Lloyd's Non-Executive Director Forum
2024

3 December 2024

Opening Remarks

Emma Stewart
Chief Actuary

Agenda

Opening Remarks

1. **2024 Year End Uncertainties**

2. **US Casualty: Class of business review**

3. **Reserving Cycle and Underwriting Cycle**

Final Remarks

Questions & Answers

Roundtable Discussion Points

1. Have these issues been discussed at your committees?

2. Have you seen any examples of good practice?

3. Is there anything we've missed?

4. Do you have any questions?

2024 Year End Uncertainties

Louise Bennett

Head of Reserve Modelling

Emma Watkins

Head of Exposure Management & Aggregation

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Sources of potential uncertainty on the horizon

Pandemics

Geopolitical tensions

Cyber

Forever Chemicals

AI

Financial sector crisis

Recession

Climate change and greenwashing

Lloyd's Futureset: Lloyd's Futureset (lloyds.com)

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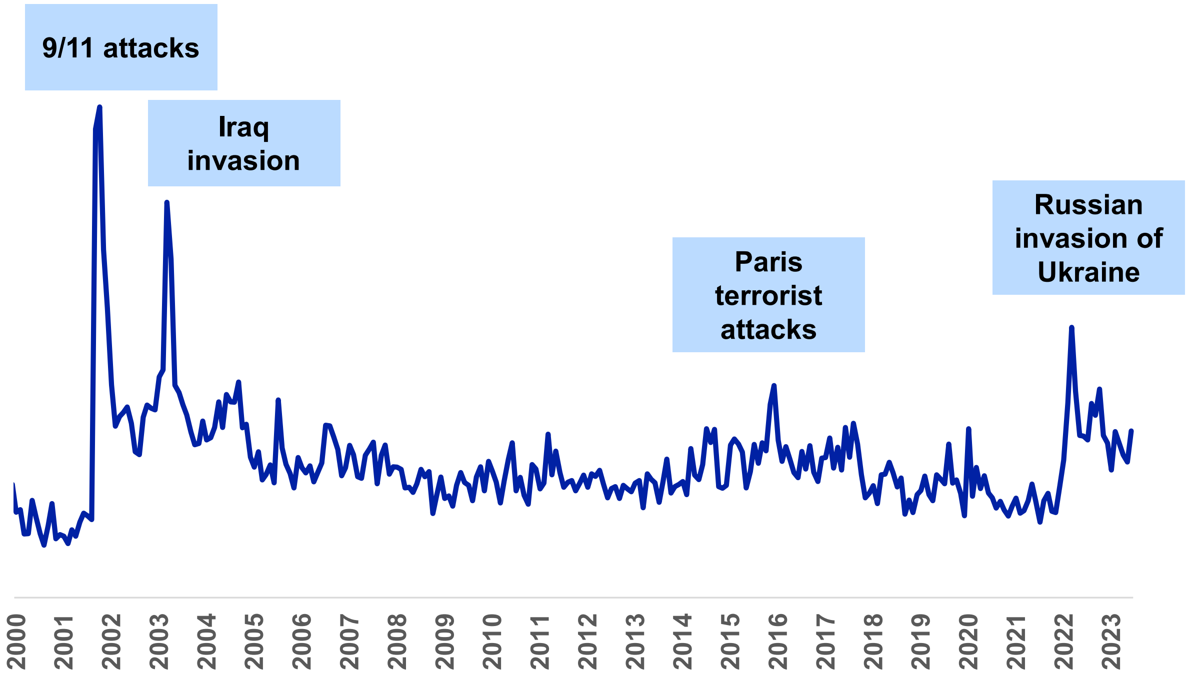
Geopolitical Risks – Primary Impacts

Geopolitical risk index



Source: Dario Caldara and Matteo Iacoviello

Risk	Likelihood
1. US-China strategic competition	High
2. Global technology decoupling	High
3. Russia-NATO conflict	High
4. Middle East regional war	High
5. Major terror attack(s)	High
6. Major cyber attack(s)	High
7. Emerging markets political crisis	Medium
8. North Korea conflict	Medium
9. Climate policy gridlock	Medium
10. European fragmentation	Low

Source: Blackrock geopolitical risk dashboard

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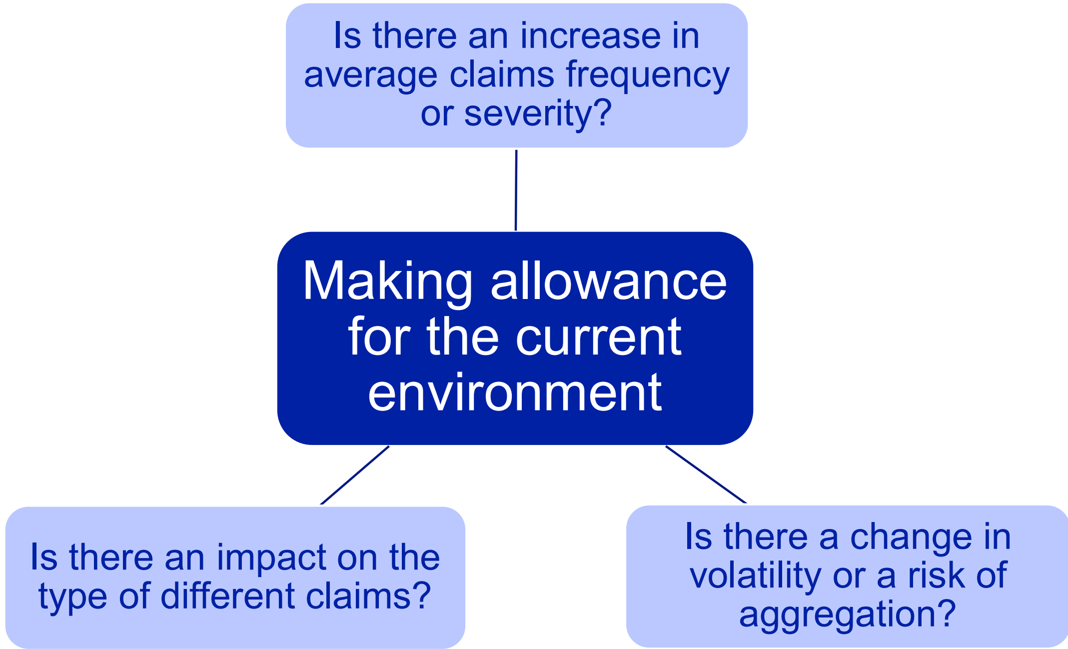
Geopolitical Risks – Secondary Impacts

