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Life Conference 2022

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Stress Resilience - A case study on the inflation shock of 2022

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Speed quiz





Speed quiz

WJX



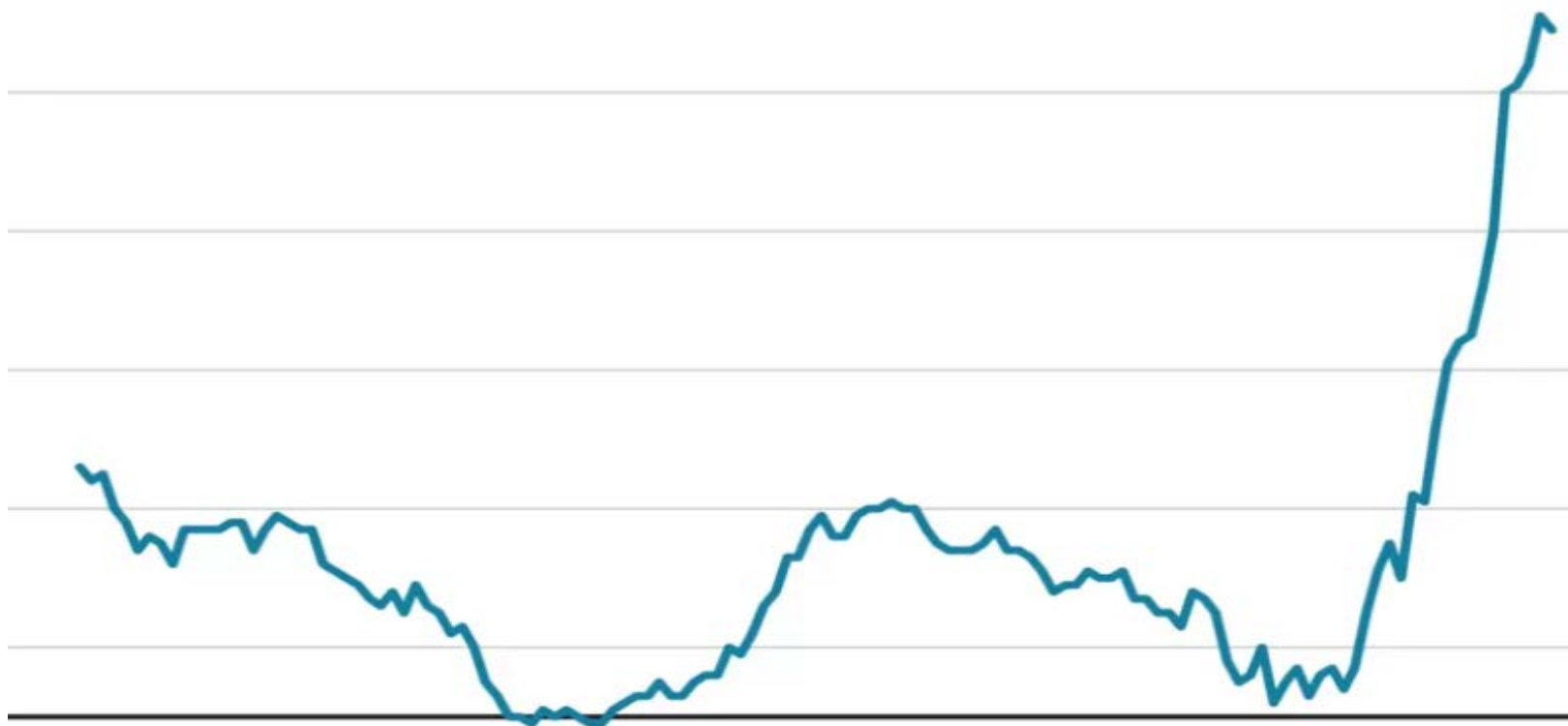


Speed quiz





Speed quiz



UK inflation at 9.9%

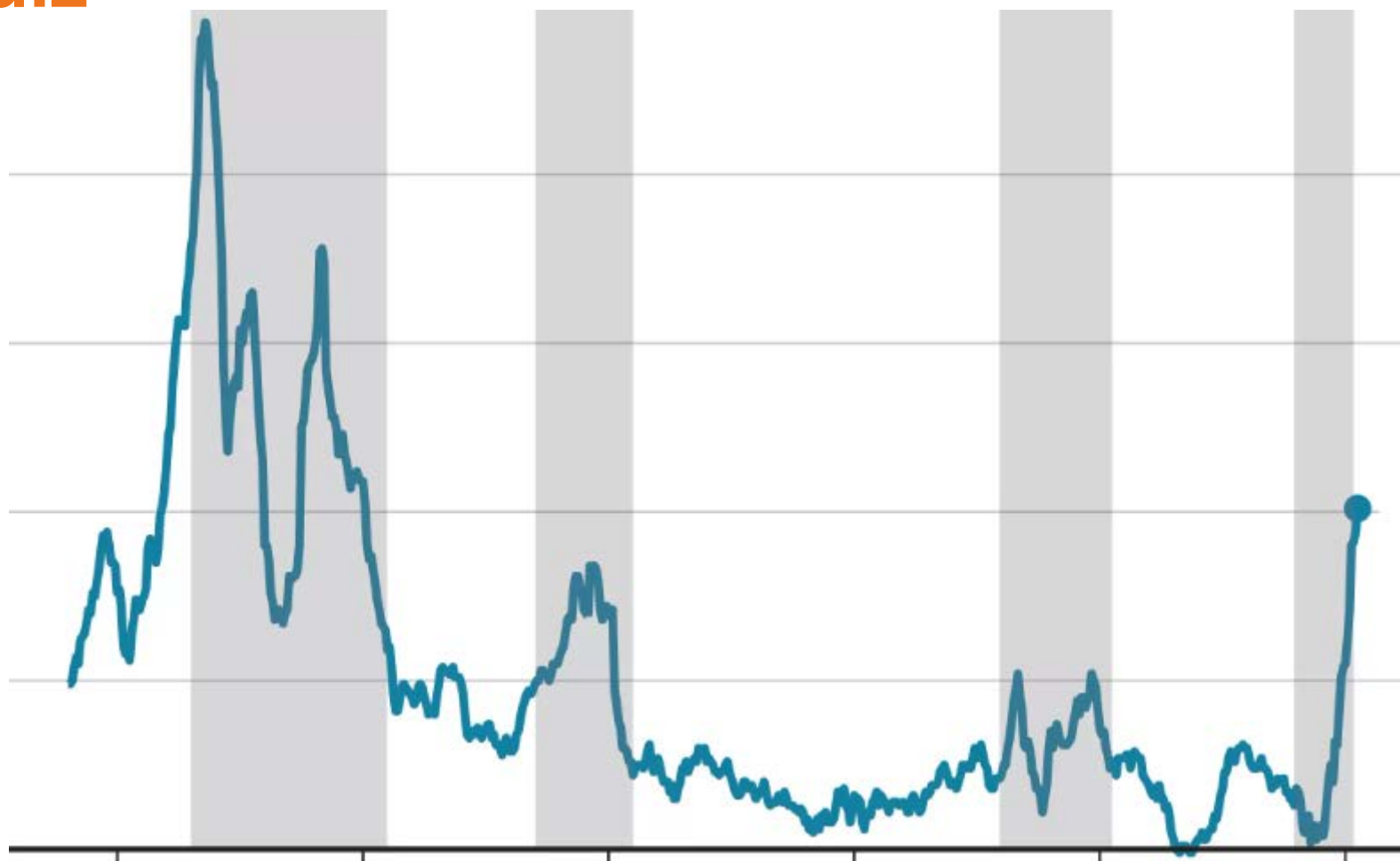
Consumer Prices Index



Source: Office for National Statistics

