

Lloyd's Reserving Forum 2022

Agenda

Opening Remarks

Class of Business Trends Observed

Key Uncertainties

Inflation

Ukraine

COVID-19

Hurricane Ian

Final Remarks

Questions & Answers

Appendix: 2022 YE SAO Key Dates and Report Expectations

Opening Remarks

Nikhil Shah

Senior Manager, Syndicate Reserving

Key Messages on reserving ahead of 2022 YE



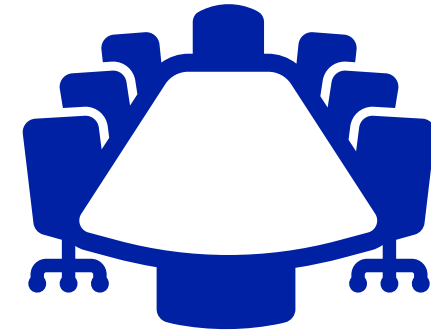
There are several complex areas to consider for 2022 year-end reserving.

It is difficult but we can't ignore them.



Not dealing with these areas is wrong, but so is being overly prudent.

We must find the right balance.



You need to make explicit and reasonable allowances

You need to communicate this, along with the associated uncertainties, to your Board.

Lloyd's Reserving Class of Business

Hazal Karakurt

Senior Actuary, Reserve Modelling

Our confidence in aggregate market reserves is stable

Best estimate reserves are sufficient at total level but class specific concerns are ongoing

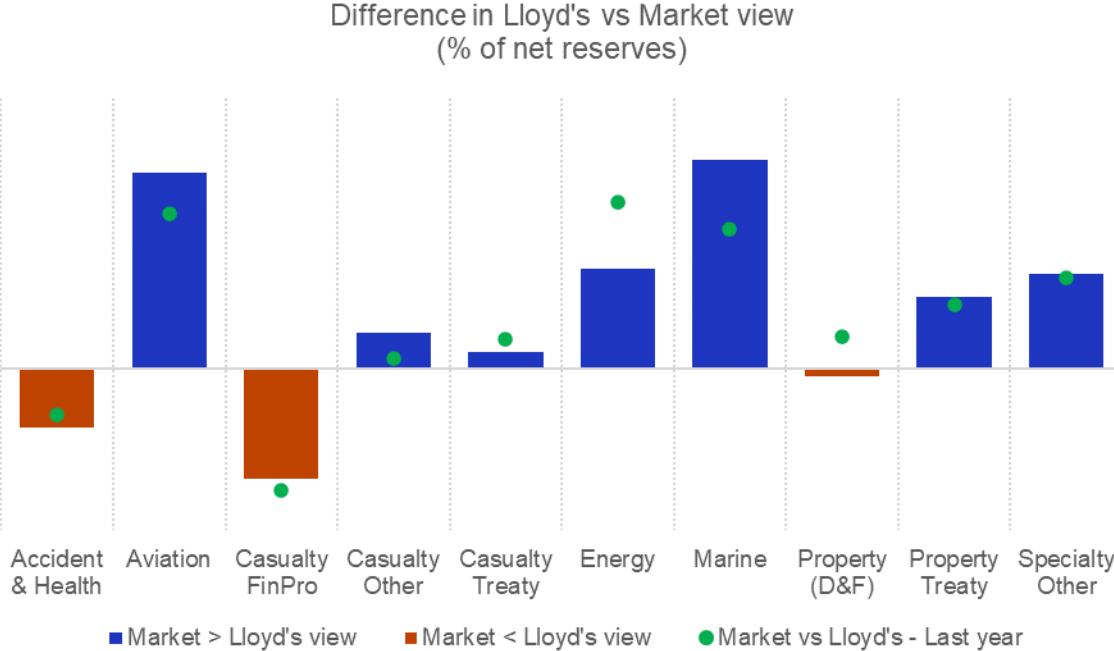
Lloyd's central reserve review exercise relies on market trends which identify areas of difference to the market's net written best estimate reserves.

Access to market data gives us a bird's eye view which can be difficult to obtain at syndicate level.

The market's best estimate reserves in aggregate continue to be in excess of our independent view. Our conclusions are very similar to last year.

Our best estimate for Accident & Health continues to be in excess of the market.

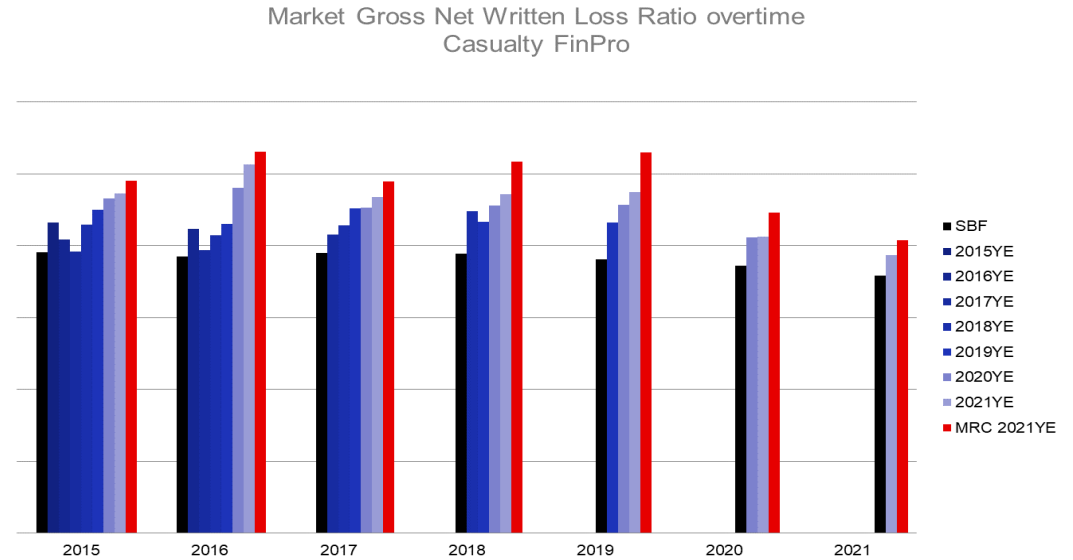
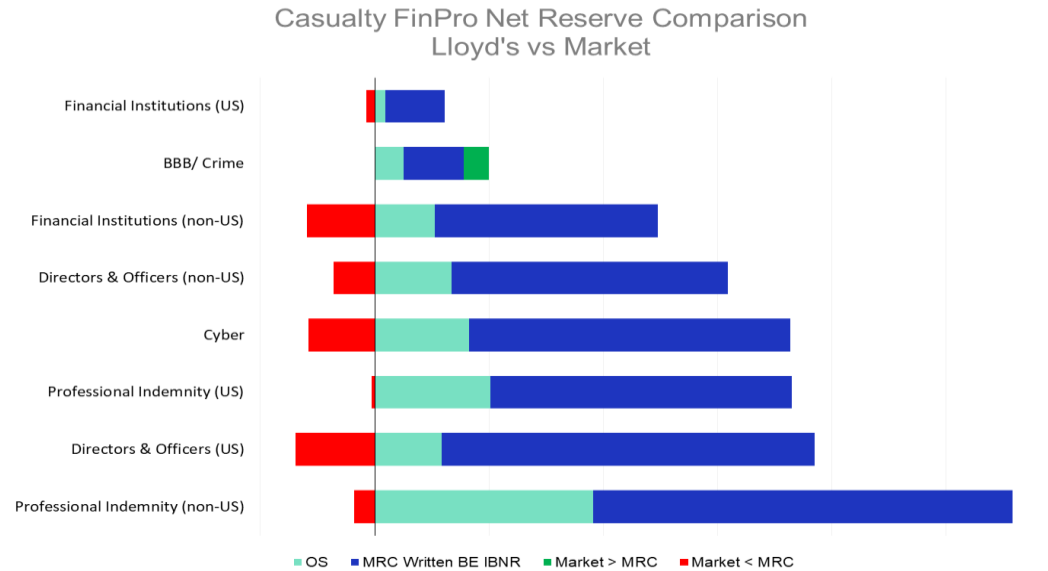
Concerns over Casualty FinPro remain, despite strengthening over the past year, due to a constantly evolving landscape. This will continue to be a key area of focus.



