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Lloyd's NED Actuarial Forum 2020

12 November 2020

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Contents

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Key takeaways from the 2019 Forum

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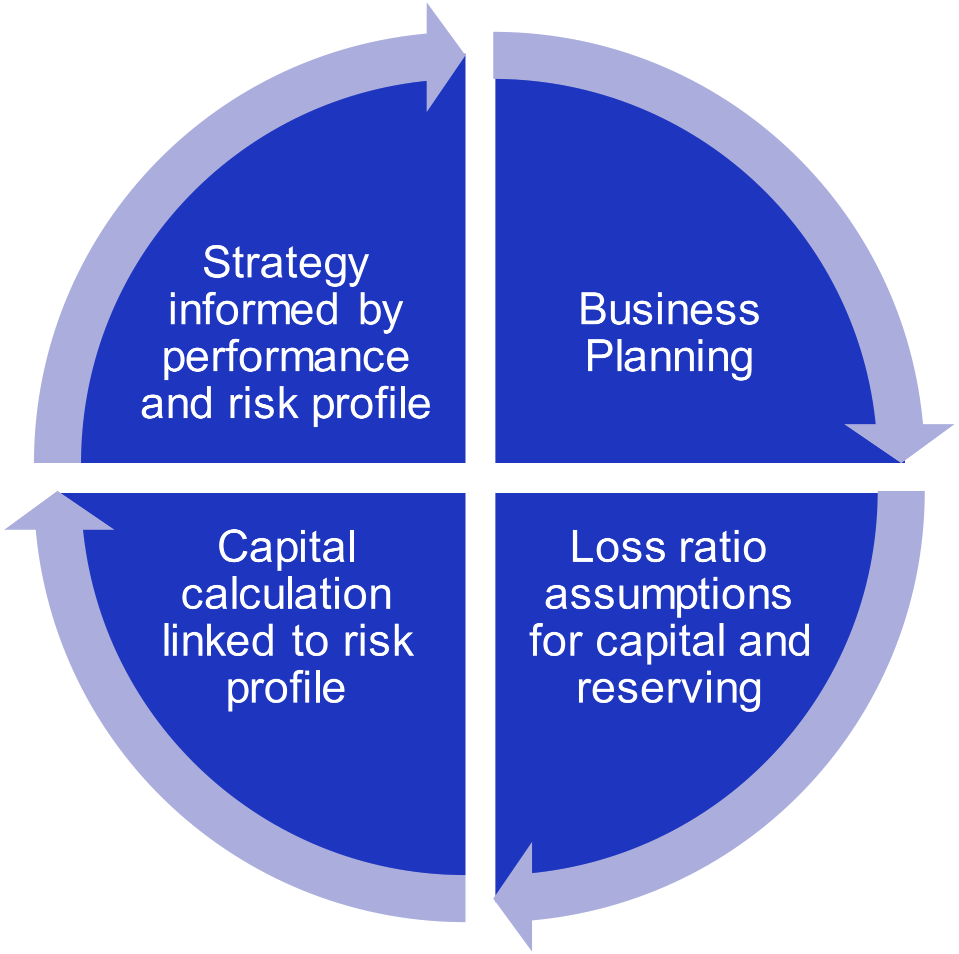
Key takeaways from the 2019 Forum

A joined up approach across the business

1. You are a key part of joining up areas across the business, including actuarial team inputs
2. One of the markets biggest challenges is on sustainability
3. You are required to ensure the risks to your business are appropriately managed and capitalised
4. This needs to be clearly communicated to us
5. We are committed to improving timeliness and transparency of communications, your feedback is welcome on this



YE 2020 SAO engagement

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YE 2020 SAO engagement

Engagement with Signing Actuaries

- At the recent Signing Actuaries forum we highlighted the following:
- Provide guidance on specific issues. For example:
  - Reminder of our expectations relating to valuation methodology e.g. best estimate versus management margin
  - Current issues we are seeing across the market e.g. recent developments relating to COVID losses
- Clarification of our expectations relating to scope of work
  - Require a comparison with the external SAO by class of business and year of account
  - Consideration of surplus/deficits at granular level in context with appropriateness of assumptions for the capital model
  - Require SAs to report any trends seen over time and on specific classes
  - Require SAs, where performing a method and assumptions review, to be explicit about offsetting assumptions or additional analysis performed

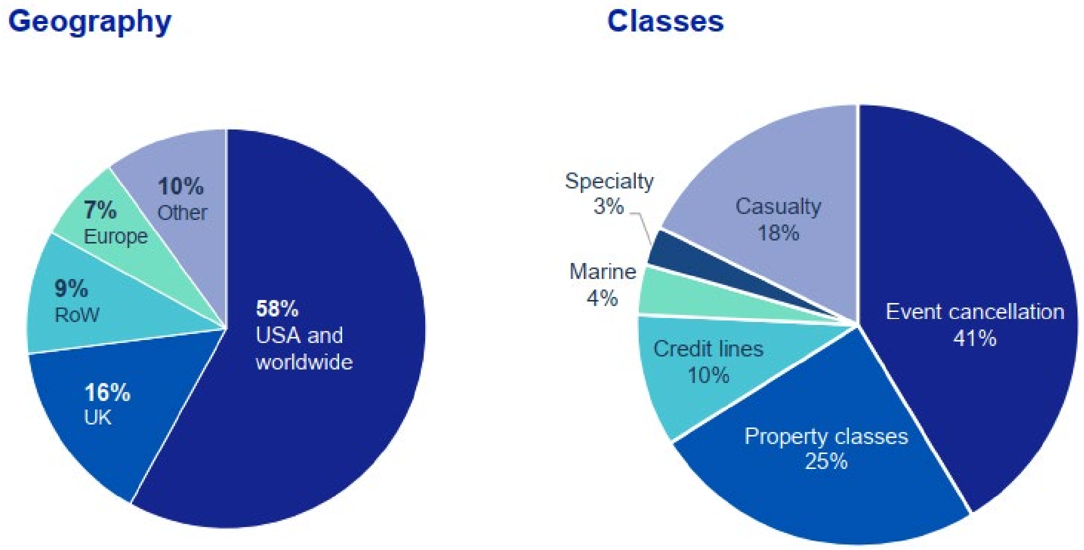
COVID-19

COVID-19

Lloyd’s half year results 2020 – COVID-19 losses

Estimated losses as at May 2020	**£2.5bn-£3.5bn**
Incurred losses as at 30 June 2020	**£2.36bn**
Net ultimate losses as at 30 June 2020	**£2.96bn**

Distribution of COVID-19 losses



‘Worldwide’ – customers that have global risk programmes
‘Other’ – Australia, Canada and Asia
‘RoW’ – all other countries and territories not specifically listed Lloyd’s customer pay-out range is net of reinsurance

COVID-19

Extract from the Signing Actuary's Forum

Recessionary impacts

- More litigious environment
- Less money spent on general maintenance
- Change of use of buildings due to increased homeworking
- General increase in class actions

Appropriateness of reserving assumptions

- Are premium estimates achievable?
- What allowance has been included in 2020 loss ratios?
- What allowance has been made to payment profiles?
- Stress & scenario analysis:
  - Impact of lockdown into 2021?
  - Severity / length of recession?