Allowance for the unstable global economic, political and social environment impacts within capital and reserving

Economic Environment	Political and Social environment
Increased Fraud	**Claims events arising from social and civil unrest**
Increased Propensity to claim	**Impact of government and regulatory decisions**
Increased claims costs driven by inflationary environment	**Emergence of new claims types and movements**



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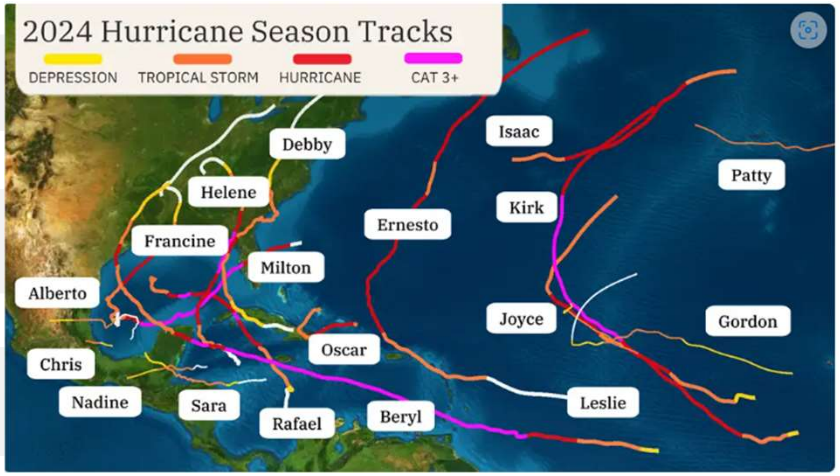
2024 Hurricanes: What we know so far

Expected to be a significant natural catastrophe season arising from multiple events

- Broad range of estimates on size of industry loss
- Extreme flood damage from storm surge
- Multiple locations and multiple classes impacted



- Combination of multiple events impacts on RI programmes and aggregate deductibles
- Litigation forms a significant component of some vendor loss estimates

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Are 2024 non-natural cat events appropriately reserved?

Baltimore bridge collapse

- Loss is a large event for the Marine sector
- A timely reminder of the potential impact of large losses other than Cyber and natural catastrophe
- Lloyd's market Q3 reserving data indicates:
  - ✓ within the range estimated at time of event
- Loss is within expectations compared to Lloyd's Marine RDSs

Crowdstrike IT outage

- Event had potential to impact the Cyber market significantly, but ultimately did not
- Lloyd's market Q3 reserving data indicates:
  - ➢ slightly *below* syndicates' early "low" estimates
- Loss is driven by BI and CBI claims; many early notifications were subsequently withdrawn, but some uncertainty remains

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Evolving oversight of natural and non-natural cat in 2025

Cyber Strategy

- Collecting aggregate exposure data
- Refreshing Realistic Disaster Scenarios

Expanding coverage of “non-peak” perils

- Monitoring in-force exposure to 4 additional peril-regions
- Reviewing model validations
- Developing aggregation, correlation and dependency assumptions within LCM

Delegated Authority exposures

- In line with DA Strategy, performing a “deep dive” review of data and processes for managing delegated exposures, including completeness and timeliness

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Ukraine Crisis – key uncertainties

How are you comfortable that reserves/capital for Ukraine are appropriate?

We have set out below some of the key areas of uncertainty you should consider in answering this question.

Coverage	Notices of Cancellation	Asset Location	Sanctions
Settlements	Reinsurance	Data	Nature of the War