Reserving in an evolving landscape is challenging. Consideration of history and how the future may differ is required to set robust assumptions.

Assumption setting for recent years of account

Concerns over Casualty FinPro continue



- Lloyd's independent view continues to be higher than Market's on most Casualty FinPro classes
- Significant gap between Lloyd's and Market on more recent years as Market loss ratios in more recent years continue to be lower on many classes
- For all historical years of account, Market's view has increased from the initial estimates and SBF, bringing it closer to the MRC view
- Given the historical loss ratio development seen, combined with uncertainties stemming from changing economic environment, it is important to understand this gap and set appropriate assumptions for recent years of account.

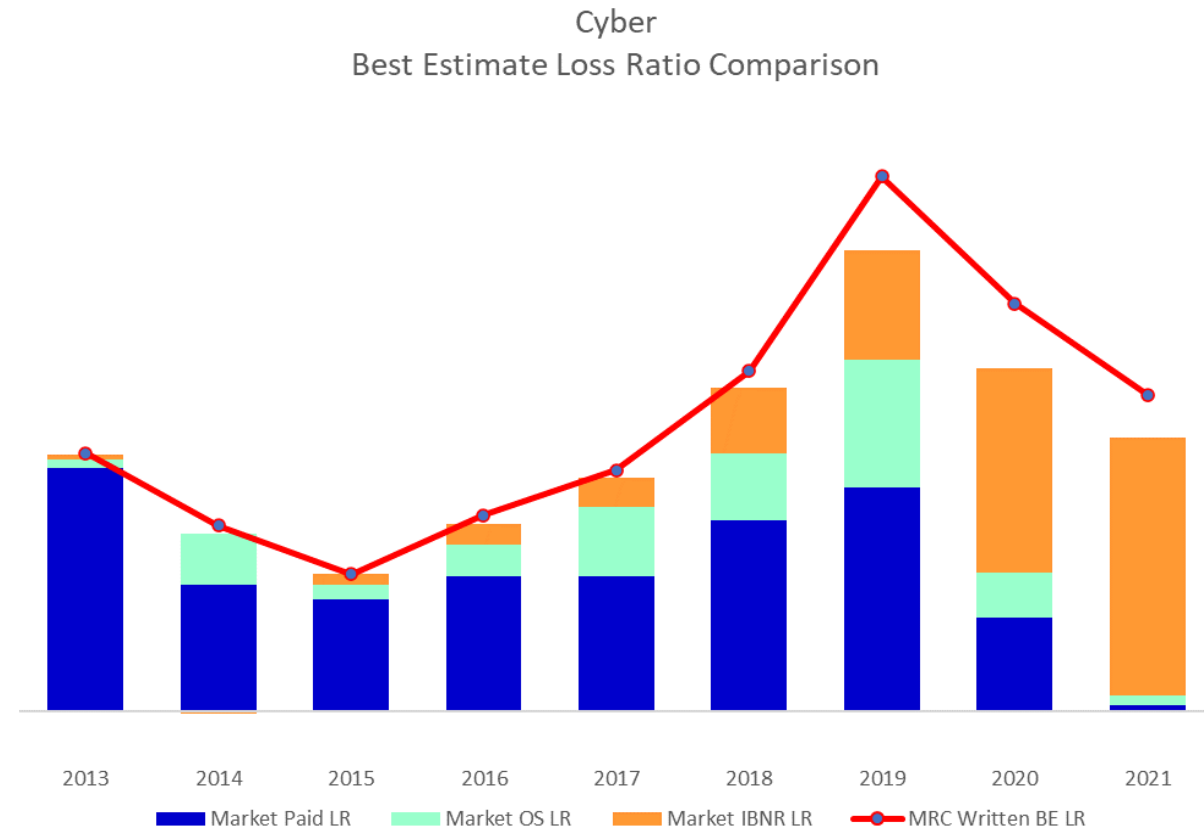
Appropriate justification for assumptions used and how they have appropriately reflected past and future expectations including

- Remediation allowed for in recent years
- Inflation expectations
- Rate change

Assumption setting for recent years of account

Rapid growth in Cyber has increased uncertainty on an already highly volatile class

- This class has seen rapid growth at Lloyd's in the last 10 years and has become the largest class in 2022
- It has experienced heavy losses globally, particularly since 2019
- Significant uptick in the number of ransomware attacks
- High level of uncertainty around new types of risks
- The length of tail for this class is still uncertain due to its relative immaturity and potential exposure to new risks

