LLOYD'S

Signing Actuaries' Forum 2019

11th November 2019

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

Priye Dhansuklal – Senior Actuary

Ajay Shah – Senior Manager

Contents

2018 YE SAO feedback

2018 YE SAO report reviews

Previous level of review may not be needed any longer

- Not performed a generalised detailed review of the SAO reports this year
  - Standard of reports is generally high now
  - Structure of reports largely consistent year-on-year
  - Hence not as much value in performing similar review to the past few years
- Ad-hoc detailed reviews of reports are carried out as required
- Future review approach will be reconsidered

2018 YE SAO reviews

Feedback

- Is the comparison against the booked or the best estimate?

- Explanations of surplus / deficit in the best estimate more useful

- Movement in surplus / deficit since previous review helpful
  - Gives sense of direction of travel
  - Potentially highlights changes in assumptions over the year

Uncertainties

Large Loss Wordings

Event	2018 Year End Wording 3	2018 Year End Wording 4	2017 Year End Wording 3	2017 Year End Wording 4
Hurricane Harvey	0	0	3	0
Hurricane Irma	1	0	6	0
Hurricane Maria	0	0	4	0
HIM combined	7	0	26	2
Californian Wildfires	4	0	2	0
Hurricane Michael	4	0	0	0
Hurricane Florence	2	0	0	0
MF Combined	1	0	0	0
Typhoon Jebi	2	0	0	0
Jebi Trami Combined	1	0	0	0
Ogden Rate Change	1	0	2	0
Other	1	0	2	0
Total	**24**	**0**	**45**	**2**

The reduction in wordings driven by HIM, as uncertainty reduces with increased payments

Please consider and comment on uncertainties regarding emerging risks:

- Opioid claims?
- Sexual Molestation claims?

NED Forum

Have encouraged NEDs to provide increased challenge in some areas

Focus on:

- Reserving Thematic loads
  - Modelled Loss Ratios
  - Technical Provisions
- Importance of data

… but also included:

- Overview of capital review process
- Overview of reserving oversight

Signing Actuary analysis

Engagement with signing actuaries

Overview of Signing Actuary engagement

We are looking to increase engagement with signing actuaries

Purpose

- Gain deeper understanding of processes adopted by signing actuaries
- Bring perspective to our regular oversight work
- Will help define the work we do

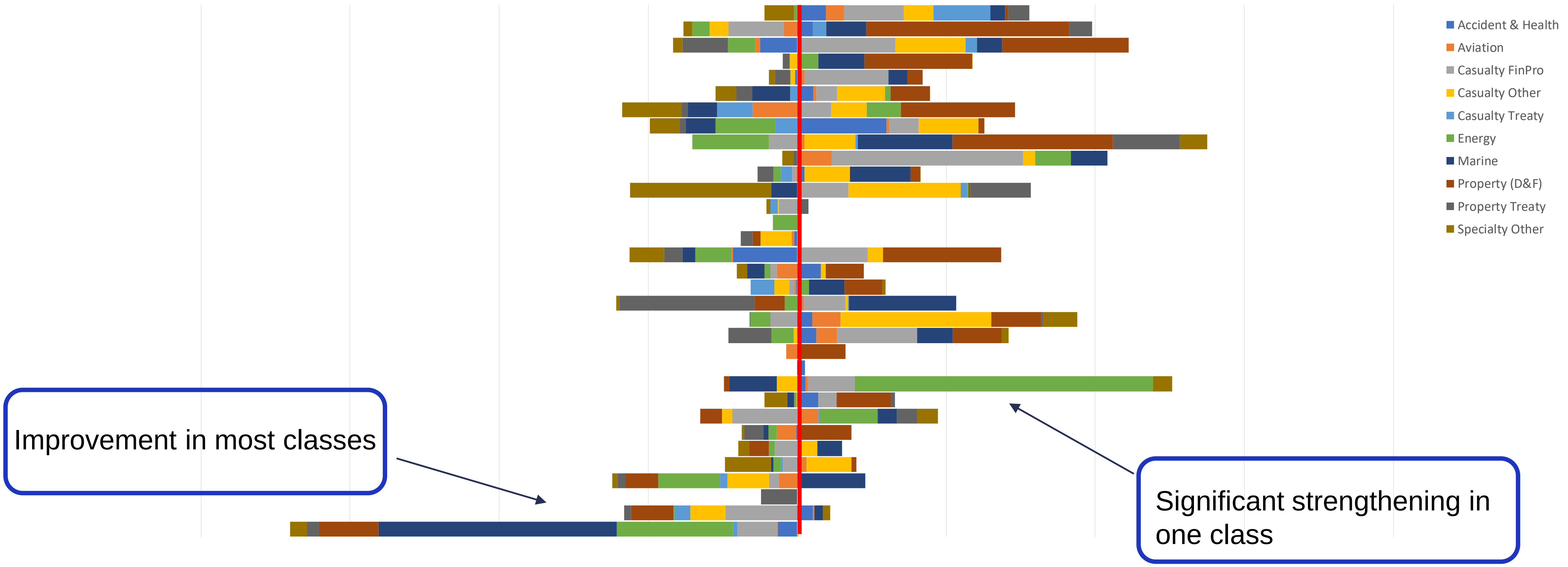
Approach taken in 2019

- Various benchmarking metrics used (at overall level or relating to specific Lloyd's HLCOB of concern)
  - Size of reserves
  - ULRs
  - Movement in ULRs
  - Size of SAO surplus / deficit
- Had meetings with a sample of signing actuaries
  - Each signing actuary was also considered in the context of their Firm (as typically we would want to see one signing actuary per Firm)

