

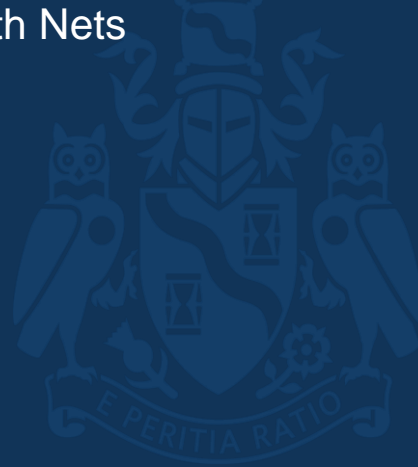


Institute
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TORP – Materiality and RI for Fast Close: Catching the Big Fish with Nets

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GIRO, Liverpool



Introduction

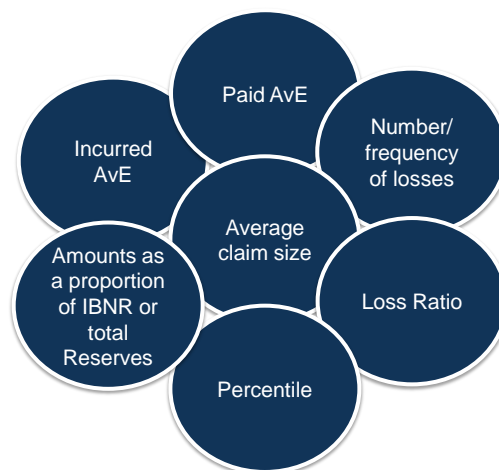
- TORP working party progress
- Fast close
- Materiality
- Reinsurance
- Summary

TORP Working Party

- The Towards Optimal Reserving Party aims to develop practical thoughts around the design and operation of the reserving process to share current practices and issues.
 - This is to promote and spread the expertise gained from those further along the process, to those not as far advanced
 - Previous projects include Actual v Expected techniques in 2013, Fast close options and Reporting in 2014 and this year have focused on the Materiality limits and thresholds and Reinsurance options through the fast close
 - The party looks to tackle a series of common problems that firms face, in order to move towards a robust and risk focused reserving process given the reserving and reporting pressures we all face
 - Always open to suggestions for future papers
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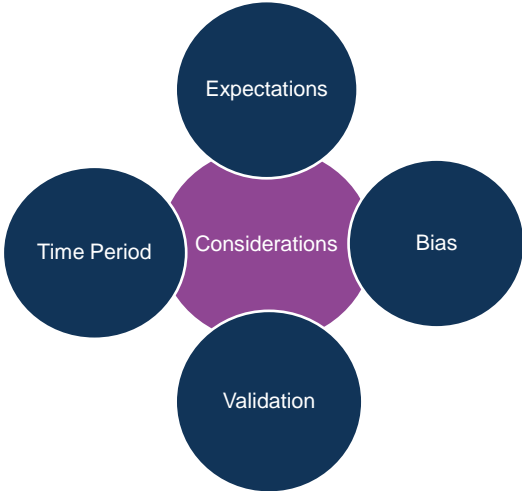
AvE measures

Different Metrics for different purposes



AvE measures

Considerations when assessing results against measure(s)



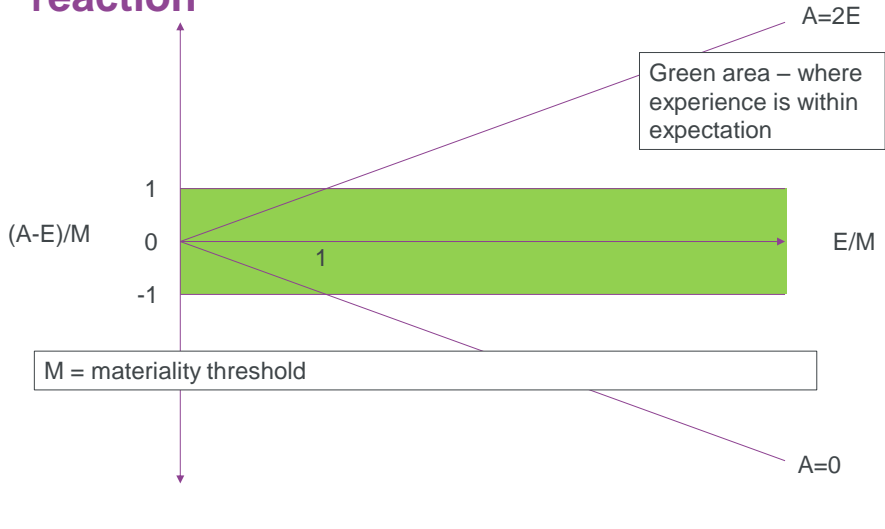
Materiality limits

What do materiality thresholds represent?

