

LLOYD'S SAO REVIEW PROCESS

PRESENTATION TO SOCIETY OF ACTUARIES IN IRELAND

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Agenda

- Background
- Review Process
- Results
- Impact over time
- Closing thoughts / Questions



BACKGROUND

Lloyd's is an active Market

80 Syndicates

51 Managing Agents



£16bn Premiums

£28bn Net Reserves

....which need professional oversight if it is to work

Statements of Actuarial Opinion

- Worldwide technical provisions on each open syndicate year of account are subject to annual Statement of Actuarial Opinion (SAO)
- “One-way” test. The provisions held must be at least as large as actuary’s best estimate
- SAOs cover Gross and Net Solvency Technical Provisions which:
 - Are not discounted for the time value of money
 - Cover Outstanding Claims, IBNR, UPR and URP
 - Do not allow the release of profits on unearned business
 - Allow for reinsurance bad debt and claims handling expenses
- Large loss wordings highlight areas of increased uncertainty

Statements of Actuarial Opinion - UK Actuarial Standards

- Specific UK actuarial guidance issued by Board for Actuarial Standards:
 - GN12: General Insurance: Actuarial Reports
 - GN20: Actuarial Reporting under Lloyd's Valuation of Liabilities Rules
 - GN33: Actuarial Reporting for Lloyd's syndicates writing US business
- Practising certificates required
- Provides additional technical advice papers
 - Bad debt / ULAE
- Regular liaison with Lloyd's


The Actuarial Profession
making financial sense of the future

REVIEW PROCESS

Formal Reports support SAOs

- SAOs are supported by formal actuarial reports
- Reports are submitted to Lloyd's
 - 113 reports for year-end 2008
 - 42 signing actuaries
 - 9 consulting firms and 9 in-house
- Deadline is mid-April
 - After the opinions have been submitted !
- Electronic copies help our review



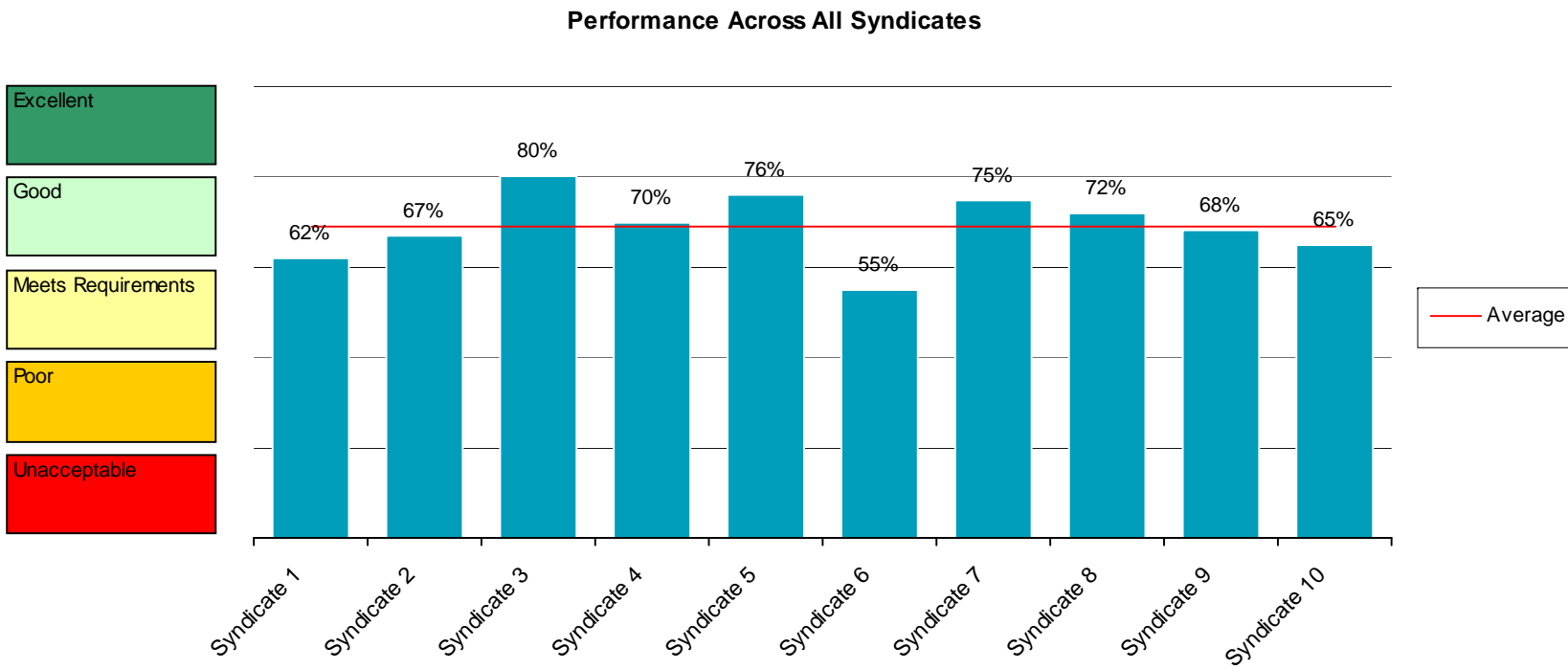
MRC reviews these reports.....

- MRC team at Lloyd's review the reports
 - 12 people / 1 day per report
- Structured review
 - Fixed questions
 - Based on GN12
 - Includes subjectivity / qualitative comments
- Consistency is important
 - Guidance for reviewers
 - Peer review

...and feeds back to the producers

- Reports are scored per section
 - Leads to an overall “score” per report
- Feedback document
 - For producers not recipients
 - Highlights strengths and weakness and includes “scores”
 - Including examples of good practice
- Provide (anonymous) market data for comparison
 - Introduces some competition
- Follow up meetings
- Very positive feedback from producers

Example feedback chart.....



