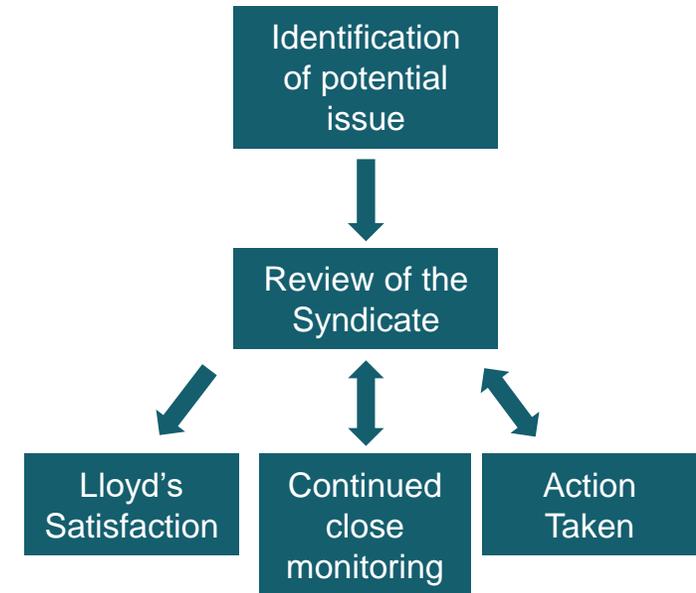
Reserving Framework provides robust risk-based oversight



Reviews of best estimate reserving processes



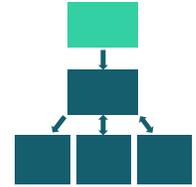
Ladder of Intervention framework used such that action taken is commensurate with the perceived risk.



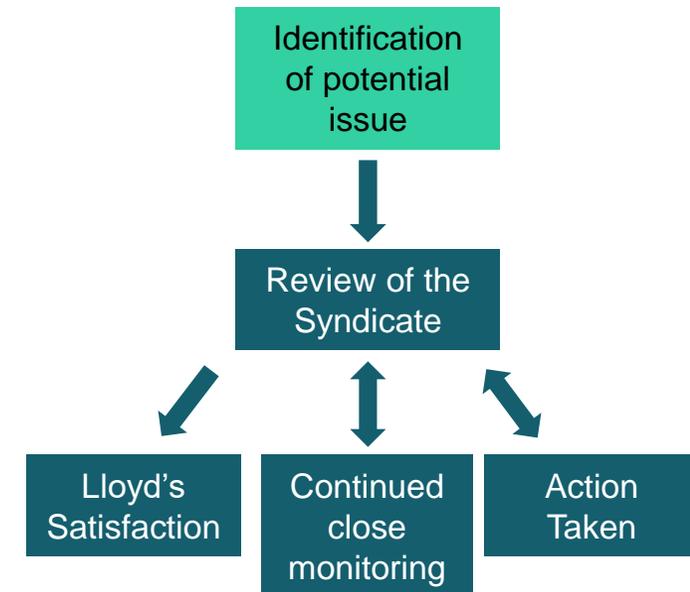
Expect to perform reviews over H2 2019

Risk-based approach to identify need for Syndicate review

Review triggers

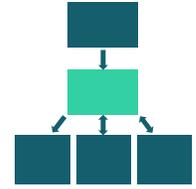


- Potential syndicate issues highlighted through routine monitoring & Reserving Framework
 - Top down diagnostics, IBNR burn, allocation of surplus, benchmarking, etc.
 - Bottom up review of syndicate data and metrics
 - Qualitative and quantitative information from other Lloyd's teams
 - Known changes in business e.g. mergers
 - Thematic reviews
 - Natural and man-made events
 - PRA feedback and findings
 - Every syndicate visited once a year at a minimum
- Focus on the best estimate process, not held estimates



