

# *Transforming insurance reserving*

**Market insights into current challenges  
and a vision for the future**



July 2024

# Introduction

Welcome to our global reserving and transformation review!

We have engaged with heads of reserving, chief actuaries, regulators and other senior insurance leaders across the world to understand current approaches in reserving, key challenges faced by teams, and plans for future development.

We also set out our blueprint for state-of-the-art reserving for 2024 and beyond, using the technology that's already available today, to revolutionise your reserving for tomorrow.

Please get in touch to discuss how LCP can support your own journey towards reserving transformation.



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Partner*

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*“It is no longer a pipe dream to expect automatic trend detection, actual versus expected, roll forward and first cut reserves within an hour of the data being ready.*

*The technology is already here – we just need to use it.”*

**Cat Drummond – Partner**

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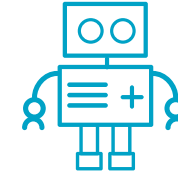
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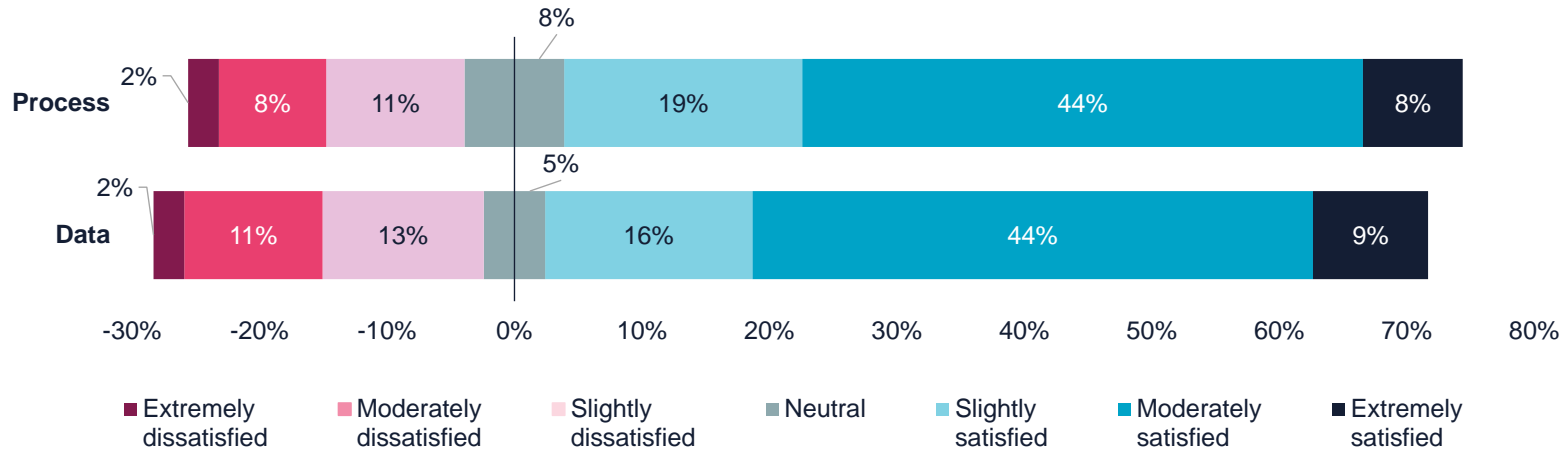
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# Key findings

## Satisfaction with reserving process and data



- Fewer than 10% of firms are extremely satisfied with each of their process or data.
- Overall, firms are less satisfied with their reserving data than their reserving process.
- Both reserving processes and data are ripe for transformation in 2024 and beyond.

## Key areas for improvement



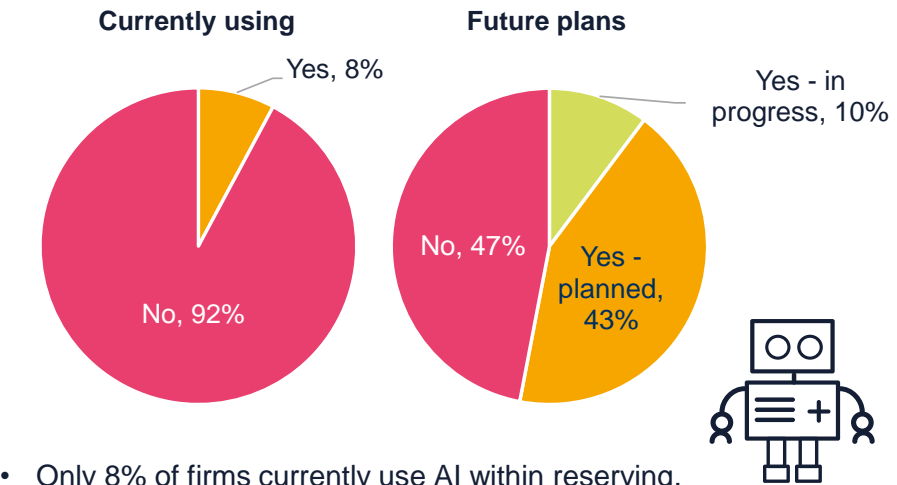
### Reserving processes

- Greater automation
- Wider use of better technology
- Improving overall efficiency