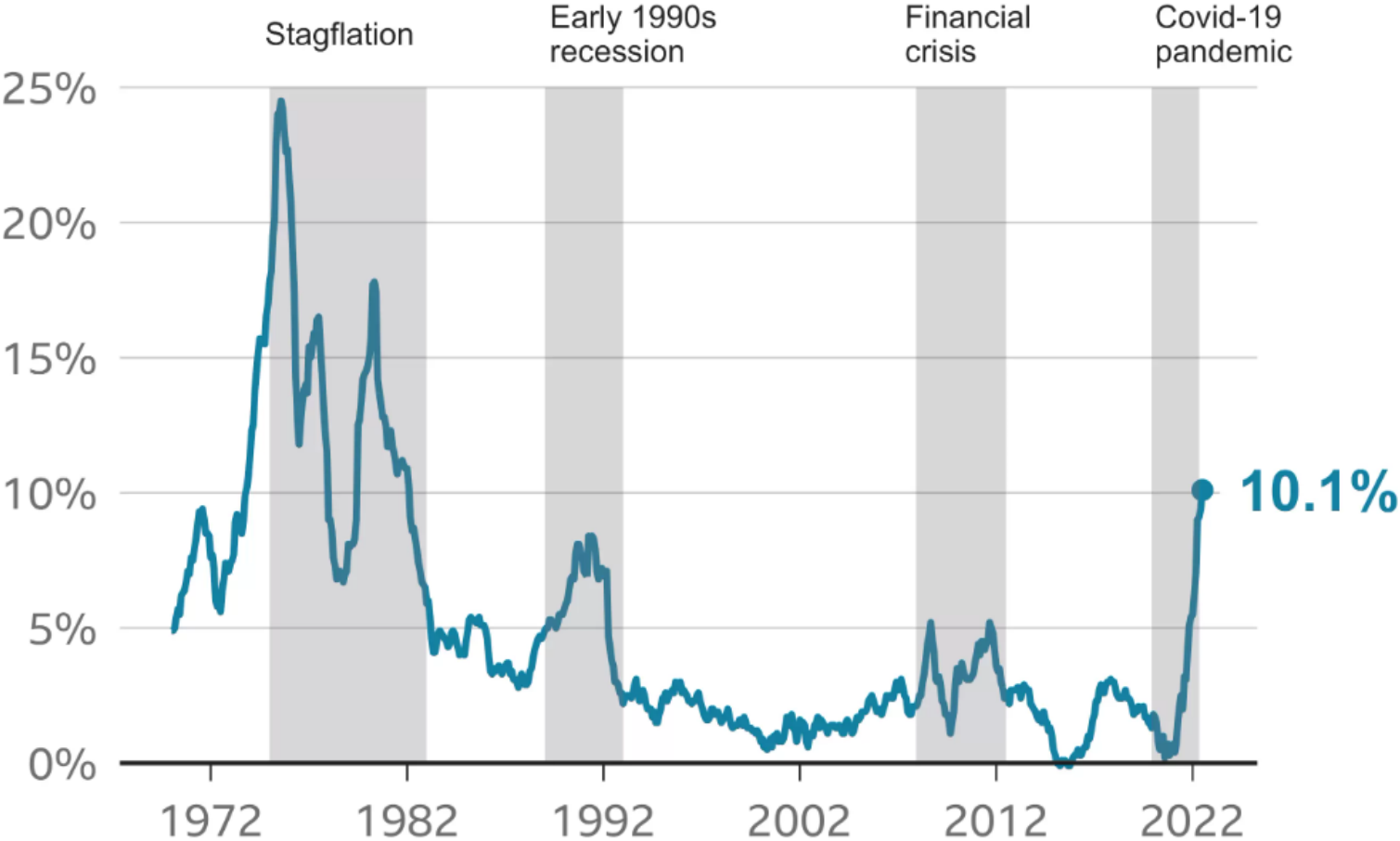
BBC

Speed quiz



Highest inflation since 1982

Consumer Prices Index



Source: Office for National Statistics





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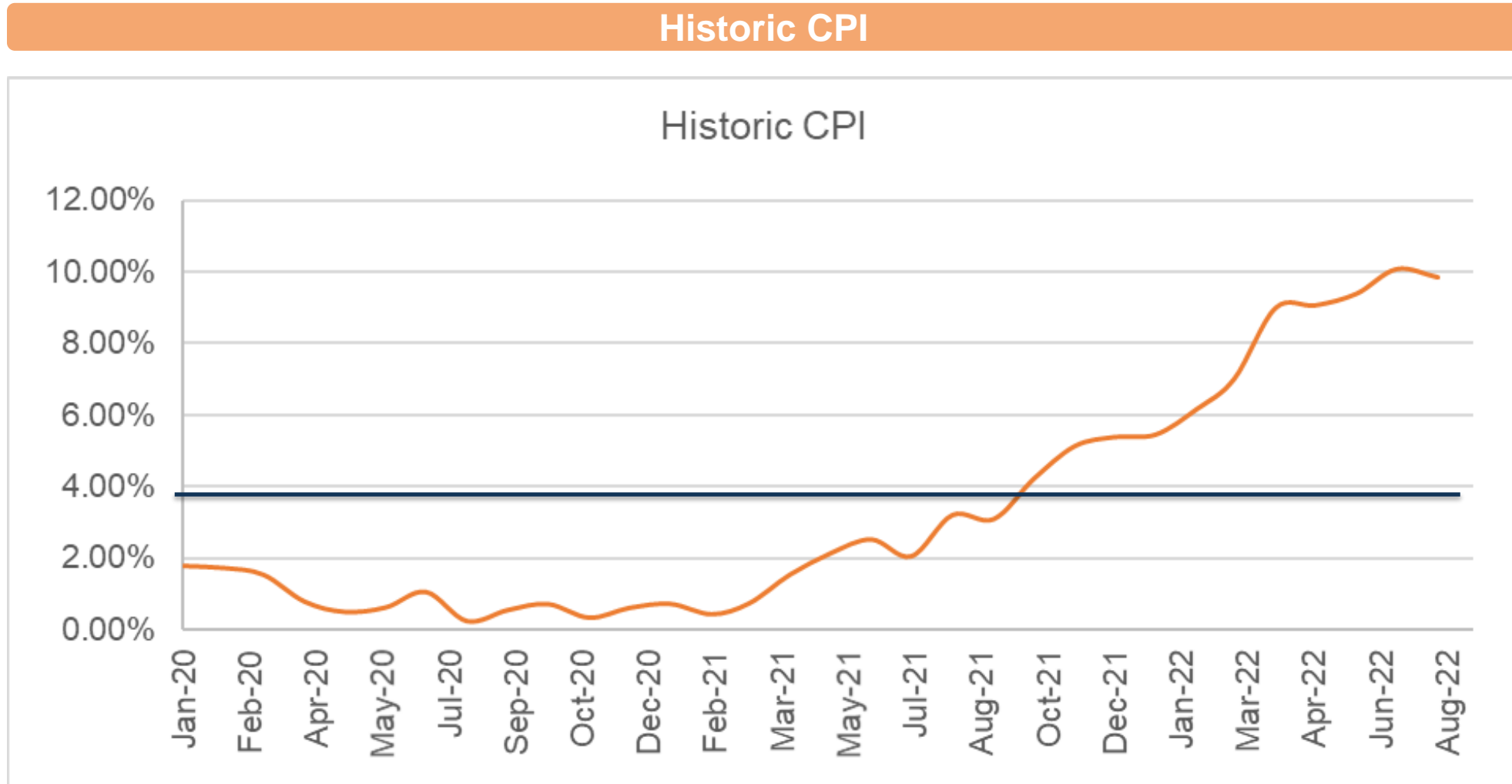
Agenda

