

# Breakout Session

## Developing Best Practice Recommendations

Briefing from  
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Centre for  
**Risk Studies**



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# BREAKOUT SESSION OBJECTIVES

- We would like the participants of this workshop to help us to identify **key issues and recommendations** for Best Practice in Scenarios Development and Usage
  - We will use these recommendations to structure a publication on **Best Practice for Scenario Development and Usage**
- We **will break into three groups** to have more detailed discussions
  - Be back here to report the group's recommendations at 4.30
  - Select a reporter from the group to present your findings
- For the purposes of this breakout session, assume that
  - this is aimed at the insurance industry
  - it is recommendations for use by insurers' internal modelling teams as well as third party modelers, such as model vendors and advisors
  - it is focussed on 'clash' across multiple lines of insurance, although it can also apply to individual lines of insurance

# APPROACH

- We recognize that there are several ways we could tackle this development
- We could have split into groups to consider different use cases, such as:
  - First step for model development
  - Capital stress testing
  - Discussions with regulators and rating agencies
  - Underwriting and pricing
- However we decided to split the groups into three broad areas of recommendations:
  - **Identifying Scenarios**
  - **Severity of Scenarios**
  - **Sensitivity Analysis for Scenarios**
- Use these breakout topics as a lens to explore use cases

# THREE GROUPS

- **Group A: Identifying Scenarios**
  - Meeting room: **LT2**
  - Chair: **Jessica Schuler**, *Praedicat, Inc.*
  
- **Group B: Severity of Scenarios**
  - Meeting room: **Castle Teaching Room**
  - Chair: **Simon Ruffle**, *Cambridge Centre for Risk Studies*
  
- **Group C: Sensitivity Analysis for Scenarios**
  - Meeting room: **W2.01**
  - Chair: **Pooya Sarabandi**, *RMS*

# GROUP A: IDENTIFYING SCENARIOS

- Meeting room: **LT2**
- Chair: **Jessica Schuler**, *Praedicat, Inc.*
- Develop at least three prioritized recommendations for best practice in identifying and selecting scenarios to develop and use

Discussion points might include:

- Which are the most important multi-line scenarios to develop and test portfolios against?
- How many should be developed and run?
- How can we get confidence that selected deterministic scenarios represent the event universe?

# GROUP A: FEEDBACK

1. Know your use cases
2. Common platform
  - For use cases within line
    - Across line
3. Identify exposure (internal and external)
  - To choose scenarios
  - Broad feed list created
4. Identify participants
  - Helps feed list
5. Common data standard
6. Always search for breadth of scenarios/universe

# GROUP B: SEVERITY OF SCENARIOS

- Meeting room: **Castle Teaching Room**
  - Chair: **Simon Ruffle**, *Cambridge Centre for Risk Studies*
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- Develop at least three prioritized recommendations for best practice in setting the severity levels of scenarios

Discussion points might include:

- What levels of severity make sense to analyze in a multi-line scenario?
- What return periods are implied by the severities of a deterministic scenario if a probabilistic model is not available?

# GROUP B: FEEDBACK

1. Study Counterfactual
2. Make 'return period' understandable to C-suit
  - Make them believe in the scenario
3. Communicate uncertainty
  - In representation/return period
  - Break down different sources of uncertainty
4. Determine the audience of the scenario
  - Make implicit assumption explicit
5. Business Impact
  - Bias to the tail
  - Be plausible
6. We can go beyond; to the stochastically enhanced scenarios
7. We should all be more Bayesian!



# GROUP C: SENSITIVITY ANALYSIS FOR SCENARIOS

- Meeting room: **W2.01**
- Chair: **Pooya Sarabandi**, *RMS*
  
- Develop at least three prioritized recommendations for best practice in conveying the sensitivity of results to assumptions made in scenarios

Discussion points might include:

- What are the best ways to provide meaningful sensitivity analysis for users of these scenarios so that they can understand the drivers of losses both within and across lines?

# GROUP C: FEEDBACK

1. Do sensitivity testing
2. Be clear about inputs and assumptions
3. Quantify if you can, dollar supplement with benchmarks (if available)
4. Do not miss out on qualitative inputs/assumptions

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