### Reserving data

- Greater consistency
- Painless data reconciliation
- Better granularity

## AI in reserving

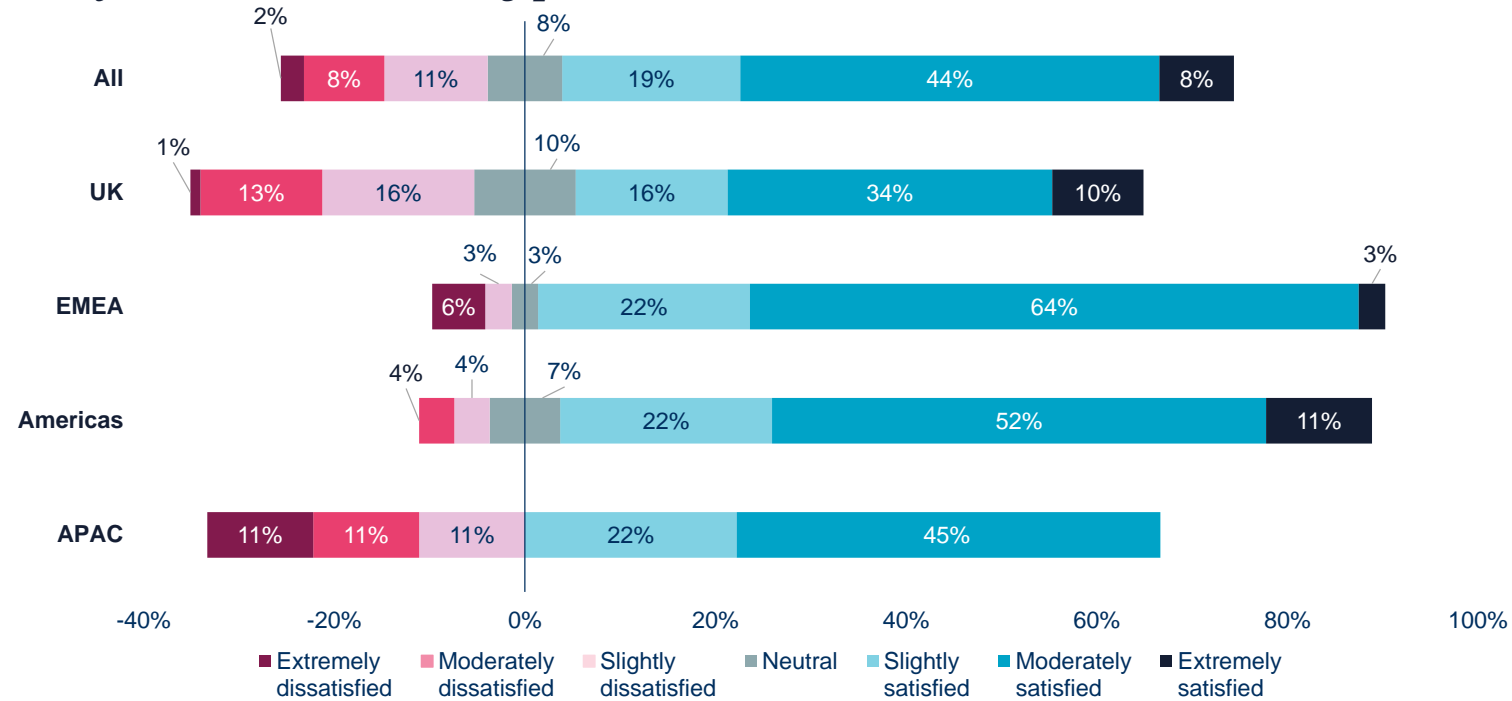


- Only 8% of firms currently use AI within reserving.
- Key areas of AI use include automatic trend identification, claims classification, data cleansing and pattern setting.
- Over half of respondents are planning to increase their use of AI in future. The rest are typically “not now” rather than “not ever”.

*See [page 11](#) for an action plan to achieve a smooth reserving transformation, and [page 12](#) for our reserving blueprint for the future.*

# Reserving process

## Satisfaction with reserving process



Worldwide, **21% of firms are dissatisfied with their reserving process**, with teams in the UK and APAC being significantly less satisfied than their counterparts in EMEA or the Americas.

Whilst overall the majority of respondents are satisfied, **only 8% of firms are currently extremely satisfied with their current approach**.

This suggests that reserving processes worldwide are ripe for development. Key areas for improvement include automation, wider use of better technology and improving the overall efficiency of the process.

Firms that are extremely satisfied typically have high levels of automation within their processes. A key challenge is to ensure the automation is not rigid and allows flexibility to respond to changing business requirements.

### Key process features of top performing firms:

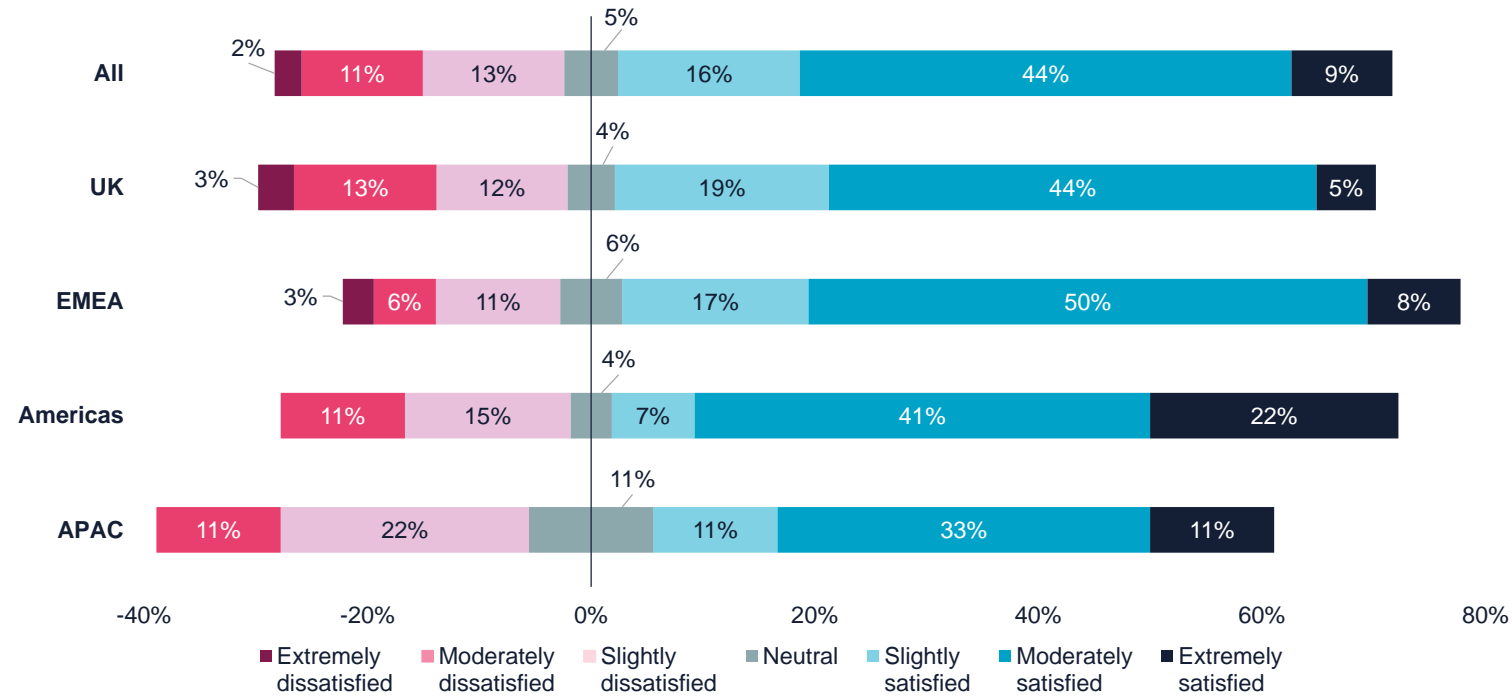
- ✓ **Efficient** process, enabling numbers to be produced quickly after data becomes available
- ✓ **Automated**, with minimal manual intervention
- ✓ Can **spot trends quickly**, enabling reserving actuaries to focus on where experience is changing
- ✓ Ability to **drill down** into the analysis, to more clearly identify the sources of better and worse performance
- ✓ **“Self-service”** output, enabling the wider business to engage directly with the analysis as needed
- ✓ **Efficient reporting**, automating quantitative outputs to allow more time to focus on the key messages
- ✓ **Flexible**, to support deep dive analyses and continued development

*“Nobody works late and it takes five working days from data to reserve committee.”*

**Quote from “extremely satisfied” firm**

# Reserving data

## Satisfaction with reserving data



On average, **firms are less satisfied with their reserving data than their processes**, with 26% of firms overall being dissatisfied with their data, compared with 21% for their processes.