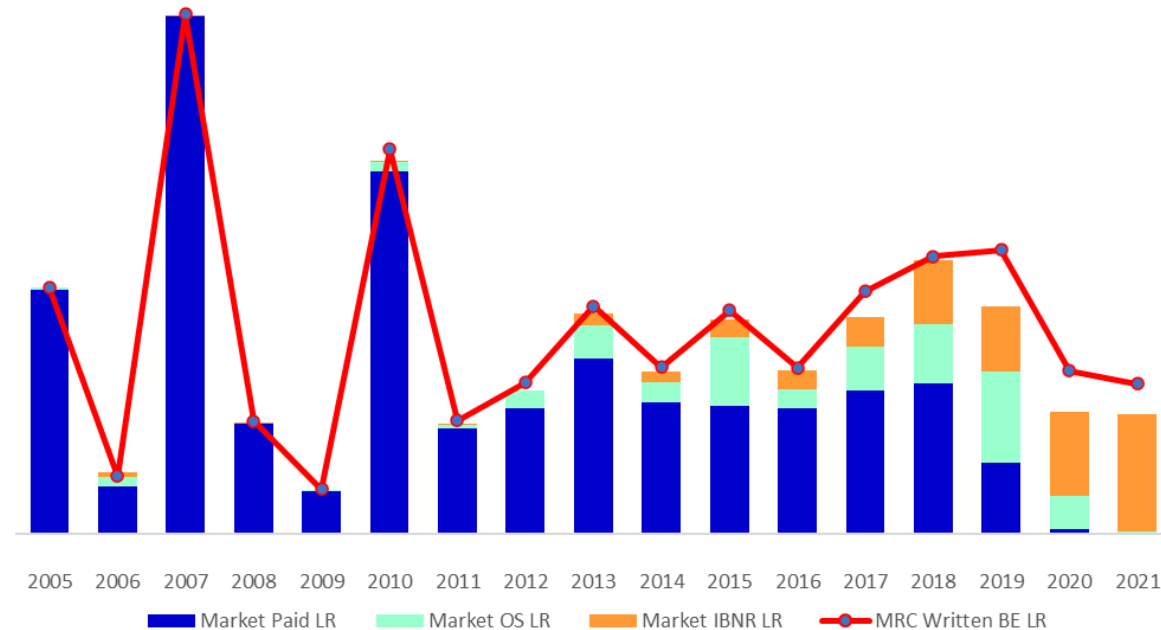


Ensure new risks are appropriately considered. Understand the drivers of growth in the account and challenge assumptions on the most recent years of account

Energy Onshore Liability – poor historical performance with longer tail than expected

- Loss making class since 2011
- Continues to see unfavourable experience
- Our assumptions have been strengthened to reflect recent development
- However, market loss ratios in more recent years continue to be lower
- Can the improvements on the most recent years be justified by re-underwriting?

Energy Onshore Liability
Best Estimate Loss Ratio Comparison



Re-underwriting has been significant. Do IELRs reflect the length of the tail? Has climate change and social inflation been appropriately considered?

Themes across classes

Evolving landscape in attritional reserving



Key Reserving Uncertainties

Priye Kanabar

Senior Actuary, Syndicate Reserving

2021 YE SAOs Uncertainties

A lookback at the Large loss wordings from the 2021 year-end SAOs

Event	2021 Year End		2020 Year End	
	Wording 3	Wording 4	Wording 3	Wording 4
Hurricane Ida	11	0	N/A	N/A
Storm Uri	2	0	0	0
European Floods	1	0	0	0
2020 Cat Agg Events	2	0	0	0
2021 Cat Agg Events	2	0	0	0
Hurricane Laura	1	0	1	0
2020 US Windstorms	0	0	2	0
Covid-19	9	3	23	4
Midwest Tornadoes	1	0	0	0
Hurricane Sally	0	0	2	0
Other	4	2	8	1
Total	33	5	36	5

2021 YE Summary

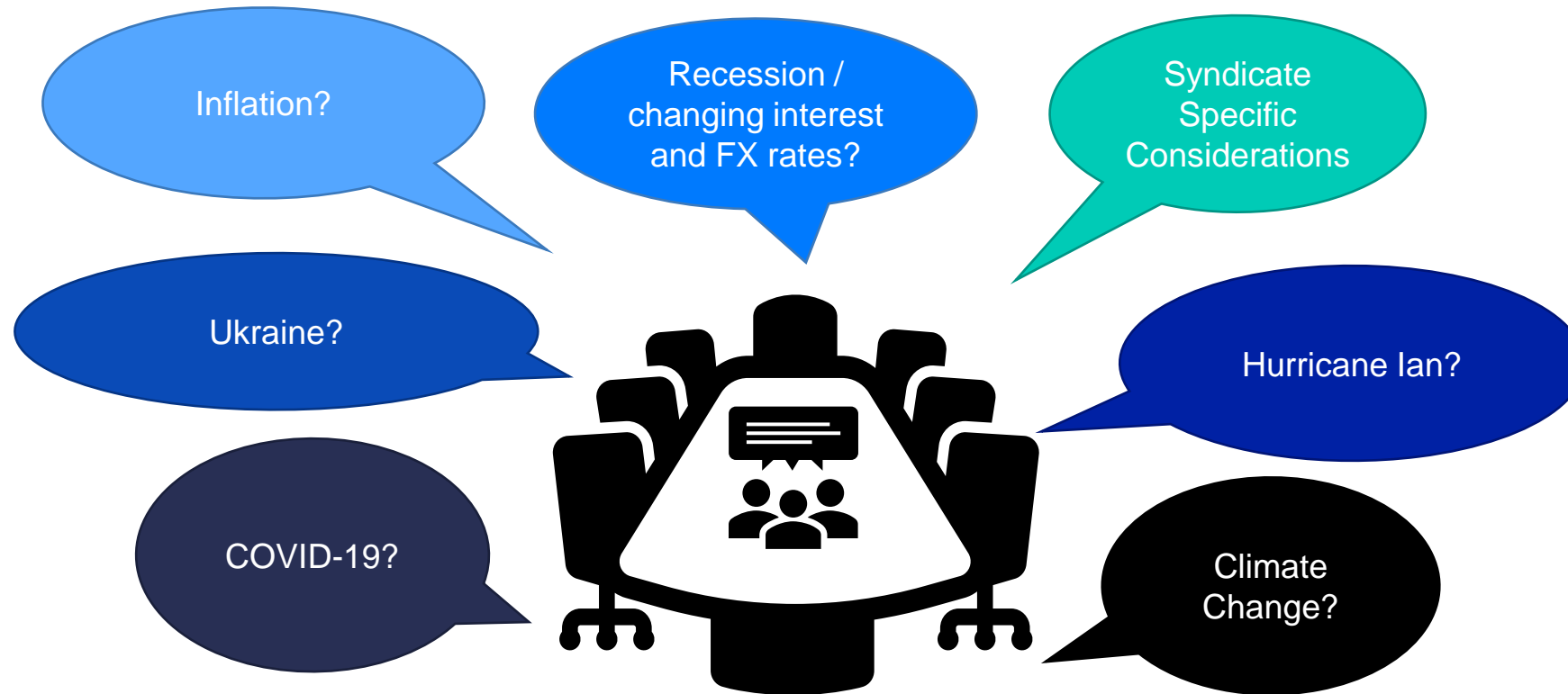
There were a total number of 38 category 3 and 4 wordings at 2021 year-end versus 41 at 2020 year-end.

Although minimal overall change in number of category 3 and 4 wordings at 2021 year-end versus 2020 year-end, there is significant offsetting movements between Covid-19 (27 at 2020 year-end versus 12 at 2021 year-end) and Hurricane Ida (11 wordings at 2021 year-end).

We have discussed all wording 4 uncertainty wordings with the relevant Managing Agents and Signing Actuaries to understand the rationale for potential deterioration. These conversations have not led to a view that there is an elevated level of risk compared to prior years with major catastrophes.

2022 year-end uncertainties

Market wide uncertainties we would expect considered for year-end reserving



Our expectation is that:

- Actuaries work with wider parts of the business to understand the exposure, and
- Each area of uncertainty is explicitly allowed for such that there is a good understanding of what allowances are contained within the best estimate reserves (and margin) to enable effective monitoring over time.