Syndicate review will focus on the area of concern

Process and common findings from reviews



- We may collect additional information from Syndicates
- Reserving walkthrough where appropriate
 - Class selection
 - Business mix
 - Method
 - Assumptions
 - Rate, inflation
 - Validation
- Analysis and re-projection of classes / account
- Meetings with signing actuary and their team
- Justification of reserve selection from Board / Committee

Key Findings

Allowance for trends

Credit for re-underwriting

Benchmarking

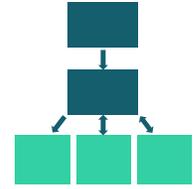
History to select IELR

Survivorship bias

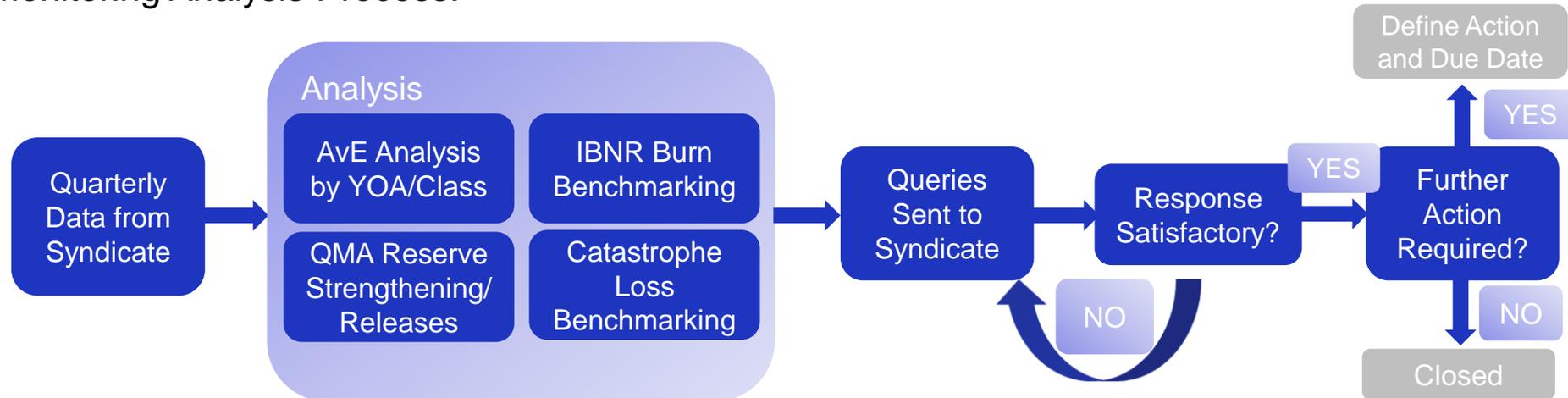
Method selection

Action depends on the severity of the concern

Thematic Loadings: Best Estimate reserving deficiency



Quarterly Monitoring Analysis Process:



Will result in capital loads where reserving process deficiencies are not able to be resolved

- Based on Ladder of Intervention
- Loading size based on Managing Agent information on sensitivity to change in method or assumptions
- Solvency II deficiencies loaded by CPG

What do we mean by joining the dots?

Bringing together parts of the business to ensure complete risk coverage

A number of areas contribute to the assessment of overall capital appropriateness.

There is a risk of understatement of capital if business assumptions are not joined up.

Actuarial team is key to communicating the uncertainties associated with the business plan, capital number, reserving and pricing.

These uncertainties should be incorporated in the capital calculation.

Opening balance sheet represents an appropriate exposure estimate

Prospective loss ratio assumptions incorporate track record

Allowance for risk in capital/reserving/pricing/operations is clearly articulated

Capital appropriately reflects the full range of risk to the entity

Lloyd's expect Syndicates to have taken remedial action where there is evidence of increased risk of understating capital. If not, Lloyd's will consider if this is a breach of Minimum Standards.