Whilst overall the majority of respondents were satisfied, **only 9% of firms overall were extremely satisfied with their current data**.

Issues around lack of consistency, poor data reconciliation and insufficient granularity were highlighted as drivers of dissatisfaction.

Many of the firms that are extremely satisfied reported having readily available and reliable data. Investing in high quality data is critical. It unlocks significant efficiencies and enables key business insight from powerful analytics.

### Key data features of top performing firms:

- ✓ **Accurate**, reducing time spent on reconciliation and queries
- ✓ **Consistent**, particularly where groups have grown through M&A and inherited legacy systems
- ✓ **Automatic** data production, including reconciliation, cleaning and validation
- ✓ **Granular**, to enable deeper dives and wider analysis
- ✓ **Timely**, to support faster production of reserve estimates
- ✓ **“One source of the truth”**, avoiding multiple versions of information being stored across systems

*“We’ve done lots of work ... to improve our data process which has minimised data errors and it now reconciles to financials.”*

**Survey respondent**

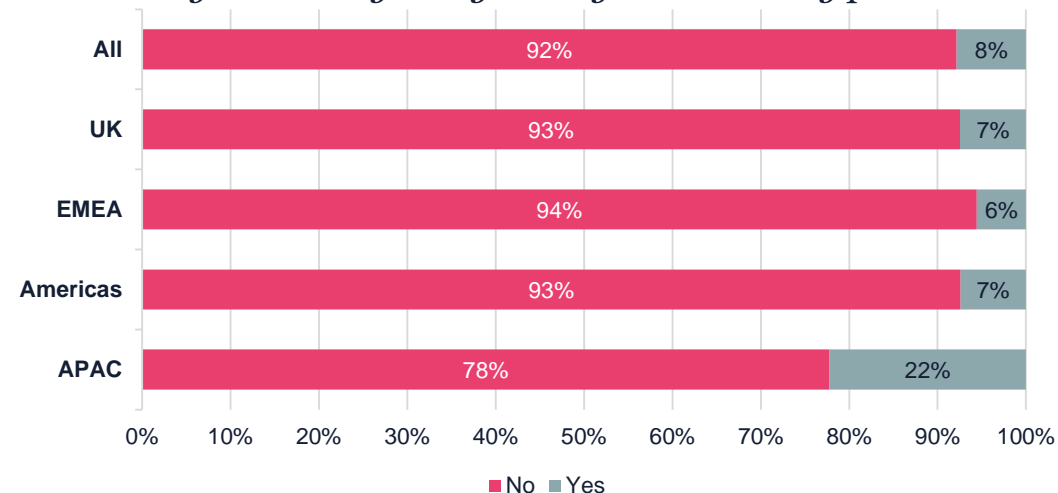
# Use of AI



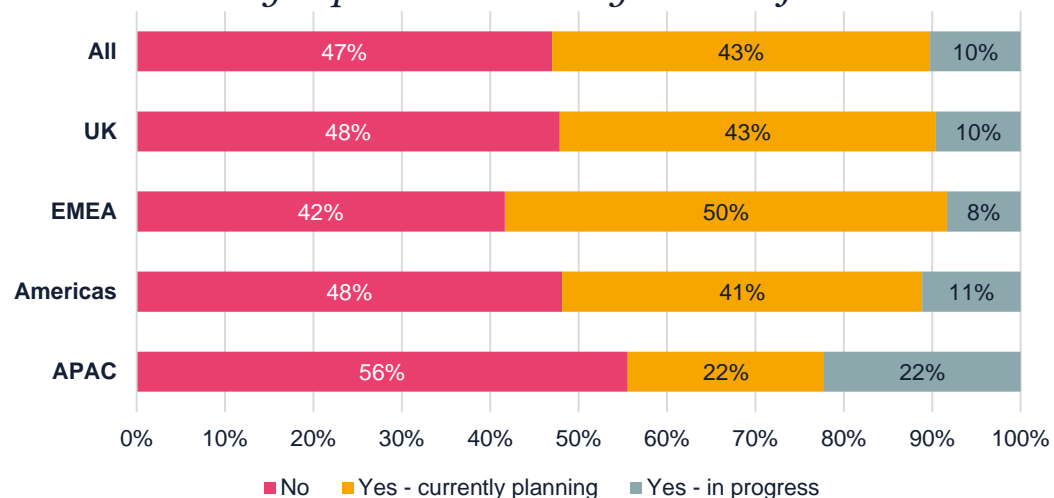
## Current AI use

- Only **8% of firms are currently using AI** within their reserving process.
- This is consistent with EIOPA's 2024 [report](#) on the Digitisation of Insurance, which found that while 50% of non-life insurers are using AI somewhere in their business, only 5% of insurers in their study were using AI within loss reserving.
- Areas where AI is currently supporting reserving processes include automatic trend identification, claims classification, data cleansing and pattern setting.
- **A clear AI strategy is critical**, including a well-defined approach to manage reliability, bias and transparency of the output.