- Scene setting
- Model Risk
- Capital Management
- Liquidity Management
- Consumers Outcome
- Opportunities

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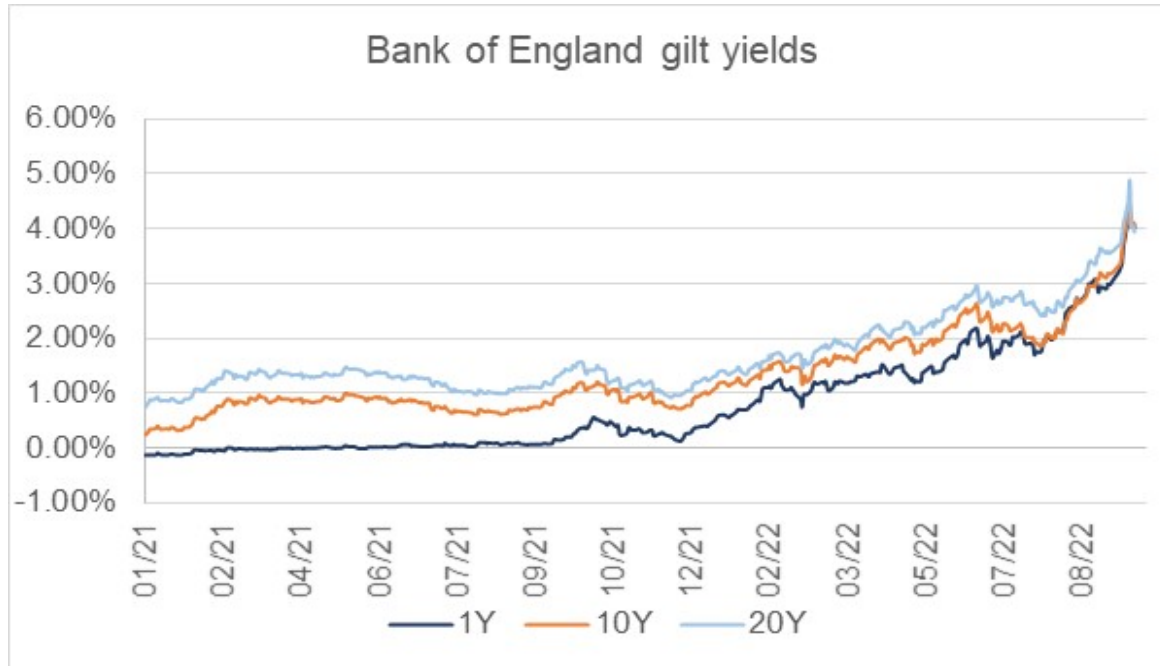
What has happened to inflation to date?