Note: Based on dummy data

Lloyd's role extends beyond SAOs

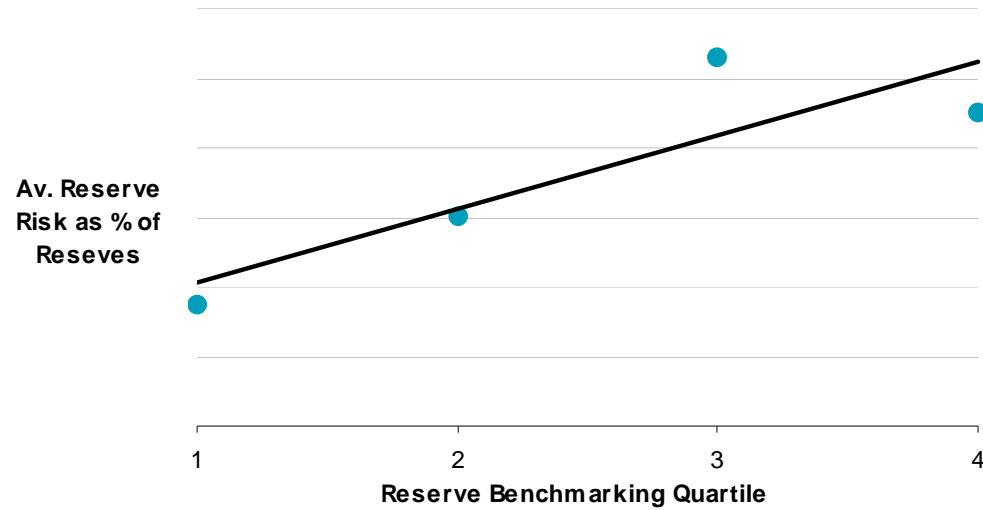
- We actively manage reserving risk
- Main corporation tools to understand reserving risk are:
 - Independent projections
 - Monitor IBNR usage through year / Early warning
 - Benchmark syndicate reserves
 - Monitor catastrophe claims development
- Strong link to capital setting
- Can't cover this in detail today
 - but will give some ideas on benchmarking syndicate reserves

Benchmarking syndicate reserves

- Calculate the relative reserving levels of syndicates NOT a measure of reserve adequacy
- Index results to rank syndicates
- Analyse key areas via KPIs
- Results are fed back to syndicates
 - Detailed report for technical staff
 - Summary for senior staff
- Input into ICA process as linked to reserving risk

Benchmarking syndicate reserves

Linked to ICA



	Gross	Net
RESERVE BENCHMARKING INDEX (RBI)	3	3
1. RESERVE STRENGTH	3	4
2. IBNR UTILISATION	1	1
3. RESERVING OVER TIME	3	2
4. PAID LOSS RATIO	3	3
5. SPEED OF DEVELOPMENT	3	3

Visual Feedback

Benchmarking syndicate reserves

GROSS RESERVE BENCHMARKING INDEX		Quartile	Portfolio	Benchmark	Deviation
1. Reserve Strength	2	1.1 Reserve as % Ultimate Claims	31.6%	29.1%	2.5%
		1.2 IBNR as % Ultimate Claims	12.2%	12.8%	(0.6%)
		1.3 Case Reserve as a % of Incurred	22.1%	18.6%	3.4%
		1.4 Survival Ratio (years)	2.3	2.3	0.0
2. IBNR Utilisation	3	2.1 IBNR Burn (1 year) During 2006	50.3%	35.8%	(14.5%)
		2.2 IBNR Burn (1 year) During 2005	47.4%	39.2%	(8.1%)
		2.3 IBNR Burn (1 year) During 2004	20.6%	30.4%	9.8%
3. Reserving over time	2	3.1 Ultimate(@now) as % Ultimate(@YOA)	97.3%	98.8%	1.6%
		3.2 Ultimate(@now) as % Ultimate(@YOA+2)	93.2%	99.4%	6.1%
4. Quality of business	3	4.1 Paid Loss Ratio	62.9%	60.3%	(2.6%)
5. Speed of Development	2	5.1 Paid Claims Development Deviation			0.4%
OTHER KPIS					
5. Reinsurance	N/A	6.1 % Premium Ceded	32.8%	30.5%	2.3%
		6.2 RI ULR	97.3%	100.9%	(3.6%)
		6.3 RI Ultimate as % of Gross Ultimate Claims	34.7%	36.2%	(1.5%)
		6.4 RI Reserve as % Gross Reserve	28.1%	28.3%	(0.1%)
6. Ultimate Loss Ratio	N/A	7.1 ULR	91.9%	85.0%	(6.9%)