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Allowing for Major Events

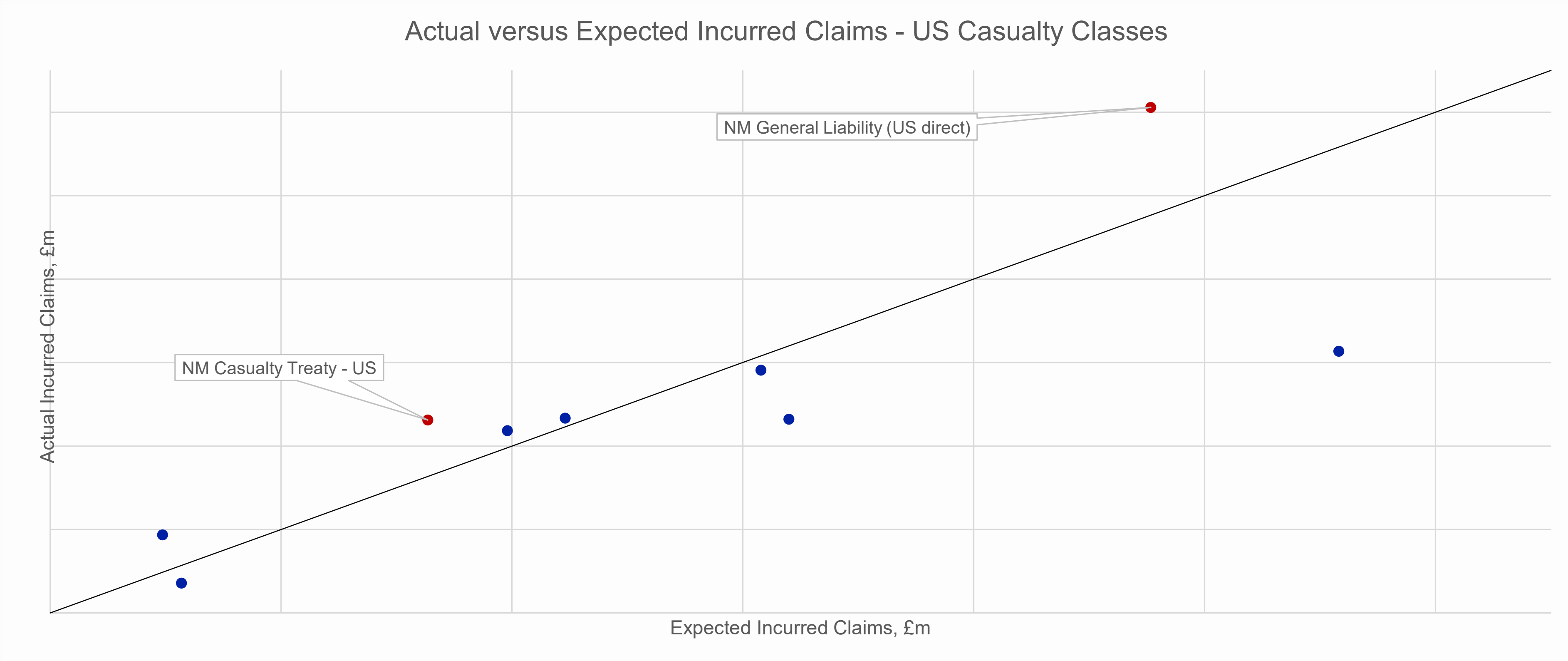
Examples of questions the Board could consider asking

- What scenarios have been considered to determine the reserves and capital allowances for the events in question and at what return periods?
- What is the balance between allowances in reserves and capital – what do we hold in best estimate reserves, what is allowed for in capital? What about in reserve margin?
- Does this season's wind season change anything in our views – i.e. has your view of the future likelihood and magnitude of a similar events changed? Do you need to change your capital and planning assumptions?
- If the business needs to rely on scenarios, what is the impact of alternative scenarios/assumptions surrounding them? Are plausible alternative assumptions covered?

US Casualty
Class of business review

Nikhil Shah
Senior Manager Syndicate Reserving

What has been Lloyd's actual vs expected claims experience on US Casualty lines over 2023 calendar year



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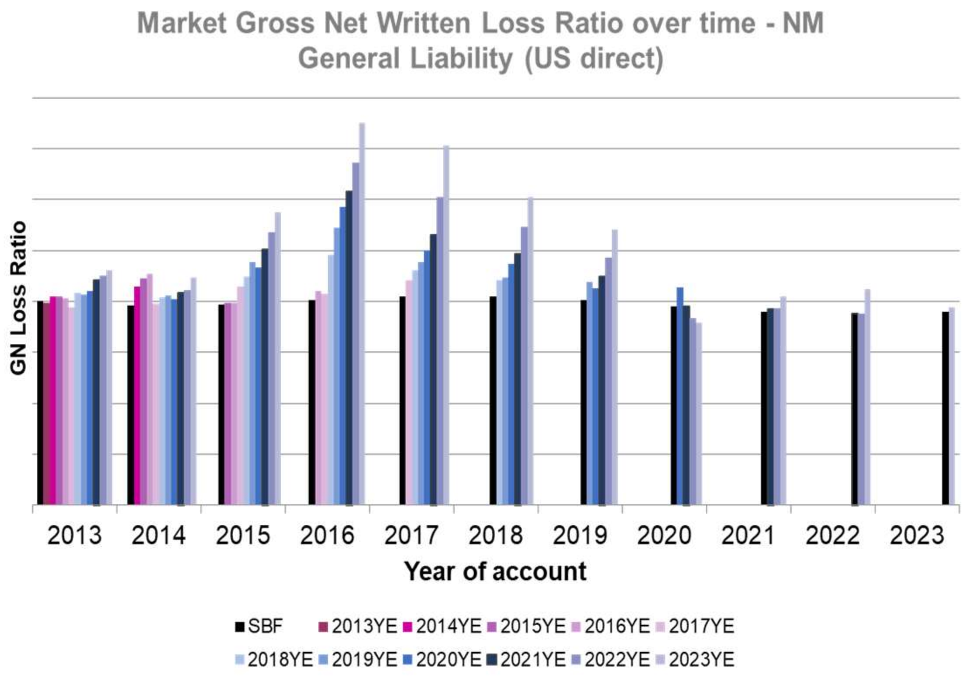
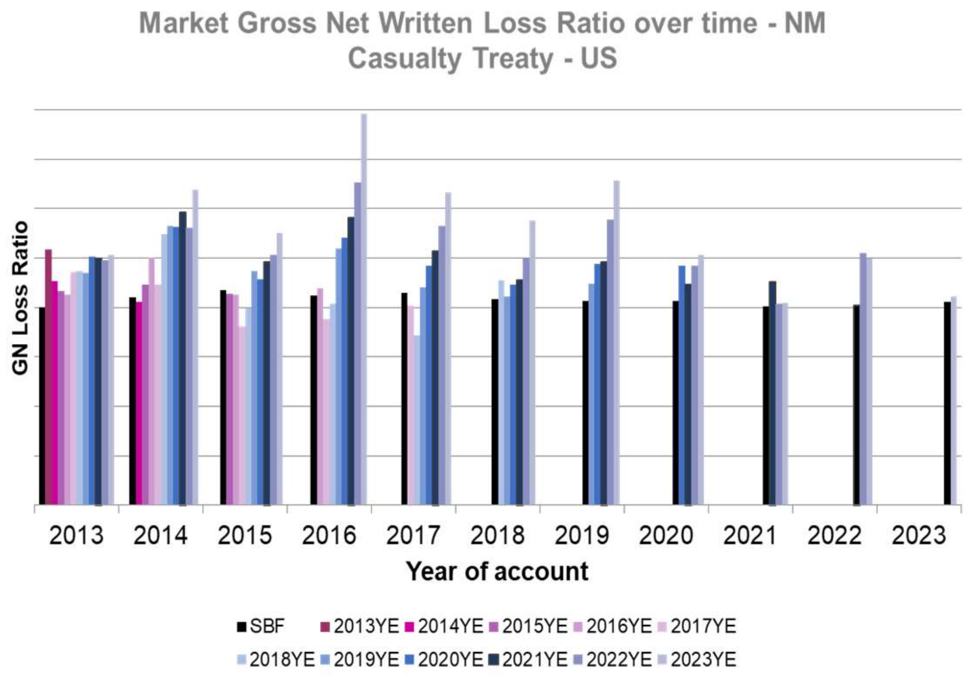
Our oversight has focused on US Casualty General Liability Direct and US Casualty Reinsurance over 2024