LLOYD'S

Example 1: Movement in Gross Ultimate

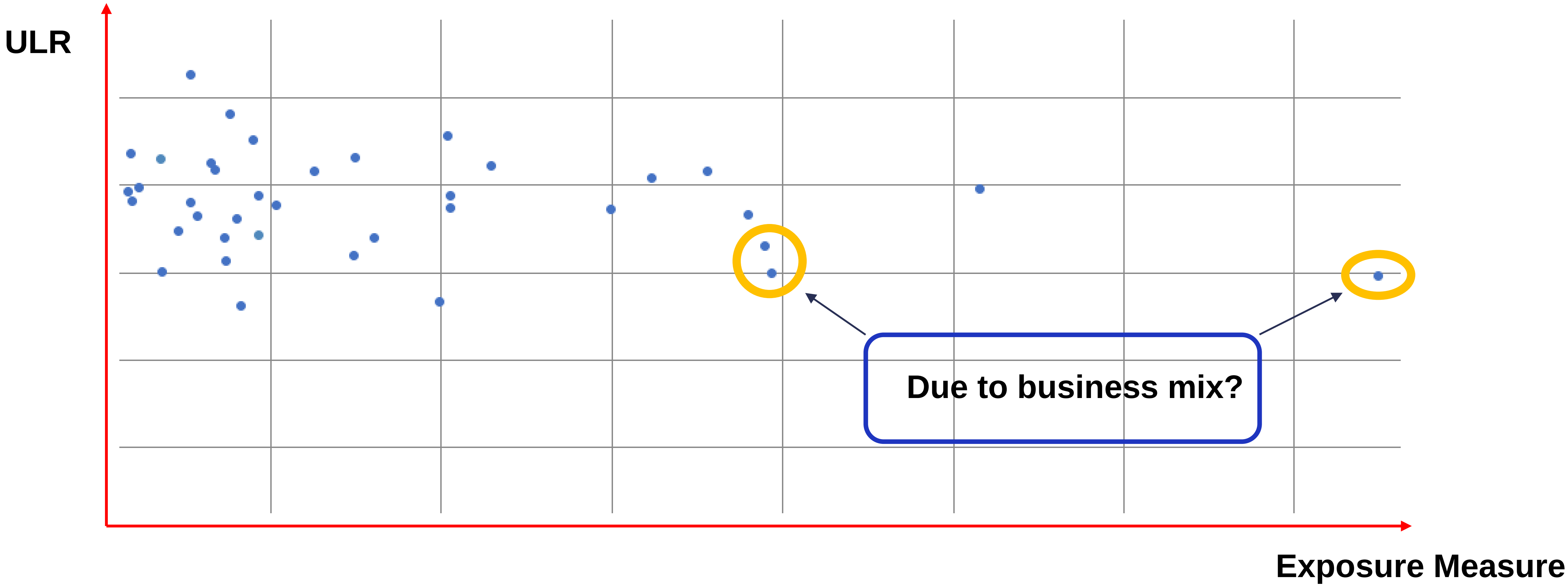
Do any movements look out of line with the market?



Classification: Confidential

Example 2: Comparison of ULR by Signing Actuary

A high level view of where the whole account loss ratios sit



What does this mean?

Expect queries from Lloyd's based on the benchmarking metrics in 2020

Benchmarking metrics help	It does NOT indicate concerns
☐ Provide context	☐ Over the reserves set
☐ Identify areas of focus	☐ Over the processes followed
☐ Ask questions to enhance our understanding	☐ Over the opinions provided

Market-level reserving observations

What we are seeing

LLOYD'S

Concerns on Casualty continue

At high class of business level evidence of potential market-level deficiencies

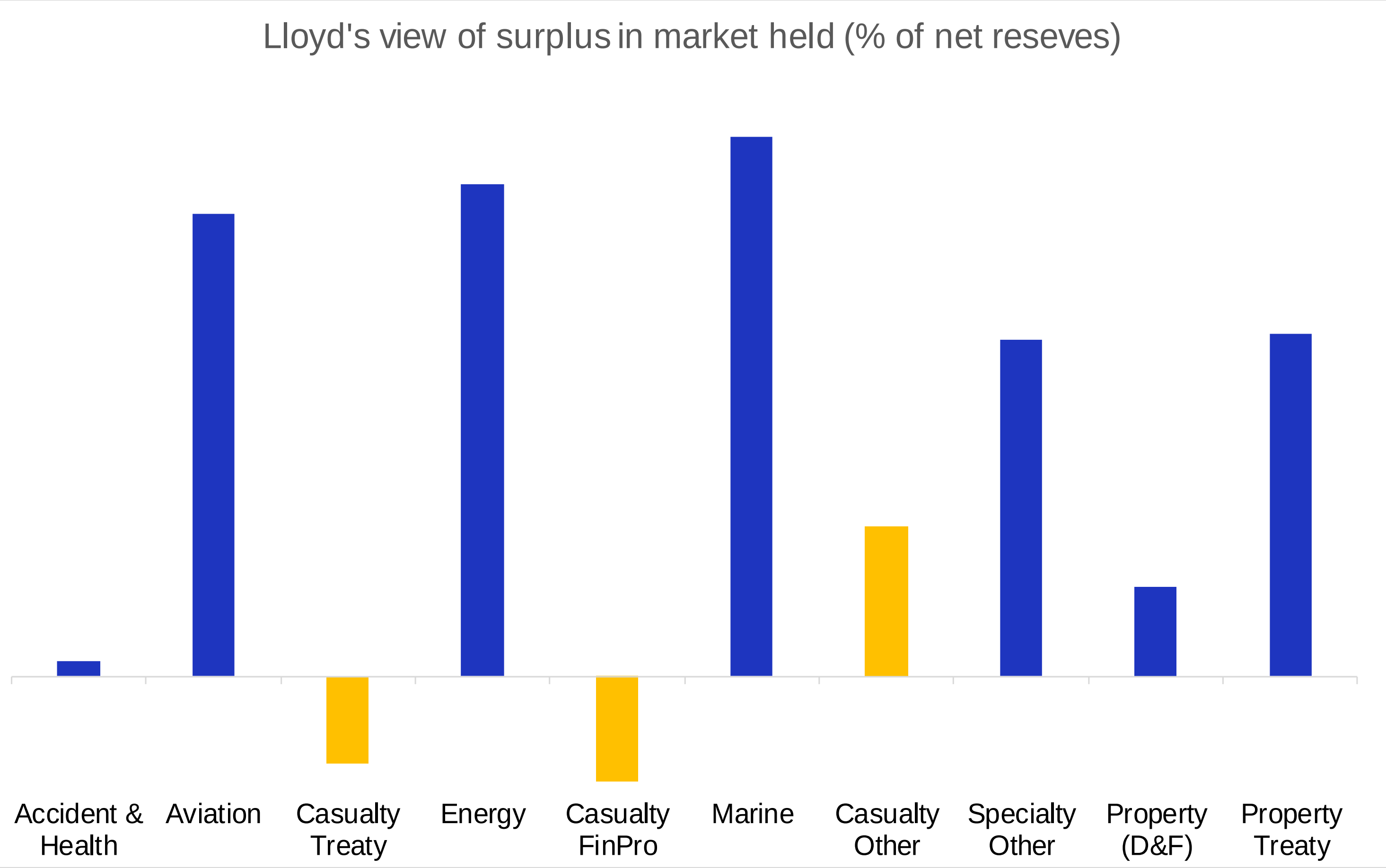
Lloyd's central reserve review exercise identifies potential areas of deficit in held reserves.

- Casualty Treaty
- Casualty FinPro

View based off our best estimate, but a wide range of reasonable alternative views could give rise to different conclusions.