## Are you already using AI in your reserving process?



## Do you plan to increase your use of AI?



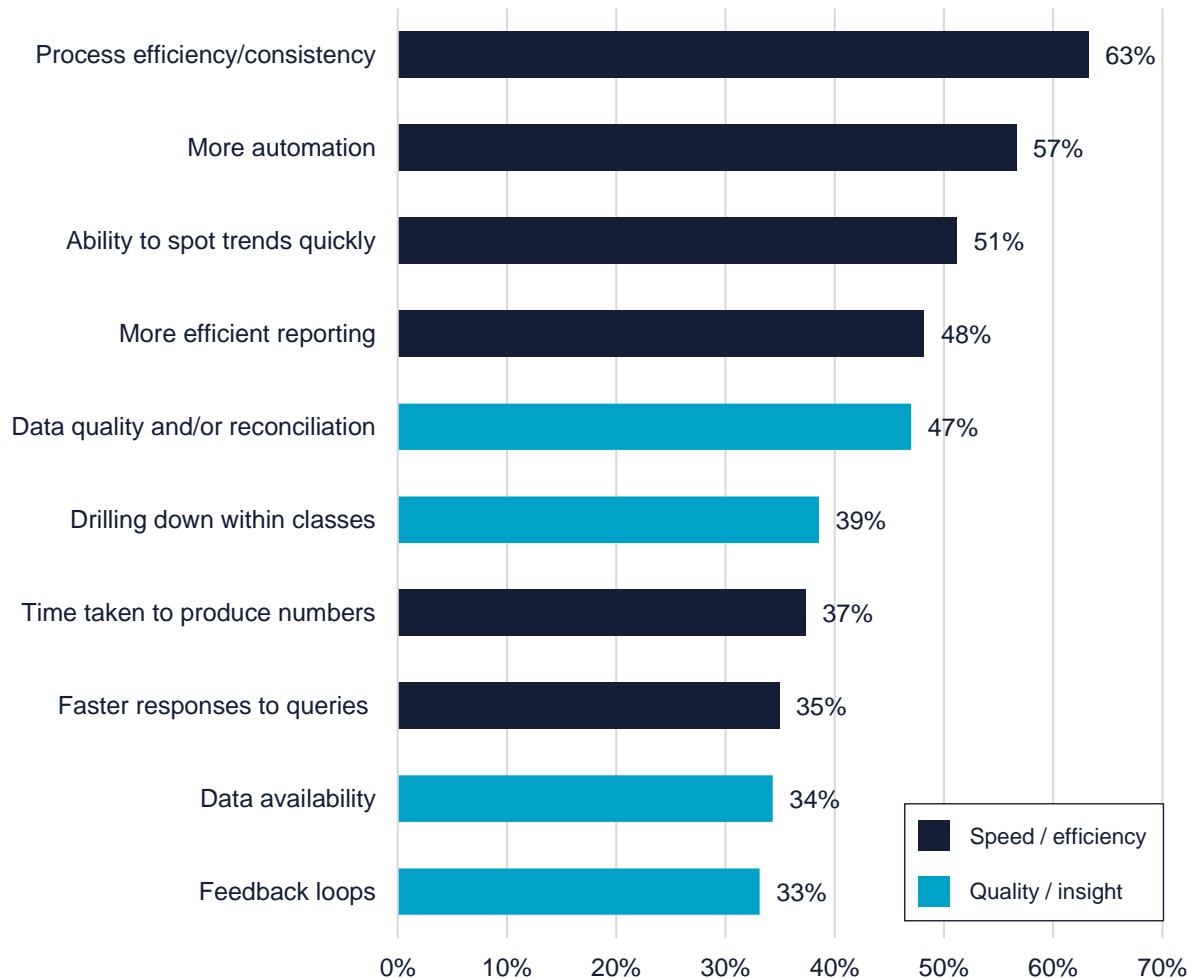
## Future AI use



- **53% of teams are planning to increase their use of AI in future**, either through projects already in progress (10%) or projects currently planned but yet to begin (43%).
- The highest proportion of firms planning to increase their future use of AI were located across EMEA (58%), while the lowest were across APAC (44%).
- For the 47% of firms not planning to increase their future use of AI, key drivers for this include wanting to focus on getting the basics right first, insufficient resources, lack of data and the value-add not being sufficiently clear.
- Of these firms, most responses were “not now” rather than “not ever”.

# Areas for improvement

What are the key areas for improvement?



- Overall, **firms are prioritising speed and efficiency improvements** over improvements to enhance the quality of their reserving or delivering better insights.
- **Process efficiency/consistency** was identified as a key area for improvement by nearly two-thirds of firms. This is a consistent theme across the whole review, with teams looking to spend their time on value-added analysis, rather than turning the handle on inefficient processes.
- **Ability to spot trends quickly** was flagged by over half of firms, opening the door to wider adoption of AI through automated trend detection.
- Improvements linked to **data quality** also came through strongly, with firms recognising that this is critical to achieving better business insight.
- **Over a third of firms said they wanted to produce reserving outputs faster**, as well as being able to respond to business queries more quickly. Faster outputs give the business more time to consider the implications, as well as freeing up time to perform more detailed analysis on particular areas of interest.
- **Better feedback loops also featured in the top ten**, with a third of respondents highlighting this as an area for improvement. By having ongoing two-way communications between strategy, underwriting, pricing and claims teams, firms can ensure that the insights uncovered by reserving teams support the business better, giving them a competitive edge.

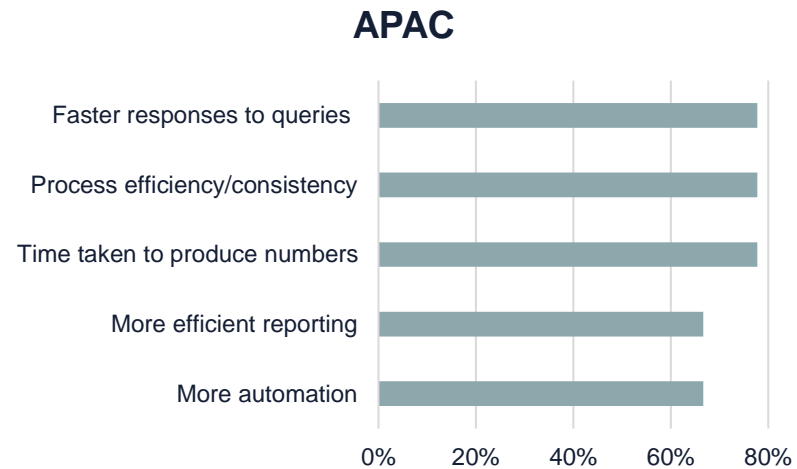
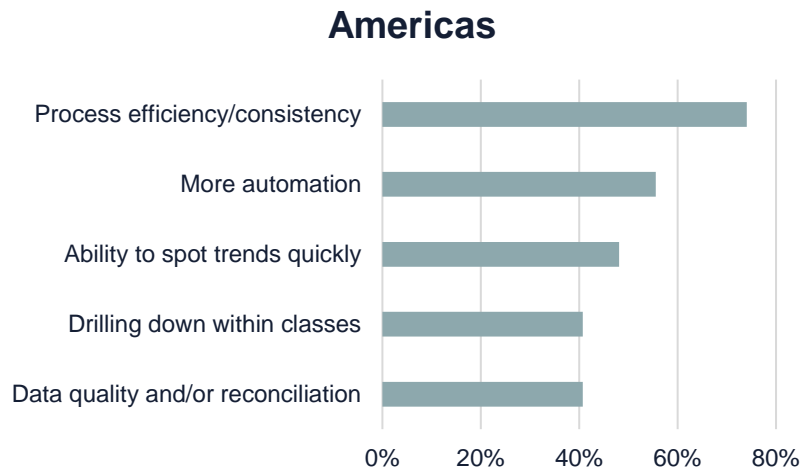
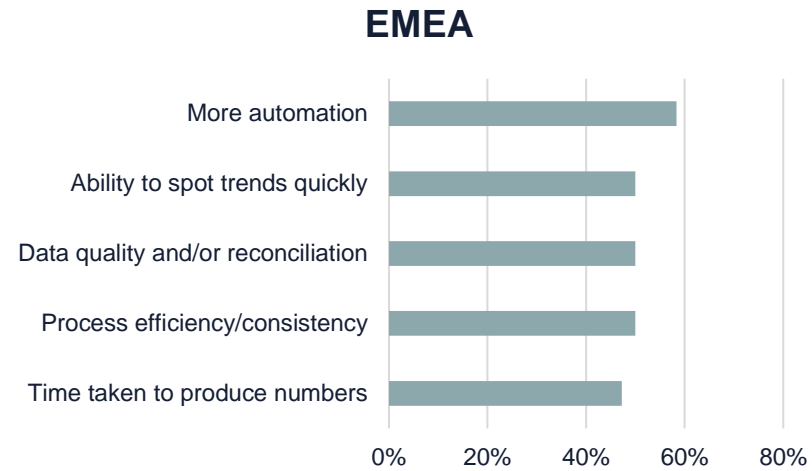
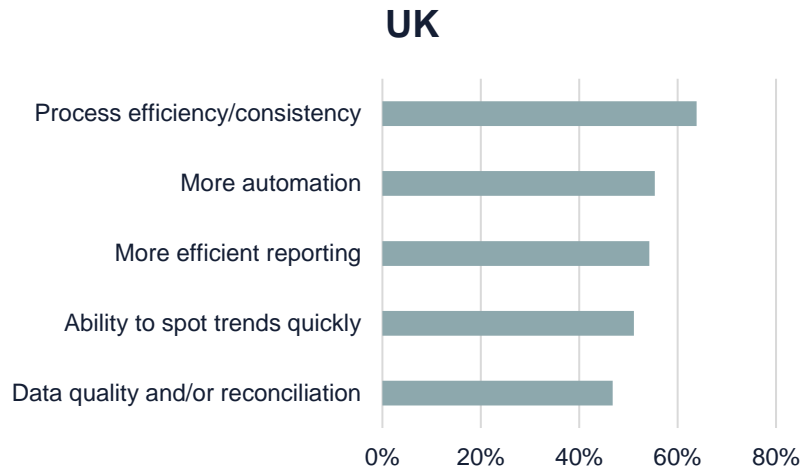
*“More granular data is key. It is the foundation to most, if not all, of the above improvements. I need more granular data, and I need a reserving system that can make the most of it.”*