Source: Dummy Reserve Benchmarking Report based on Lloyd's SRD database

RESULTS

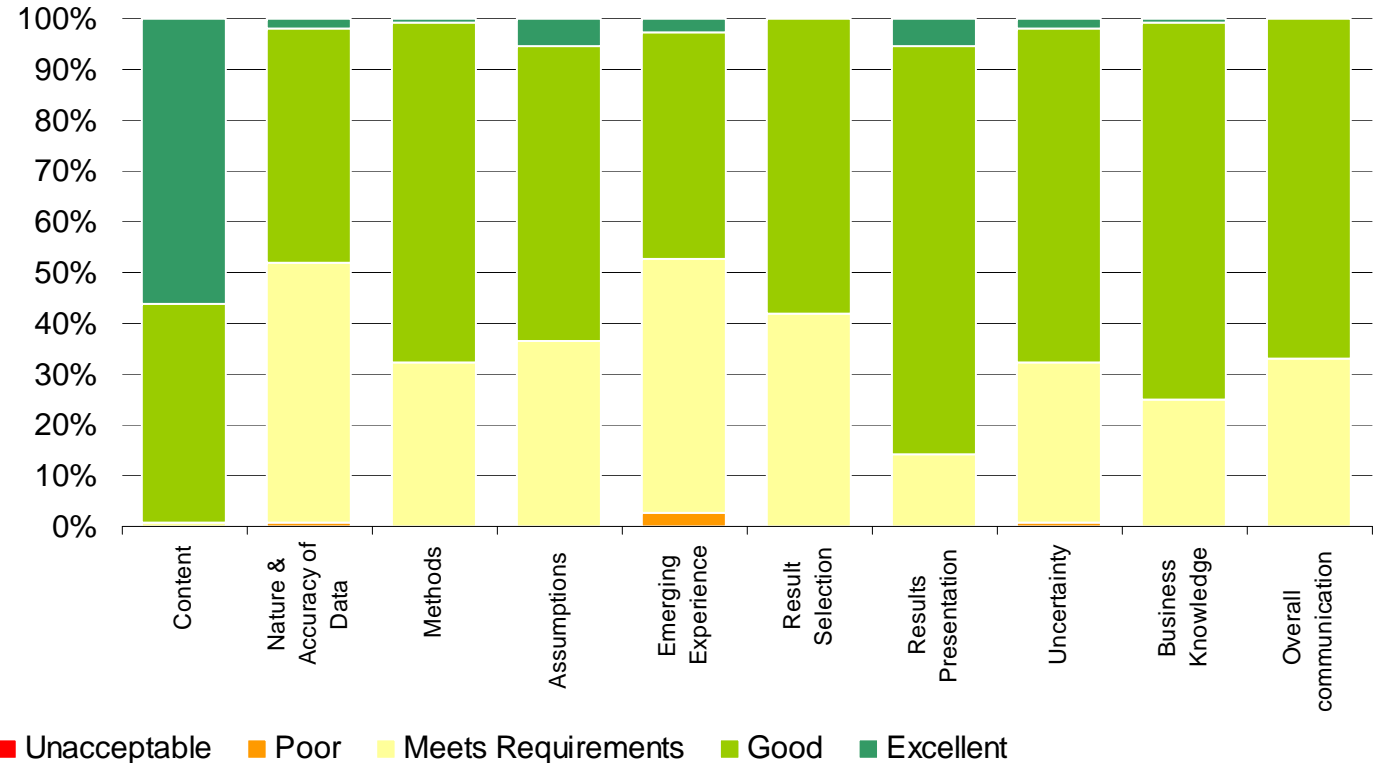
What are we aiming for in the reviews?

- Must be realistic
 - Reports need time to produce (and time is money)
- Marginal returns as quality improves beyond good
- High level objectives:
 - No poor reports
 - Maximise use to Lloyd's
 - Understand budgetary constraints

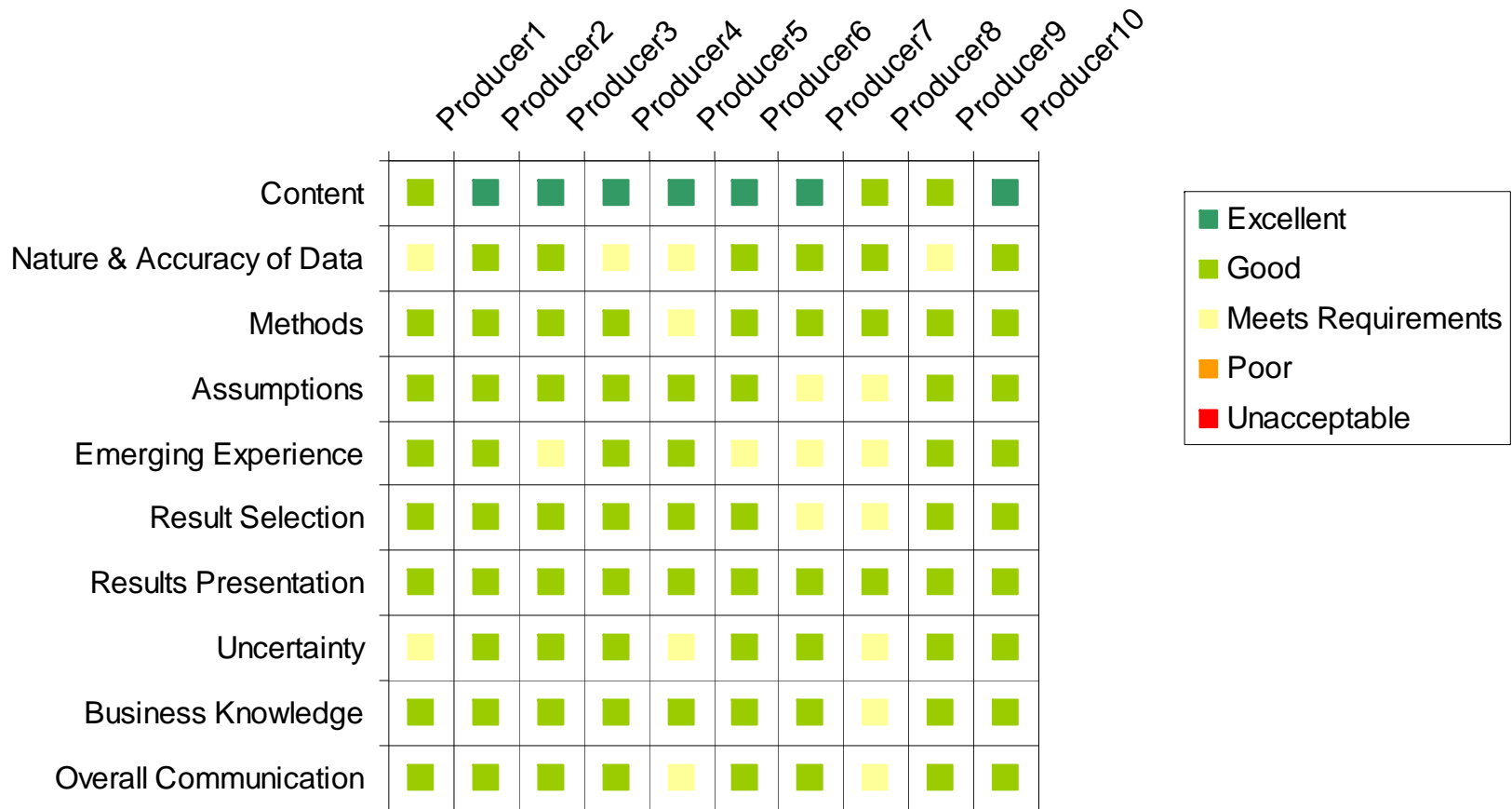
AIM: ALL REPORTS ARE ASSESSED AS "GOOD"

We see high quality in nearly all areas...