Other impacts

- Impact on 2021 business planning – explicit load for COVID?
- Consideration of impact on claims handling? Cost of defence for claims would normally expect to win?
- FCA Test Case – assumptions regarding appeal? What the impacts of win/loss on appeal?

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Appropriateness of assumptions

Best Estimate vs Margin

Remember:

GAAP Reserves would include reserves for O/s claims, IBNR and UPR for reasonably foreseeable events plus a management margin to reflect the Syndicates risk appetite.

A Solvency II best estimate is the expected value of the distribution of possible outcomes of the unpaid liabilities.

If uncertainty requires reserves these do not represent margin

Real world example 1: Silverstein (WTC) - If a reserve is held for a particular large loss which is uncertain this is not necessarily margin – a 90% chance of a loss of 0 and a 10% chance of a loss of 500m has an expected value of 50m

Real world example 2: The Ogden discount rate review presented a strong likelihood of changing the rate, which should have been incorporated in best estimates

Real world example 3: The reserve for COVID should include allowance for both direct and indirect impacts.

Real world example 4: The reserve for COVID should consider a likelihood for future scenarios – e.g. a 5% chance of normality for Contingency returning in Q2 2021, 90% chance in Q3 2021 and 5% chance in Q4 2021.

Any use of margin to cover ongoing uncertainty in reserves is a change in basis and should be clearly communicated

COVID-19 takeaways

1. Are you challenging the key assumptions?
   - What are the drivers of the COVID estimates? What information have you been provided regarding scenarios / sensitivities?

2. Have indirect / secondary impacts been allowed for explicitly?
   - Can indirect impacts be quantified?
   - E.g. if implicit allowances have been made for recessionary impacts, would you expect your specific COVID estimate to deteriorate over time?
   - Are there classes without claims that may have future claims? E.g. D&O, Employers Liability, etc.

3. How do the Syndicate assumptions compare with peers?
   - If the Syndicate experience looks favourable – could this just be delayed reporting?

Focus classes

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Concerns on Casualty continue

At high class of business level evidence of potential market-level deficiencies

Lloyd's central reserve review exercise identifies potential areas of deficit in written best estimate reserves.

- Accident & Health
- Casualty FinPro
- Casualty Treaty

This is the view based on our best estimate, but a wide range of reasonable alternative views could give rise to different conclusions.

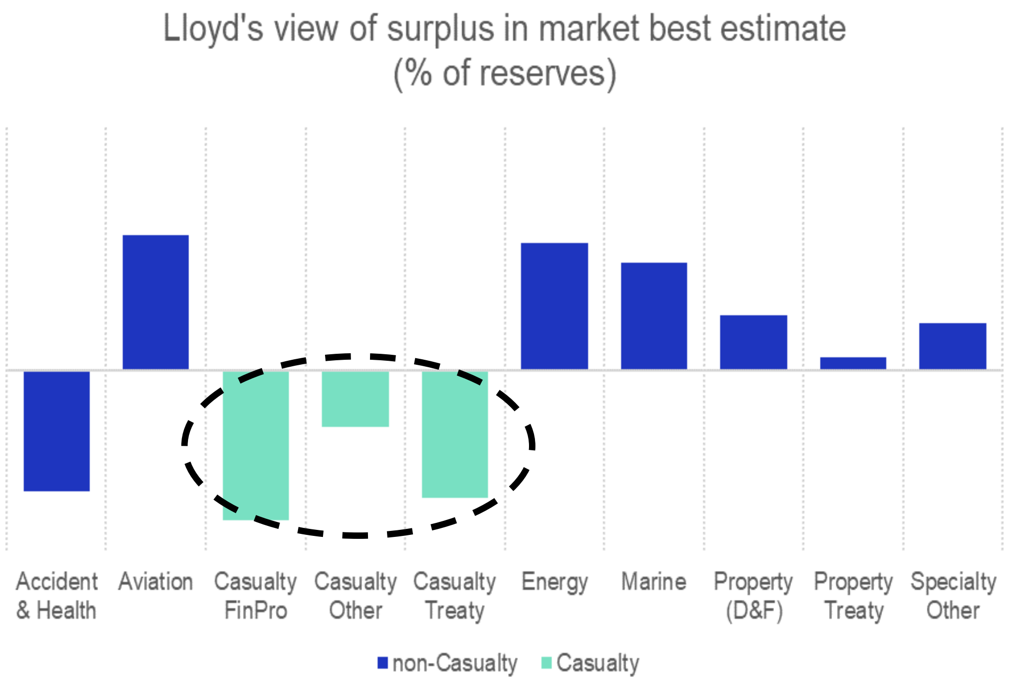
Lower level classes of business Lloyd's have reserving concerns about include:

- Accident & Health: A&H direct and Pecuniary
- Casualty FinPro: PI (US and non-US) and FI (non-US)
- Casualty Treaty: NM Casualty Treaty (US and non-US)

Do you request loss ratios over time?

Do you understand any credit being taken within reserving for underwriting activity? Is this credit based on evidence or judgement?

2017-2019 years of account

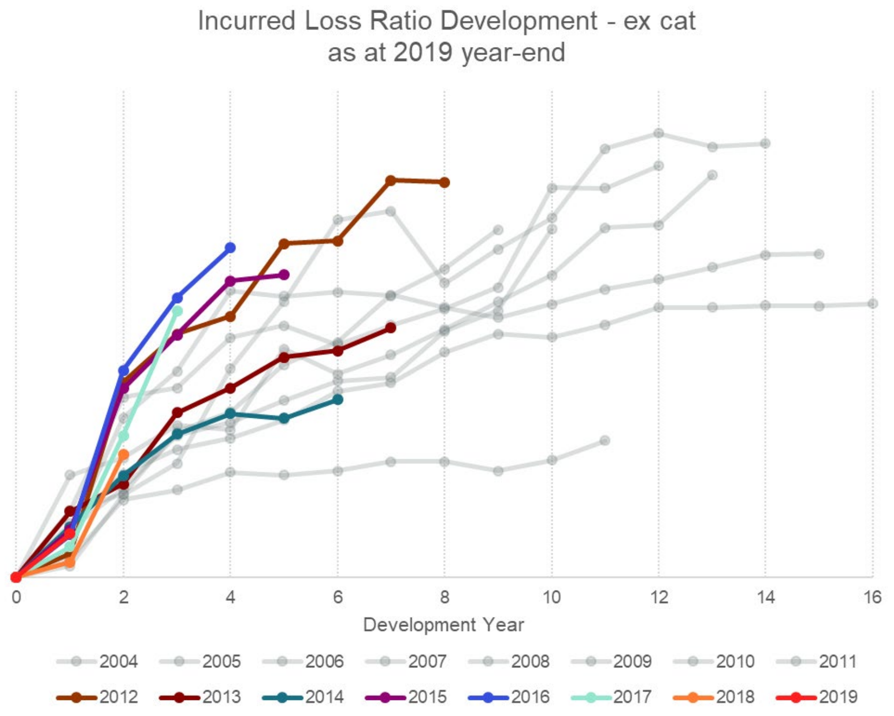


For the Casualty classes in particular there are concerns on the most recent years of account