**Survey respondent**



# Areas for improvement (cont'd)

By region



- **Process efficiency and more automation** feature in the top five improvements across all regions.
- **More efficient reporting** was also a top-five focus for the UK and APAC, suggesting more time is spent on reporting in these regions compared to others.
- Firms across the UK, EMEA and the Americas flagged the **ability to spot trends quickly** as one of their top five areas to improve going forwards.
- APAC was the only region that did not have **data quality** as a top-five area for improvement, despite 33% of firms across this region saying they were dissatisfied with their data overall.

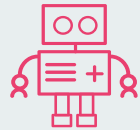
*“The overall process is well structured, automated with good controls, and easy to use output. However, there are always improvements to be made.”*

Survey respondent

# Top three wishes



We asked firms what their top three wishes would be if they could wave a magic wand over their reserving process.



**Improving automation** and making **better use of technology** came first, with 53% of firms identifying this as a key wish. This was a priority across all regions and especially in EMEA, where 72% of participants flagged this.



43% of firms wished to improve their **data** in some way. This was slightly less of a priority for firms with smaller team sizes, with about one-third of such firms expressing this need.



35% of firms would like to improve their **process efficiency**, including simplifying overly complex current processes. Firms also said they wished their processes were more directly beneficial to accounting and reporting, without requiring additional effort.



23% of firms would like a **scalable, adaptable and robust** process that quickly handles ad hoc queries. Most regions wish to improve this, and particularly for firms with gross reserves above £10 billion.

*“I would like an infrastructure-as-code system so if I want to change anything, it is easy to do and everything just flows through from end to end.”*

*“I’d like to change our reserving tool to something that would allow for better quality of analysis to give more value to the business.”*

*“I just want everything to be in one place.”*

*“I want to speak the same language as underwriters and provide them with insights at a more granular account level.”*

*“I really wish we had a “one stop shop” for outputs for different stakeholders.”*

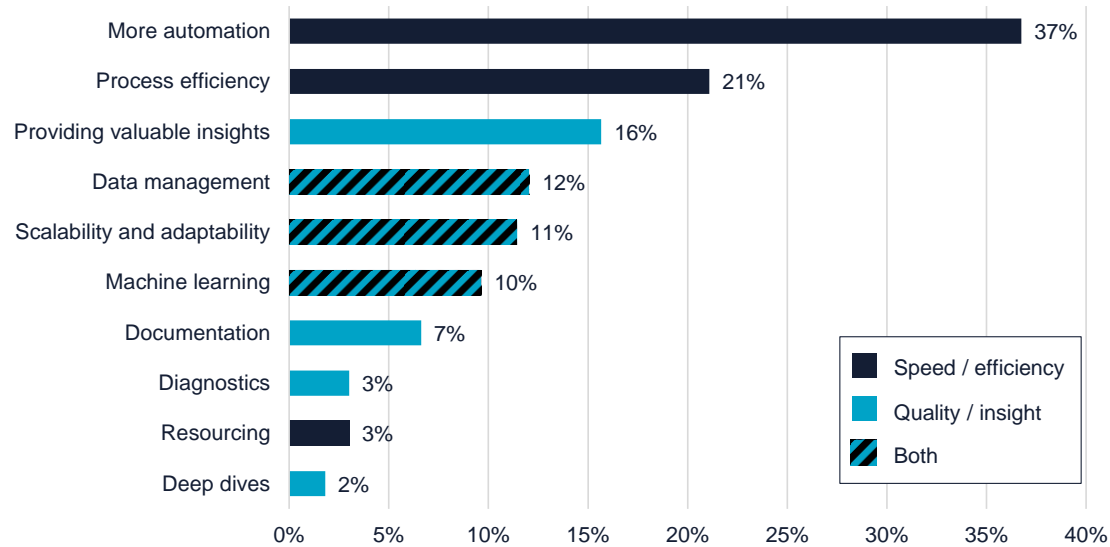
*“I’d like to re-build all our reserving systems from scratch.”*

*“I would love to see an improvement in the feedback loop with pricing and planning.”*

Overall, there was a wide range of responses, from wanting to fix a small number of bugbears that cause real friction across the process, to wishing for more fundamental changes to their reserving.

# Action plan for a smooth transformation

## Key areas of transformation over next 2 years



Nearly every firm aims to improve their reserving processes over the next two years, from major transformations to incremental updates.

The top aim for transformation is **more automation** – cited by 37% of firms, followed by **process efficiency** (21%). This suggests that a key focus for firms continues to be to do the same job faster, although 16% firms also said they had plans to make changes that would provide more valuable insights to the business.

The number one barrier to achieving a successful transformation is **insufficient resources**. Others include **concerns about cost**, **anchoring to existing processes**, and **it not being the reserving team’s decision** (eg, because the approach is set at a group level).



## 3 steps to achieving a smooth reserving transformation in 2024



**Start with the “why?”** – A key objective for many firms is to free up expensive actuarial time to focus on the “hard bits” (rather than running manual and error-prone processes).



**Follow a clear “levelling-up” path.** Each step should deliver a swift and clearly visible improvement. This could be an upgrade to a specific element of your process, such as faster identification of trends, or an enabler, like a deep data cleanse. This incremental approach also allows you to easily “roll back” changes if you need to, reducing transformation risk.