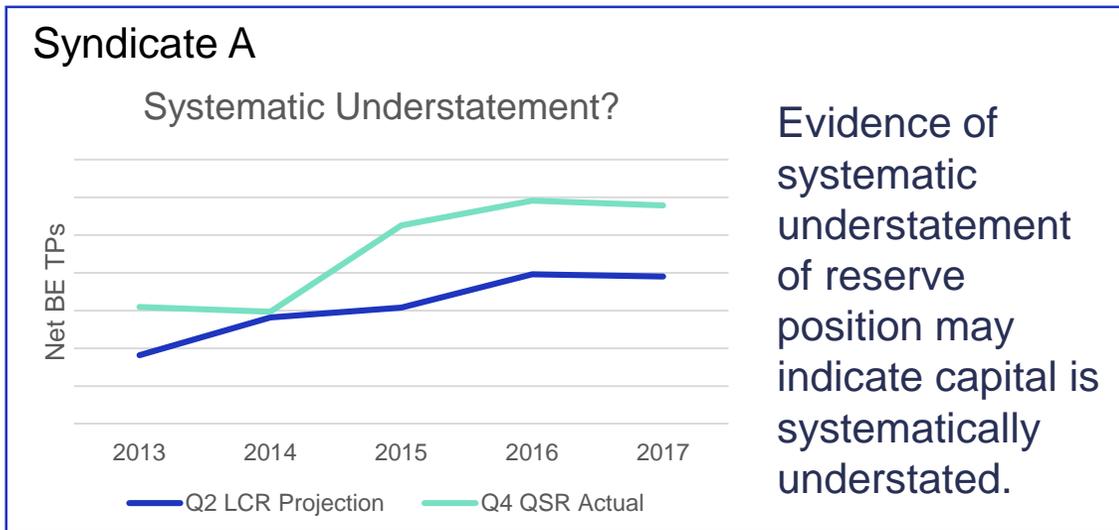
Focus on getting the starting position right

Thematic Loadings: Q2 to Q4 Balance Sheet Roll Forward

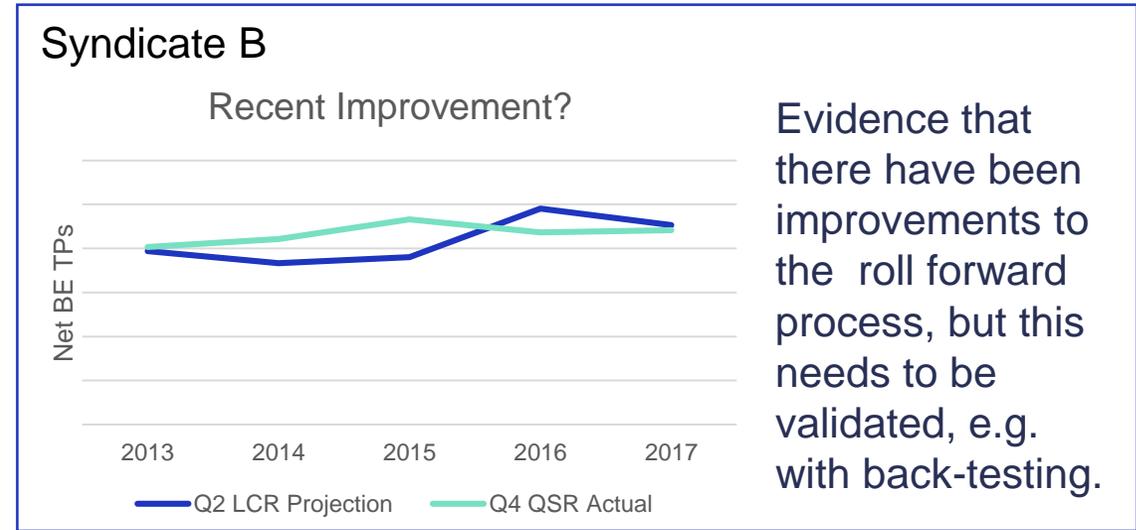
Projected Q4 Balance Sheet is starting position for the 2020 Solvency Capital Requirement

Has this position been an accurate estimate historically or has there been systematic risk of understating?