Lower level classes of business Lloyd's have reserving concerns about include:

- Financial Institutions (non-US)
- Professional Indemnity (non-US)
- Medical Malpractice (US)
- NM GL (US and Non)
- Directors and Officers



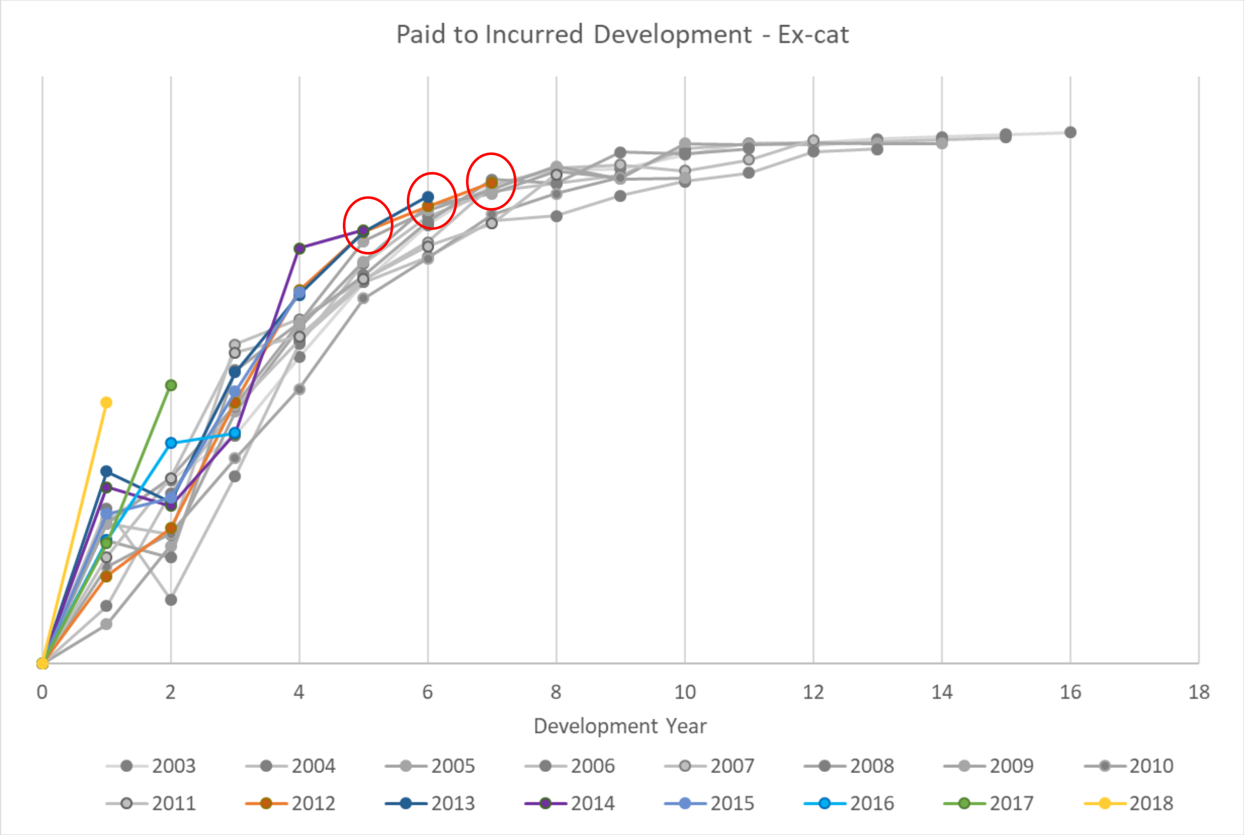
LLOYD'S

Case Reserve Adequacy

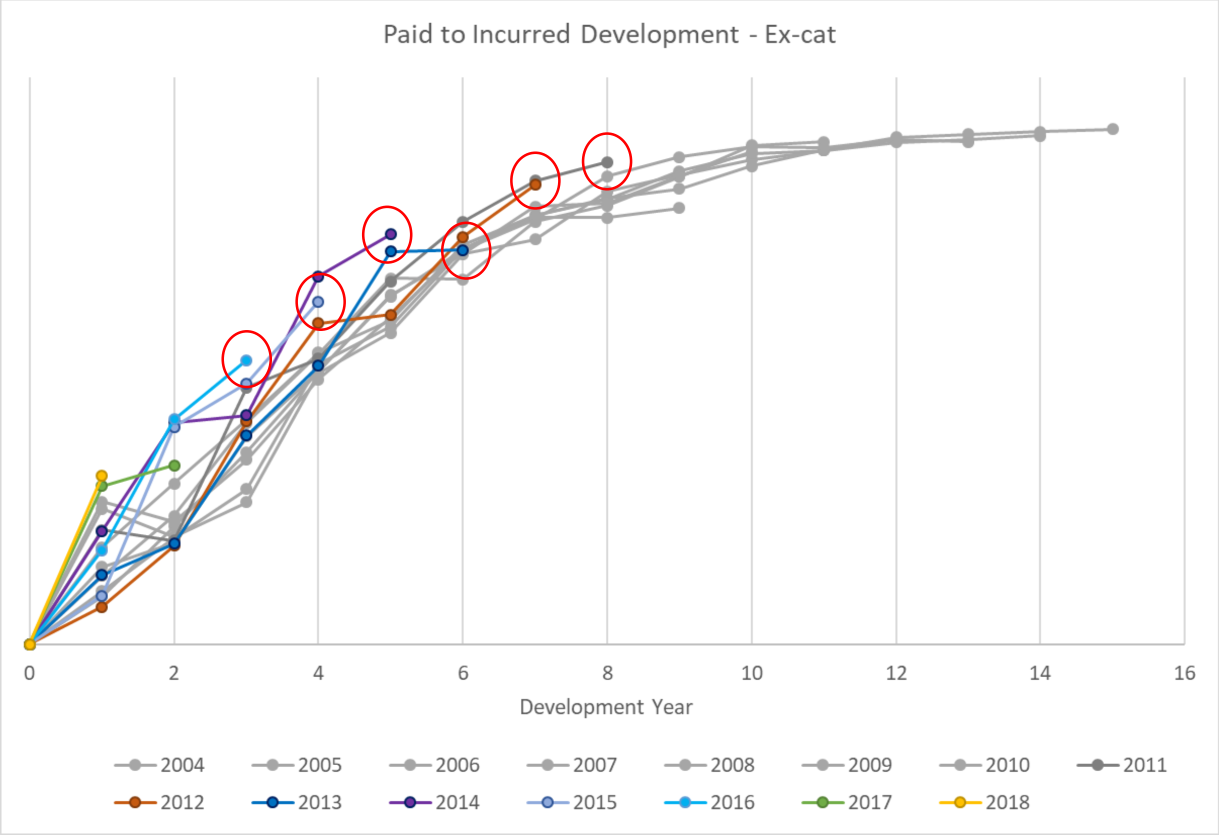
Potential evidence of case reserve adequacy weakening

Evidence of possible case reserve weakening

NM GL (US Direct)