RANGE OF RESULTS FOR ALL PRODUCERS



...and across all producers



IMPACT OVER TIME

The burning question.....

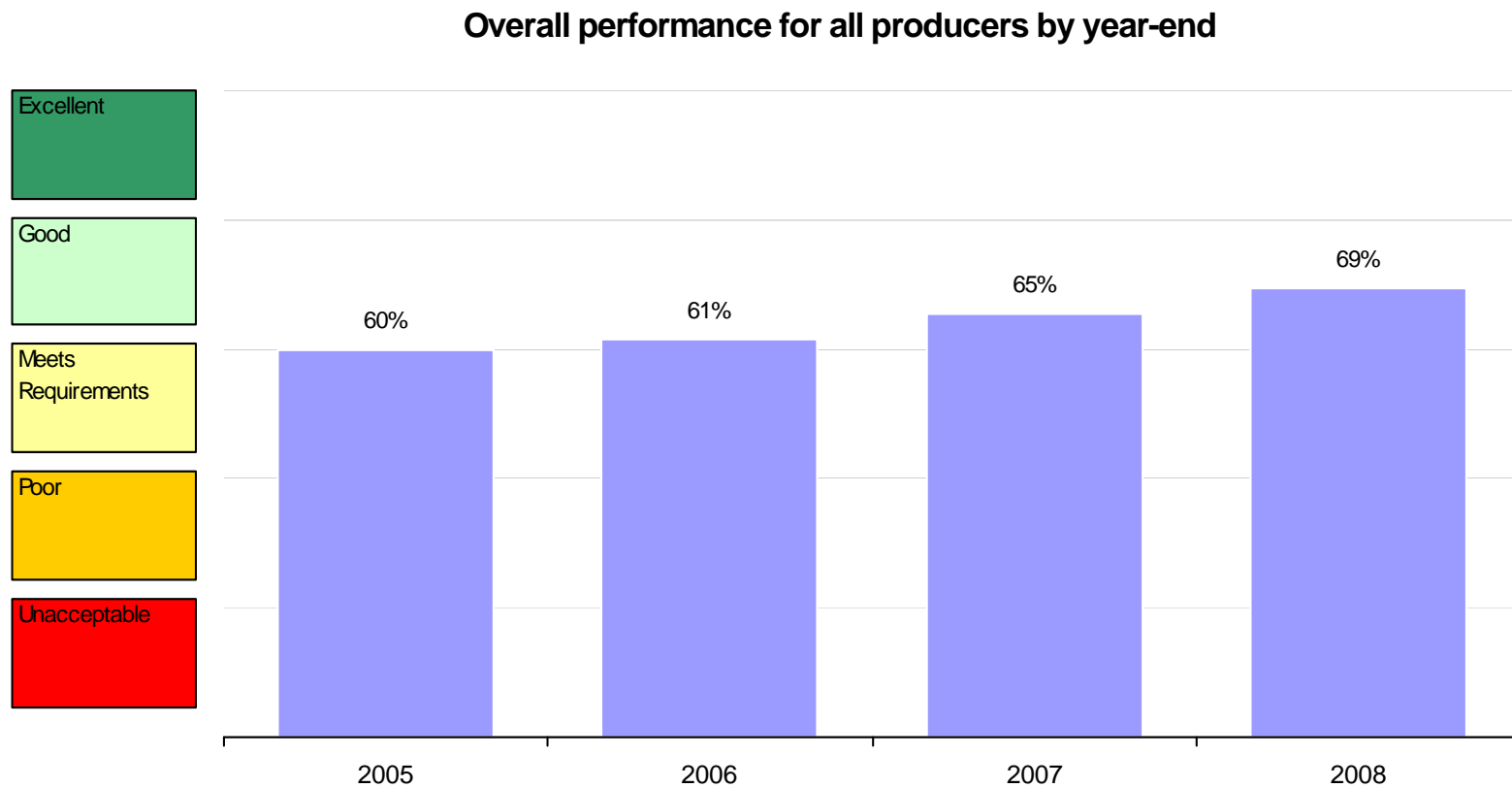
Has Lloyd's review made a difference?

....can analyses the results over time

- Look at:
 - Overall impact
 - via average score per year
 - Consistency
 - via spread of scores between reports
 - Specific impact
 - via areas Lloyd's has specifically focussed on
- This form of review gives 4 years of data to work with