Inflation Reserving

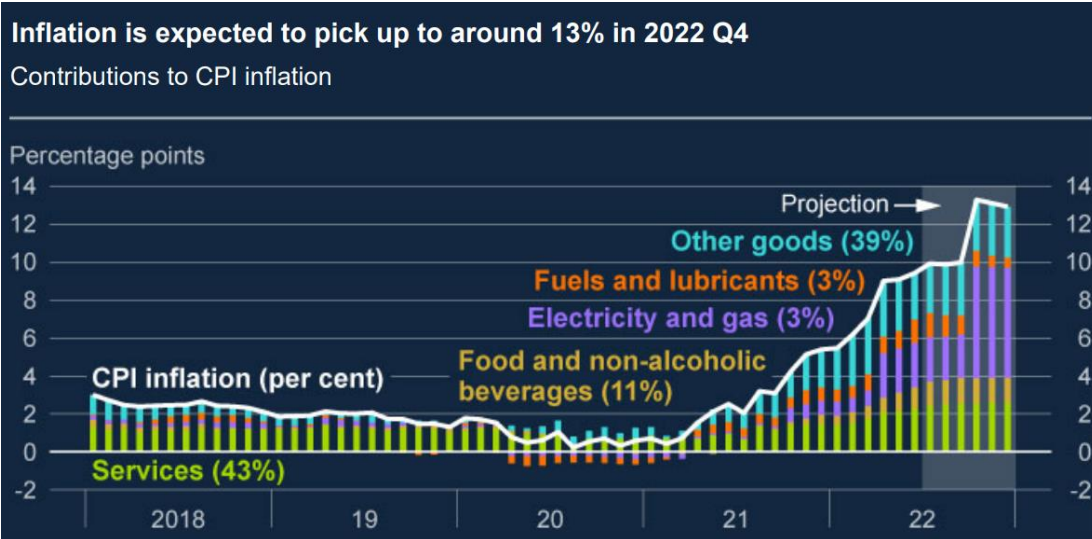
Priye Kanabar

Senior Actuary, Syndicate Reserving

General background

Uncertainty around economic inflation persists

Bank of England Inflation Projection



Source: Bank of England Monetary Policy Report August 2022

- A range of views above highlight the continued uncertainty on future economic inflation assumptions
- **Claims inflation does not just equal CPI, the expectation is that Syndicates consider what indices may be relevant and if adjustments are needed**
- Reserving actuaries should continue to improve their processes to assess and monitor the impact of economic inflation on their claims
- It is also important that this uncertainty is clearly communicated to the Board, along with the associated proposed next steps. There is a wide range of possible outcomes, and the potential impacts of these on the reserves should be communicated with associated likelihoods to give the Board some context on the range.

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Institutional Projections

Goldman Sachs

22%

- Forecast that UK inflation could hit 22% in the early months of 2023 if energy prices continue to climb.



18%

- Forecast that UK inflation could hit 18% in the first quarter of 2023, while the retail prices index inflation rate could soar to 21%.

Lloyd's communication so far

Presentations, report and guidance

To help the market tackle this complex issue, Lloyd's has shared inflation related reserving material in recent months

June

Lloyd's NED session

This session focused on:

- Defining Claims Inflation.
- Potential approaches and considerations on quantifying the impact of inflation.

Link to slides and session recording is [here](#)

June

Reserving Guidance – Allowing for Inflation

This memo sets out Lloyd's expectations on reserve setting for managing agents in response to the high inflationary environment and provides additional guidance.

Link to memo is [here](#)

July

LMAG – Lloyd's Update

Discussions in this LMAG update included:

- Observations from our thematic review of inflation.
- Summary of best practice approaches
- Limitations of currently adopted approaches

August

Lloyd's Reserving Thematic Review Report

- Provides greater detail on the findings shared in the LMAG with greater focus on recommendations for the market

Link to Report is [here](#)

Lloyd's reserving expectations of syndicates

*“We expect syndicates to **explicitly consider economic and excess inflation** (including social inflation) in their reserving process **when setting best estimate reserves**. This is particularly important when historical data is unlikely to be representative of the future and traditional reserving techniques do not address this.*

*Where syndicates are not making an explicit additional allowance in their best estimate reserves for inflation, they must be able to **explain why their approach is appropriate** and how they have gained sufficient comfort that their reserves are adequate.”*

Our expectations:

1. Inflation to be considered explicitly as part of the best estimate reserving

- Explicit consideration by class of business and geography

This doesn't mean you should apply an additional allowance to every class of business, unless that is appropriate and not excessively prudent.

2. Be able to clearly explain how inflation has been allowed for

- To allow challenge by various stakeholders across the business

Allowing for inflation is not straightforward but communication needs to be clear on what the assumptions imply.

3. A considered approach will be taken to reserving for claims inflation

- That appropriately reflects the specificities of your claims costs

Broad-brush approaches are unlikely to be appropriate given that they are likely to under or over-estimate the impact by class.

Lloyd's oversight

Appropriate consideration of inflation has been a key oversight priority in 2022...

Thematic review

- This review was undertaken earlier in the year, prior to guidance published. It was useful in identifying areas where syndicates had further work to do to meet Lloyd's expectations as set out in guidance.
- It highlighted best practices on economic inflation from some of the early movers.

QMA Inflation Review

- The QMA additional return helped us assess whether syndicates are considering inflation explicitly when setting Q2 reserves and the various approaches they adopted
- It also allowed us to assess the impact of the inflation allowances where available
- Key outcomes from this shared later in the slides.

Focus Area Return

- Focus area return asks for similar information to the QMA additional return, but at class of business level.
- The purpose of this is to gain comfort that reserves feeding capital setting process are appropriate given the current inflationary environment.
- This review is currently ongoing.

Lloyd's oversight

...and will continue to be in early 2023

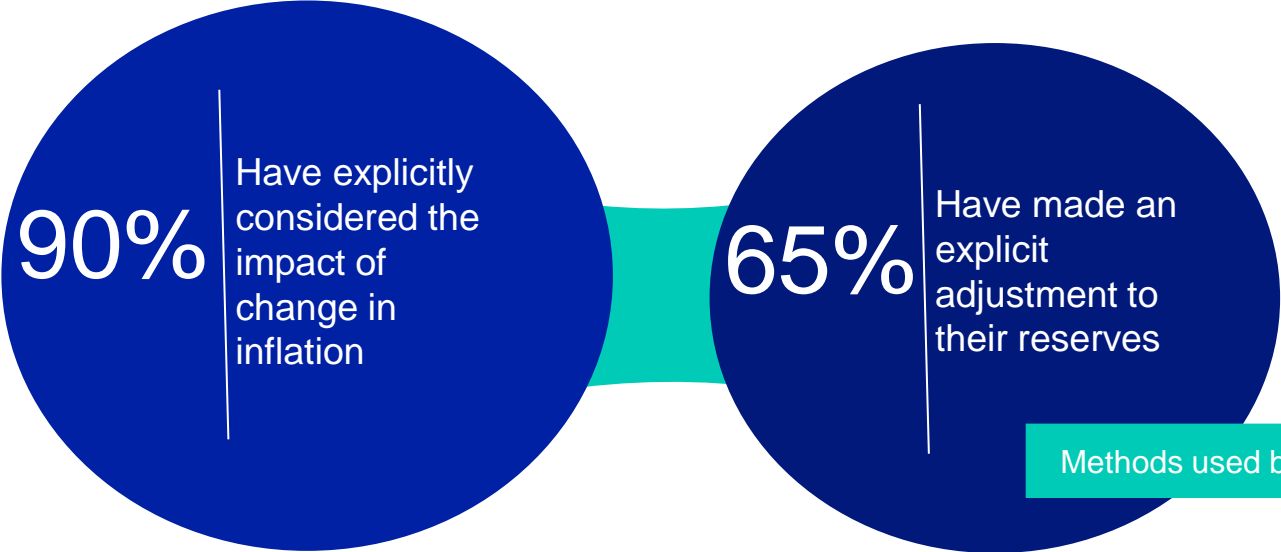
There will be an additional information return (rather than update to the SAO template) for inflation.*