Source: <https://www.rateinflation.com/inflation-rate/uk-historical-inflation-rate/>

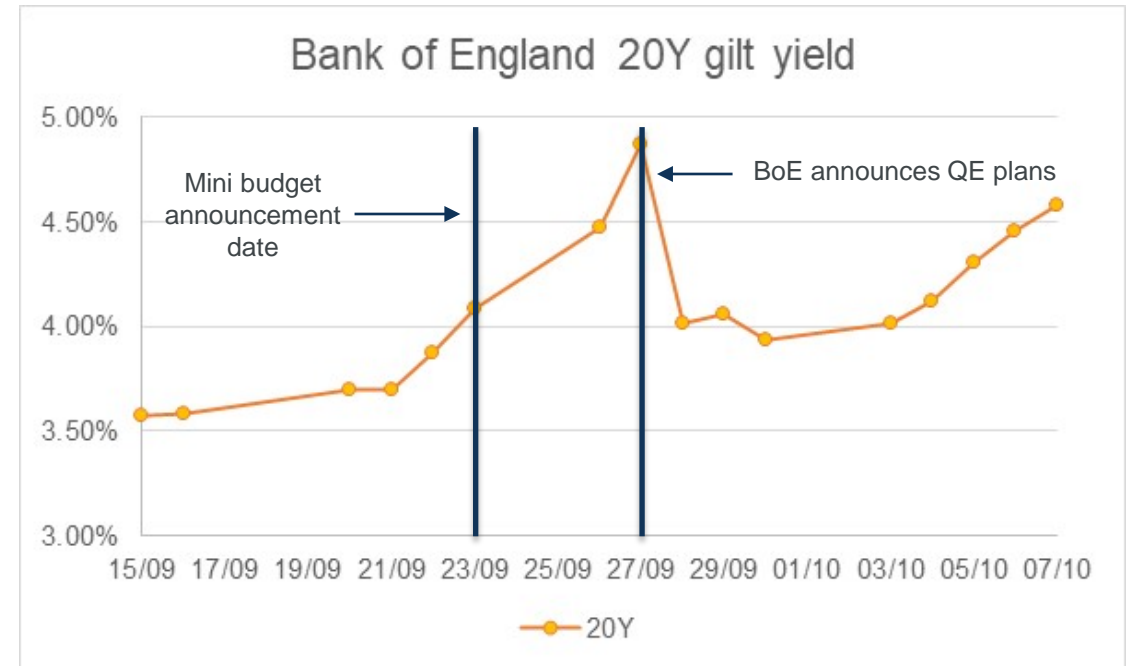
What is the knock-on impact on interest rates?

Bank of England gilt yield



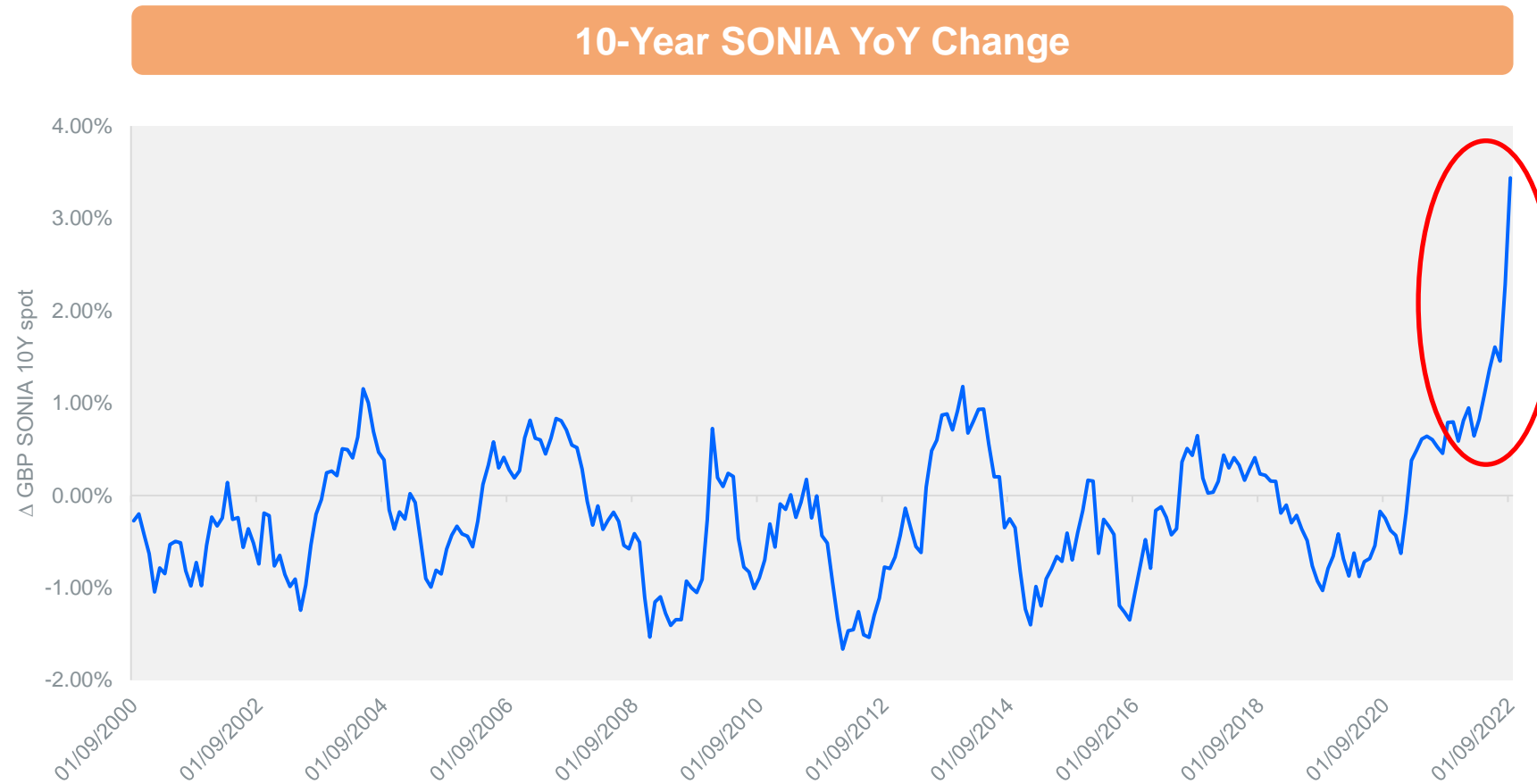
Source: Working party analysis of Bank of England data