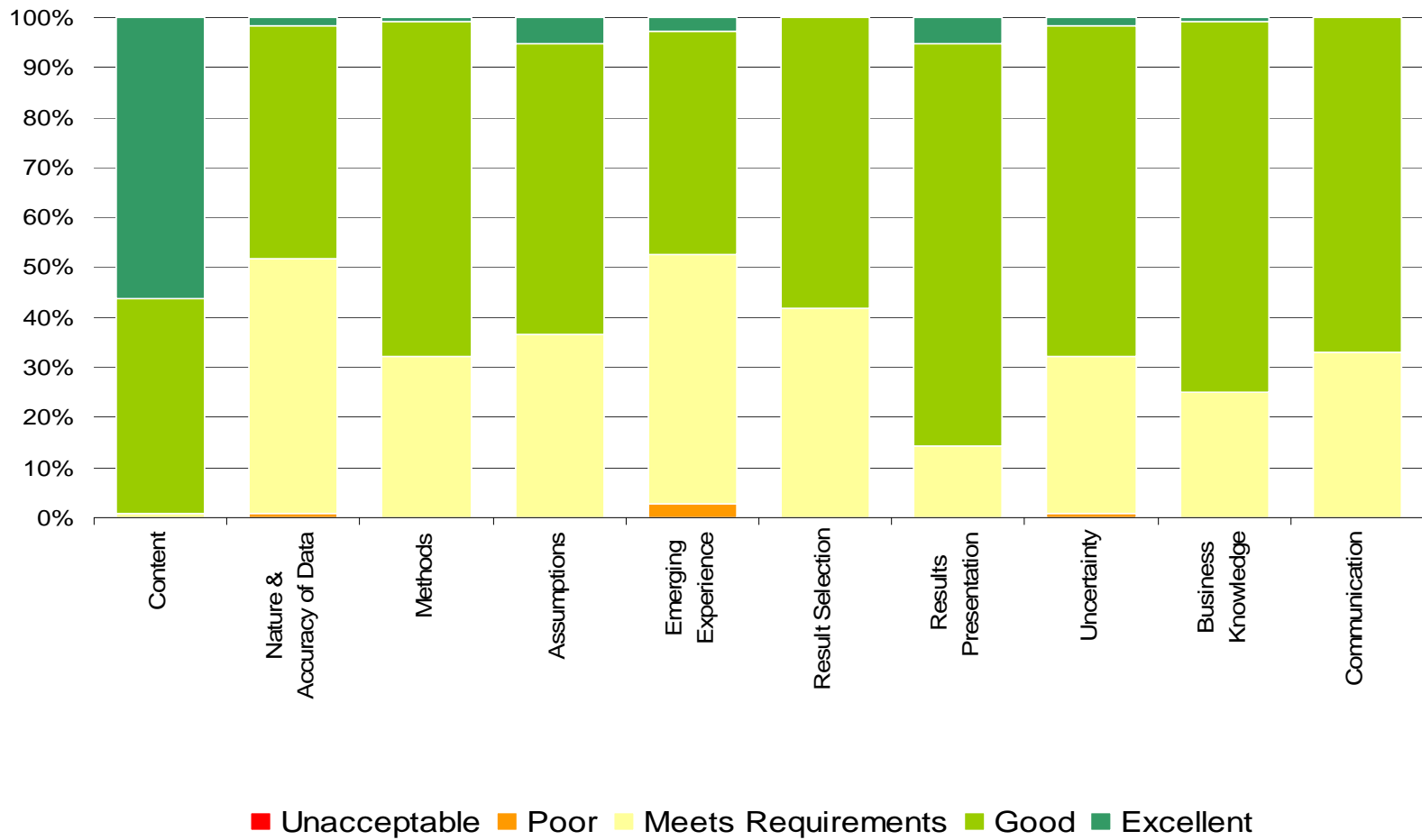
We have seen a steady increase in average scores....