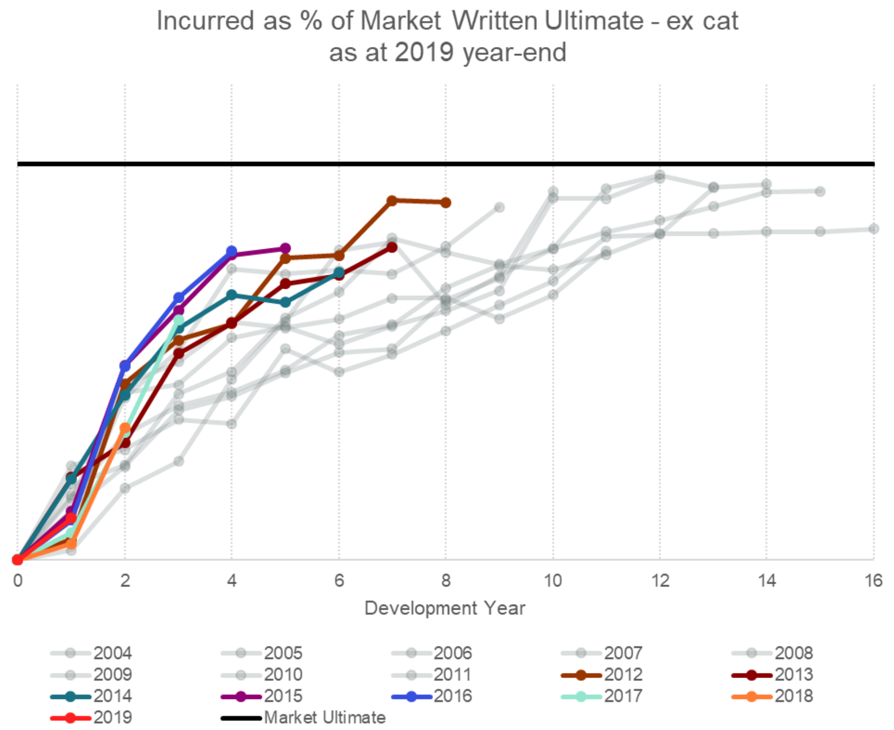
Change in development profile

Pecuniary

Change in development profile



Increased loss ratio development but we are not seeing an increase in the Market's written loss ratio as the development profile is assumed to be speeding up



What trends are you seeing in your business?

Are material changes to reserving assumptions highlighted to you? Are these supported by analysis?

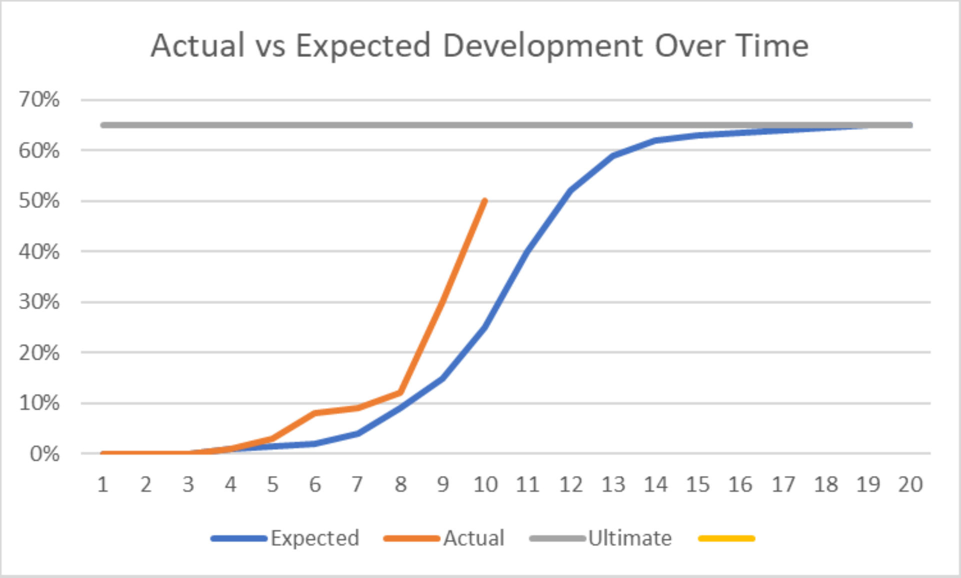
Setting Initial Loss Ratios

Setting the scene

Average of historical loss ratios suggests a 70% loss ratio……

…….re-underwriting suggests this can be improved by 10% leading to a plan loss ratio of 60%

…….reserving actuaries scale back the credit leading to an initial expected loss ratio (IELR) of 65%