Bank of England 20-Year gilt yield



Source: Working party analysis of Bank of England data

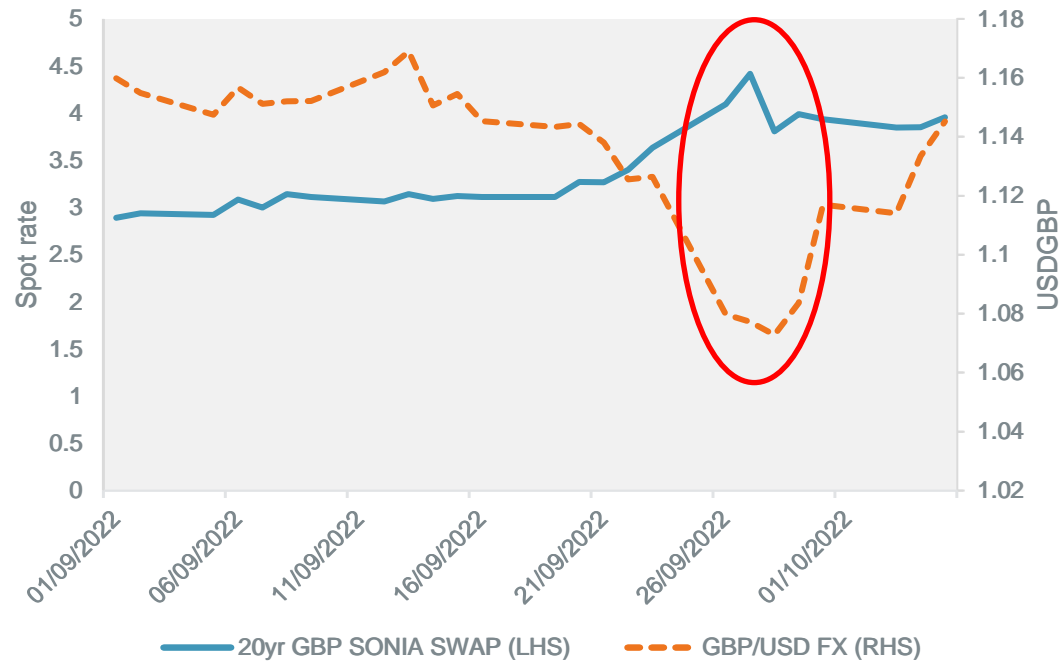
Model risk – Calibration Strength



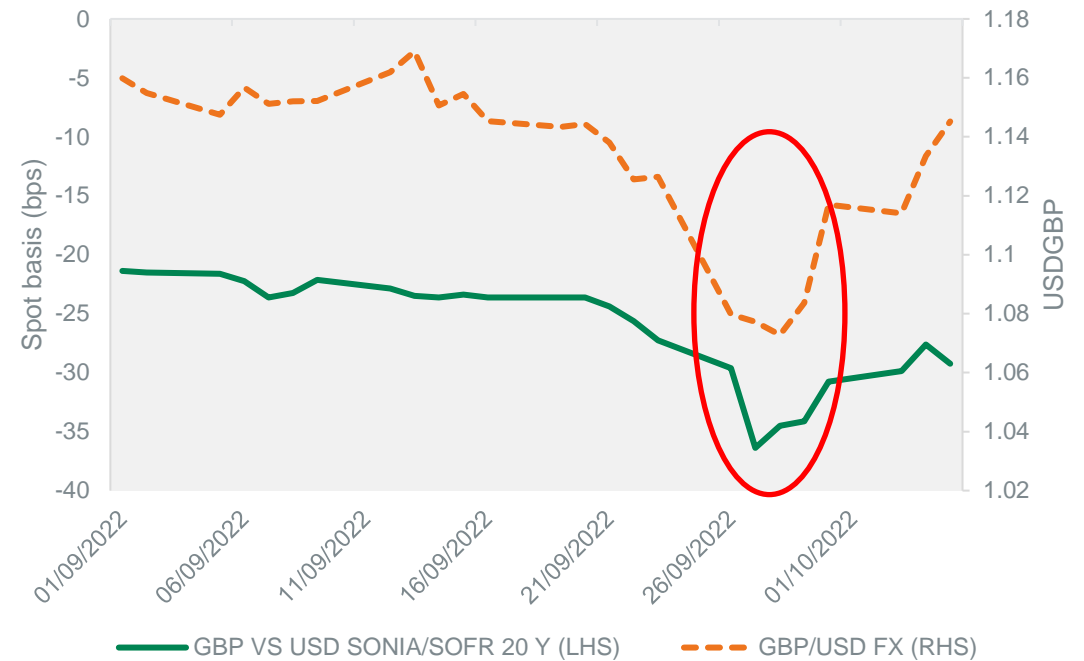