Loss ratios are Gross of reinsurance and Net of acquisition costs

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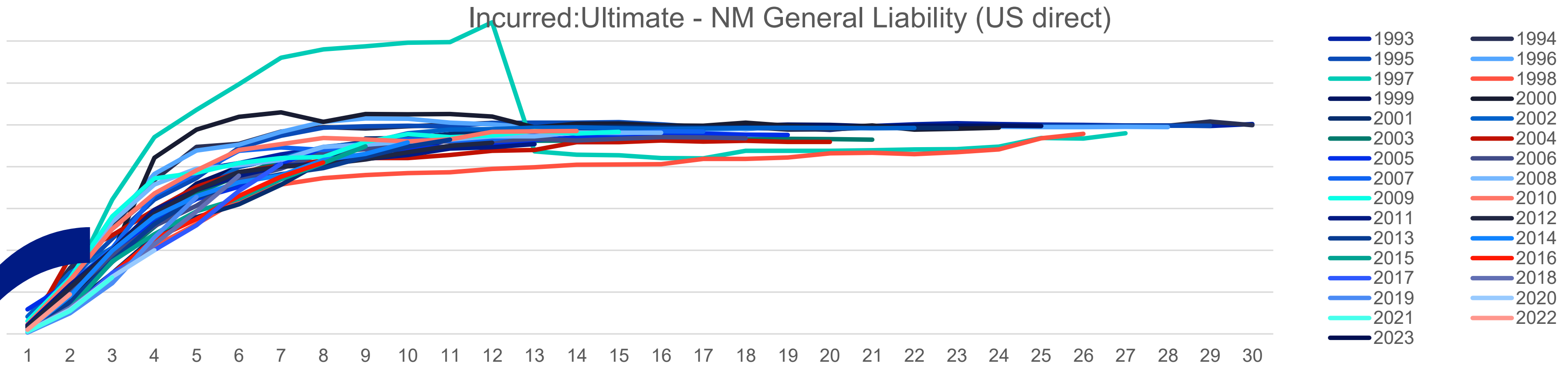
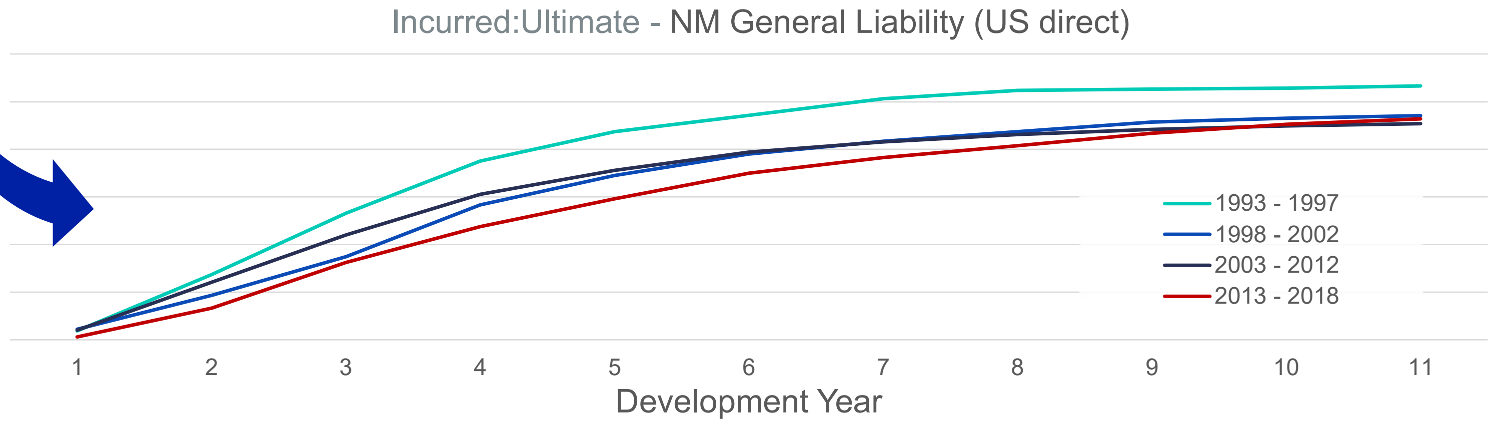
Considerations for reserving functions on management information for these classes



Considering cohorts presents an observable trend relative to all YoAs chart



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How are Syndicates reserving for these classes

Reserving methodology generally consists of traditional actuarial techniques supplemented by expert judgements.