- It is important that the roll-forward process doesn't systematically understate the Balance Sheet position



Managing agents should demonstrate improvements made to this year's projections with appropriate back-testing



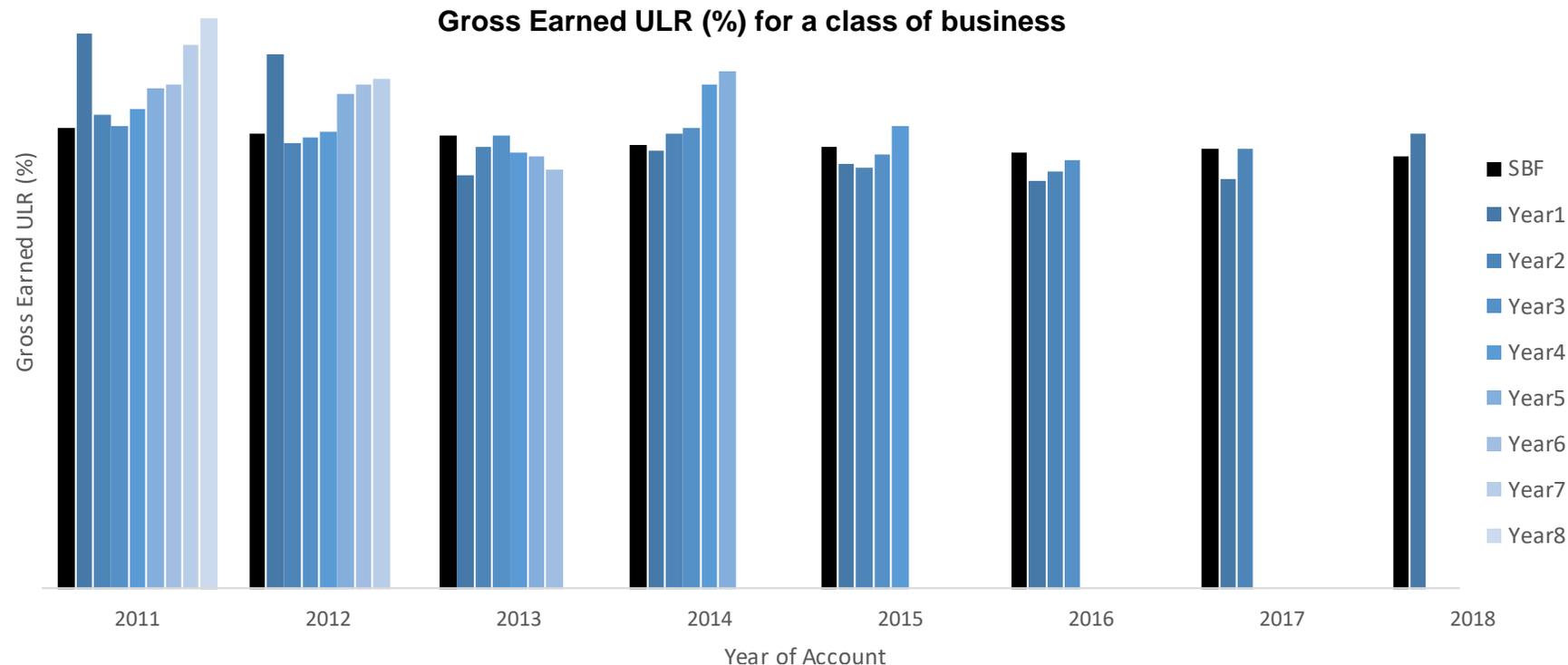
Where improvements to the process has been made in the recent past, managing agents should still provide validation

Question the appropriateness of your Business Plan assumptions

Thematic Loadings: Performance against Plan

Has plan been an accurate estimate historically or has there been systematic risk of understating performance?

