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1994 GENERAL INSURANCE CONVENTION

12-15 OCTOBER 1994

1. INTRODUCTION

From 12 to 15 October 1994, the United Kingdom general insurance actuaries got together for their annual convention. This year it was held for the first time in Scotland, in the centre of Glasgow.

In view of the large number of papers produced, only a brief synopsis is given for each.

2. THE PAPERS

Paper 1 *Effective Management Information*

This paper provided a preliminary introduction to effective management information (EMI) for general insurance companies. It considered what is meant by EMI in the context of a general insurance company, and it gave some examples of EMI that could be used by a direct insurance company. It considered the different users of EMI and the functions these users perform, and finally it looked at the types of EMI that might help with these functions.

This paper aimed to:

— discuss what we mean by EMI, and assess whether actuaries have a role to play in designing EMI systems;
— discuss the types of EMI that are relevant for direct insurance;
— provide examples of EMI tables; and
— consider briefly the types of EMI that reinsurers might use.

Paper 2 *Claims Run-off Patterns*

The tables within this report updated those presented to GISG in October 1993. In addition to those tables, for this year it included data for professional indemnity claims.

The run-off patterns shown within this paper all related to claim payments for direct insurance (and facultative reinsurance) business, before allowing for reinsurance recoveries, and the claims payments were accounted for on a one-year basis. Four sets of tables were shown for each type of business analysed; they differed only as a result of the methodology used in the analysis.

Paper 3 *A Practical Guide to Measuring Reserve Variability using Bootstrapping, Operational Time and a Distribution-Free Approach*

The purpose of this paper was to describe some of the practical steps that are involved in various ways of measuring reserve variability. It is aimed at those who have been tempted by the theory, but have been put off by the lack of

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explicit details of what to do in practice. The three methods described were bootstrapping, operational time and Thomas Mack's distribution-free approach. The first two of these methods were described in a 1993 working party report on Variance in Claims Reserving. The paper did not go into the theoretical considerations of the various methods in any great detail.

Paper 4 *Risk Management*

This workshop gave a brief summary of actuarial involvement in the risk management process in different business areas, including banking. The workshop also explored the future of actuaries in risk management.

Paper 5 *Structured Settlements Workshop*

This workshop discussed the growing use of structured settlements in the U.K. as a means of paying damages. Structured settlements arise as a result of a facility set up around mid-1987 by the Inland Revenue and the Association of British Insurers, following which damages can be paid wholly, or in part, by means of instalments for the remainder of the life of the plaintiff.

Paper 6 *Professional Indemnity Claims*

This workshop paper aimed to provide background information on how claims are likely to arise, and commented on the trends in claims by profession. Some examples were included within the text of the workshop, but more detailed cases were incorporated in the presentation.

Paper 7 *Stochastic vs Deterministic Methods for Reserving*

This workshop discussed whether stochastic or deterministic methods were more appropriate for reserving. Both had advantages and disadvantages, and their suitability or otherwise depends on specific circumstances.

Paper 8 *Dynamic Solvency Testing*

With dynamic solvency testing being introduced in Canada for supervisory reasons, attention is being drawn to this approach for assessing the financial strength of an insurer. By using such an approach, a better insight is obtained of the financial aspects of the insurer.

Paper 9 *Risk Selectivity or the Availability of Insurance*

This paper discussed the connected risk selection, pricing and the availability of insurance in order to help the General Insurance Joint Practice Board form a view on the extent to which this is an issue for the profession, and what action, if any, the Board should take. The nature of the risk is an important aspect as regards its insurability. 'Red lining' was discussed, as well as social and political issues.

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Paper 10 *Asset Liability Matching and Modelling*

This workshop had a number of objectives, namely:

— identify the key issues for effective asset/liability management, including risk-related return;
— provide information on published research;
— provide information on some practical work undertaken by actuaries; and
— stimulate discussion, interest and support for further research.