- **Traditional Actuarial Techniques:** Incurred chainladder methodologies used to derive claims estimates, with reliance on benchmark data where historical data is limited.
  - However, it's clear the data used to parametrise development patterns has proven to be inadequate in recognising the extent to which claims have developed later in the tail.
  - As a result, there is greater reliance on supplementary analysis for reserve setting and validation on these classes.
- **Supplementary analysis:** Claims watchlists are widely used in the market to:
  - Provide insights regarding IBNR reserves given uncertainty in the tail of the development, and;
  - Supplement actuarial reserve estimates and communicating uncertainty via the range of potential outcomes in respect of a given loss.
- **Best practice validation** observations include:
  - Backtesting of the material assumptions within the claim watchlist and using the outcomes of this analysis to inform current judgements.
  - Consideration of the reserve uncertainty due to social inflationary trends and potential nuclear verdicts.

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Social Inflation is a key uncertainty – what are the key questions for your syndicates?

How do you assess your exposure to social inflation?	How do you measure social inflation?	How do you monitor social inflation over time?
• Classes? • Attachment profile? • Mix (e.g. Industries)?	• Industry data (e.g. consultancies, legal firms)	• Hard to do, monitoring is limited across the market

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Underwriting Remediation since 2020 year of account - recent years performance remains uncertain

Since 2020 US Casualty at Lloyd's has undergone significant remediation

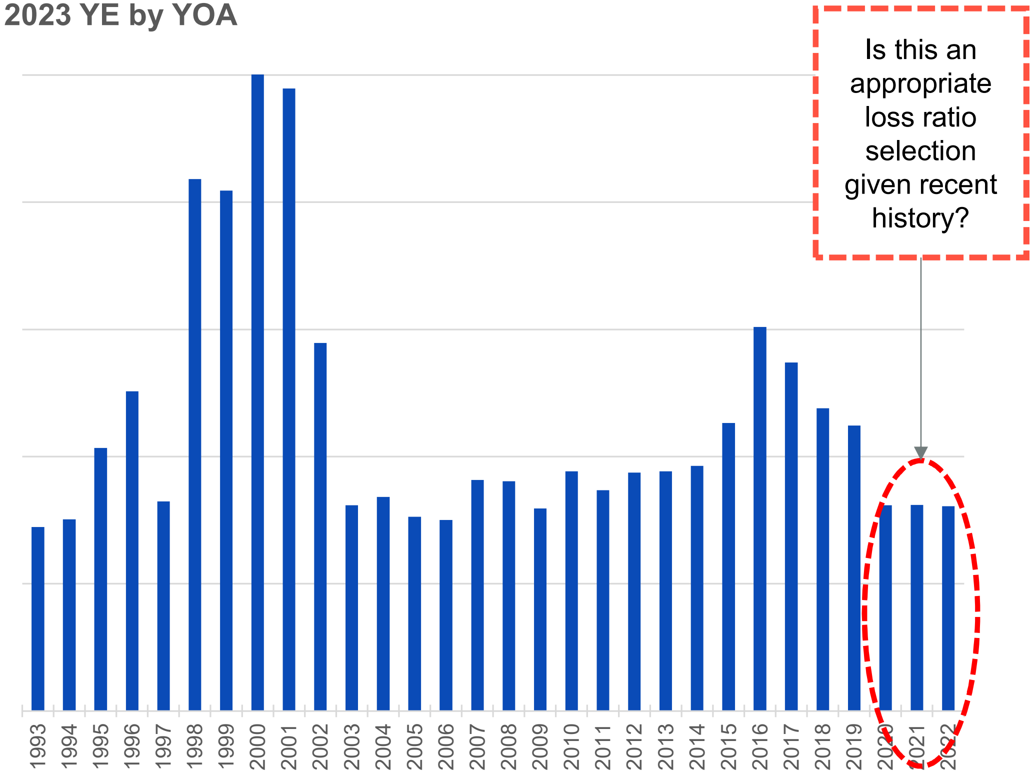
- Reduction in individual and aggregate line size deployment
- Non-renewal of poorly performing business, focussed on individual coverholders and states rather than wholesale change in occupation mix within the portfolio

Reserving functions recognise these portfolio changes impact the uncertainty of the associated reserves

But reserving functions aren't explicitly monitoring how these change over time

- Only implicitly through RARC/inflation assumptions when on-levelling historical loss ratios

US Non Marine General Liability Direct and Casualty Treaty Combined Classes - Ultimate Loss Ratio as at 2023 YE by YOA



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Key considerations for reserving US Casualty lines of business

- Do you have sufficient management information to understand the key drivers of reserving movements and underwriting changes?
- Where reserves have deteriorated is it clear how the reserves have changed and what actions have been taken for the portfolio as a consequence?
- Have expert judgements been highlighted and do you have relevant information on how they have been validated?
- What are the key uncertainties, how have they been considered as part of the reserve setting exercise, what assumptions underpin them and how have they been validated?
- If the book has been changed/remediated how much credit has been taken? Has new business been considered for increased uncertainty?