Explicit Inflation Allowance (£000s)				
Syndicate Estimate - 2022 YE	Total	2022	2021	2020
Gross				
Net				
Signing Actuary Estimate - 2022 YE	Total	2022	2021	2020
Gross				
Net				
Difference Syndicate vs Signing Actuary	Total	2022	2021	2020
Gross				
Net				

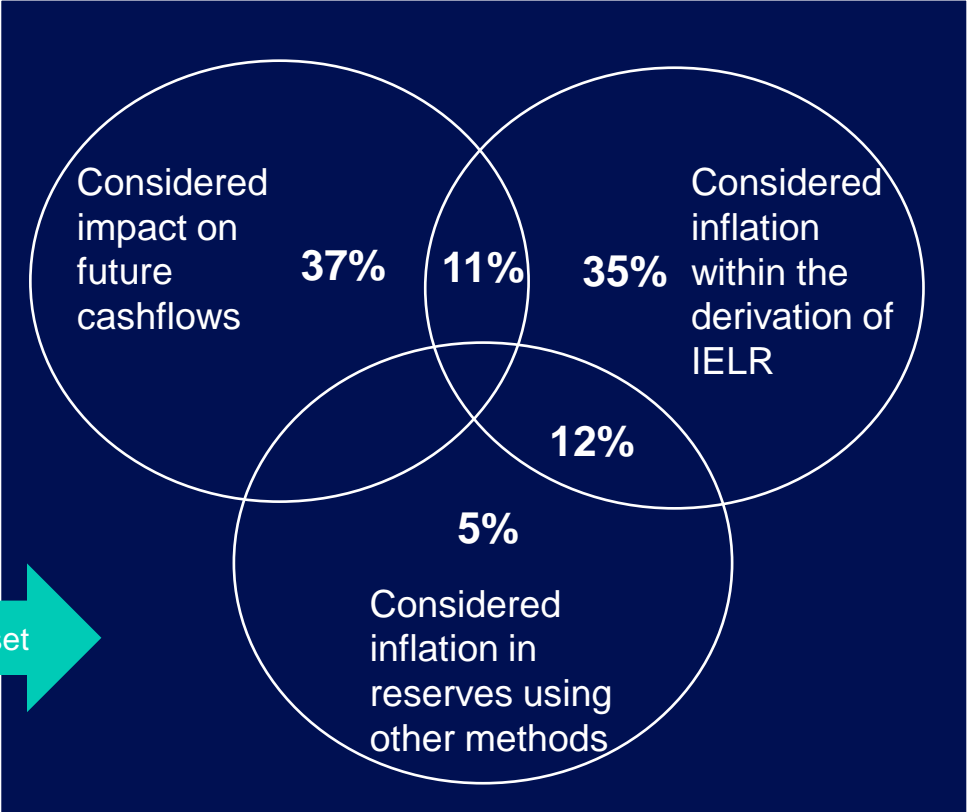
- The allowance that is requested from the Signing Actuaries in the table above refers to any explicit adjustments made to capture inflation in the reserves as at 2022 Q4 beyond what is expected to be implicitly included in the historical claims data.
- Above should be populated on best estimate basis, for earned and unearned reserves.
- The template should include brief explanations for material differences, with further details expected to be included in the SAO report.
- If there is no allowance, we expect the SAO report to cover why this approach is appropriate and how the Signing Actuary has gained sufficient comfort that their reserves are adequate.