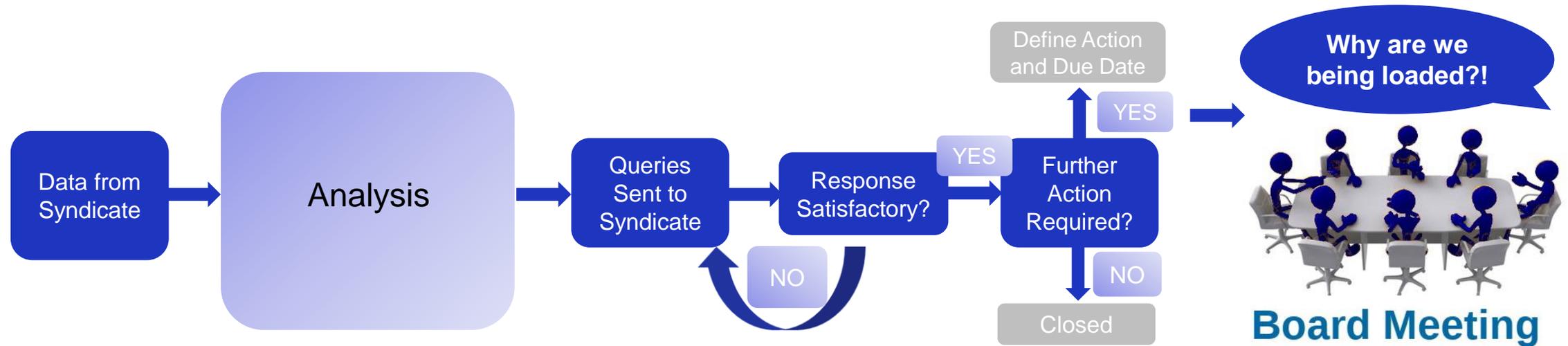
- It is important that the prospective loss ratio assumptions don't systematically understate the reserves



Managing agents should rely on experience for setting prospective assumptions where performance deviates from plan