Source: Office for National Statistics

Model risk - Correlations

SONIA vs GBPUSD



SONIA/SOFR Basis vs GBPUSD



Source: Bloomberg



Model Risk – So What?

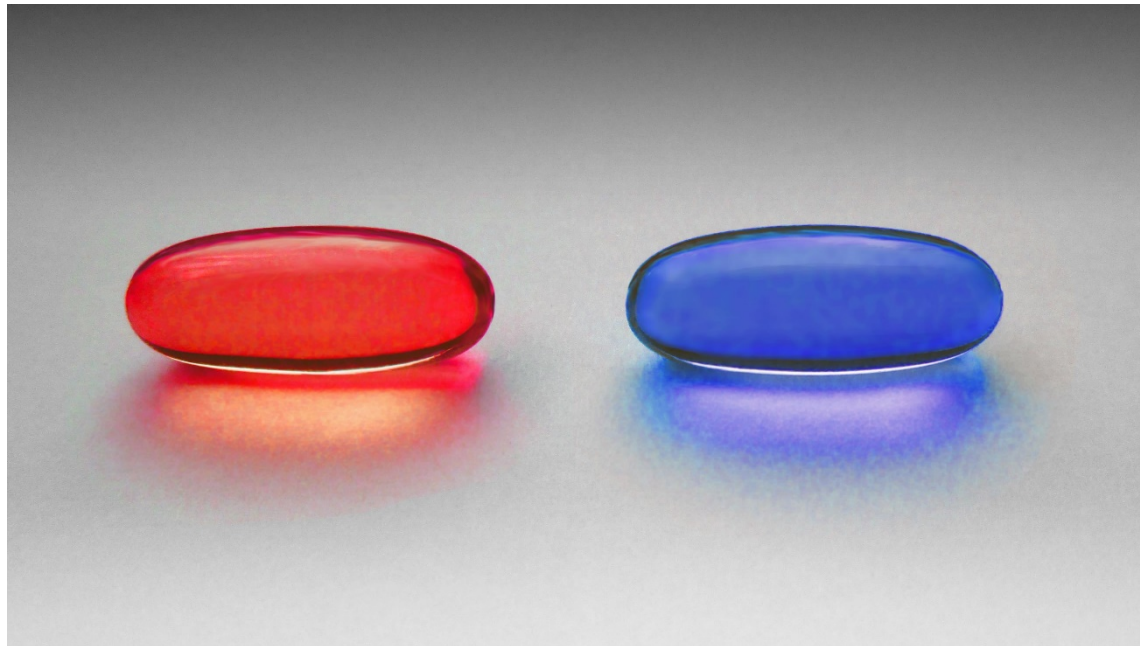
So... what is missing?