Medical Malpractice (US)



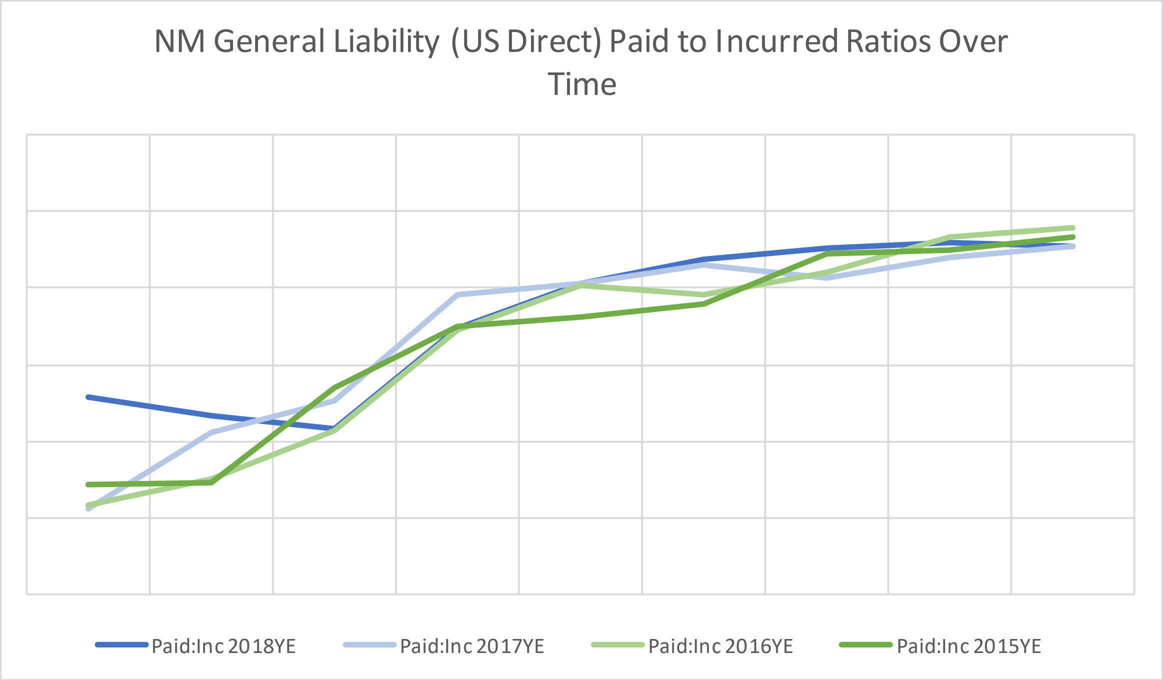
LLOYD'S

Case Reserve Adequacy

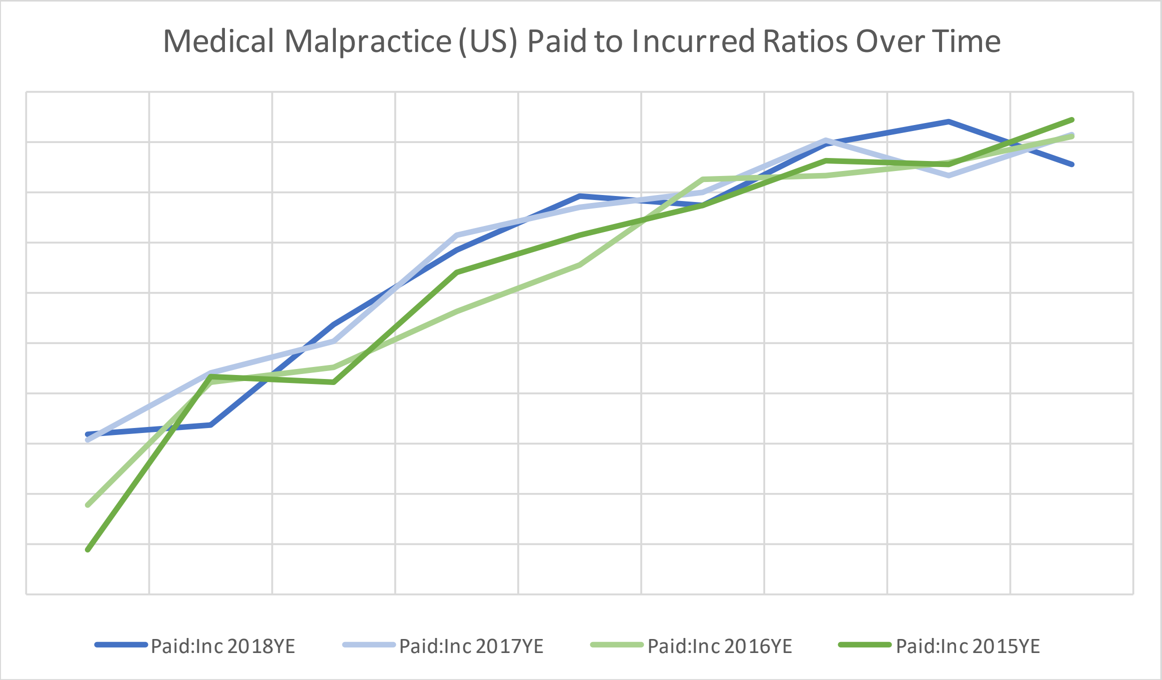
Potential evidence of case reserve adequacy weakening

Evidence of possible case reserve weakening

NM GL (US Direct)



Medical Malpractice (US)