Improve data quality to better steer Lloyd's reserve reviews

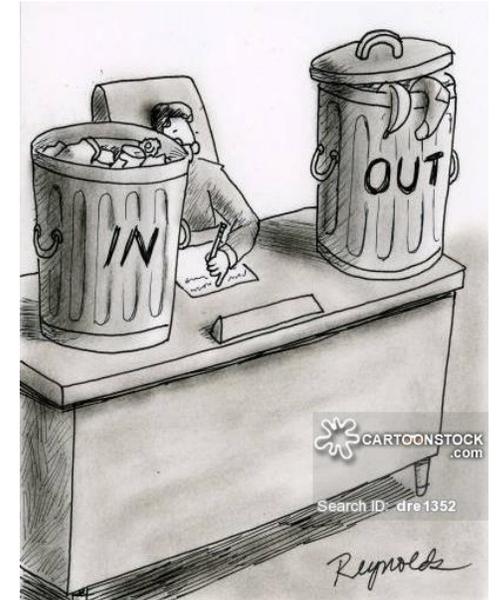
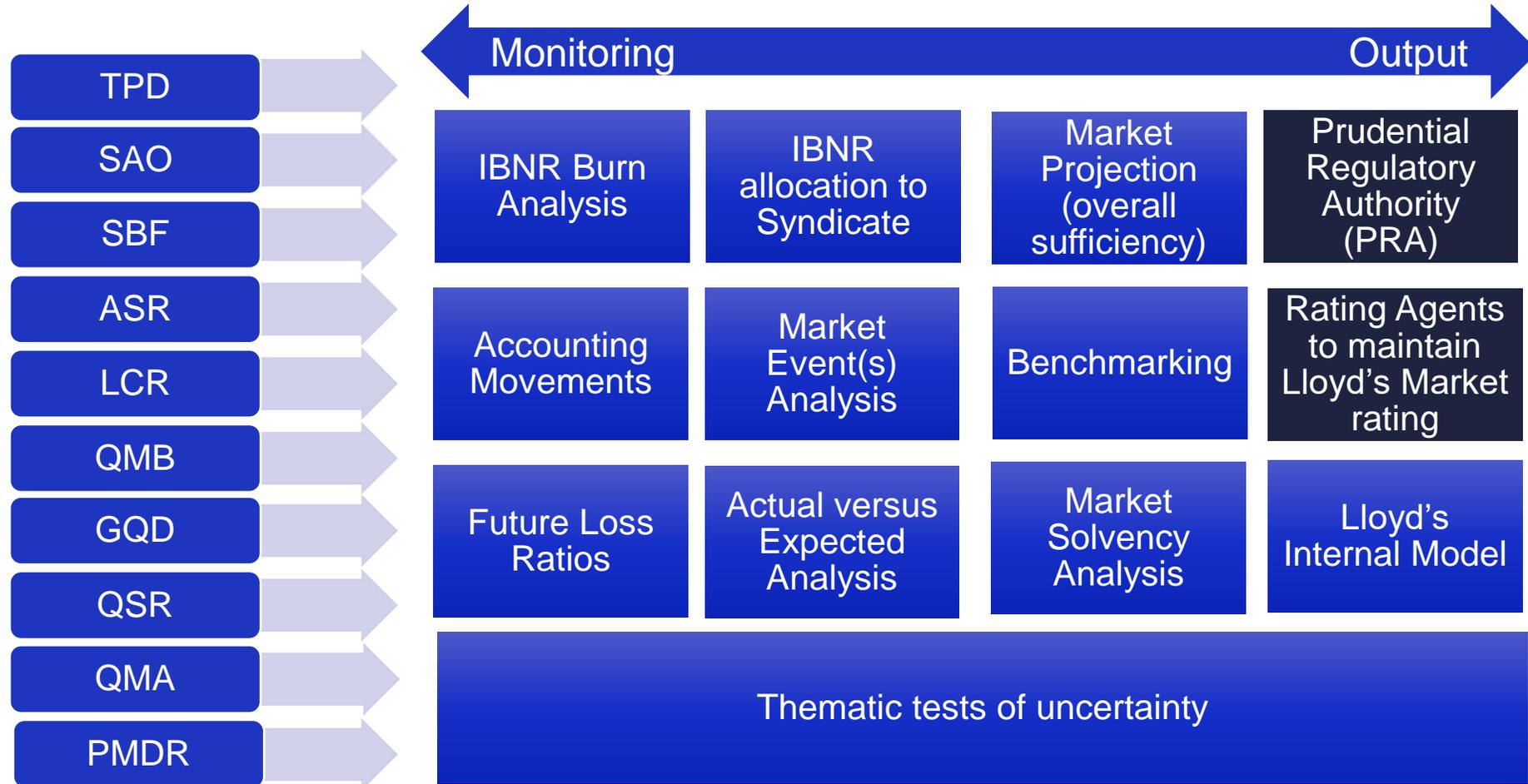
Syndicates' data quality is important to the efficiency of Lloyd's reserving oversight



- The data provided by Syndicates is the same data used to monitor Syndicates
- If quality of that data is poor then Lloyd's ability to identify where oversight and intervention should be directed will be impacted
 - Includes allocation to granularity required by Lloyd's

What does Lloyd's do with submitted data?