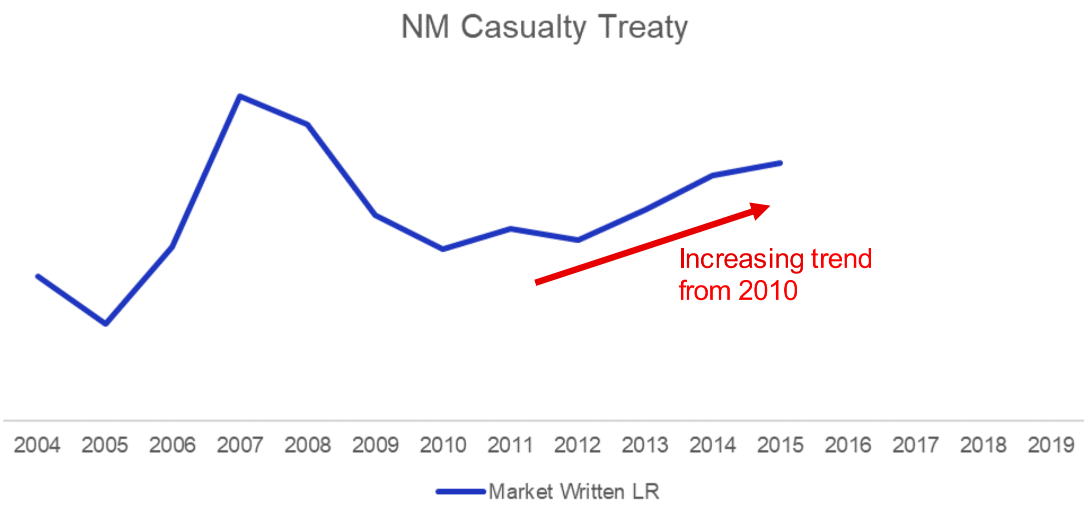


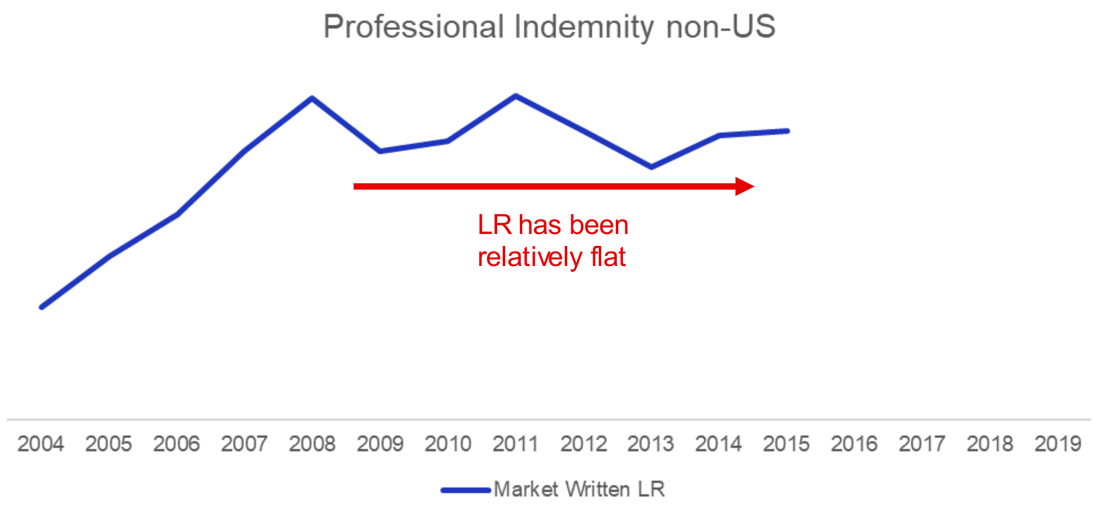
Adequacy of loss ratios for recent years of account

NM Casualty Treaty & Professional Indemnity non-US

Appropriateness of IELR setting

NM Casualty Treaty (US and non-US) and PI non-US demonstrate the differences between projecting historical trends forwards and the market written loss ratios provided in the TPD





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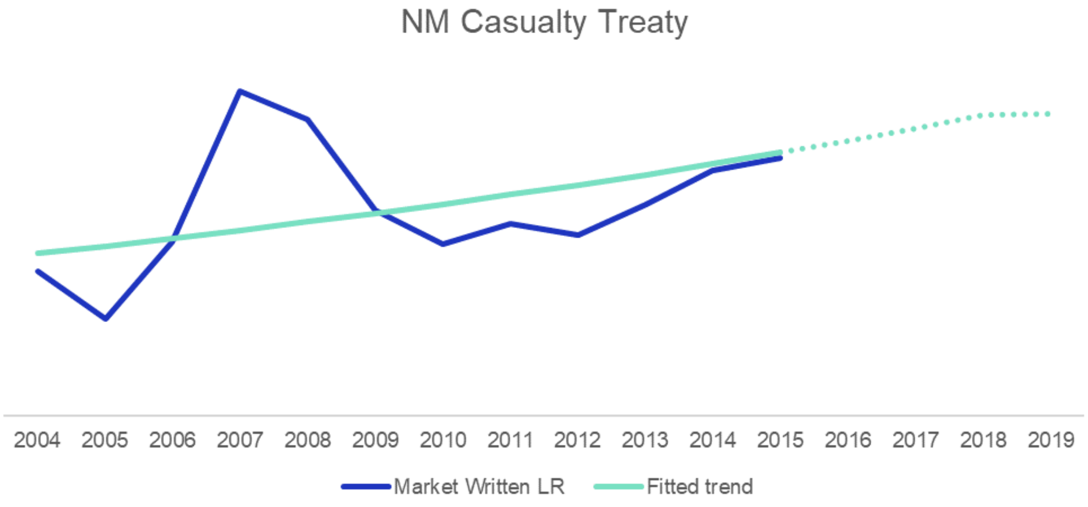

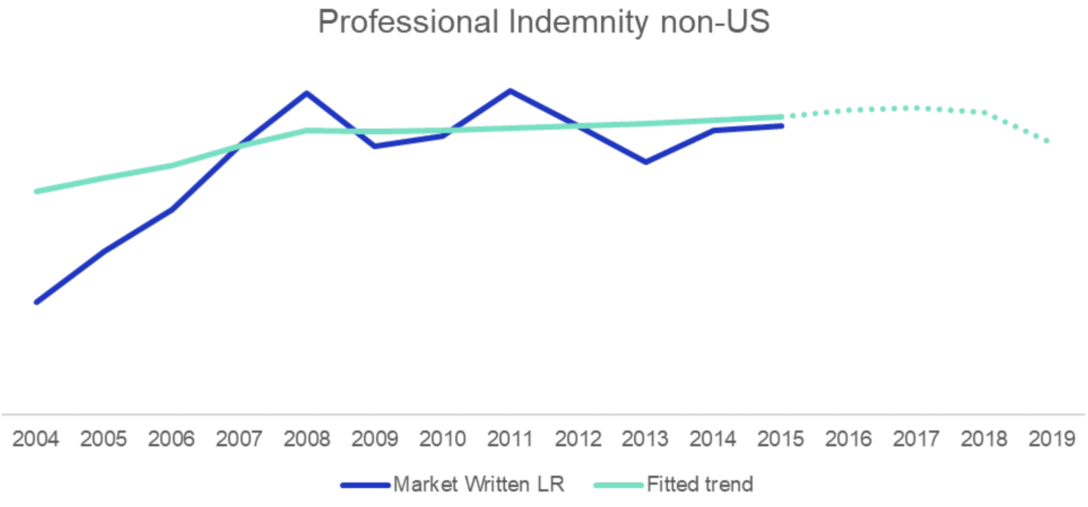

Projecting historical trends forwards with allowance for rate changes gives the fitted trends on the graphs above