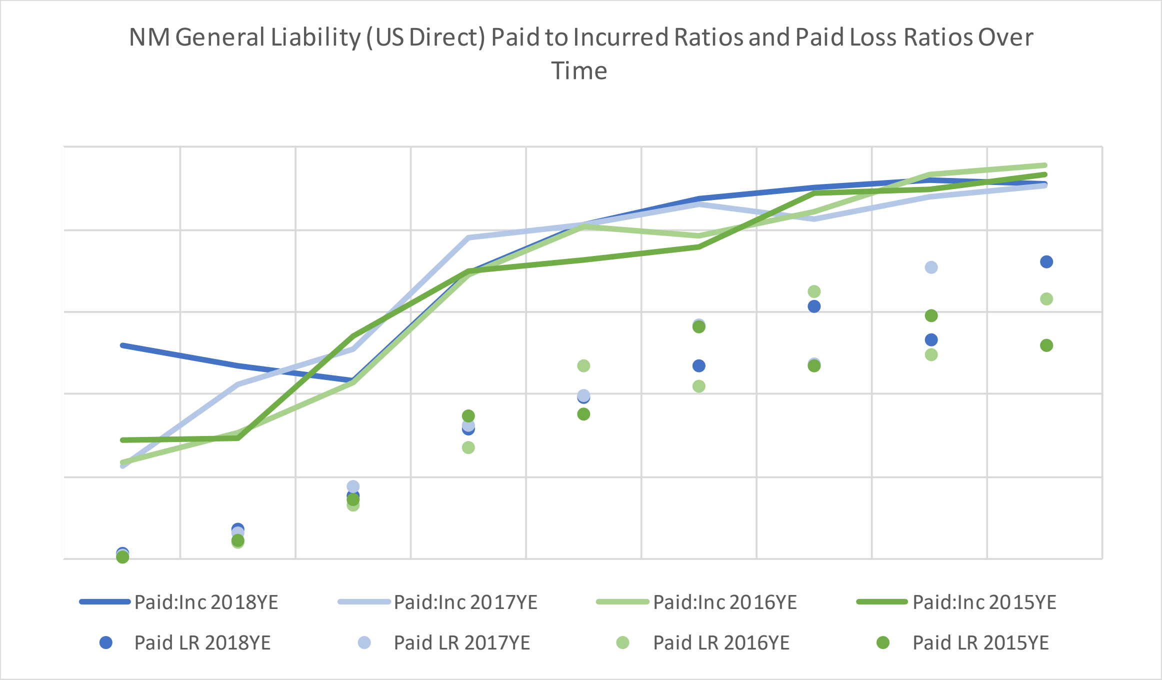
LLOYD'S

Case Reserve Adequacy

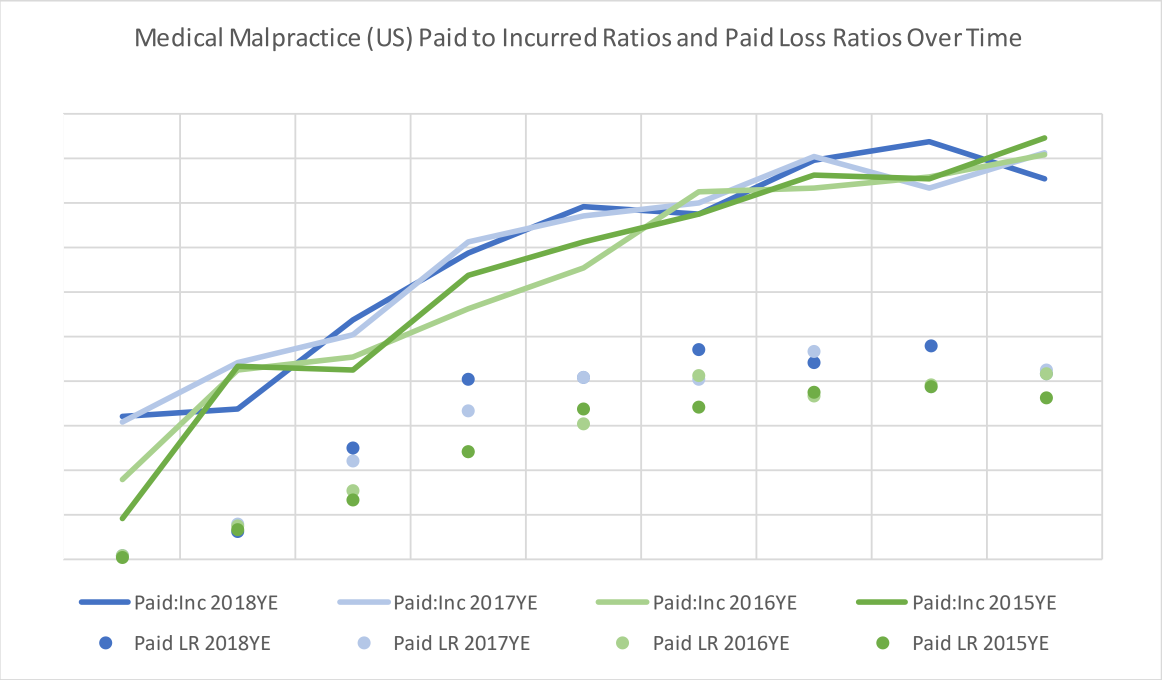
Potential evidence of case reserve adequacy weakening

Evidence of possible case reserve weakening

NM GL (US Direct)



Medical Malpractice (US)