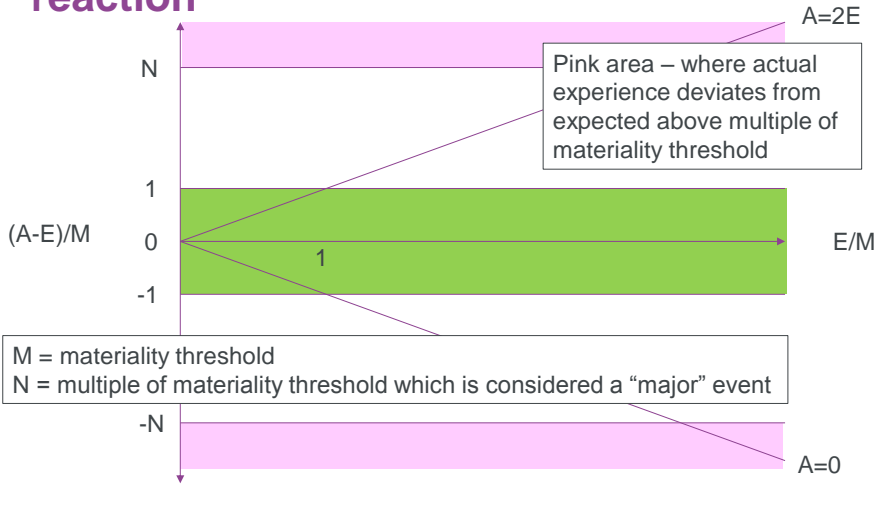
....bit of an obvious question but what are the implications of the various outcomes from the AvE?

Experience	Opinion/behaviour phase
Actual vs expected deviation is within materiality	Maintain reserves as per roll-forward with ultimates unchanged
Grey area in middle	
Actual vs expected deviation exceeds materiality	Update ultimates and adjust reserves

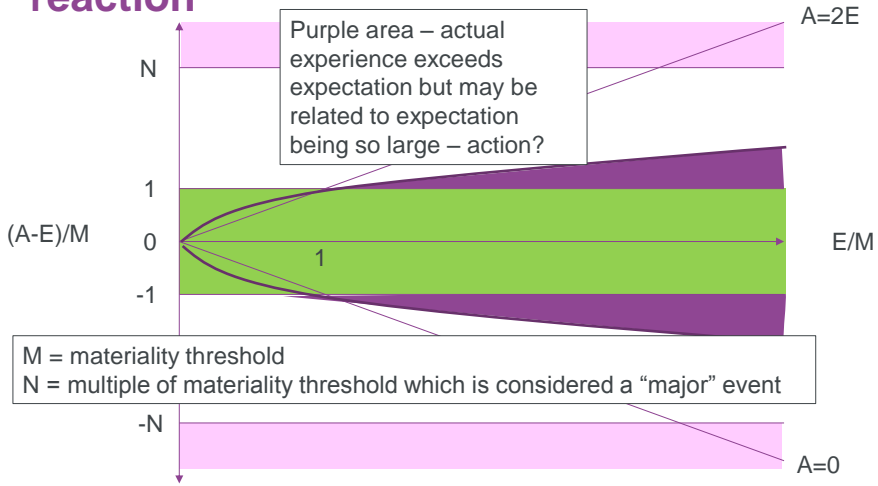
Schematic of AvE regions of differing reaction



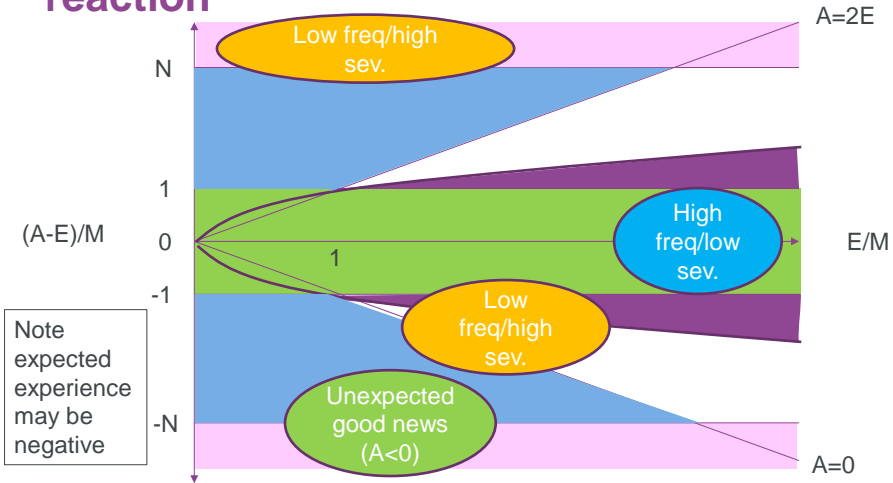
Schematic of AvE regions of differing reaction