**Continuous improvement and feedback.** Implement mechanisms for ongoing assessment and feedback. As your transformation progresses, review progress, adapt strategies based on insights and encourage open communication. This will ensure you identify and address issues promptly, ensuring the transformation remains on track and delivers value effectively.

*“A slick reserving process unlocks huge business value for a modern insurer. It goes beyond just setting reserves – it brings deep insights on business performance and emerging risks, benefitting the whole firm.”*

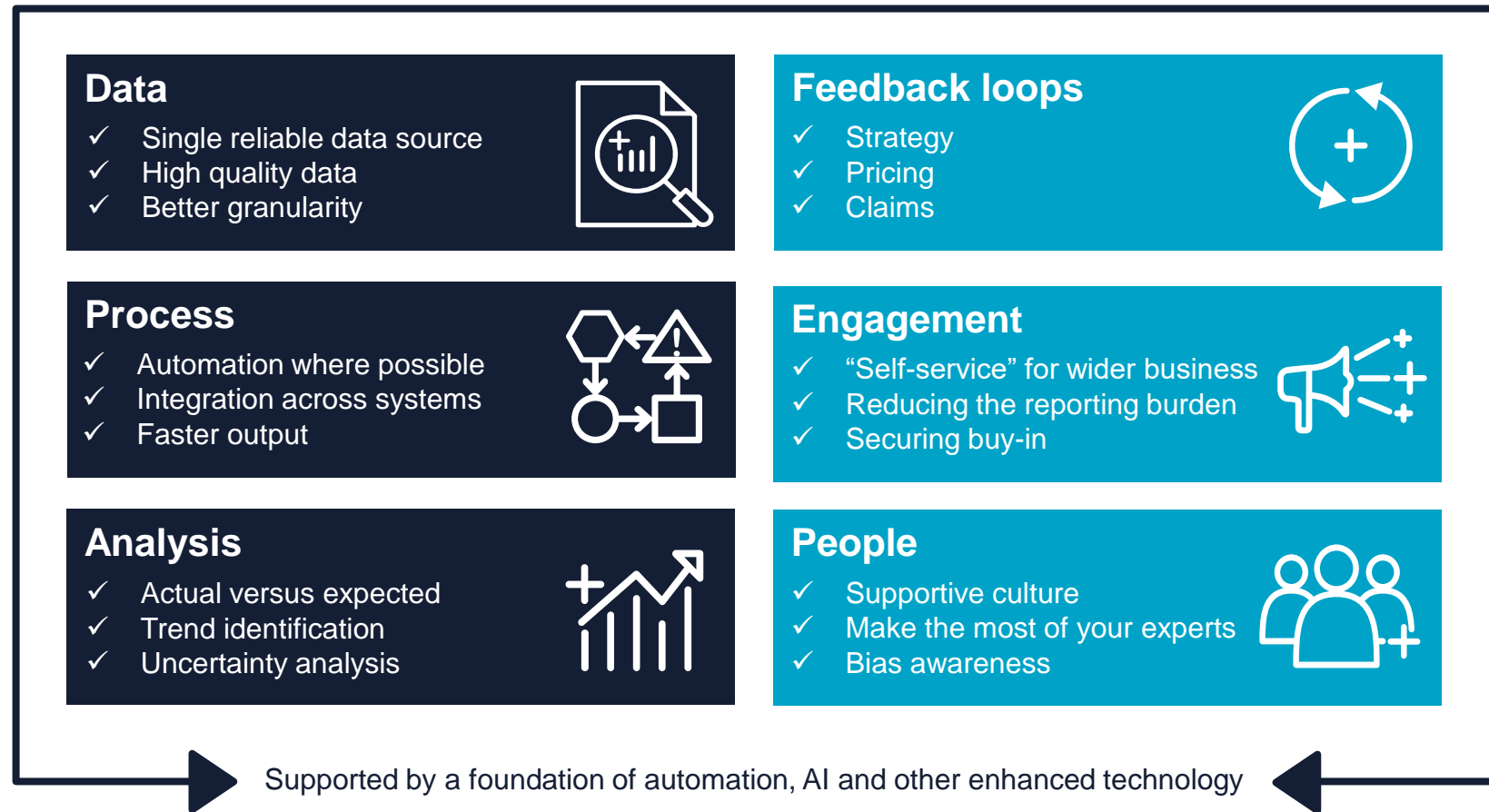
**Tom Durkin – Partner and Head of Insurance Consulting, LCP**

# Reserving blueprint

Over the following pages we set out our blueprint for a state-of-the-art reserving process in 2024 and beyond.

The **dark blue** boxes on the left describe elements of the reserving process that are directly linked to producing high-quality reserve estimates.

The **lighter blue** boxes on the right cover the wider parts of the reserving process that maximise the value across the business.



# Reserving blueprint (cont'd)

## Producing high-quality reserve estimates

### Data



**Single reliable data source.** Firms storing data across multiple systems should invest time consolidating this so that it's stored as "one source of the truth". Ideal features include a seamless link between claims and policy level information, and readily available transactional data.



**High quality data** that's available quickly and without the need for manual processing, is key to a state-of-the-art reserving process. Two common areas for improvement are reinsurance data and external third-party data such as such as bordereaux and binders.



**Better granularity** gives insurers the ability to "drill down" or "slice and dice" the data. This is a major theme emerging from this review – firms recognise the significant time savings this offers, and the value added by being able to deep dive into the data to understand emerging trends.

### Process



**Automation where possible.** The ideal process includes a "best of both worlds" blend of automation and expert human oversight. Firms should identify elements of their reserving process that are repeatable and look to automate these wherever possible.



**Integration across systems** is key to developing a seamless end-to-end process. Firms should minimise manual intervention between sub-processes (eg between data production, reconciliation, analysis and reporting) by developing automation and APIs to link systems together.

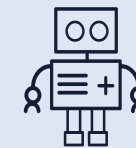


**Faster output.** Through automation, integration, and available technology, most firms can expect first-cut and/or rolled forward reserves within an hour of data. This unlocks more time to address complex areas and makes it feasible to share proposed reserves with the business within days.

### Analysis



**Actual versus expected** analysis should be integral to the reserving process, not just a validation tool post-finalisation. Incorporating this analysis early helps actuaries identify discrepancies, adjust assumptions, and refine models, leading to higher quality and more reliable reserve estimates.



**Trend identification.** Advanced reserving processes that embrace AI can automatically spot data trends. This is invaluable for projecting claims and enables the wider business to respond quickly to emerging experience and make strategic decisions faster.



**Uncertainty analysis** "out of the reserving box" reduces the burden on reserving (or capital) teams while keeping objective risk measures front of mind. This helps actuarial teams use their time effectively to assist the business in understanding material uncertainties better.