Reserving Cycle & Underwriting Cycle

David Bracewell

Senior Actuary Syndicate Reserving

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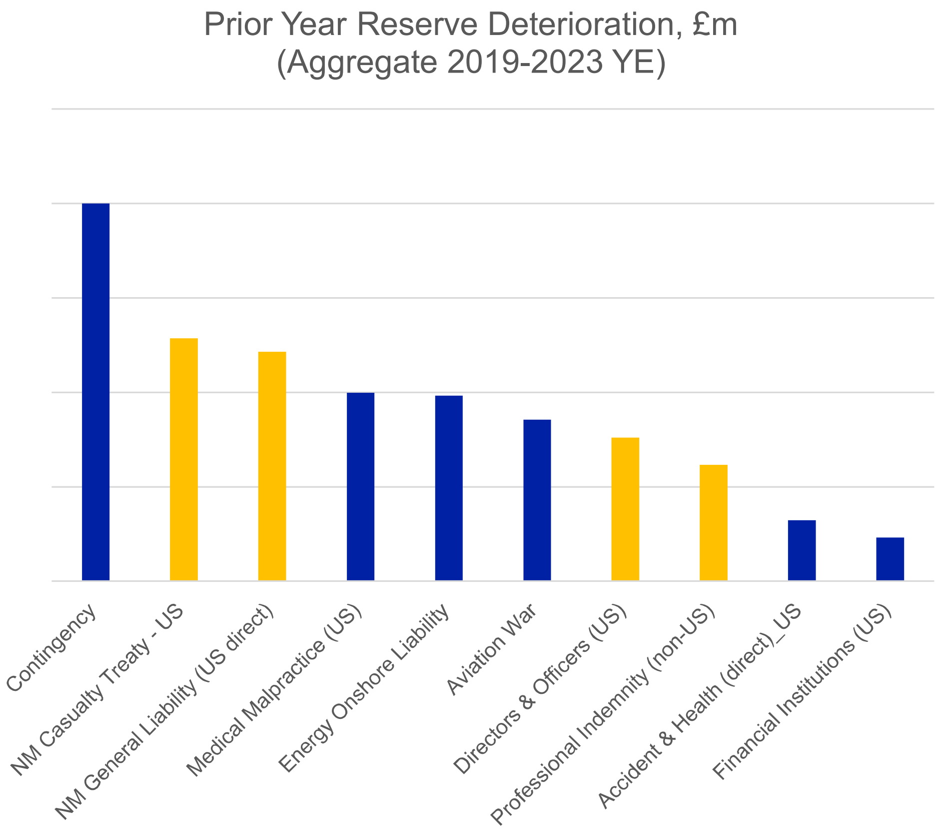
The cycle matters for reserving

Underwriting & Reserving cycles a main component of market reserve deteriorations



COVID

UKRAINE

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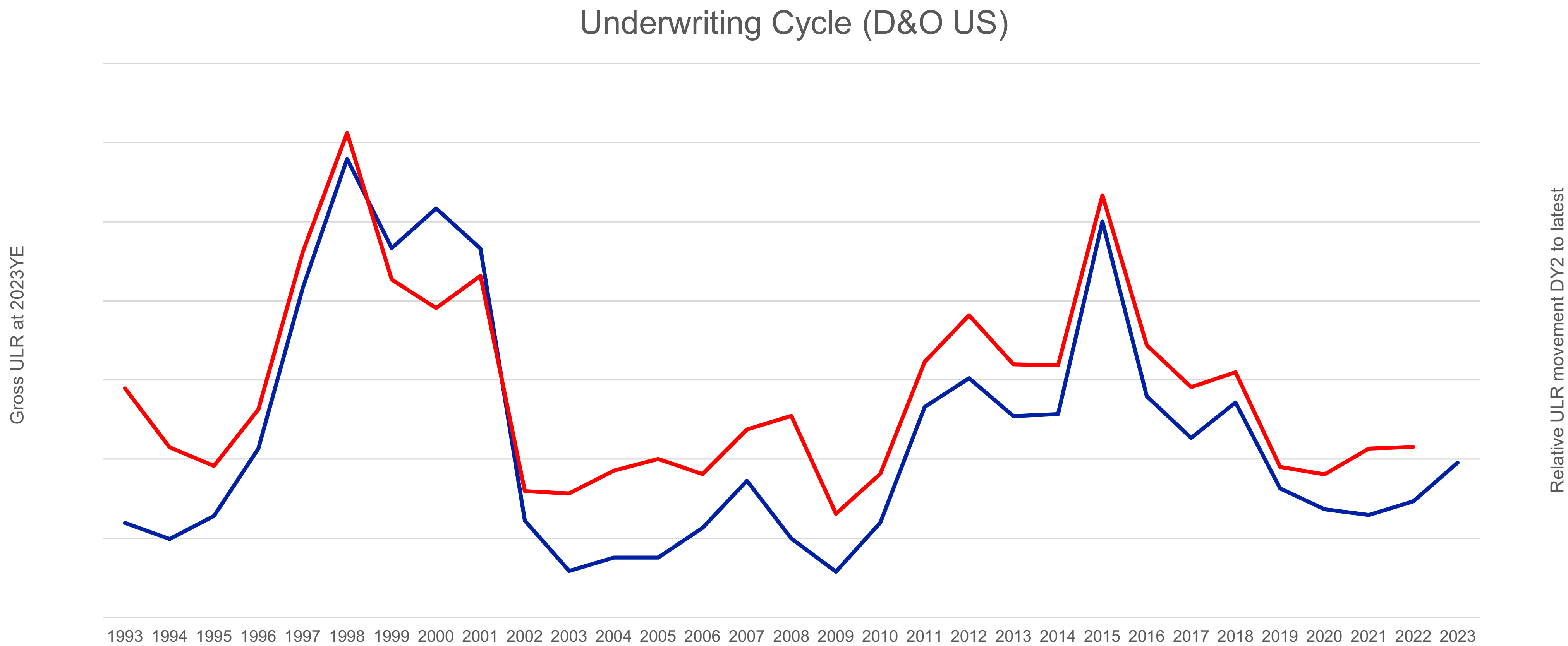
The underwriting cycle

The underwriting cycle still exists!



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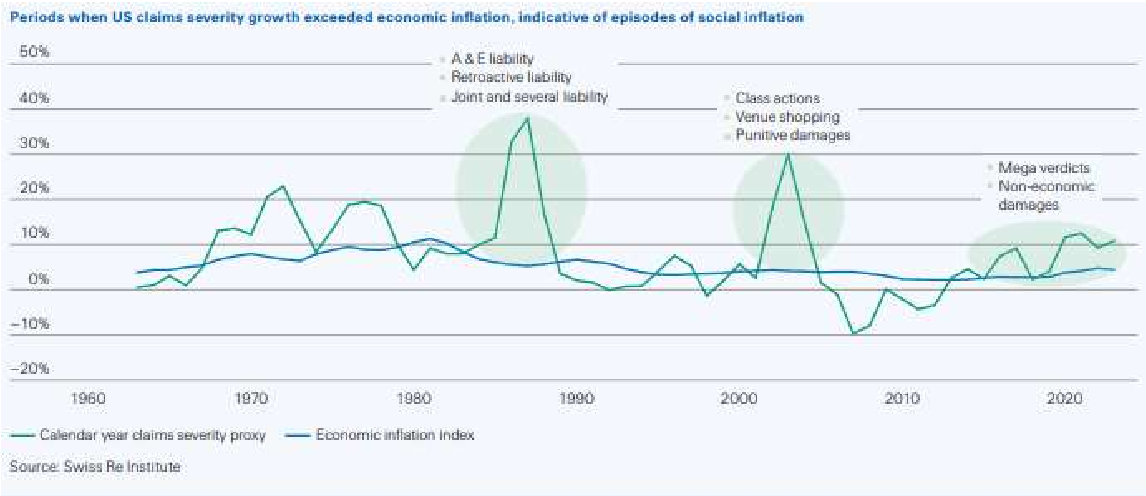
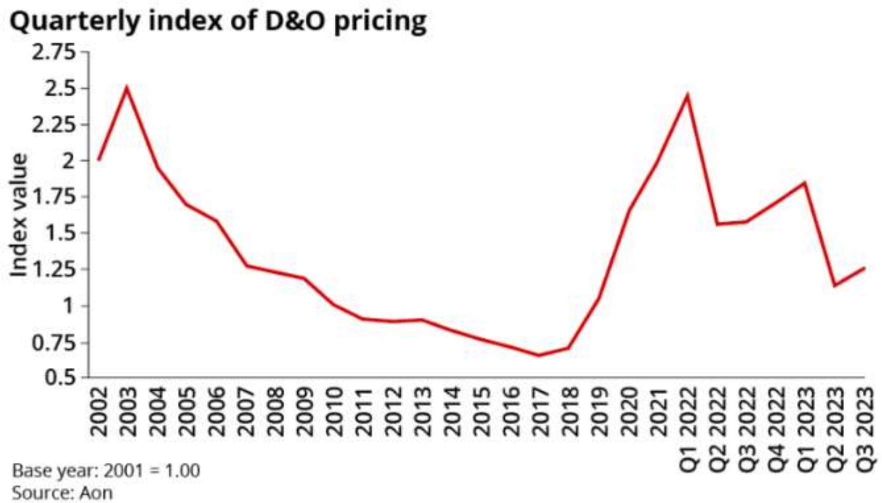
Persistence of the underwriting cycle

Cyclicality of claim costs

Long delays between writing the business and settling the claims

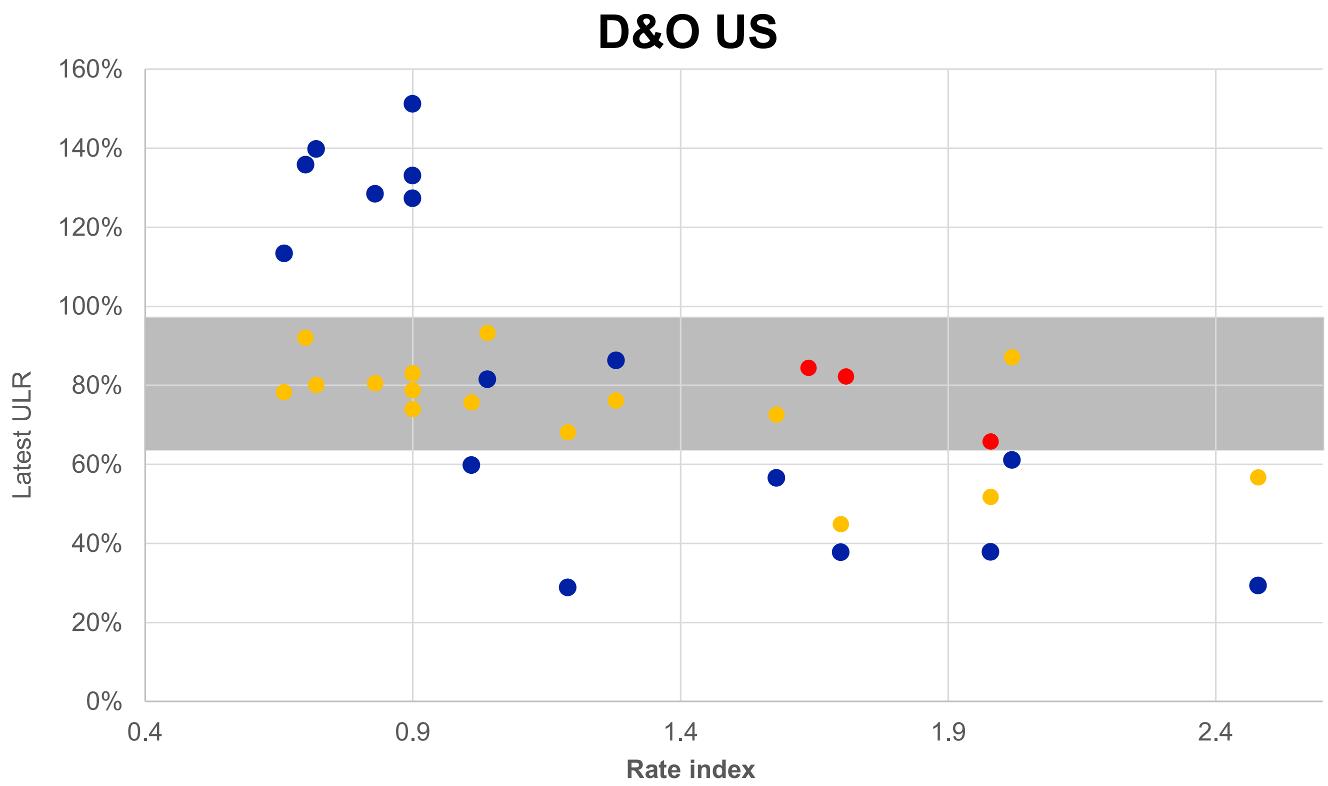
Cyclicality of pricing





Is this all predictable?