Key messages from review of inflation QMA additional return

Steps in the right direction as at 2022HY

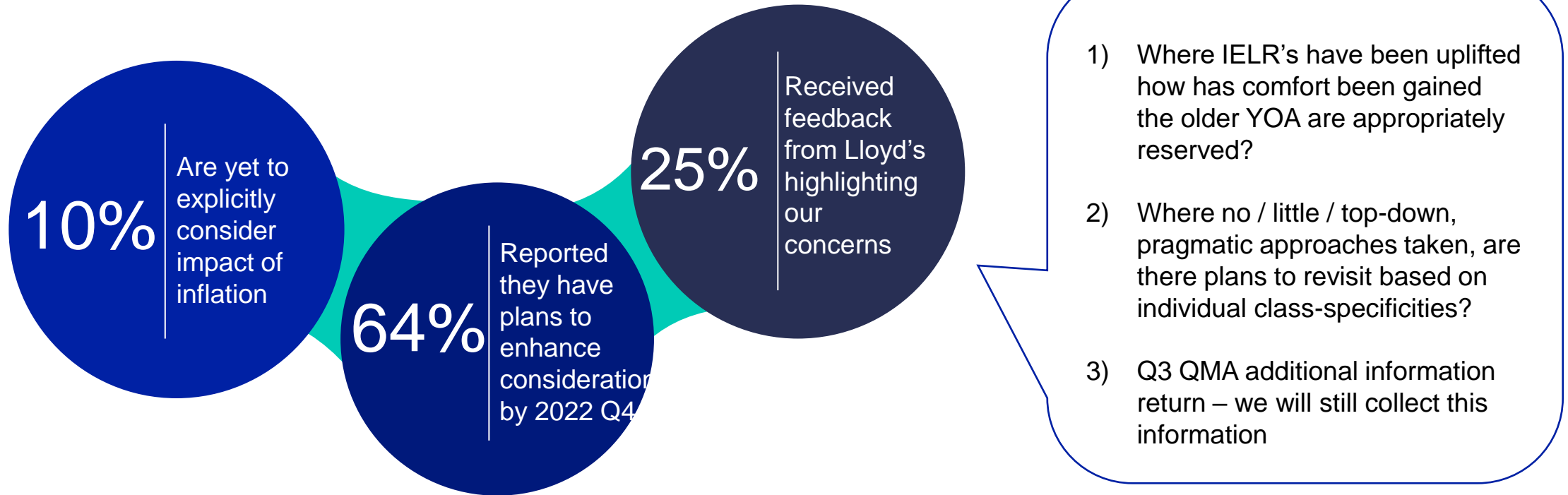


Methods used by this subset



Expectations for Q4 2022 inflation reserving

Work still to be done ahead of the 2022 year end reserve setting

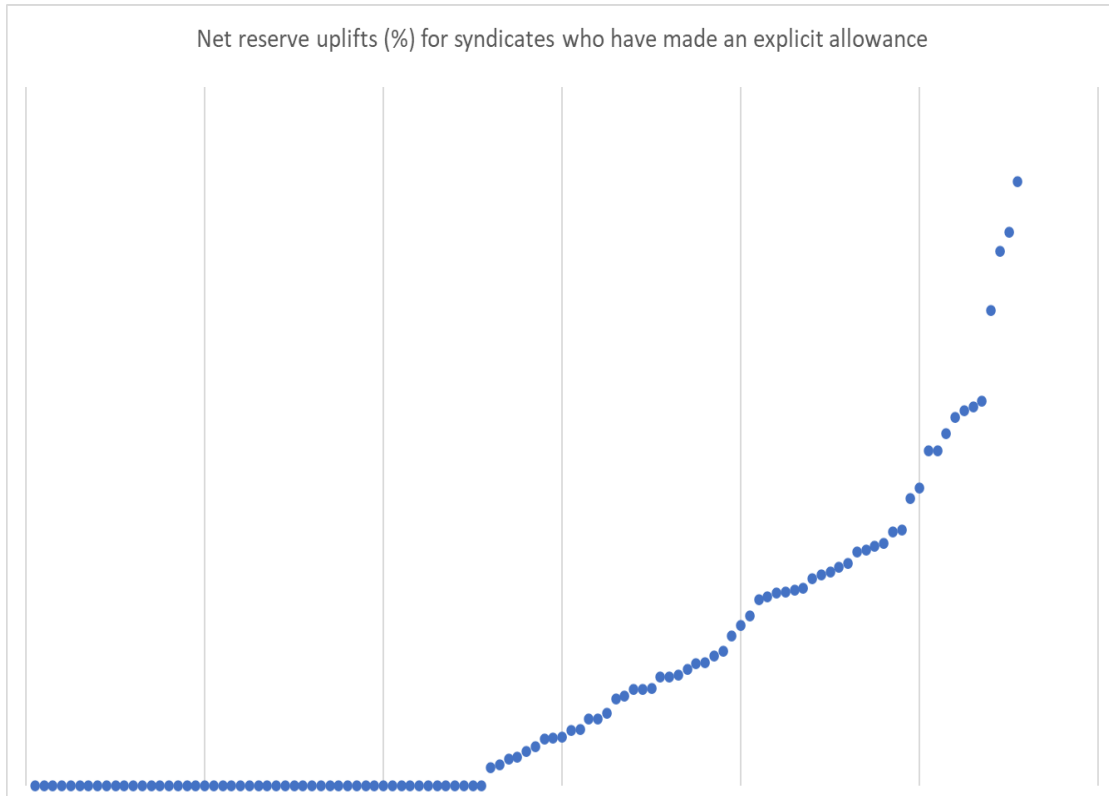


Our expectation by year end 2022 reserving is:

- **100% of Syndicates explicitly consider inflation and**
- **Syndicates with no explicit adjustment to the reserves should have adequate justification**

Explicit inflation allowances as at Q2 2022

And what we would expect you to consider for Q4 2022



**Average uplift to net reserves as at Q2 2022:
2.3%**

Q4 2022 additional considerations:

1. **Sufficient justification expected for level of inflation allowances, considering risk profile of the Syndicate**
2. **The economic landscape is evolving and so assumptions set at Q2 may not still be appropriate at Q4**
3. **Scenario testing and quantifying the uncertainty**
4. **Margin vs Best Estimate allowances – our expectation is that this is explicitly allowed for in the best estimate**

Ukraine Update

Uma Divekar

Senior Actuary, Syndicate Reserving

Ukraine Crisis: High level messages

Expected to be a major but manageable event



We expect this to be a major but financially manageable event for the market in 2022



Not a solvency or capital event for corporation or individual syndicates



Aviation, Marine, Political Risk, Political Violence and Trade Credit classes are impacted



Consequences for insurance market fluid and complex



Operational challenges and economic uncertainty will persist

Ukraine Crisis: Uncertainties

Significant and prolonged uncertainties remain

Class level uncertainty

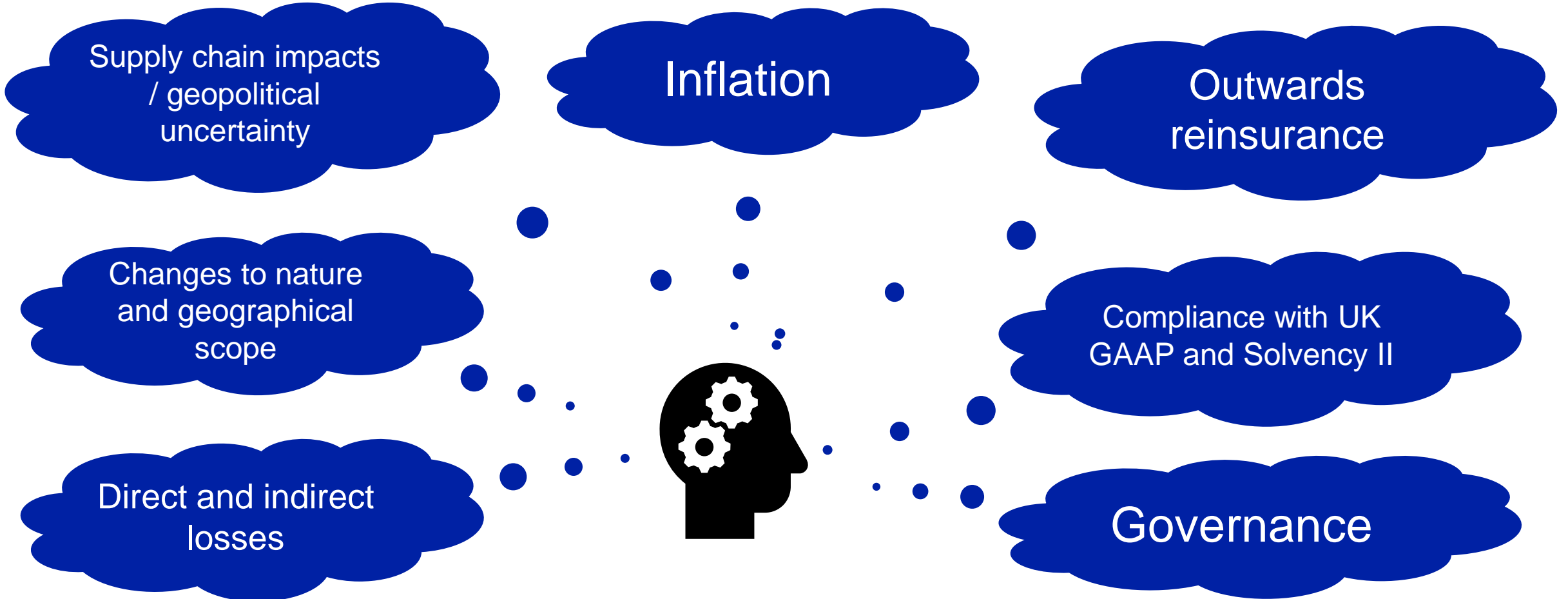
- Ongoing nature of crisis:** The duration, severity and geographical impact of the crisis is unknown and highly uncertain. In particular, it is very difficult to estimate potential losses in respect of the conflict extending into new territories and the extent of losses which could emerge the longer the crisis runs.
- Evolving sanctions:** New sanctions continue to be introduced and whilst not expected soon, the timing of any future removal of sanctions difficult to predict. Uncertainty around impact of disruption to provision of services from Russia and Ukraine.
- Lack of notifications:** Reserves are largely IBNR at this point with few loss notifications
- Coverage:** Coverage for Aviation and potential for lengthy litigation
- Asset values:** Exact value of planes in the impacted regions is challenging to estimate. Ships written off after 12 months.