- Getting very close to our goal



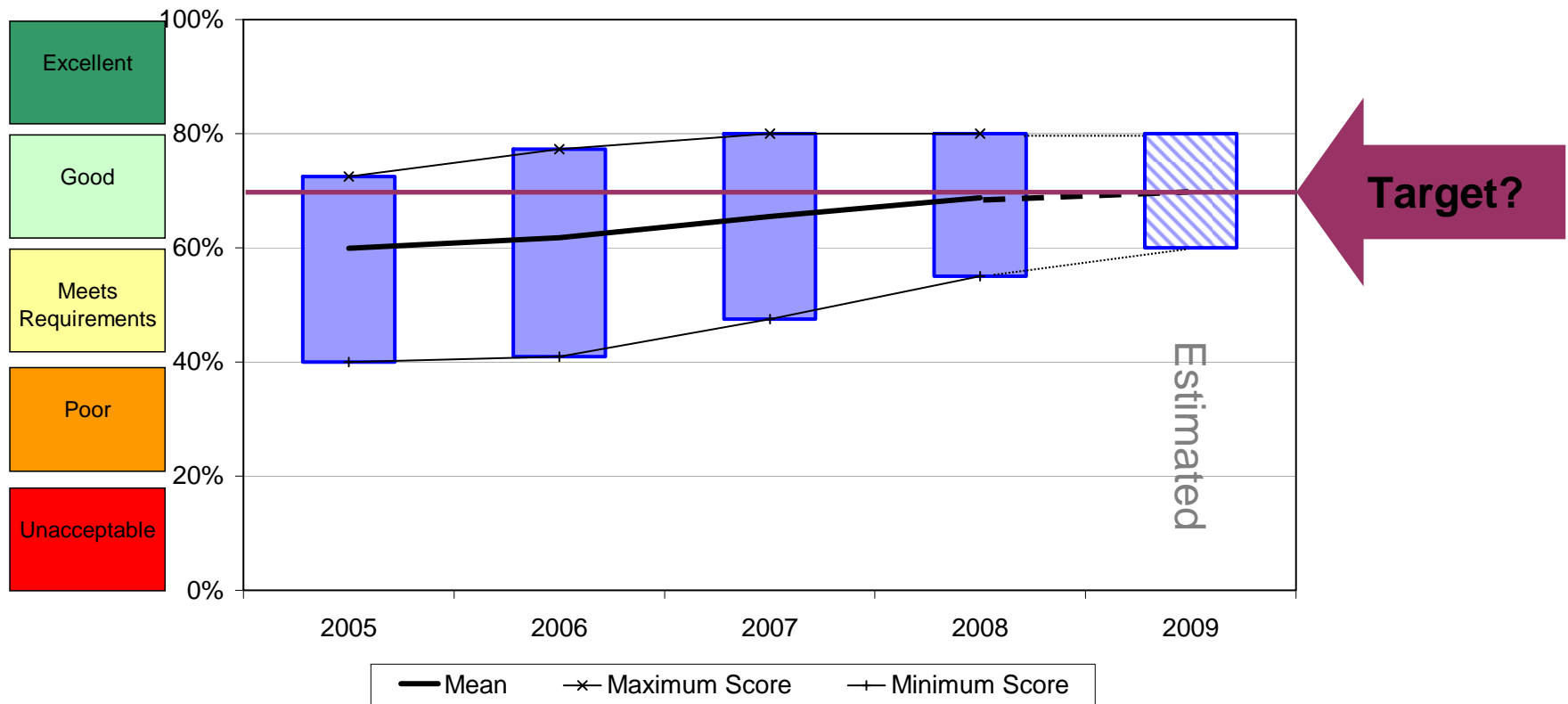
...and across every section

2008 SAO - RANGE OF RESULTS FOR ALL PRODUCERS



.....and an improvement in consistency

RANGE OF RESULTS FOR ALL PRODUCERS

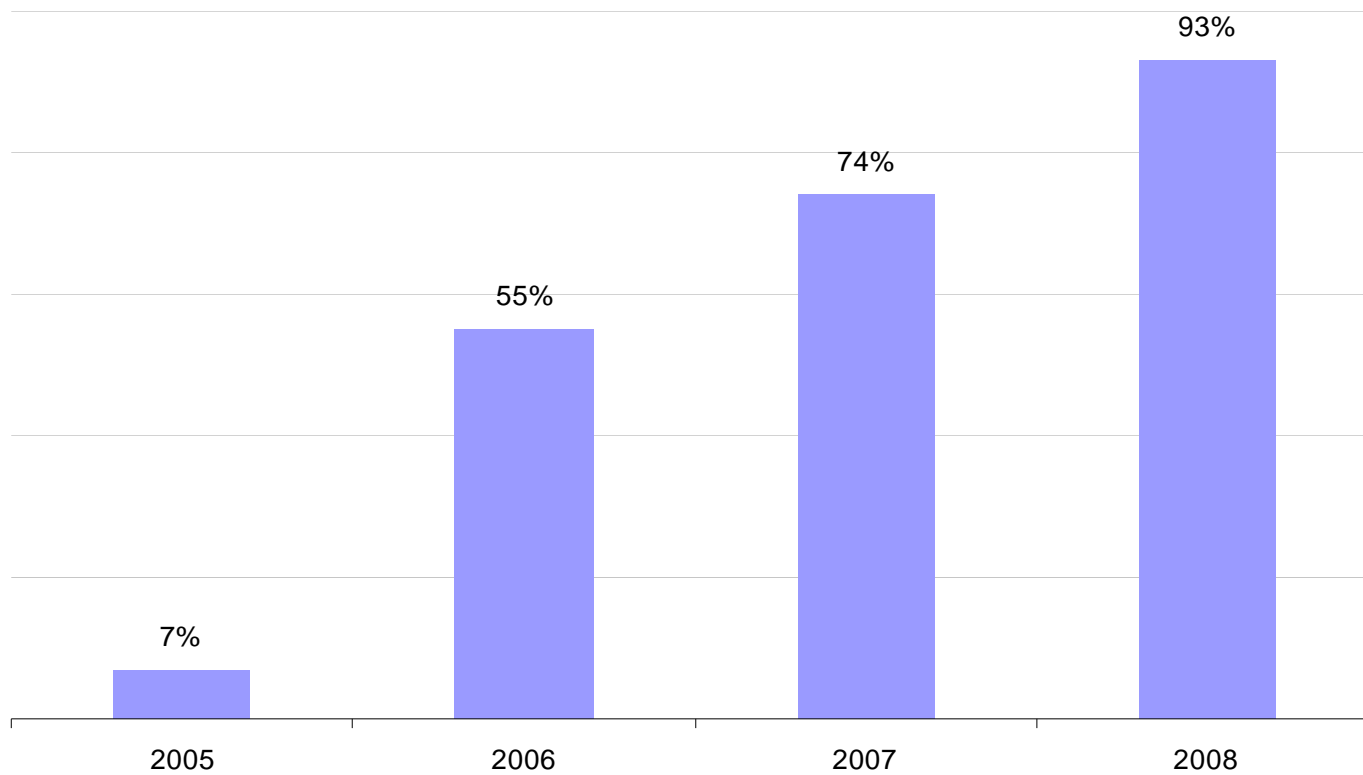


Note: 2 highest and lowest scores for each year have been excluded

Specific points of focus (1)

Peer review

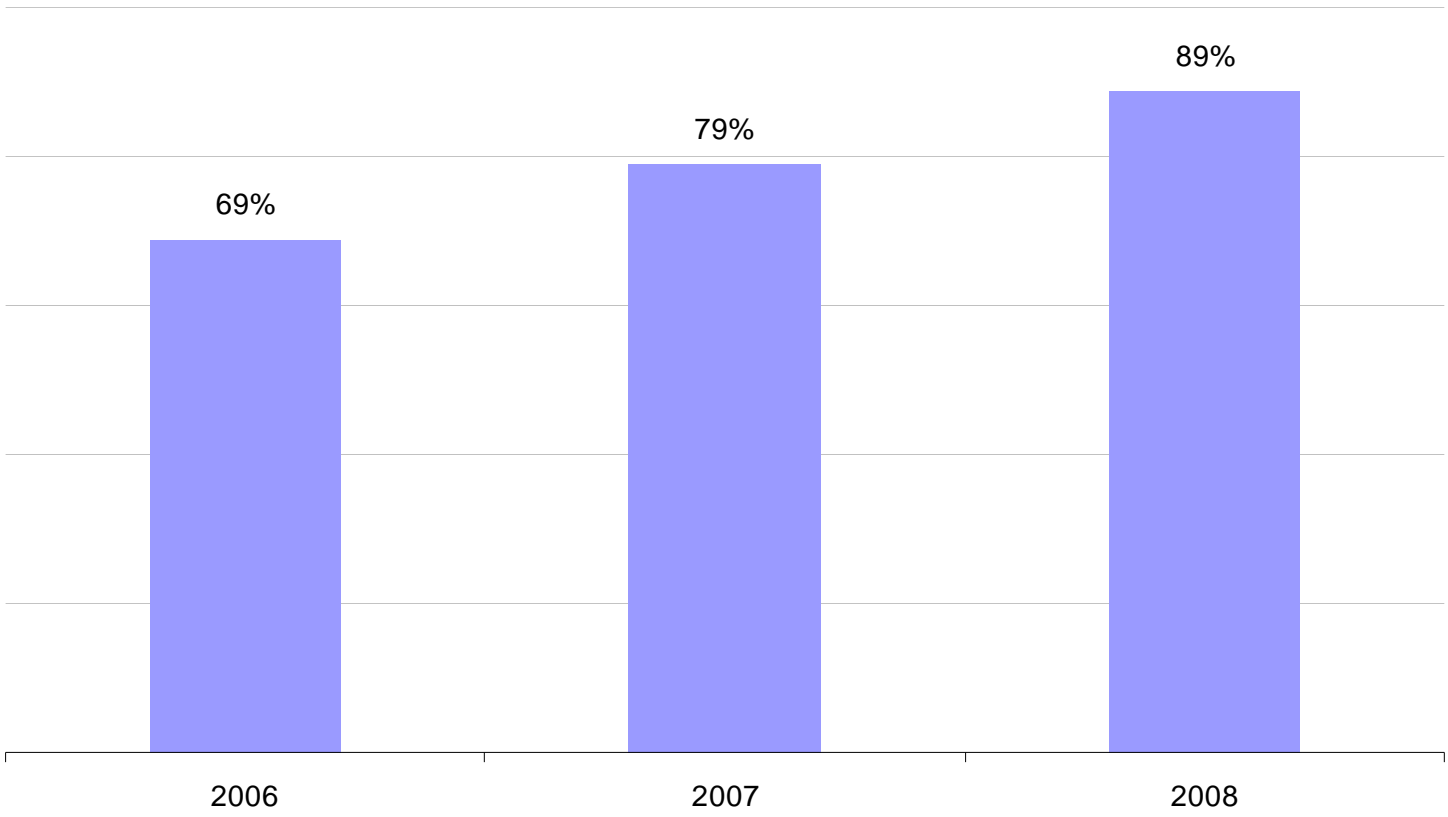
Reports stating work had been peer reviewed (by year-end)