Adequacy of loss ratios for recent years of account

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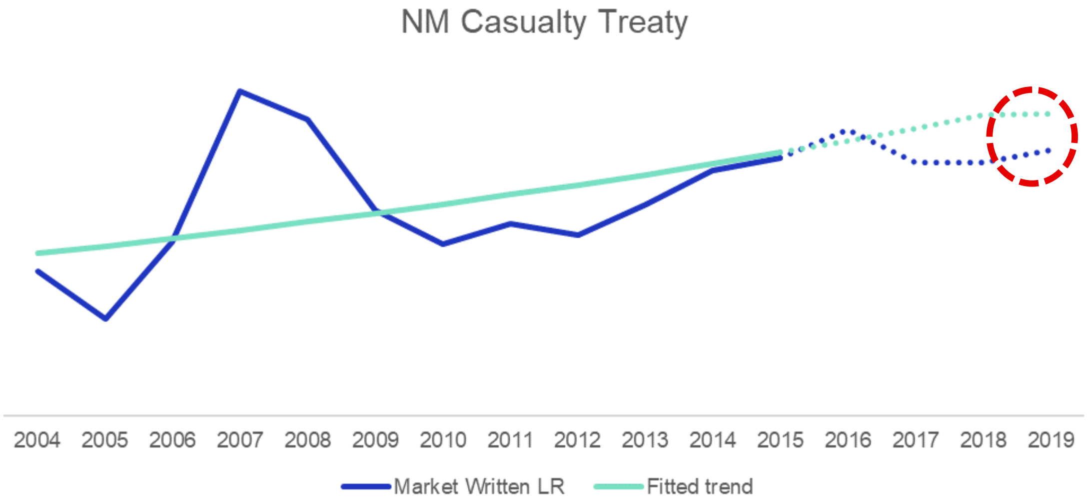

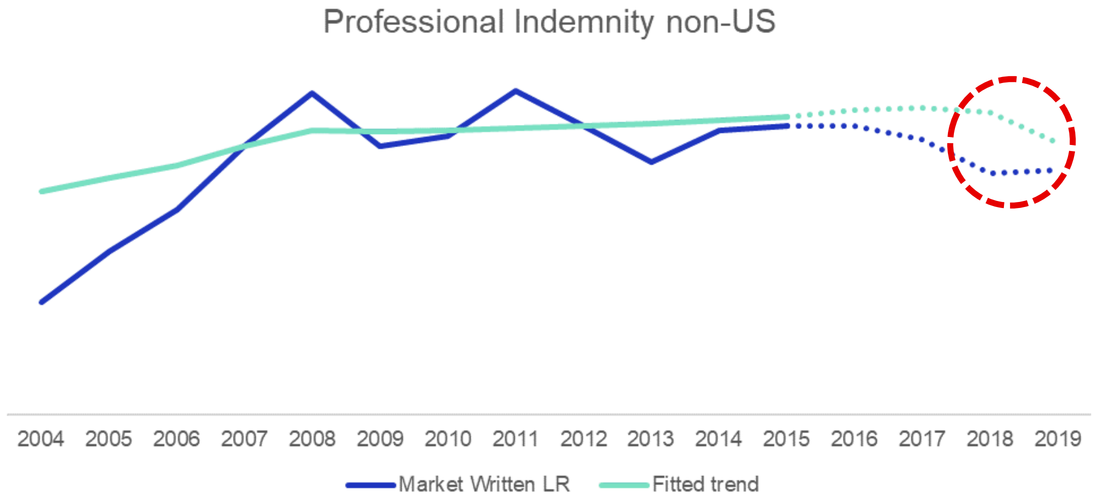

The Market written LR diverges from this fitted trend

Do you see trends in loss ratios over time? Ask to see the analysis supporting any changes from historical trends

Adequacy of loss ratios for recent years of account

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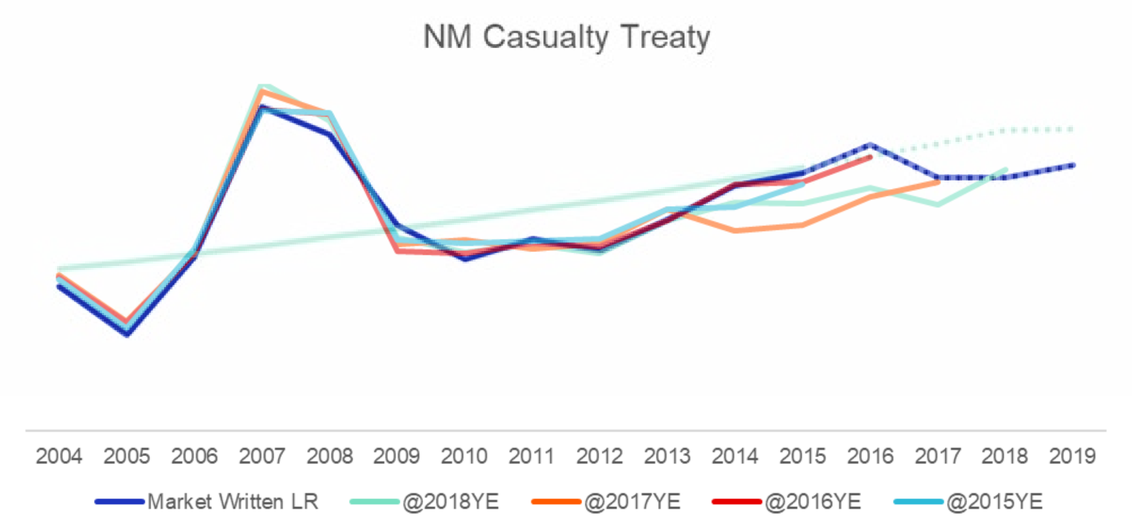

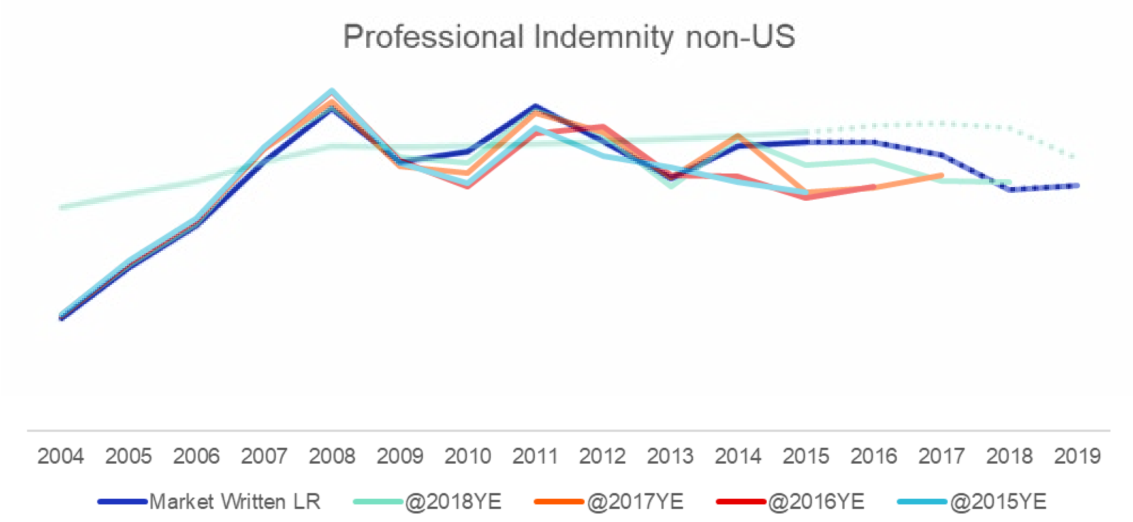

Both of these classes have seen reserve deteriorations over several year-ends on the most years of account