Other uncertainties

- Reinsurance:** Risk of dispute over coverage terms. Risk of erosion due to impacts from classes on same treaty. Heightened default risk due to exposure to several counterparties.
- Data:** Lots of information outstanding at this stage, will take time to receive and develop clear picture, e.g. loss notifications, loss adjustment reports, up to date satellite and drone imagery, on-the ground reports, information about exposure.
- Economic uncertainties:** Indirect losses from macroeconomic pressures and disruption to global trade and financial markets

Ukraine Crisis: Considerations for Reserving

We have set out some key areas we think should be considered for Ukraine reserving



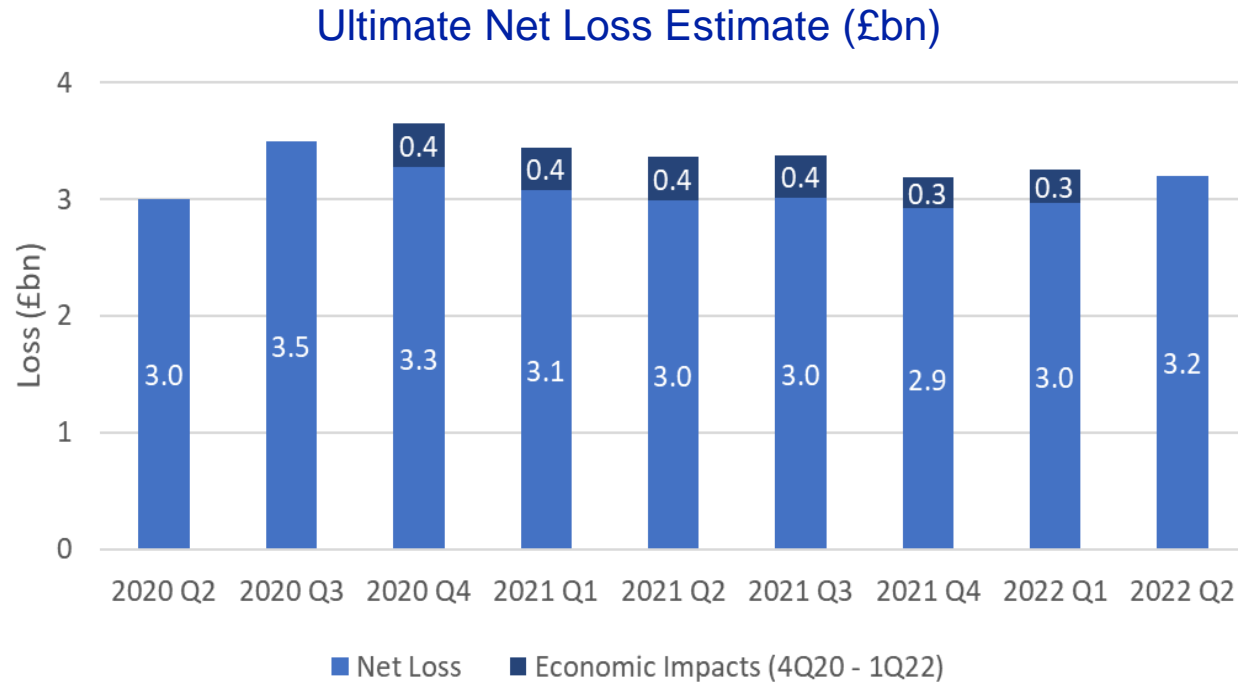
COVID-19 Update

Uma Divekar

Senior Actuary, Syndicate Reserving

CORO Ultimate Loss Estimate

Loss estimates and economic impacts have remained broadly stable over time



Figures use FX rates at time of reporting

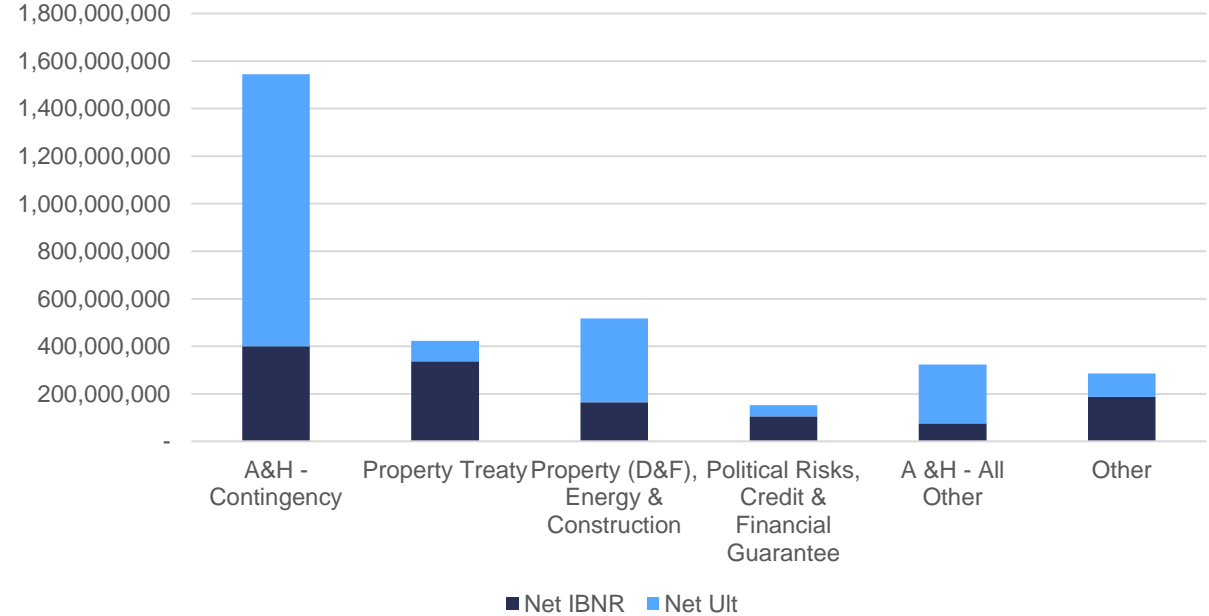
Economic Impacts no longer requested split out from 2022 Q2

