

# CAS Ratemaking and Product Management Seminar

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## **Underwriting & Actuarial Interaction: A Panel and Audience Discussion**

March 11, 2009

# Agenda

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- Large Account Perspective
  - Kenneth Hoppe, Hudson Healthcare
- Reinsurer's Perspective
  - Stephen Meyer, Max Bermuda
- Commercial Accounts Perspective
  - Thomas Bayley, Towers Perrin



# Large Account Perspective

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# Underwriting and Actuarial Interaction – Large Accounts

## ❖ Typical Pricing of Large Accounts

- Target Accounts
  - Underwriting and/or Marketing works with Broker to identify target accounts
- Submissions
  - Received by underwriter
  - Reviewed for missing information: exposures, coverage, financials, loss history, etc.
- Rating
  - Data input into rating model (hopefully not rating by hand), classification selected
- Actuarial Review
  - If not too small or not a start-up, actuary may be asked to review
- Premium Selection
  - Limits and retentions options selected by Underwriter
  - Final debits and credits selected by Underwriter
  - Quote with premium sent out by Underwriter

# Underwriting and Actuarial Interaction – Large Accounts

## ❖ Typical Actuarial Involvement in Pricing Large Accounts

- Target Accounts
  - Prepares rate pages
  - Calculates off-balance factors in order to target classes selected by Underwriting and Marketing
- Submissions
  - None
- Rating
  - Checked when not calculating correctly
- Actuarial Review
  - Conduct separate loss rating to meet requirement in Underwriting Guidelines
- Premium Selection
  - May find out after the fact if actuary happens to run into underwriter

# Underwriting and Actuarial Interaction – Large Accounts

## ❖ How Could Actuarial Involvement Increase?

- Target Accounts
  - Work with Underwriting and Marketing to target accounts based on Profitability Analysis
- Submissions
  - Review for consistency of data
  - Discuss with underwriter the importance of data to risk assessment and therefore pricing
- Rating
  - Design rating models to be simple and efficient, capturing only the data critical to the premium
  - Help underwriters to understand both inputs and outputs
- Actuarial Review
  - Discuss with underwriter their impressions of account, likely competitor reactions, broker relationship, etc.
  - Final recommendations should address above issues
- Premium Selection
  - Suggest alternative retention and limit options that would address specific concerns of account's losses and allow for more competitive pricing

# Underwriting and Actuarial Interaction – Large Accounts

## ❖ Examples Where Interaction Can Be Improved When Underwriters Say:

- “I need your review by 2 p.m. this afternoon. