Institute and Faculty of Actuaries

Risk Alert
www.actuaries.org.uk
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RISK ALERT
General Insurance Reserving

KEY MESSAGE
Fluctuating market conditions, not just linked with the risks of Brexit, but also the underlying trends of over-capacity and pricing pressures, increase the risk that reserves are understated. General Insurance reserving actuaries should be aware of the cyclical nature of market conditions, the current position within this cycle and the need to take this into account when advising those making decisions on reserves.

What are Risk Alerts?
A series of email alerts drawing members' attention to specific issues where the IFoA asks members to think carefully about the consequences of actions they are taking.

The information in the Risk Alert is non mandatory guidance which we publish to protect the public interest.

This Alert is relevant for the following members

Chief Actuaries
General Insurance Reserving Actuaries
General Insurance Pricing Actuaries
General Insurance Capital Modelling Actuaries
Actuaries appointed to General Insurance Boards (including Non-Executives)
Actuaries appointed as General Insurance Chief Risk Officers.

Subject matter

Current market conditions are challenging across a number of lines of general insurance business.

- Prolonged and significant rate reductions
- Weakening of terms and conditions; and
- Relaxation of underwriting selection criteria.

Although these conditions mean that the reserve releases seen over recent years are unlikely to be sustainable long term, the management of firms may take an alternative view, and this may lead to increased pressure on actuaries to reduce reserving estimates, especially on longer tailed lines of business.

The reserve strengthening and resulting insolvency of several general insurance companies in the late 1980s and 1990s, following a period of under-reserving, provides a precedent for understanding the impact of the insurance cycle. These events should act as a prompt for reserving actuaries to reflect on the implications of unanticipated events in today's market.

The existence of a reserving cycle is well documented; however there is a risk that reserving actuaries do not recognise, or adequately allow for, 'cycle effects'.

General insurance actuaries should also refer to the recent speech by Chris Moulder of the PRA in which he referred to the current soft market conditions.

Considerations for actuaries

1. Consider the impact of the cyclical nature of the insurance market. Actuaries should reflect on the consequences of under-reserving as experienced in the 1990s.
2. Communicate the impact of the insurance cycle to Boards. Actuaries should also consider the understanding of these issues by Board members.
3. Do not allow reserving bases to be unduly weakened in the face of any commercial pressures to reduce reserves.
4. Review the suitability of current reserving techniques and methodologies. This review should examine any potential over-reliance on particular forms of data (such as case estimates over claim payments for example). It should also be informed by scenario analyses investigating the impact of alternative reasonable choices in parameters and methods.
5. Understand how current pricing decisions could impact reserves.
6. Communicate any increased down-side risks in reserving outcomes, and how these have been appropriately reflected in the reserve estimates.

Potential consequences

If claims reserves are insufficient, firms may face:

- Calls to raise additional capital
- Restrictions on writing new business; and/or
- Insolvency in extreme cases; in some cases leading to non payment or underpayment of valid claims.

Further information and support
Actuaries who have specific professional questions or concerns should contact the Professional Support Service.