- Ultimate loss estimates and economic impacts have remained stable over the period shown.
 - Net ultimate loss of £3.2bn and gross ultimate loss of £5.8bn as at 2022 Q2.
- IBNR decreasing in line with expectations over time - 35% of the gross ultimate loss and 27% of the net ultimate loss at 2022 Q2.
 - The proportion of IBNR to ultimate varies significantly by syndicate and class.
- Uncertainty of loss estimates continues to reduce.
- Increasingly, explicit Covid-19 recessionary impact allowances are no longer being held, instead these indirect impacts are held as part of general reserves.
- Some uncertainty remains on the legal challenge around application of wording - continuing to monitor this in light of developments in legal cases.
- Uncertainty continues on reinsurance recoveries.
 - Reinsurance Recovery Ratio has remained stable (44% of the gross loss at 2022 Q2)
 - However, only 43% of anticipated recoveries have been received to date

CORO Net IBNR by Class

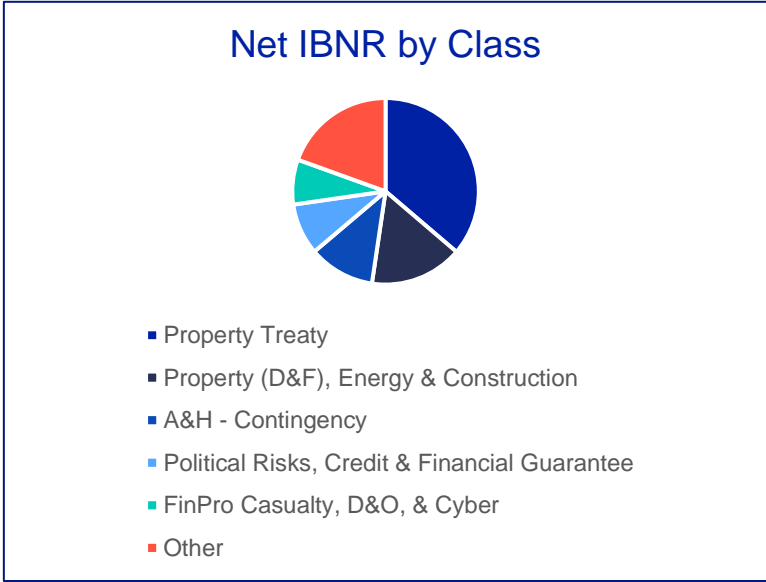
IBNR percentage held varies significantly by class

CORO Net Ultimate and Net IBNR estimates
Ordered by Net IBNR by Class of Business



- Whilst the majority of CORO IBNR is held in Contingency, as a class this is relatively developed.
- Property Treaty and Political Risks, Credit & Financial Guarantee classes are both material and offer a large proportion of IBNR as a class.

Net IBNR by Class



Syndicates holding significant IBNR for the following reasons:

- Court Rulings / Test Cases
- Long Tail on Reporting
- Slow Inwards RI Development
- Other - such as specific future events without exclusions clauses (e.g. Olympics), indirect impacts, uncertainty around RI recoveries, and some prudence

Hurricane Ian

Uma Divekar

Senior Actuary, Syndicate Reserving

Hurricane Ian: What we know so far

Expected to be a major natural catastrophe loss



Significant uncertainty around size of industry loss



Extreme flood damage, from rainfall and storm surge



Multiple locations and multiple classes impacted



Exposure to the current inflationary environment will push up losses and uncertainty



The additional QMA return template will collect information on loss estimates by syndicate



Final Remarks

Nikhil Shah

Senior Manager, Syndicate Reserving

Summary

Your approach to the 2022 year end reserving should be balanced and well-considered

Several complex areas to consider for 2022 year end reserving: Our expectation is that each area of uncertainty is explicitly allowed for such that there is a good understanding of what allowances are contained within the best estimate reserves to enable effective monitoring over time.

This should be coupled with clear communication to your Boards of best estimate allowances and the ranges/scenarios around these to demonstrate the uncertainty.

Four take-aways from today:

We expect that for key uncertainties you will take a probabilistic approach to reserving, taking into account possible/probable outcomes.

We expect that the change in inflation will impact all Syndicates and there should be explicit allowances by year end.

Casualty Fin Pro lines of business continues to be an area of concern for Lloyd's and we expect actuaries to validate that the reserving assumptions appropriately reflect historical experience and future expectations.

We expect actuaries to take care to be clear on exactly what assumptions are being relied upon in your reserve setting, especially those that aren't your assumptions, but contribute to your reserves.



Questions



Appendix: 2022 Year End SAOs

2022 Year End SAOs

Key Dates

Submission	Deadline
Signing Actuary Details	30 November 2022
Worldwide SAOs	13 February 2023
SAO Inflation Return	13 February 2023
US Trust fund SAOs	14 February 2023
SAO Template	15 February 2023
SAO Reports	31 March 2023

- US Trust fund SAOs to be sent to Market Finance as per their instructions
- Worldwide SAOs, the SAO template and SAO reports to be submitted via the MDC
- SAO Inflation Return:
 - *To be available on Lloyd's website Jan 2023 (see next slide).*
 - *Submission approach will be confirmed by Lloyd's via email communication in December 2022*

Please note the following:

- Signing actuaries should have a valid Practising Certificate for the duration of the year-end reserving exercise. This would be expected to cover from November 2022 until the end of March 2023.
- Please inform Lloyd's (SAOReports@lloyds.com) of the intended Signing Actuary.
- The "Worldwide SAOs" submission date is aligned to the Q4 2022 QMA submission date – please see Lloyd's business timetable for QMA reporting information

Valuation of Liabilities Rules and SAO Reports

A reminder of our expectations of what should be contained within the SAO report

There are no planned changes to the Valuation of Liabilities rules this year.

There will be one additional Inflation information return via Excel* with submission approach to be confirmed by Lloyd's in December 2022.

As a reminder, the SAO report should contain:

- A comparison of the SAO estimate with the Syndicate **best estimate** by class of business and YOA
- Commentary on the key surplus and deficits
- A summary of the discussion with the Managing Agent regarding any material differences
- Commentary on any emerging trends or any other material issues impacting specific classes and consider if this should be included in the executive summary

Where 'method & assumptions review' methodology has been used, highlight areas of disagreement and course of action e.g. offsetting, additional analysis

**Inflation return available (Jan 2023): [Lloyd's Reserving Guidance and Support Materials - Lloyd's \(lloyds.com\)](#)*

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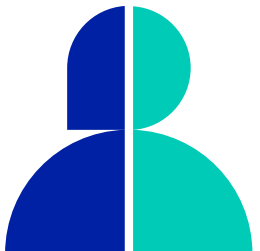
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