This is clearly a topical issue, with both pricing and reserving issues that need to be addressed. More intensive competition between insurers will focus attention on asset/liability modelling.

Paper 11 *Making Money for Shareholders*

This paper looked at possible ingredients for success and failure in the insurance market. It pointed out the short-term view that most directors and shareholders take in keeping the share price high, which is usually to the detriment of the company's long-term goals. A practical example was given by a brief analysis of Berkshire Hathaway.

Paper 12 *Commercial Insurances for Companies in a Franchise*

High expenses have been a consistent problem for insurers. Can this be avoided by utilising franchises? Examples were given, including comparisons with postcode rating.

Paper 13 *Capital Projects Workshop*

Actuaries are beginning to get involved in the planning of capital projects, and this is likely to continue and expand as privatisation increases and the Private Finance Initiative expands. A recent Institute (and Faculty) of Actuaries sessional paper discussed the issues, and consultants are becoming more involved. Discussion centred on the added value of actuarial participation.

Paper 14 *Actuaries and Auditors*

Does either know what the other is doing? We need to talk more for mutual benefit. This workshop highlighted areas of misunderstanding, and indicated just how much (or how little) each profession relies on the other.

Paper 15 *Household Rating*

Household rating methods have advanced significantly over the last ten years. However, purely technical issues, such as postcode analysis, need to be supplemented by research into issues such as red lining and subsidence to obtain a practical and useful rating system.

Paper 16 *Report of the Pecuniary Loss Working Party*

This paper contained the results of a recent market survey into mortgage

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indemnity guarantee (MIG) issues. This survey was based on responses, not just from MIG insurers, but also from intermediaries and mortgage lenders. It also covered the possible provision of some unemployment benefit by private sector insurance arrangements.

Paper 17 *Disease and Employers' Liability Insurance*

This paper concentrated on three specific diseases: upper limb disorders, deafness and stress. It considered the rating and reserving issues, as these are vital for the sound financial management of an account writing business with a disease element.

Paper 18 *Statistical Premium Rating Working Party*

This paper considered how generalised linear models are used to assess the adequacy of premium rates for personal lines insurance business. It considered the practical steps involved, and discussed the results for various models that were fitted to a sample data set.

Paper 19 *Capital Requirements and Risk-Based Capital*

The paper looked at the problems of assessing the capital requirements of a non-life insurer from a regulator's point of view in the U.K. It considered how capital requirements might vary according to the different risks to which an insurer is subject, and how this risk-based capital might be measured in practice.

Paper 20 *Insurance Futures and Options*

This paper was split into three sections:

— the first item provided an update of the current position;
— the second reviewed the current academic contributions to considering futures and options pricing; and
— the third suggested a more conventional insurance approach, and how credibility theory might be applied to solve the problem.

Finally, there was discussion of possible trading strategies.

Paper 21 *Proposed Equalisation Reserves Systems*

This paper showed two systems that have been put forward to the ABI membership. These systems are known as the 'claims ratio' system and the 'claim event' system. The former was preferred by some, as it is easier to implement, despite the theoretically more correct approach of the latter.

Paper 22 *Marine Insurance*

This paper aimed to provide background that would assist in understanding the principal features of marine business. The paper examined each main class of marine business, highlighting actuarial issues. It also covered some recent

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developments in the market, the way marine business is accounted for and key features on reserving.

Paper 23 *United States Medical Malpractice Insurance*

This paper sought to explain aspects of U.S. medical malpractice insurance. Part 1 considered the recent history, current position and trends of the insurance market. Part 2 explained the terminology and definitions which may not be familiar to those not dealing in this class of insurance. Part 3 looked at actuaries, and briefly considered reserving. Typical reinsurance programmes that are bought in the London Market were examined in Part 4. Finally, Part 5 analysed a fictional example of an actuarial submission that a London Market actuary would expect to see from a cedant.

C. J. W. CZAPIEWSKI

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