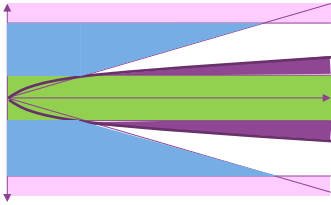
Schematic of AvE regions of differing reaction



Schematic of AvE regions of differing reaction



Areas of differing reaction



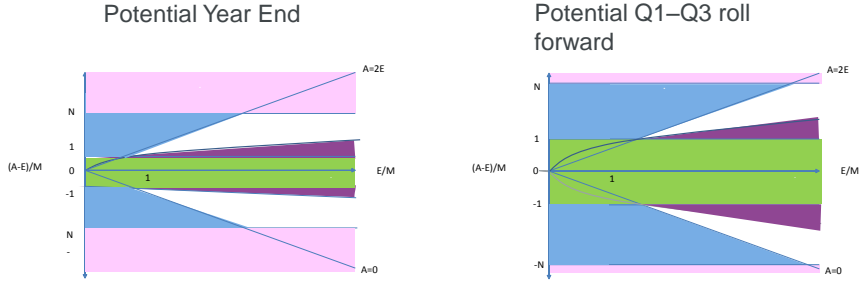
What this means		Reaction
Green area	Deviation within tolerance	No adjustment to original ultimates
Pink area	Significantly in excess of "normal" experience	Specific analyses and adjustments will be carried out on the event(s) that caused the deviation
Blue area	Deviation over materiality threshold	Allow for normal load release. Use specific adjustments within the fast close.
Purple area	Deviation over materiality level, but could be due to random fluctuations which could reverse in future periods.	May decide to smooth by not (or not fully) reacting to the implied deviation.
White area	In between area	Will depend on external factors Could fully react or not, or react partially.

Selecting M & N

M = materiality threshold

N = multiple of materiality threshold which is considered a "major" event

Selecting M & N - Time period



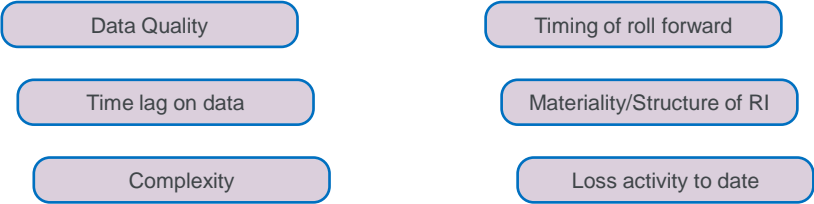
Stakeholders involved and potentially differing views for threshold levels



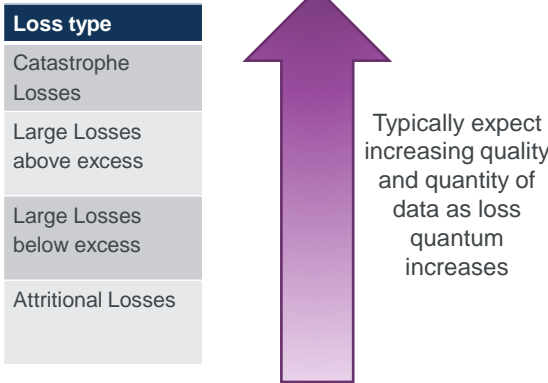
Reinsurance during Fast close

Afterthought? But why?...

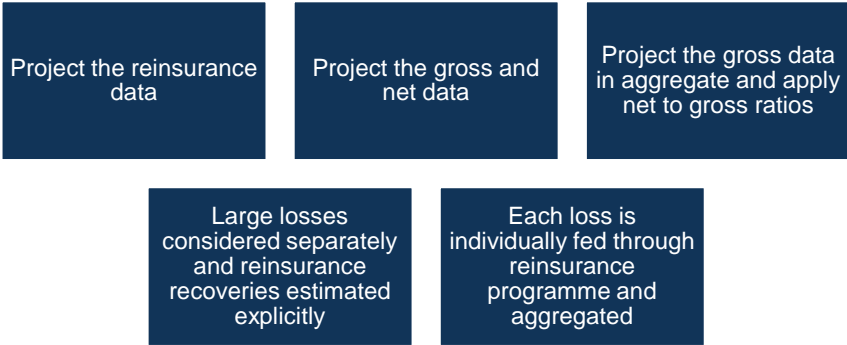
Other factors that may play a part in a reinsurance roll forward include...