This adds to the uncertainty of expected improvements from the historical trends on the more recent years

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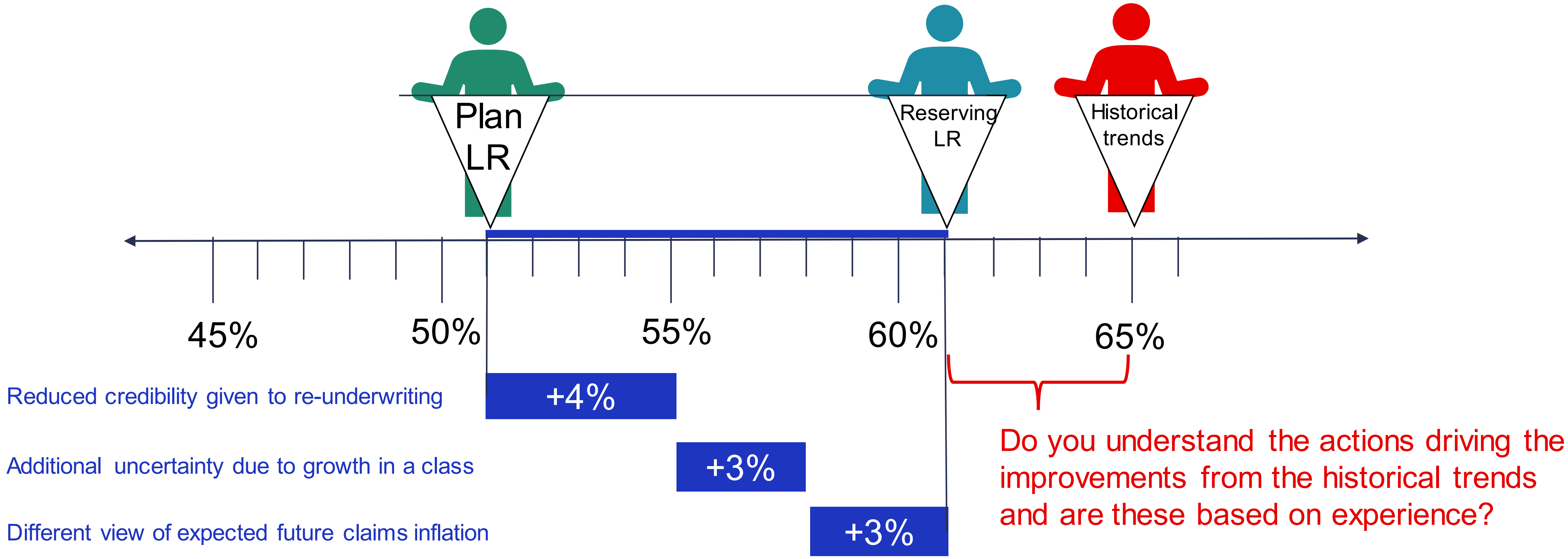
Appropriate IELR setting

Means that plan and reserving loss ratio assumptions may differ…

Appropriateness of IELR setting

…but should be consistent:



To achieve this teams need to work together with strong collaboration and communication.
Justification of the bridging between the loss ratio views should be understood by the Board and challenged.

Focus classes takeaways

1. What trends are you seeing in the business?
   - Do you see graphs of loss ratio development?
   - What deep dive analyses do you request / see from the actuarial function?
   - Do you write the Lloyd's focus classes?

2. Do you challenge the IELR estimates used in reserving?
   - Are they based on ground up analysis? Or built up from the plan?
   - Can the gap be rationally bridged between the two?

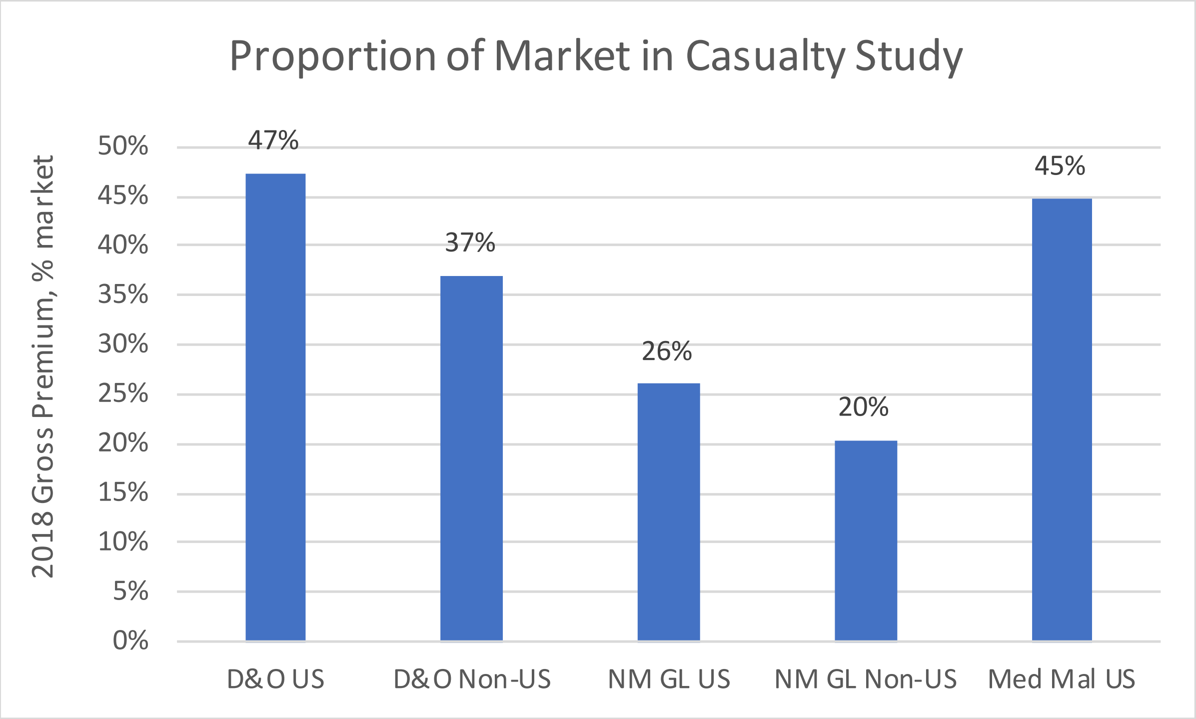
3. How well are any judgements communicated?

