



Institute
and Faculty
of Actuaries

2018 Reserving Issues Lessons from the past for 2019 and beyond

Alex Lee and Joe Monk



19 June 2019

What we will cover today

- Summary of 2018 year end
- Have we seen this sort of experience before?
- Actuarial sign offs
- Challenge and pressures on reserving actuaries
- Professional Standards and their impact on reserving actuaries
- What might 2019 year end have in store

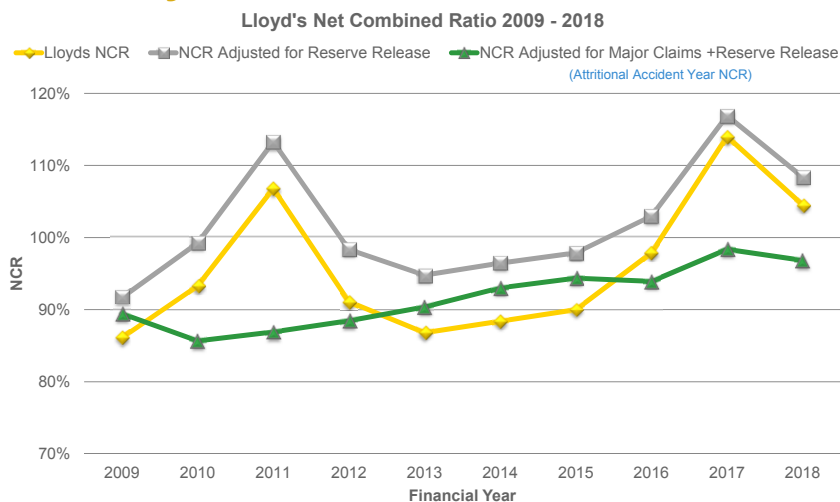


Institute
and Faculty
of Actuaries

19 June 2019

2

Summary of Market for 2018 Year End



- London Market continued to see adverse results in 2018
- Reserve releases still shown but the underlying picture is more adverse



Source: www.lloyds.com - Annual Reports

19 June 2019

3

Summary of Market for 2018 Year End

- Cat development from 2017 events (Harvey, Irma, Maria)
- New catastrophes – Jebi, Florence, Michael, Californian Wildfires ...
- Adverse liability development – Financial Institutions & other areas
- Pressure on Rates – Validity of Rate Changes / Rate Monitoring
- Ogden Rate change anticipation (Civil Liability Bill passed in Dec 2018)
- Motor BI issues
- Continued high inflation in certain areas (eg Motor TPPD) – future inflation?
- Capacity still readily available in the market

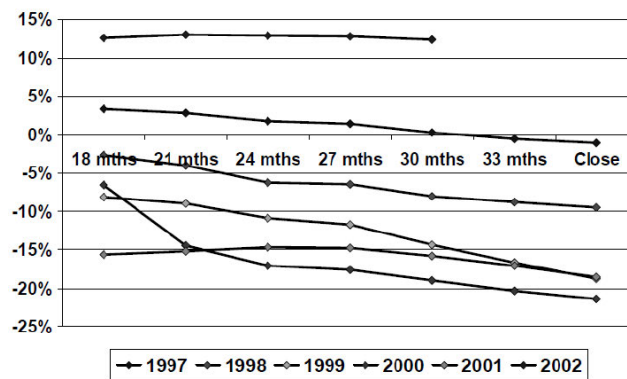


19 June 2019

4

Have we seen this before ?

Development of Mid-Point Forecasts 1997 to 2002



Actuarial Reserve Sign-off

- Internal
- External (SAOs)
- External (Audit)



Reducing the Reserves



Impact of External Pressures on Reserve Estimates

- Is Regulatory Pressure increasing?
 - PRA “Dear CEO letters”
 - Lloyd’s “Dear CEO and Dear Chief Actuary letters”
 - Section 166 reviews
 - Stronger audit processes?
 - Loss ratios – business plan vs capital model vs reserving basis
- How does this compare to the late 1990s?

Challenge/Pressure on Reserving Actuaries

“You need to be more commercial”

“But you don’t know the number with certainty
so the management number is just as valid”

“The difference between the management picks and your numbers
isn’t that large – you could just reduce your IBNR by 10%”.



Challenge/Pressure on Reserving Actuaries

“How can you know more than our internal actuarial team ?
– your reserves are much higher than theirs”

“It’s too early to make that decision, we need to see
how this develops in future to see if you are right”

“You need to be more flexible in your approach. We are thinking about
going out to tender next year / Being flexible and commercial is key if
you want to be promoted to the Board”

“If we go with your numbers we’ll have to make some redundancies –
is that what you really want ?”



Professional Standards

Actuaries Code (new version 18 May 2019):

- Integrity – Members must act honestly and with integrity.
- Competence and care – Members must carry out work competently and with care.
- Impartiality – Members must ensure that their professional judgement is not compromised, and cannot reasonably be seen to be compromised, by bias, conflict of interest, or the undue influence of others.
- Compliance – Members must comply with all relevant legal, regulatory and professional requirements.
- Speaking up - Members should speak up if they believe, or have reasonable cause to believe, that a course of action is unethical or is unlawful.
- Communication – Members must communicate appropriately

TAS 100 & 200



Professional Standards

- When does reasonable challenge become unfair pressure ?
- What happens if you get estimates wrong ?
 - Fine?
 - Credibility?
 - Explaining work done now several years into the future



You are not on your own ...

- Consider what support network you have available ...
 - Other actuaries in your firm
 - Non actuaries in your firm
 - External advisors (both actuaries and non-actuaries)
 - External auditors
 - Informal relationships (Eg ex colleagues)
 - IFoA

- With external signing actuary what role does the internal actuary play?



Institute
and Faculty
of Actuaries

2019 Year End and Beyond – similar to 2018?

- Cat development from 2017 / 2018 events
- New catastrophe events?
- Continued Liability development
- Inflation
- Brexit
- Rate Changes / Rate Monitoring
- Ogden Rate change by August 2019
- Motor BI issues (upcoming Whiplash reforms)
- FCA pricing reforms?



Institute
and Faculty
of Actuaries

Summary

- It is difficult being a reserving actuary with both commercial and regulatory pressures
- The 2019 year-end is going to be tough
- We can learn the lessons from the past
- Get support professionally both within your own firm and externally



Institute
and Faculty
of Actuaries

Questions

Comments

The views expressed in this [publication/presentation] are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this [publication/presentation] and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this [publication/presentation].

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this [publication/presentation] be reproduced without the written permission of the IFoA [or authors, in the case of non-IFoA research].



Institute
and Faculty
of Actuaries