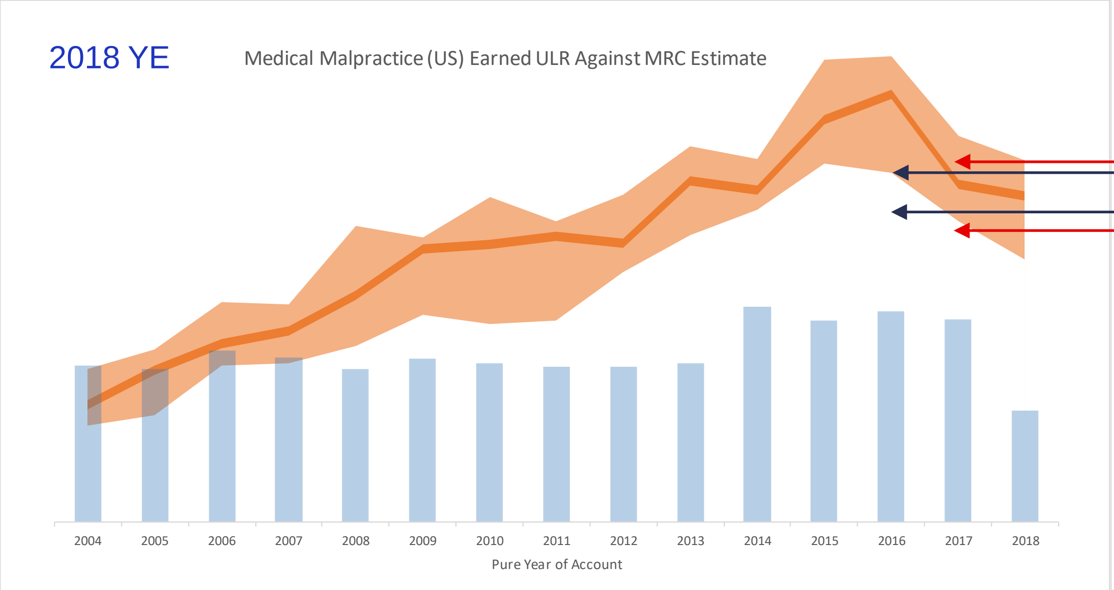


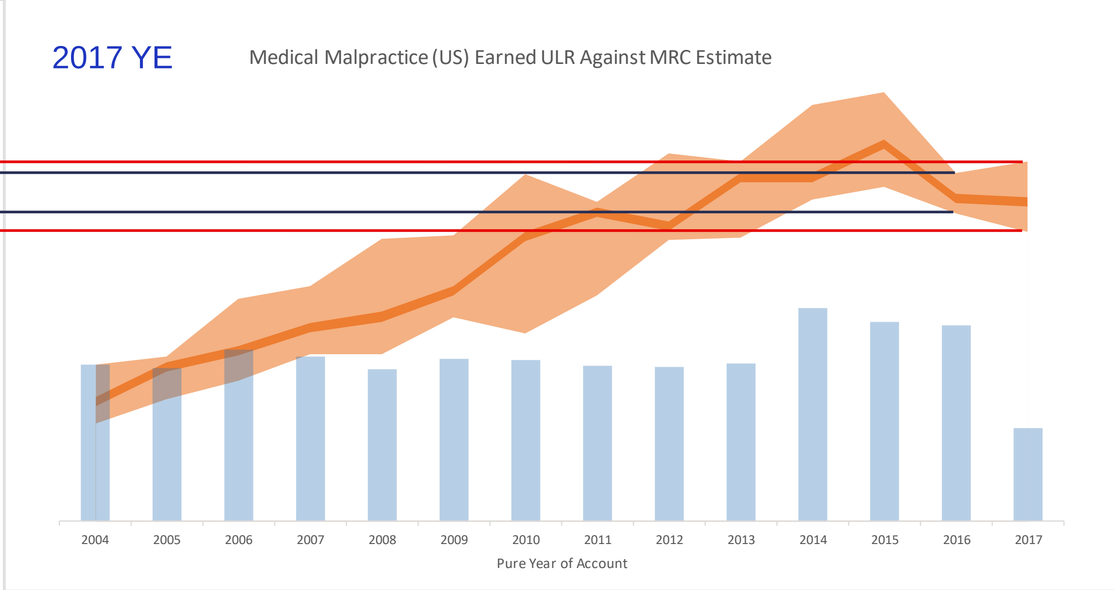
LLOYD'S

Medical Malpractice (US)

Market interquartile range

Is the market IELR appropriate?





2018 year-end:

- Clear trend of increasing loss ratios
- Except the recent two years
- Premium has remained stable over last few years…if re-underwritten, replaced with new business

Versus 2017 year-end:

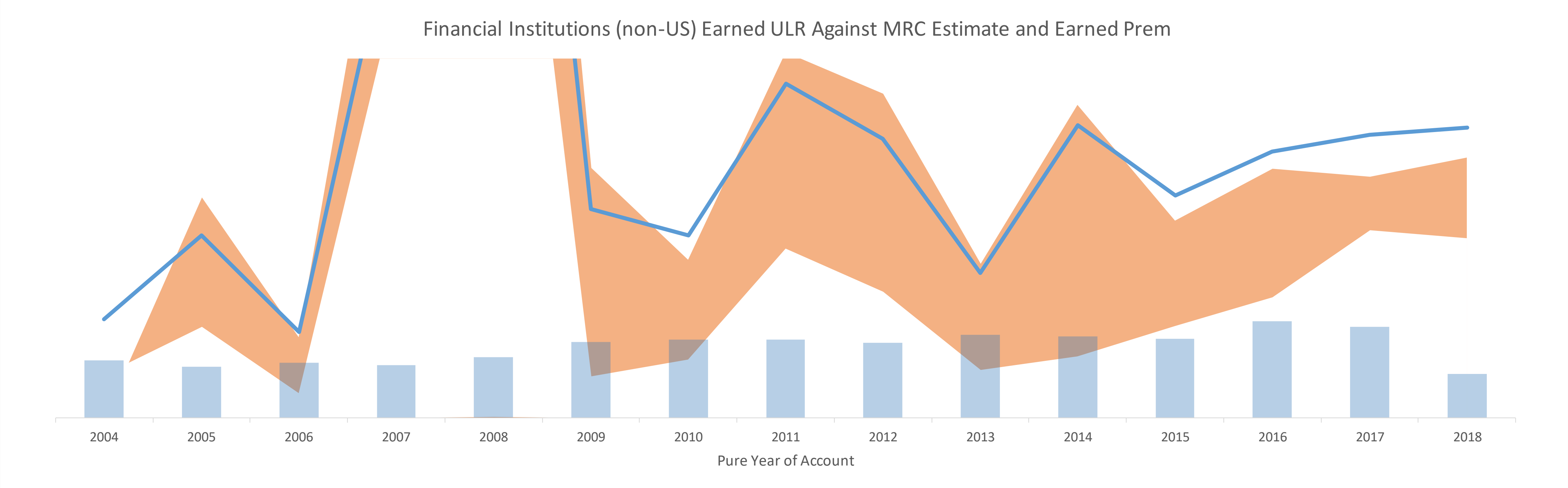
- A wider spread of recent years' ULRs at 2018 year-end
  - Some in the market reflecting the generally poor experience in 2018 more than others when selecting IELR?
- 2016 YOA at 2017 YE similar to 2017 YOA at 2018 YE, but 2016 YOA at 2018 YE looks to have deteriorated…

… is 2017 YOA ULR appropriate?

Financial Institutions (non-US)

Market interquartile range vs. MRC

Is the market IELR appropriate?



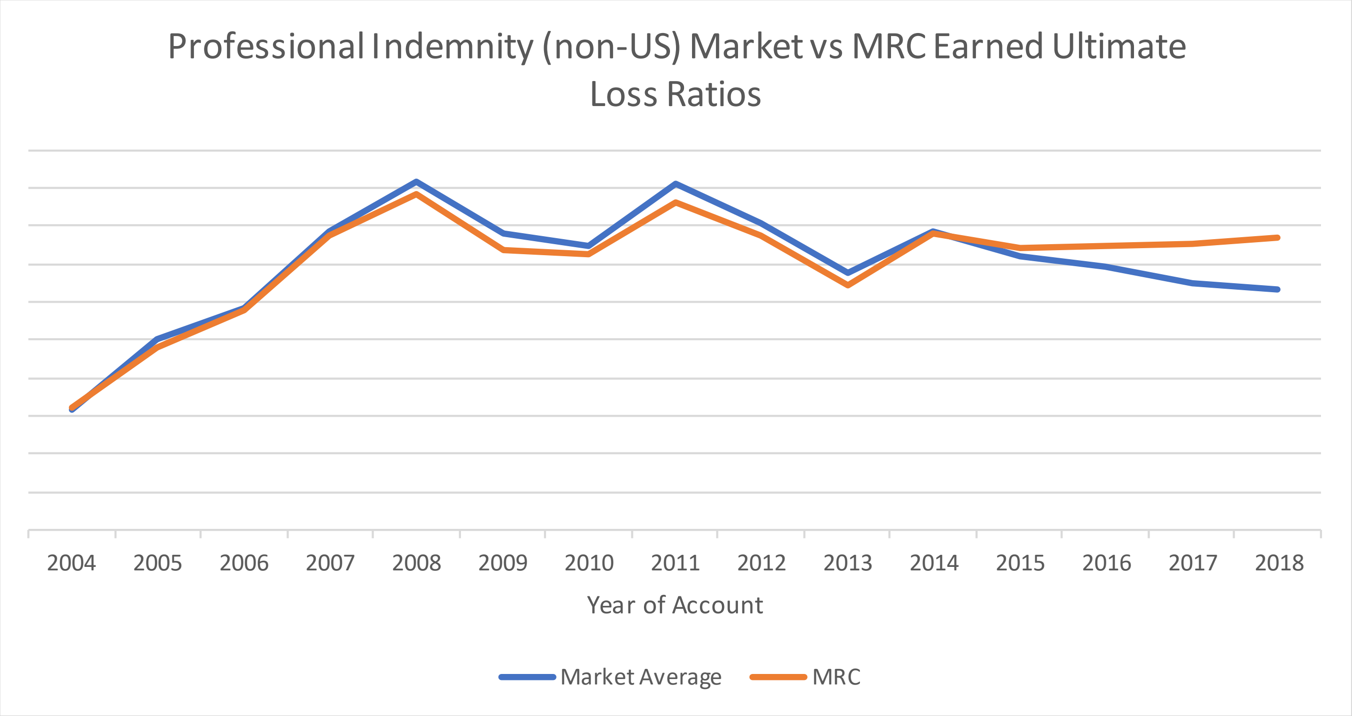
- Up to 2015 YOA, MRC estimate is within the interquartile range
- Thereafter MRC and market move in the same direction…
- ...but there appears to be a difference in IELR views