Update from the Casualty Market Study

High Level Scope

Classes of focus and syndicates involved

- Joint study between Underwriting, Claims and Reserving
- Conducted in 2020 Q1
- Involving 14 managing agents; 15 syndicates
- Focusing on
  - NM General Liability (US and non-US)
  - D&O (US and non-US)
  - Medical Malpractice



Important: The NM General Liability non-US class no longer remains a class of focus as the Lloyd's view is now aligned with the market following correction to the historical TPD from managing agents. **Please check the TPD data.**

Key Findings at Market Level

General Themes and Class specific

- Increasing sophistication and organisation of plaintiff counsels, particularly in the US, and no corresponding market effort to counteract the change in the plaintiff counsel's tactics
  - This makes it more difficult to defend against claims

- General consensus that the claims environment has changed in recent years and some participants suggested the market is unclear how long the increasing severity of claims would continue
  - This makes it harder to forecast claim severity

In response, most participants are carefully managing line sizes and attachment points, but the effectiveness of this action is uncertain.

Some Managing Agents are adapting their processes in light of additional uncertainty, such as using third party data/insights.

Rates are hardening across all classes, but uncertainty remains around whether this is just keeping up with increasing claims costs and on pricing adequacy. This is an area that requires further oversight.

Findings – Themes by Class of Business

D&O (US and Non-US)	NM General Liability (US and Non-US)	Medical Malpractice
Number of class actions increasing across US and Non-US (particularly in Australia)	**US business claims severity generally increasing**	**Large amount of consolidation of healthcare providers**
Change in manner in which claims are brought	Particularly for insureds that interact with consumers	Generally resulted in better risk management
Line sizes and attachment points are being managed	Impacted by social media, populism and general anti-corporate feeling	Generally agents can manage claim frequency through risk profiling
Proportion of US exposed business are being monitered	**Impact on non-US business not as clear**	**But claim severity is difficult to manage**
Limiting Side C exposure	**Line sizes and attachment points are being managed**	**Line sizes are being managed**

Underwriting feedback

Appetite and Segmentation

Best* Practice

1. Evidence that **underwriting has responded to trends** (reacting to feedback loops with claims and reserving). For instance, increase in attachment points as a result of analysis of claims and other external trends;

2. Change in **appetite is clearly set out for all underwriters** within the team. Best examples showed regularly updated Underwriting Guidelines with commentary around risk appetite and how to respond to different types of risks; and

3. **Real time dashboards** used by management to track business written against appetite and segmentation targets.

General Findings

Some syndicates interviewed were less able to fully articulate how they were responding to specific trends and did not have any formally documented articulation of their appetite.

Are you able to see how the written business is tracked against underwriting appetite and segmentation targets set at the outset?

** "Best" practice on these slides refers to the best practice seen within the sample of Syndicates within the Study*

Underwriting feedback

Measuring Underwriting Performance

Best Practice

1. Use of multiple tools (such as AvE) to show **impact of any actions to remediate** or change make up of their portfolio;
2. Regular **comparisons of historical loss ratios and planned loss ratios**;
3. Regular **formal reviews** at Underwriting Committees or similar;
4. Consideration **of performance against Reserving Philosophy** both at case and portfolio level, for direct and delegated claims;
5. Developing the use of available **quantitative claims data to oversee performance** against expectations for reserve timeliness and accuracy in line with an articulated appetite for the same; and
6. Evidence to suggest consideration of case reserving practices where operating in **both a lead and follow capacity**. For example, some syndicates record and track instances where they recommend manual case reserves.

General Findings

A number of syndicates were unable to articulate how they measured success of underwriting actions and were limited by lack of appropriate data.

The way in which syndicates measured underwriting performance against underwriting actions was mixed. Lloyd's expectation would be that they establish a methodology through regular feedback with Reserving and Claims to account for estimating this impact in their Best Estimate figures.

Are you able to see how effective re-underwriting actions taken to remediate the portfolio have been?

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Claims and Reserving feedback

Feedback Loops

Best Practice

1. **Key meetings** for each function (Underwriting, Claims and Reserving) are **attended by representatives from the others**, so that they are all kept up to date with trends and topics;
2. There is **open dialogue** when required between the three functions to discuss material claims and trends **outside of formal meetings**;
3. When presentations from or discussions with external subject matter experts take place, representatives from all three areas of the business **(Underwriting, Claims and Actuarial) are invited** and attend;
4. **All teams feedback** to the rest of the business at different stages of the reserving process;
5. **Formalised meetings** are scheduled regularly between the teams;
6. In addition to formal meetings, syndicates provided anecdotal evidence of **ad-hoc meetings** taking place between underwriting, claims and reserving as different issues arise
7. Use **of robust qualitative oversight tools** such as peer review, second set of eyes and audit (both internal and external), and ensuring any **learnings are fed back** into the business; and
8. Comprehensive **Case Reserve reporting packs for the Board**.

General Findings

The poorer examples based on our sample lacked a sufficient number of formal meetings between the different business areas, with heavy reliance on informal discussions and reliance on individuals to initiate these on an ad-hoc basis.

Is the information you are presented with from the different teams consistent with each other?

Claims and Reserving feedback

Emerging Trends

Best Practice

1. **All three teams** (Underwriting, Claims and Actuarial) **contribute** to work on emerging trends;
2. Formal **presentations are given to the Board** on a regular basis to highlight emerging trends along with their potential impact to the syndicate;
3. Clear evidence is available on how emerging trends are **incorporated within the reserves**
4. Identification and tracking of emerging risks **clearly drives underwriting strategy**, feeds into underwriting guidelines and pricing models as required;
5. There is **clear ownership** of the process to identify emerging trends;
6. **Prompt response** is taken to emerging trends, with a clear plan for actions;
7. Extensive use of **external subject matter experts** / information aids the identification of emerging trends;
8. Claims watchlists include details such as **specific IBNR on multiple reserving bases or claims being ranked as high / medium / low risk** and include movements over time to test the utility of the watchlist; and
9. There is controlled use of monitoring counsel intelligence for trends and **commissioning of specific studies, emerging risk and horizon landscaping**, with evidence of consumption and relevant application.

General Findings

There were some syndicates based on our sample that could only demonstrate the use of claims watchlists as the main way of monitoring emerging trends. There was also cases where communication to follow insurers could be improved.

Are you being presented with the emerging trends that are impacting / likely to impact your syndicate, and potential impact of these?

Claims and Reserving feedback

Reserve Robustness

Best Practice

1. A history of generally stable or improving **ultimate loss ratios over time** or had taken effective significant action to address increasing loss ratios by performing deep dives and changing assumptions;
2. Quarterly processes to **validate robustness of previously selected ultimate claims**, such as an actual versus expected analysis at an appropriate level of granularity and identification of emerging trends which get reflected in reserving assumptions in a timely manner;
3. Either had a best estimate surplus at class level versus the external signing actuary's estimate or used the signing actuary's estimate to help identify if any material issues had not been considered by the syndicate. **Material differences between the two estimates were discussed and understood by the Board**;
4. Held **formal meetings during the reserving process** that allowed reserve selections to be appropriately **challenged by senior management** as well as other areas of the business; and
5. Consistent application of a clear timeliness and accuracy Case Reserving Philosophy **at all levels and by all service providers** (including third party claims administrators).