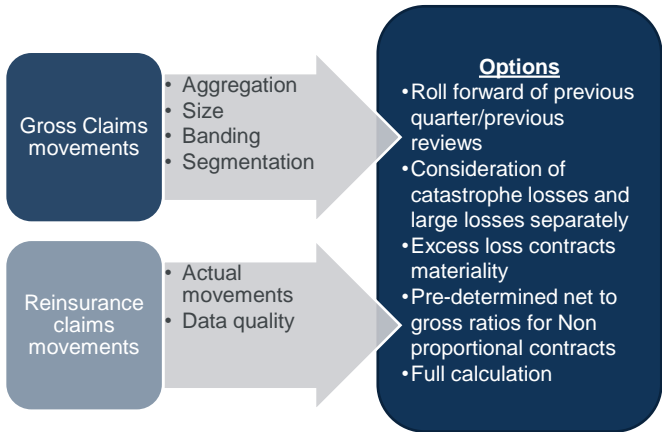
Reinsurance data considerations



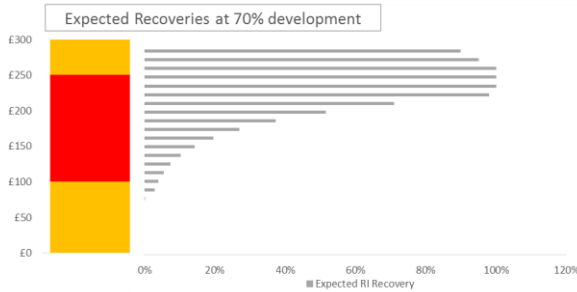
Reinsurance projection techniques during detailed review



Reinsurance considerations during fast close review



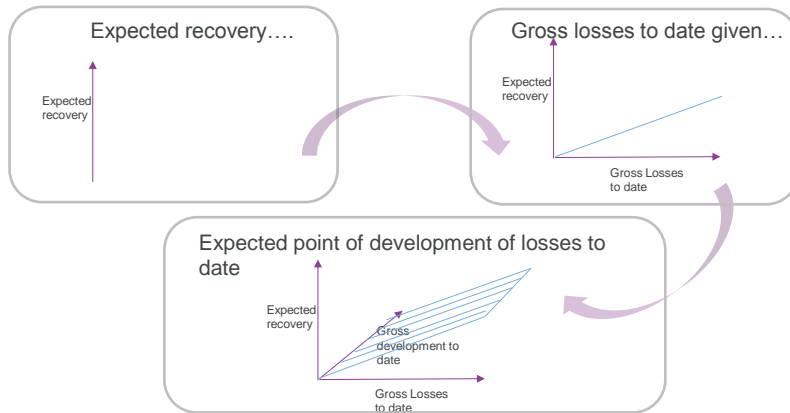
Reinsurance estimation for restricted time and individual data



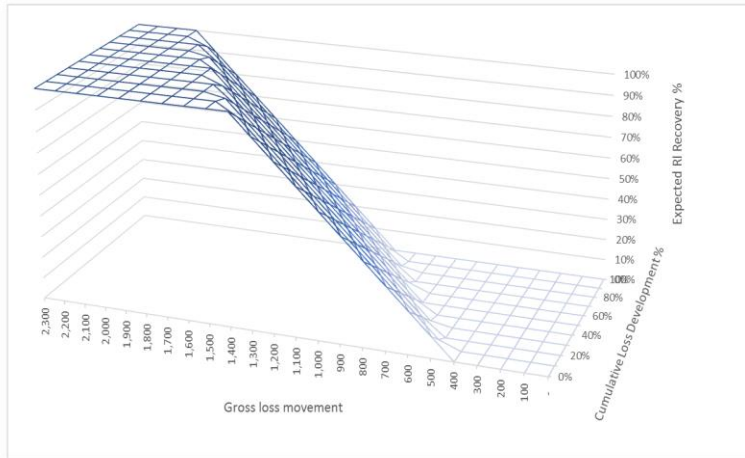
- On an individual Excess Loss contract may consider reserving as follows:
- Considers potential recoveries at each gross loss level at date of estimate allowing for potential development from the current gross loss estimates
 - Potential to link to capital model for allowance for variance in gross loss experience

Reinsurance estimation for limited time and data

To estimate a pre-determined reinsurance recovery ratio for non proportional reinsurance across multiple contracts, may want to consider:



Reinsurance estimation for limited time and data



Summary

- A common understanding of materiality thresholds is required for successful implementation of a fast close within the business. Agreeing them between different stakeholders may be difficult!
- In understanding better the fast close process and materiality thresholds it has operated within, the board can take more confidence in a fast close.
- Reinsurance estimations in fast close may be difficult however different techniques may be utilised.
- A wide range of techniques are used in the market, even within this room today



Questions



Comments

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