Specific points of focus (2)

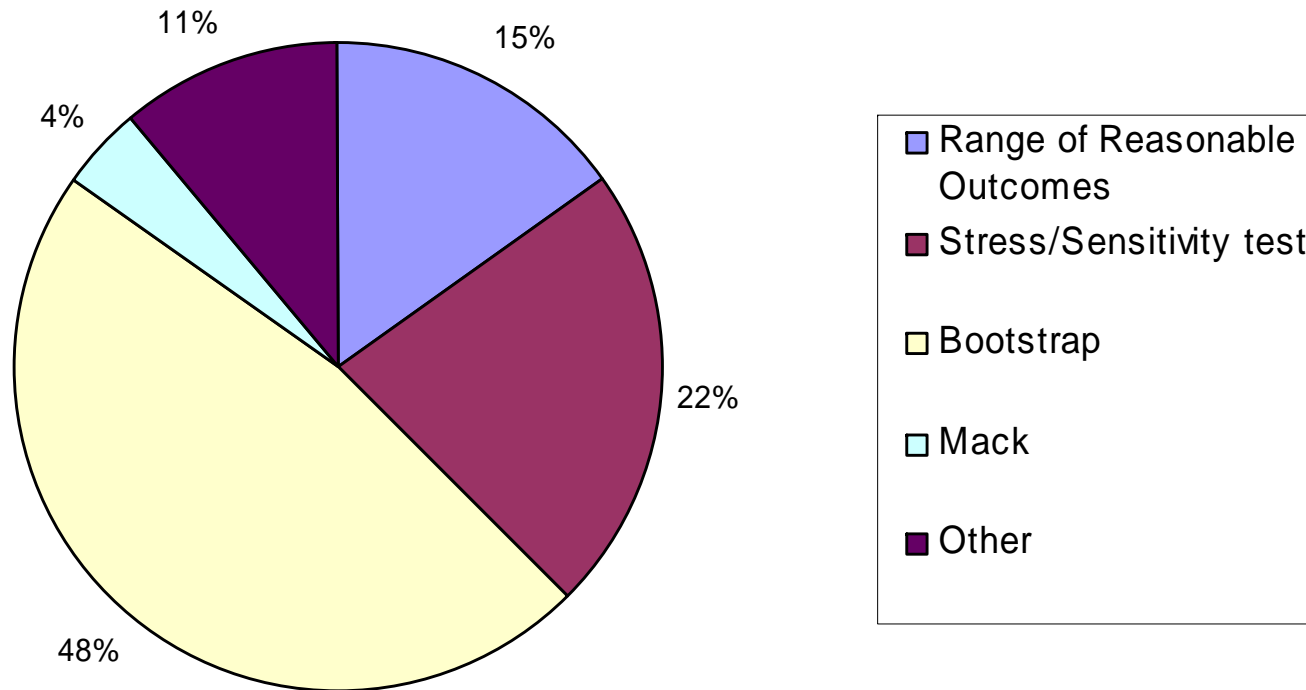
Quantifying uncertainty

Reports where uncertainty had been quantified (by year-end)



How do people quantify uncertainty?