General Findings

There were syndicates based on our sample that had a general trend of increasing loss ratios, with very little evidence to suggest work was being done to understand and / or address this. In addition some syndicates had not appropriately considered material deficiency in the focus classes against the external actuarial view. Finally delegated authority reserving oversight has potential for improvement, as well as use of peer review as a tool for qualitative assessment.

Are you presented with:
1) Movements in loss ratios over time to help identify any trends?
2) Description of material differences in views between the internal and external actuarial view, with justification of these?

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Claims and Reserving feedback

Claims Inflation

Best Practice

1. **Explicit** consideration / allowances for claims inflation in reserves;
2. Assumptions on claims inflation are **regularly reviewed and validated** between claims, actuarial and underwriting;
3. Data and knowledge within the managing agent is supplemented by **external data sources**, including intelligence on developing or decided litigation outcomes which may set precedents;
4. **Sensitivity testing** of assumptions used to derive inflation rates is performed to identify the material assumptions that influence the estimated reserves; and
5. There is clear **feedback** between pricing and reserving leading to updates **to pricing models**.

General Findings

There were some syndicates based on our sample that did not consider claims inflation as part of the reserving process. This was either due to syndicates not believing they have the required data or due to syndicates assuming that inflation would be captured by rates charged for risks. Some others make implicit allowance for claims inflation which does not allow for appropriate challenge to the assumption.

Are you able to understand how claims inflation is allowed for in the reserves and how sensitive results are to this assumption?

Casualty market study takeaways

1. Has an assessment been provided for how your syndicate compares to the 'Better Practices' highlighted?
2. Is the data fit for purpose? Is it accurate?
3. Do you see information that will help identify trends in classes?
4. Do you look at ultimate loss ratios over time?
5. Do you get enough to gain comfort over case reserve adequacy?
6. How do you oversee the setting of reserves for newer classes?

Reserving tests feeding capital

Reserving tests feeding capital

What we are doing:

1. Maintain an appropriate and robust best estimate reserving process
2. Focus on getting the starting point right
3. Sufficient capital for historical deviation to plan

For the 2021 capital setting, loadings are applied to Syndicates where issues and deficiencies are identified through the above oversight. **NOTE: Syndicates may have chosen to load their own capital.**

Reserving tests feeding capital takeaways

1. Does the best estimate reserving process comply with minimum standards?
2. How accurate is the roll-forward? Is there sufficient validation? Consider the impact of uncertainty – especially in context with the current market.
3. Is there consistency between planning loss ratios, reserving loss ratios and capital loss ratios?
   - Can any differences be explained and justified?
4. Feedback loops – are these satisfactory?
   - If there is a load above plan for capital – does this feed into reserving?

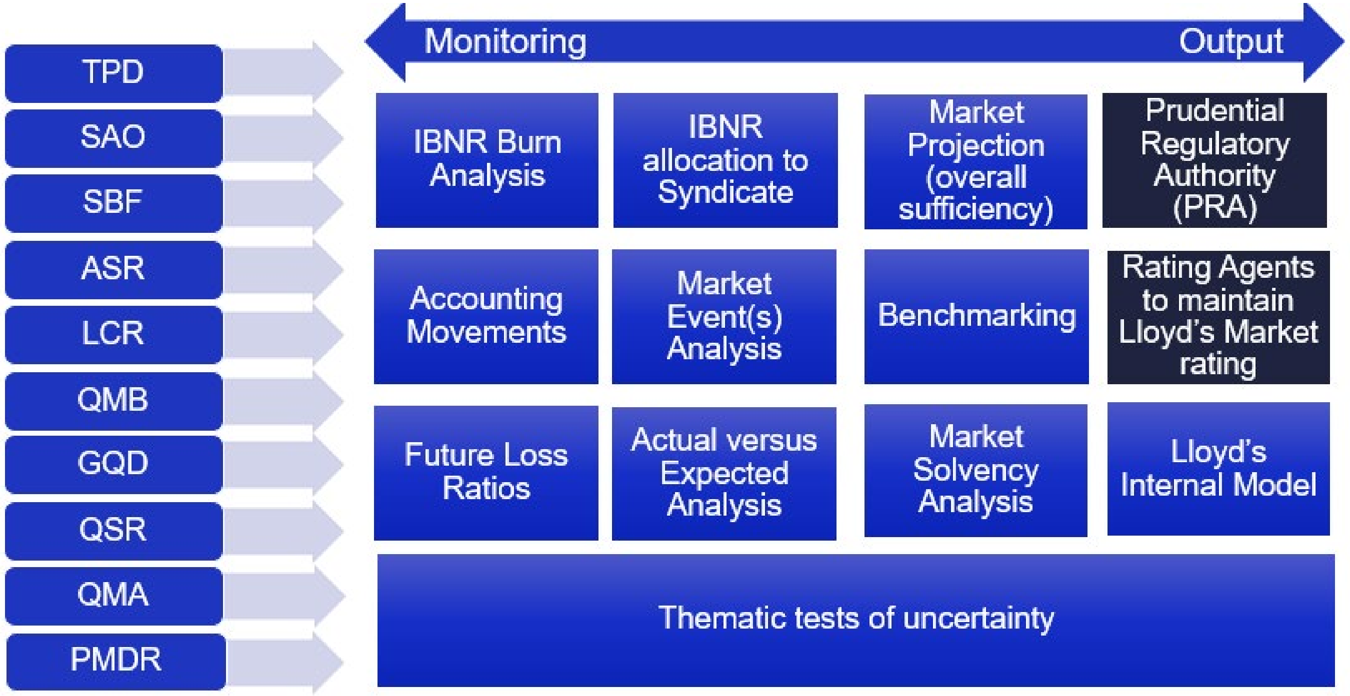
Whilst we have seen improvements this year, how well will this years increased uncertainty (e.g. due to COVID) impact the best estimate, starting position or planning uncertainty?

Importance of data

Importance of data

The data provided to Lloyd's is the same data used to monitor and review Syndicates.

If the quality of that data is poor then Lloyd's ability to identify where oversight and intervention should be directed will be impacted.



Importance of data

What do you do to check the data provided to Lloyd's is accurate?

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Key takeaways from today

Key takeaways

1. Covid-19 – it is uncertain, do you have the right information to challenge?
2. Is it clear what allowance for uncertain events is in the best estimate?
3. Do your agents write the classes of concern? Are you armed with the right questions?
4. Has your syndicate been loaded or self-loaded for the reserving thematic tests? How does that feed back into the reserves? Are you thinking about these uncertainties?
5. Is there enough challenge to the process to get data into Lloyd's?

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Questions?

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