- Un-modellable risks
- A change of regime?

And... so what?

- BAU risk management
- Crisis risk management

Rates hedging and capital management



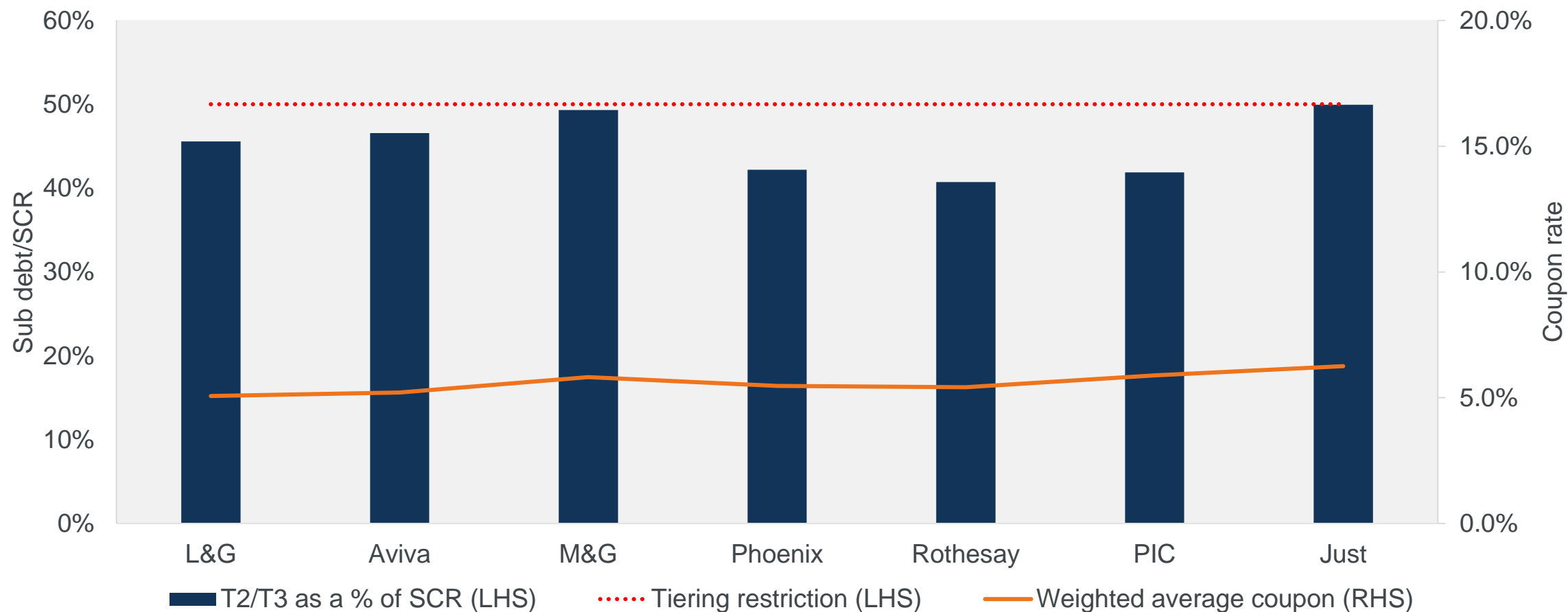
By W.carter - Own work, CC BY-SA 4.0,
<https://commons.wikimedia.org/w/index.php?curid=34979655>

What then?

- Funding growth
- Reducing cost base
- Flexibility in risk taking
- Shareholder value

Debt and Capital Management

SII Debt Position – HY22



Source: Working party analysis of company accounts and SFCRs

Liquidity risk management

Liability Driven Investing (LDI)

- What is LDI?
- Why did it go downhill?



Did life insurers
escape unscathed?



Lessons Learnt

- Time horizon matters
- Correlations breakdown
- Importance of stress testing and contingency plans



Wider actuarial considerations

Expenses

Persistency

Pricing

Inflation risk typically impacts consumers directly

- Erosion of policy benefits
- Changes in consumer behavior
- Increased proportion of customers displaying characteristics of vulnerability



Consumer Duty

Lessons learned

- Access to insurance cover
 - Flexibility
 - Affordability
- Ease of access to savings products

Are we innovative in response to changing consumer needs?

Glass half-empty, or glass half-full?

Pension de-risking

Asset origination

Product innovation





Lessons learned

- Unprecedented times: a tail that's difficult to model
- ALM - what's your residual risk?
- Focus on resilience
- Customer impact and societal purpose



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.



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Thank you

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