# Reserving blueprint (cont'd)

## Maximising value across the business

### Feedback loops

Firms that cultivate two-way, regular and dynamic feedback loops will maximise the value from their reserving, giving them a competitive edge.

Key areas where feedback loops add significant value include:



**Strategy.** Identifying better and worse performing business areas informs strategic decisions on where to focus growth.



**Pricing.** Rapid feedback on trends ensures new business is priced appropriately, protecting against anti-selection.



**Claims.** Detecting unexplained trends in claims payments helps firms address new sources of claims leakage promptly.

A slick reserving process that provides dynamic insights across the business rightly earns its place at the heart of a modern insurer.

### Engagement



**“Self-service”.** Automated bespoke reporting that is tailored and readily accessible to wider business significantly improves engagement. It also unlocks time for reserving teams that would otherwise be spent performing manual ad-hoc reporting.



**Reducing the reporting burden** through automation pays significant dividends. While generative AI is still largely untested, we expect this to be a significant area of future development. Current best practice of bespoke dashboarding and auto-populating reports should also be implemented wherever possible.



**Securing buy-in** across the wider business fosters symbiotic relationships where the reserving team augments the performance of wider business functions and vice-versa. This elevates actuarial analysis within the business and makes it a key differentiator for the company's success.

### People



**Supportive culture.** An environment that encourages curiosity and empowers teams to continuously innovate helps insurers maintain their competitive edge and extract the most business insights from their reserving data.



**Make the most of your experts.** Insurers should ask themselves if they are fully leveraging their actuarial expertise. If senior actuaries are spending time reconciling data, tracing formulae across complex spreadsheets, or regularly repeating other manual routines, then there are likely opportunities to optimise the process further.



**Bias awareness** is a key consideration for successful transformation. With humans being generally resistant to change, insurers who consciously look to overcome status quo bias and herd mentality will be better placed to navigate business transformations than those who don't.

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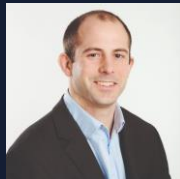
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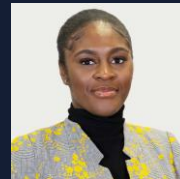
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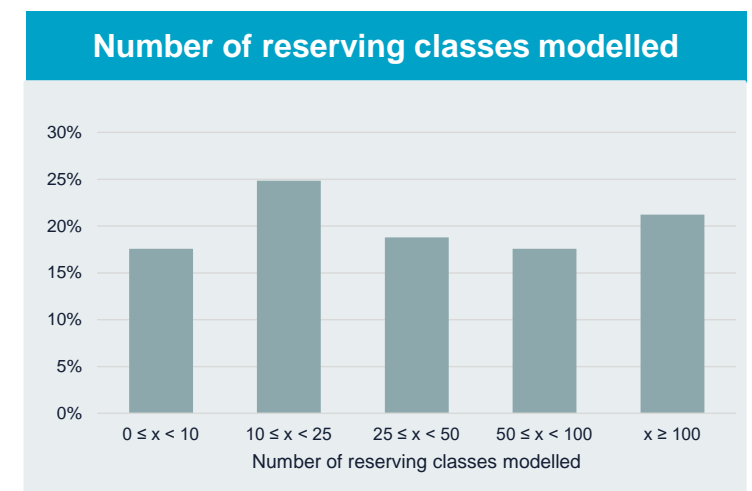
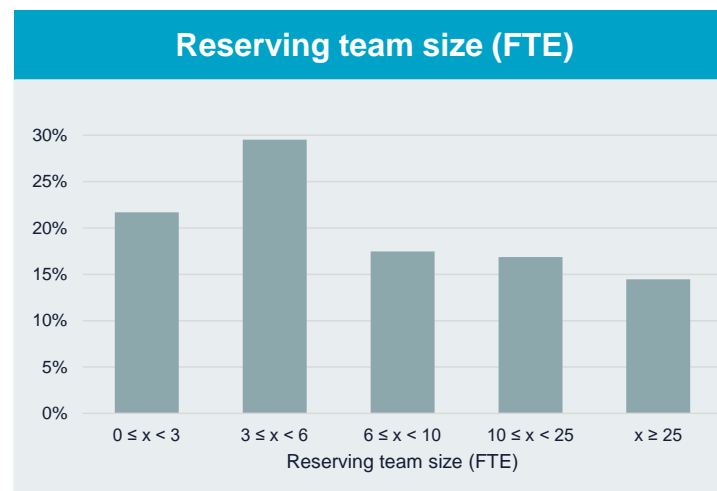
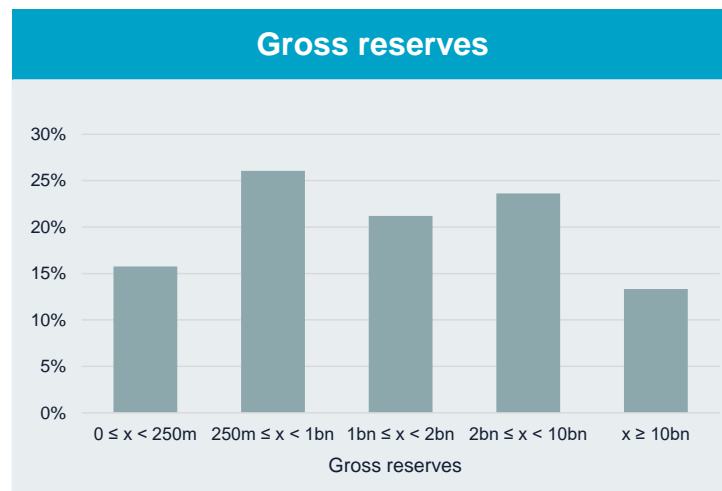
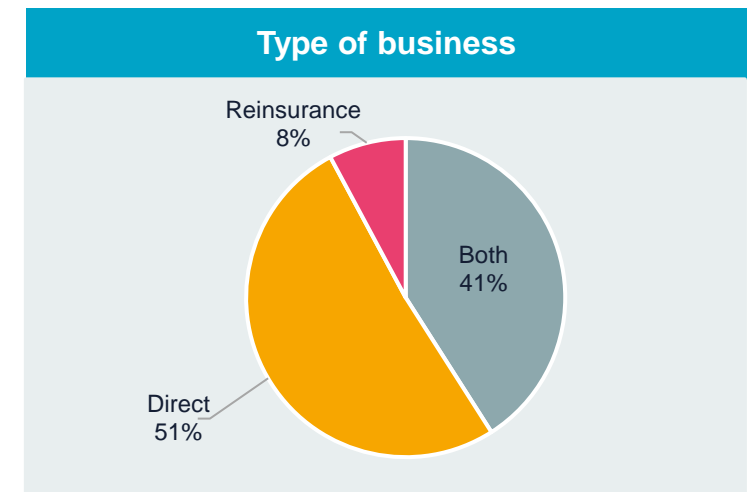
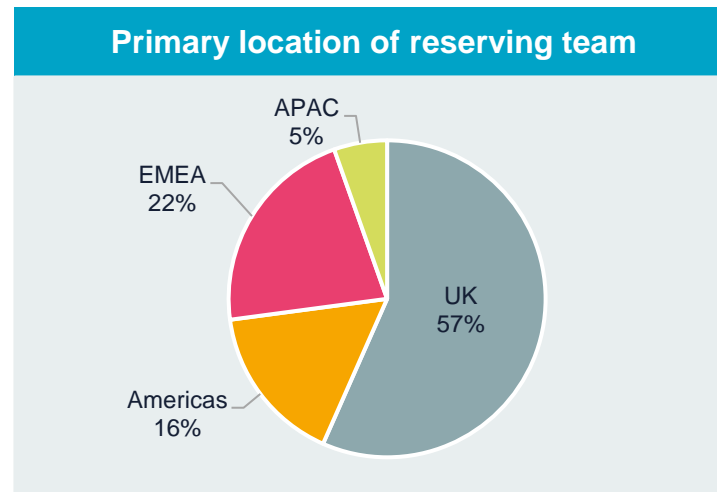
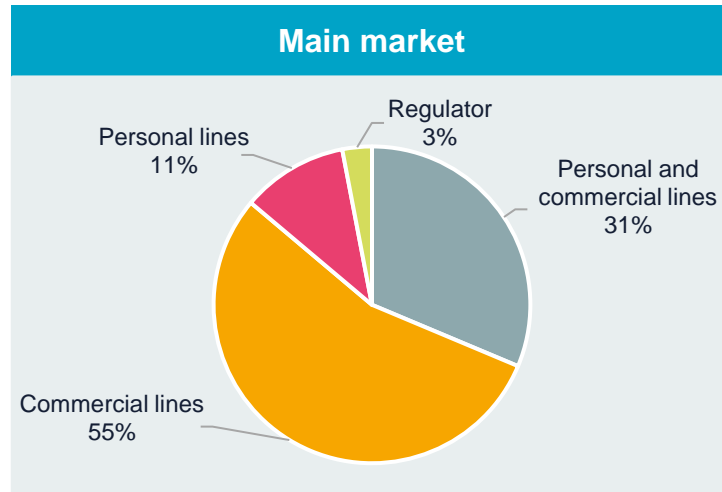
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# About our participants