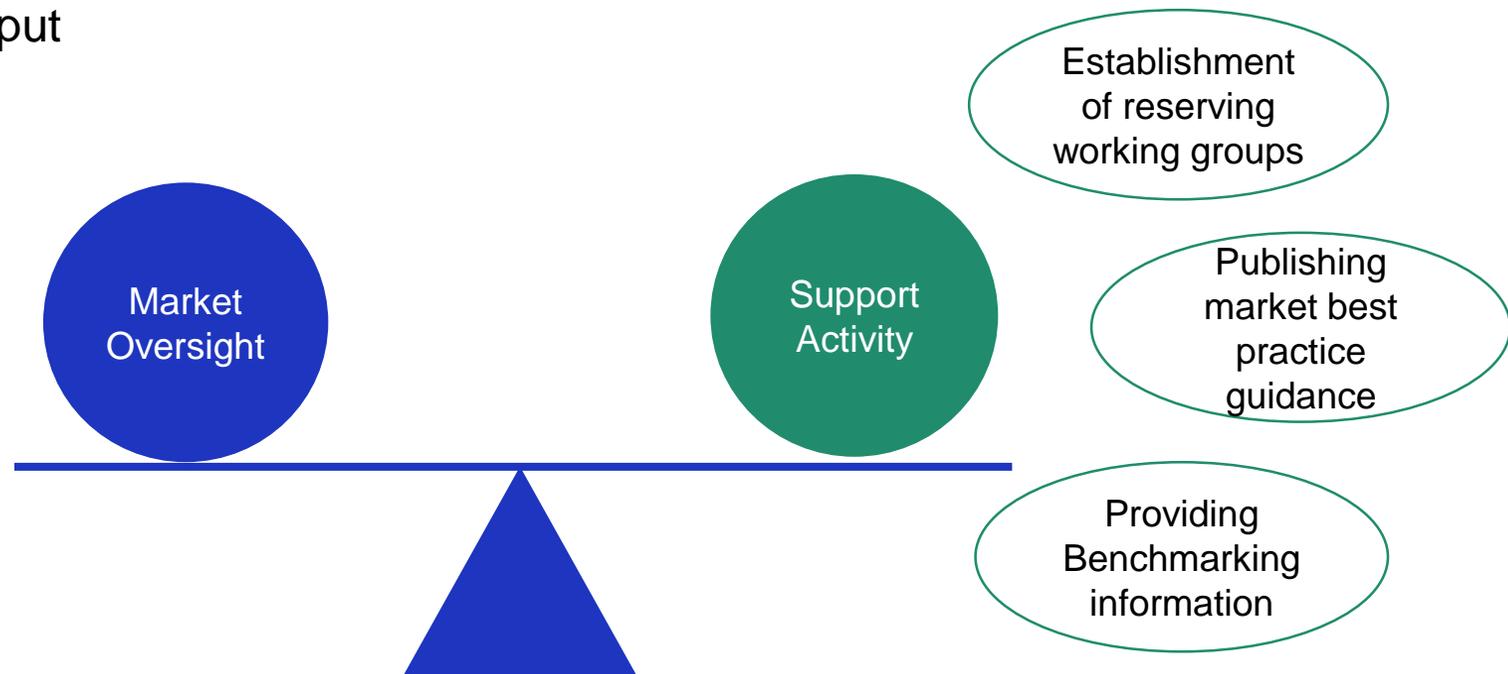
Reserving data is collected for monitoring and output to external stakeholders



Reserving team focus on enhanced collaboration with the Market

Adding value and receiving feedback

- Lloyd's regulatory reserving oversight work will not reduce
- But looking to increase the value added to the market from Lloyd's insight
 - Additional output
 - Collect more useful input
 - Two-way street



Lloyd's Part VII Transfer update

- Valuation of liabilities and other actuarial analysis being carried out centrally by Lloyd's
- Syndicates are being required to provide data to Lloyd's
 - Which will be reconciled to Lloyd's centrally held data
 - Need to provide a data accuracy statement (similar to that for SAOs)
 - Require independent audit sign-off on the data provided
- Syndicates not expected to perform any actuarial analyses themselves
 - Subject to requirements of the Independent Expert
- Currently: Undergoing initial valuation exercise and data collection from Managing Agents
- Next: Reconciliation of data and Chief Actuary report

Summary

Summary

To support improved performance assumptions need to be understood and justified

- Capital should cover all sources of uncertainty
- We do not expect any thematic loadings this year
- Transparency with market over thematic tests of uncertainty
 - Maintain appropriate and robust best estimate reserving processes
 - Focus on getting the starting point right
 - Question the appropriateness of business plan assumptions
- Improve quality of data submitted to Lloyd's
- Aiming to enhance market collaboration

Questions?

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