LLOYD'S

Professional Indemnity (Non-US)

Market vs. MRC

Is the market IELR appropriate?



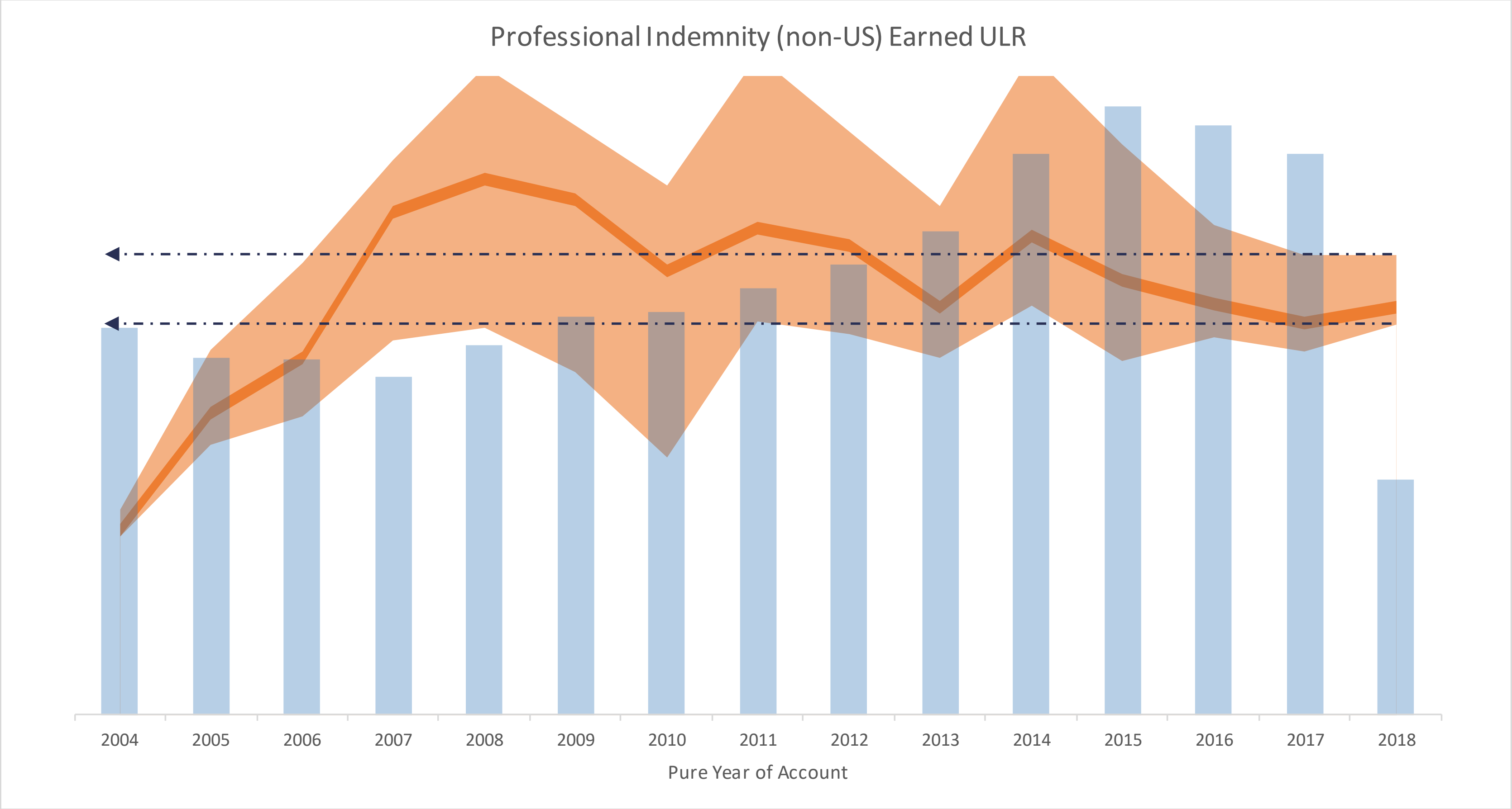
- Recent years market loss ratios look low compared to history
- MRC loss ratios in recent years more in line with the history
- Divergence in recent years driven by difference in views of IELRs

LLOYD'S

Professional Indemnity (Non-US)

Market interquartile range

Is the market IELR appropriate?



Large portion of the market have IELRs materially below the what history would suggest.

This may be even more true in 2019…

…requires appropriate challenge

Thematic loadings

Historical Actual vs Plan loss ratios

Is the loss ratio used for capital setting appropriate?

Purpose:

- to ensure the loss ratio used for capital setting is sufficiently uplifted from plan based on any prior year systemic poor planning

Example of deviation seen:

Gross Net	Accident & Health (direct)		
YoA	SBF GNULR	TPD GNULR	TPD - SBF GNULR
2012	66.2%	101.4%	35.1%
2013	61.6%	102.1%	40.6%
2014	70.2%	108.7%	38.5%
2015	70.5%	112.3%	41.8%
2016	83.0%	96.2%	13.2%
2017	78.4%	125.1%	46.7%
6 years (12-17)	**71.8%**	**106.2%**	**34.4%**

Does the modelled loss ratio take into account such deviance?

If not, why not?