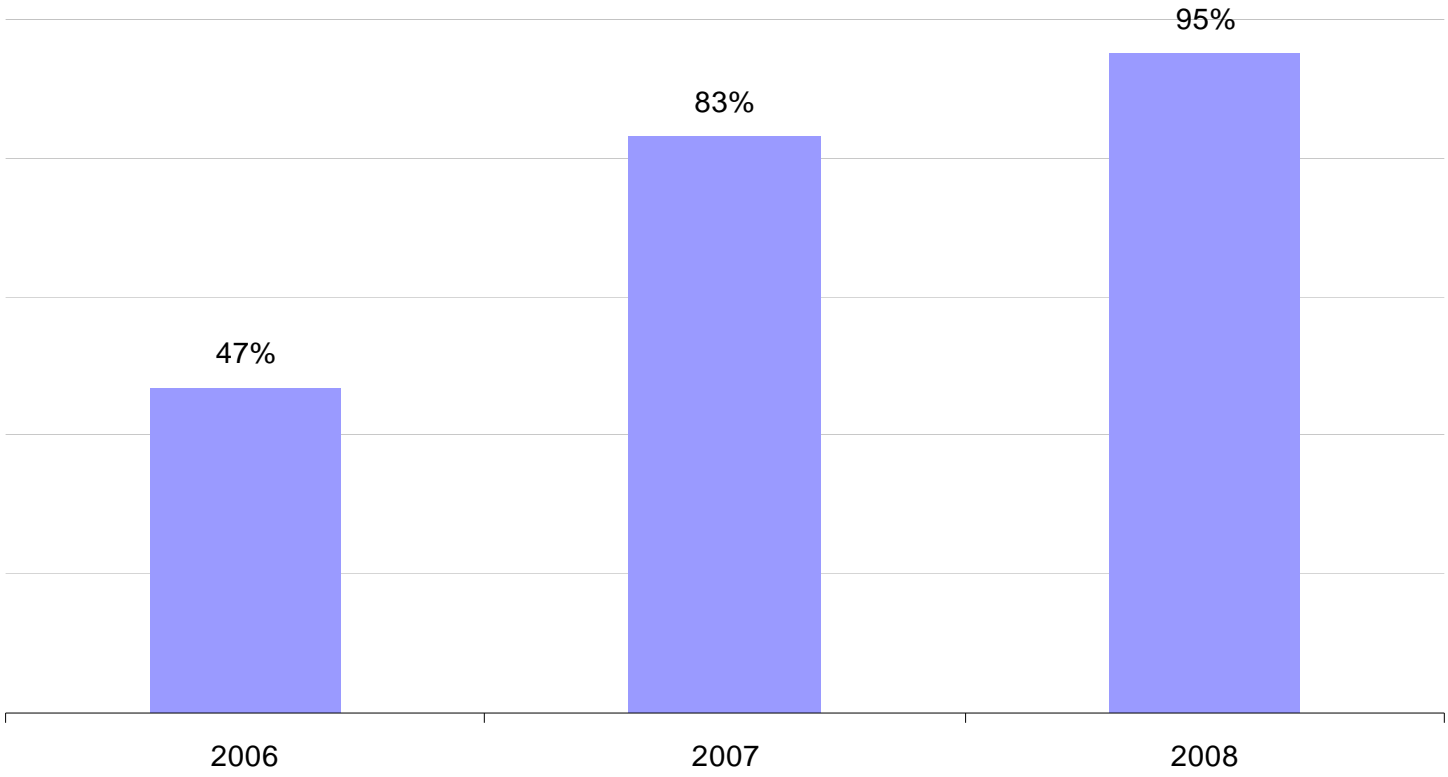
Methods Used to Quantify Uncertainty - 2008 year-end



Specific points of focus (3)

Large loss wordings

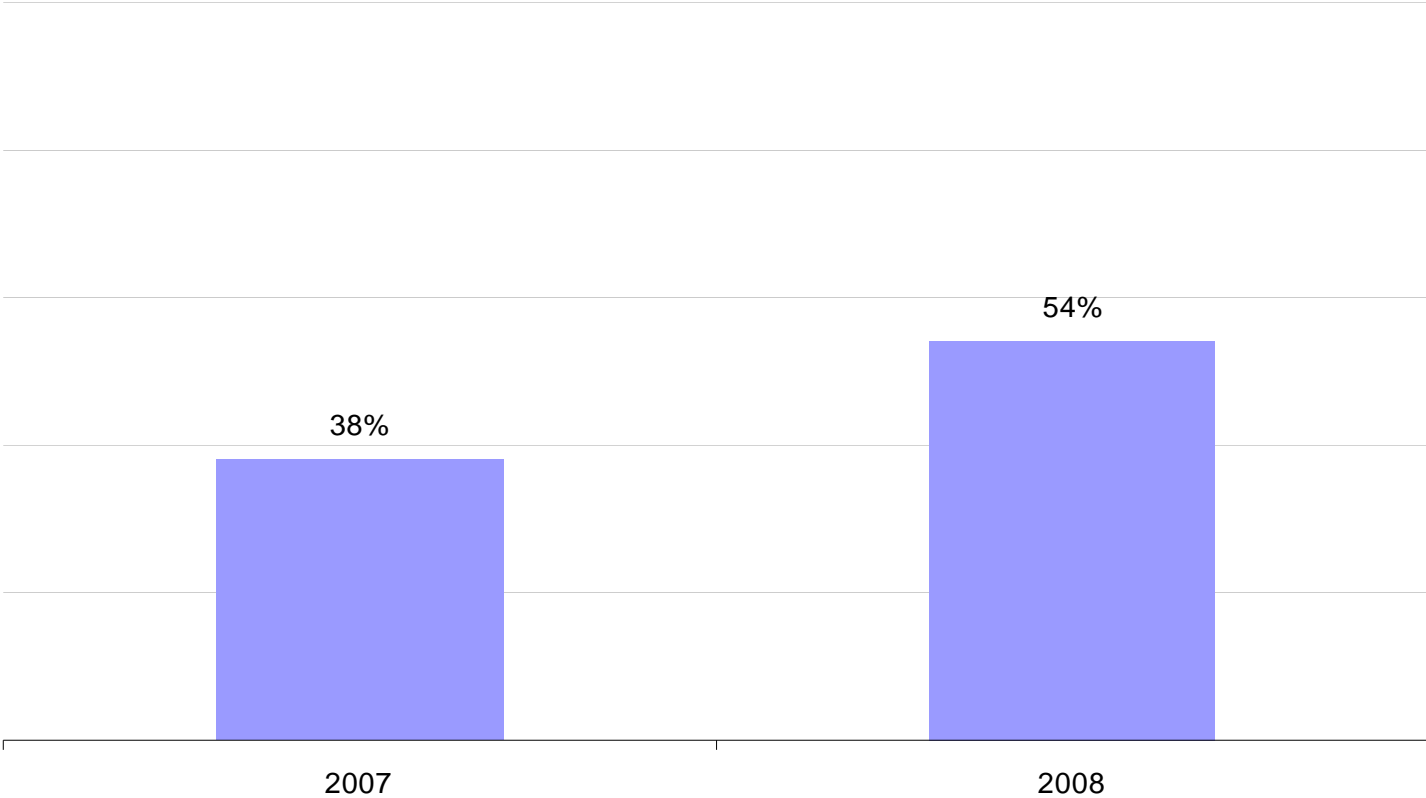
Reports describing how large loss wordings were selected
(by year-end)



Specific points of focus (4)

Emerging experience

Reports which included A vs. E (by year-end)



Closing thoughts

- Reviewing SAO reports is a valuable exercise
 - to both Lloyd's and the profession
- Requires significant resources
- To be effective
 - consistency is required through structure
 - but review can include subjectivity
 - feedback is essential
- Lloyd's review extends beyond SAOs
- Seen a positive impact of the SAO reviews over last 4 years

QUESTIONS

