



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Lloyd's Actuarial Function Thematic Review

Lloyd's Actuarial Seminar

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Introduction

Background

- Work carried out July 2017 to October 2017
- Part of supervisory work-plan for Society of Lloyd's
- Sample of 7 syndicates
- Scope with respect to technical provisions report, opinion on underwriting, opinion on reinsurance, overall governance/risk management
- Focus was whether SII requirements for actuarial function have been met



Thematic Findings

General

- Overall reports covered majority of SII requirements
- At times the **messages and conclusions** not adequately explained or described
- Many of the reports lacked **recommendations** to the Board with regards to deficiencies and improvements
- Several reports on technical provisions were **not fit for purpose** in providing robust enough conclusions and analysis



Thematic Findings

Opinion on underwriting

- Sometimes the **opinion basis was not clear** e.g. wording was vague or did not clearly link to the analysis performed
- **Criteria and explanation** of how 'adequacy' was concluded often missing
 - Some syndicates opined on the business plan without full consideration of all aspects of adequacy of premiums
- Limited articulation of how comfort is gained on certain aspects, such as **inflation, legal risk, bonus-malus**
- Clarity should be given where components have **not been reviewed** or as to how comfort has been gained by the AF



Thematic Findings

Opinion on reinsurance

- Sometimes the **opinion basis was not clear** e.g. wording was vague or did not clearly link to the analysis performed
- **Stress and scenario tests:** Article 272 (7) (c) requires analysis of the expected cover under stress scenarios in relation to the underwriting policy
 - Not all sample syndicates covered this sufficiently
 - E.g., we would expect stresses in a wide context, including when reinsurers are in stressed conditions or the reinsurance programme is exhausted
- Limited commentary on the **reinsurance programme for the group** as a whole and its impact on and appropriateness for the syndicate



Thematic Findings

Report on technical provisions

- The overall objective of the AF work on TPs is to provide assurance to the Board
 - We would expect **clear conclusions** that are linked to underlying analysis in order to inform the Board of the **reliability and adequacy** of the TPs
 - Several reports within the sample lacked evidence of this
- Some of the reports did not include an **actual versus expected** analysis of **SII technical provisions**
- Missing evidence of the AF ensuring that the **validation** is appropriately designed and robust



Summary: Actuarial Function requirements

- **Objective:** expert advice to the Board
- **Opinions:** Should be clear and not just narratives on what has been reviewed
- **Recommendations:** Ensure that deficiencies and recommendations are highlighted clearly for the Board
- **Sufficient information** to back opinions *or* information on where this analysis can be found
 - The AFR must contain the key points and clearly signpost to where the underlying analysis can be found
 - No need to repeat entire content of other reports but key points should be highlighted
 - These underlying reports should also be available to the Board



Areas to consider

- Consider the level of **independence** needed
- Design an appropriate **process for validation of TPs**, proportionate to the risks, including feedback loops
- Consider how to **communicate** the work and who to, so that it can be used in decision making
- The AFR is not a report for the PRA. It is a **report for the Board**.
 - We would expect to see meaningful conclusions and recommendations made
 - Check there is a clear basis and appropriate criteria for all opinions
 - Be clear about how conclusions have been reached, supporting analysis, and therefore what reliance the Board can place on the conclusions



Next steps

So far

- Have discussed findings with Lloyd's and provided written feedback
 - Thematic feedback
 - Individual syndicate feedback

Next

- Lloyd's to consider how best to address thematic findings
- PRA in general are reviewing actuarial function work and hope to provide some high level feedback to the industry



Questions?