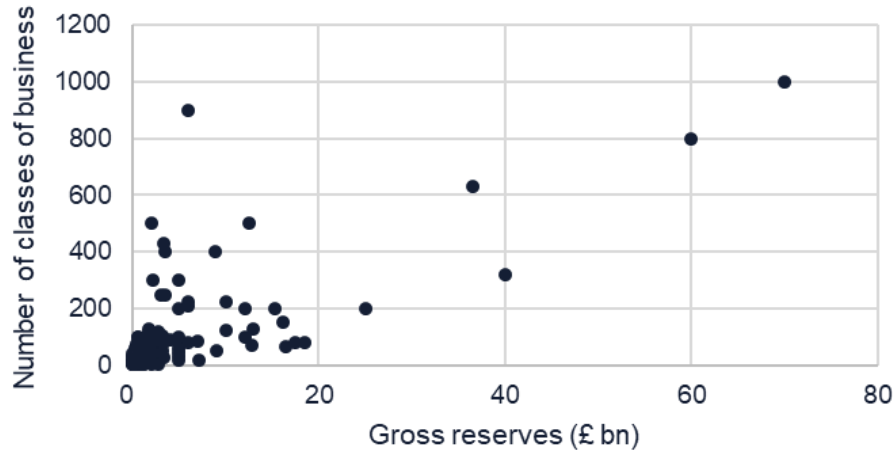
Our review covered 166 reserving teams, overseeing around £1tn gross reserves.



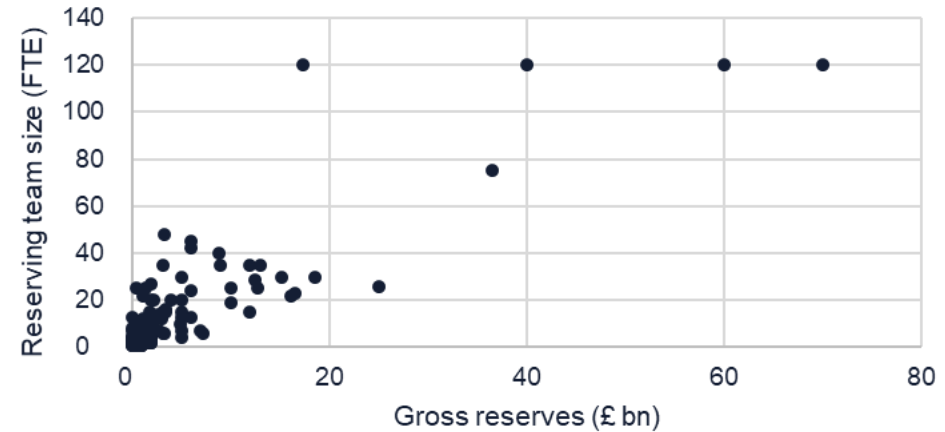


# About our participants (cont'd)

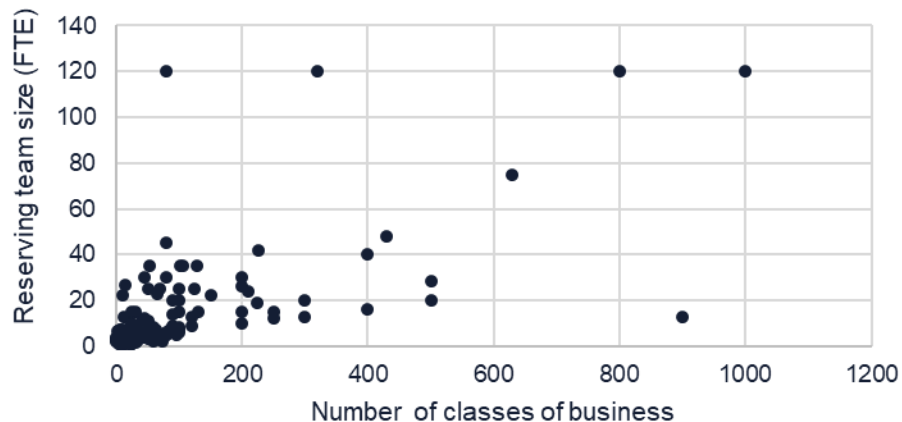
Number of classes vs gross reserves



Reserving team size vs gross reserves



Reserving team size vs classes of business



Metric	Weighted average	Unweighted average
Gross reserves / class	£46m	£71m
Gross reserves / FTE	£312m	£285m
Classes / FTE	6.8	8.2

The charts and table show how gross reserves, the number of full time equivalent (FTE) employees in reserving teams and the number of reserving classes being modelled compare. Note that we have excluded regulators from the charts and table to avoid participant data being identified and to reduce skew in the metrics.