Exposure trends need more consideration



- **Reasonable correlation** between rate and ULR indicates that there is predictiveness from exposure data.
- **Reserving is anchored:** Initial ULR indicates reserving functions place minimal relevance on underwriting cycle.
- **Recent hard market:** Initial ULR selections are still in the same historical range.

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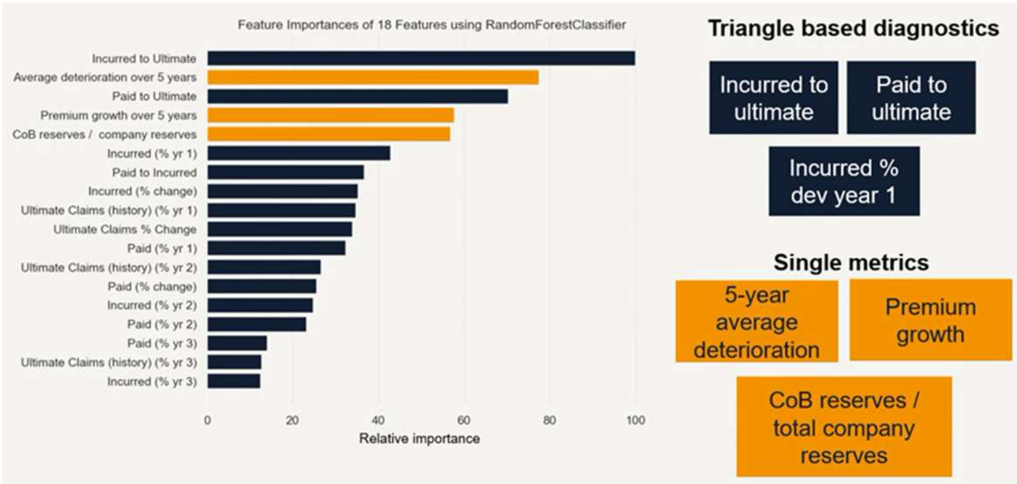
Early warning claim trends

Limited evidence that longer term trends, cross-cycle, are being considered sufficiently

- **Claims experience trends**
  - No clear use of high-level early warning indicators other than AvE in the market.
  - Too much focus on QoQ movements.
- However, various metrics have predictive power for future reserve movements:
  - IBNR burn and Reserve burn metrics (D&O US example below).
  - Triangle based diagnostics (e.g. incurred to ultimate and paid to ultimate) and single metrics (e.g. average deterioration over time and premium growth) as outlined by LCP in their recent LMAG presentation.

	Year of Account	Avg IBNR burn during Yr 3	Avg Reserve burn during Yr 3
"BAD"	1997-2001	95%	18%
"GOOD"	2002-2006	30%	8%
"GOOD"	2009-2010	16%	7%
"BAD"	2011-2018	47%	15%
???	2019-2022	13%	8%



Consideration of cycle in reserving

Lack of detail concerning position in cycle and associated risks

No evidence underwriting or reserving cycle being actively used to inform management or derive loss ratios

- **Reserve committee packs:** Minimal mention of underwriting and reserving cycle. Limited long-term trend analysis.
- **Actuarial Function Reports:** Reserving cycle is acknowledged. Limited reference to the point in the cycle and / or associated uncertainty.
  - **Soft market years:** Commentary is generic and suggests that IELRs capture the uncertainty.
  - **Recent hard market years:** Syndicates include more detail than before but still limited. Common responses imply that the underwriting cycle is captured via risk adjusted rate change.
- **SAO Reports:** Commentary provided is generic and often similar across syndicates in the market with the same signing actuary.

Syndicate ABC

Allowance for the 'reserving cycle'

5.77 Based on our understanding of the insurance market there has been a history of a 'reserving cycle' where ultimate estimates have been overstated in the 'good' years and understated in the 'bad' years. This historical issue of under- and over- reserving has tended to broadly follow the insurance cycle of profitability.

5.78 We have sought to mitigate the impact of any cyclical tendencies by making allowance for the underwriting cycle (as assumptions made around the position in the underwriting cycle are often a contributing factor to establishing a reserving cycle), and through monitoring the appropriateness of our assumptions. In particular, comparison of actual experience to that expected by our previous reserving basis and monitoring of movement in our estimates of ultimate claims over successive reserving exercises should help us to mitigate the potential impact of any reserving cycle.

Syndicate XYZ

Allowance for the 'reserving cycle'

5.132 Based on our understanding of the insurance market there has been a history of a 'reserving cycle' where ultimate estimates have been overstated in the 'good' years and understated in the 'bad' years. This historical issue of under- and over- reserving has tended to broadly follow the insurance cycle of profitability.

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Key considerations for cycle management

- Is management actively tracking the cyclicality of their business?
- Does management have the KPIs which quantitatively monitors / measures the cyclicality of the business?
- How robust are these KPI’s?
- Which classes have soft pricing and/or high claim inflation?
- What action has been taken for the areas under pressure from the cycle?
- Given the long-term historical outcomes of ULRs vs cycle, is there sufficient validation of ULRs?

Final Remarks

Emma Stewart
Chief Actuary

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Summary

Key take-aways

1. Longer-tail casualty lines remain in focus, as many uncertainties effect them more (inflation, secondary effects of the emerging risks, legal challenges)
2. Hard market generally means reserve strength is high – but when the market softens later deteriorations are more likely
3. Understand how much credit has been taken for remediation – and if there is bias to new business
4. Stay on top of the world changing quickly (like wide-spread impacts of geopolitical risks and understanding impacts of climate change).

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Questions

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