Signing actuaries should be aware of the drivers for the differences to take into account in their IELR setting processes

- *Were the historic rate assumptions achieved?*
- *Does syndicate use plan for their IELR? And does signing actuary use these to validate their own?*
- *Business mix changes – history relevant?*

Historical Actual vs Plan loss ratios

Modelled loss ratios vs plan loss ratios (2020 vs 2019)

Technical provisions roll-forward

Are the methods and assumptions appropriate?

Purpose:

- to ensure that the methodology used to roll forward Q2 LCR technical provisions is sufficient to ensure Q4 technical provisions are not under-capitalised in the SCR

Impacts should be allowed for:

- If actual TPs are higher than projected due to **unforeseen** factors

- However if unforeseen events occur every submission, should they be foreseeable?

Key assumptions are the payment patterns

- Signing actuary should keep this is mind if they use the syndicate's paid patterns to validate their own patterns for example

2019 YE SAO

What we are expecting

2019 YE – VoL – Earned Margin Test Recap

Year End Earned Margin Test (£m)	Year End 2019	Year End 2018	Year End 2017	Year End TOTAL	Mid - Year TOTAL
QSR 210 Line 4 Elimination of margin for prudence within earned claims provisions and RI bad debt	3	2	6	11	12
SAO Data Template Net Earned Margin	3	3	5	11	11
Difference (SAO less QSR)	0	1	(1)	0	(1)
Load Flag	No Load	No Load	Load	Load	Load
Loading Amount	-	-	1	1	1

Load by the difference versus the Signing Actuary estimate

- Earned Margin test calculated:
    - By year of account ***at year end***
    - In aggregate ***at mid-year***

2019 YE – VoL – Unearned Profit Test Update

Year End Unearned Profit Test (£m)	Year End 2019	Year End 2018	Year End 2017	Year End TOTAL	Mid - Year TOTAL
QSR 210 Line 19 Unearned Incepted Ultimate Premium	7	6	14	27	29
QSR 210 Line 20 Unearned Incepted Ultimate Claims	(6)	(5)	(12)	(23)	(24)
QSR 210 Profit in Unearned Premium Percentage 1 + (Line 20 / Line 19)	14.3%	16.7%	14.3%	14.8%	17.2%
SAO Template Data (Net)	20.0%	15.3%	10.7%	14.2%	14.2%
Load Flag	No Load	Load	Load	Load	Load
Loading Amount	-	0	1	1	1

Load by the difference in percentage of profit between QSR and Signing Actuary multiplied by Unearned Incepted Ultimate Premium

- Unearned profit test calculated:
  - By year of account ***at year end***
  - In aggregate ***at mid-year***

LLOYD'S

Earned Margin and Unearned Profit tests

At mid-year

We appreciate there are good reasons why the tests can fail at mid-year, for example:

- Business mix change – **unearned profit ratio impacted**
- Margin held for particular loss which occurred after YE – **increases earned margin**

But in these cases, signing actuary will likely be asked to provide a statement

- To confirm they are comfortable with this
- To explain why this is appropriate

2019 YE – SAO Template Data

- Information supplied in the SAO Template is used by Lloyd's

Central Reserving

Best Estimate Reviews

Annual Reserving Meetings with Agents

Capital Appropriateness

Relative Impact of Market Events by Syndicate

2019 YE – SAO submission dates and specific points

Submission	Deadline
Signing Actuary Details	29 November 2019
US Trust Fund SAOs	14 February 2020
Worldwide SAOs	13 February 2020
SAO Template	17 February 2020
SAO Reports	31 March 2020

Please note the following:

- Hard copies of Worldwide SAOs and SAO reports are **no longer required**
- Collection of soft copies will be through the MDC platform (more details to follow later in the year)
- US Trust Fund SAOs to continue to be sent to Market Finance as per their instructions
- **Please comment on potential exposures to opioid claims in your reviews**

LLOYD'S

We need your help

Early warning of issues

Update on pre year-end work

- Gain an understanding of issues and concerns
- Early warning of changes that may be required at year-end
- Understand direction of travel

Why?

- Gain a better understanding where we are doing additional work

What?

- Materials produced for the pre year-end update
- Meeting to discuss work if required

We understand the work is not the final opinion and things can change for the year-end review

Migration to MDC

Chris Napier – MDC SAO Business Analysist

Serhan Tana – MDC SAO Return Builder

LLOYD'S

Contents

MDC Overview

The MDC Programme team are delivering a new platform that will replace existing systems, such as SecureStore and Core Market Returns (CMR), which are currently used to capture information from the Market for the purpose of Tax, Regulatory, Supervisory and Oversight.

Returns deployed to date:

- SBF
- LCR
- QMB
- PMD
- Non-XIS
- QMA

Key Improvements:

- Enhanced controls around how Market participants submit returns
- Additional automation in validating returns
- New ways in how Lloyd's communicate to Market participants

LLOYD'S

SAO Submission Overview

The SAO return is to be split into 3 submission groups in order to factor in the scenario where a Signing Actuary may only be signing one of the US Trust Funds or Worldwide opinions for a given syndicate. The SAO return will be split into:

- SAO on US Trust Funds Only
- SAO on Worldwide Only
- SAO on Worldwide & US Trust Funds

Each return will consist of 2 workflows:

- SAO Data Template
  - Excel document upload
  - Online submission
- SAO Opinion and Management Report

As part of the submission, primary validations will be applied to the SAO template:

- Correct SAO template uploaded for syndicate
- Validations to assist timely data accuracy checks

There is instant notification of submission acceptance

Summary

What it is:

- Excel template upload
- Can amend items online or input all online if required
- Can link to working files
- Instant validation to assist data checking
- Instant notification of submission
- Enhanced security and governance

What it is not:

- An onerous process
- A change to the workload

Key inputs required from the Signing Actuaries/Managing Agents

- Managing Agent's notification of signing actuary
- Notification of classes of business used by the Signing Actuary
- Assistance with user testing (MAT commencing 3rd-20th December)

MDC Demo

To be presented by SAO Return Builder – Serhan Tana

LLOYD'S

Questions?

Contact details

Emma Potter

Emma.Potter@lloyds.com

Priye Dhansuklal

Priye.Dhansuklal@lloyds.com

Ajay Shah

Ajay.Shah@lloyds.com

This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. It is the responsibility of any person publishing or communicating the contents of this document or communication, or any part thereof, to ensure compliance with all applicable legal and regulatory requirements.

The content of this presentation does not represent a prospectus or invitation in connection with any solicitation of capital. Nor does it constitute an offer to sell securities or insurance, a solicitation or an offer to buy securities or insurance, or a distribution of securities in the United States or to a U.S. person, or in any other jurisdiction where it is contrary to local law. Such persons should inform themselves about and observe any applicable legal requirement.

LLOYD'S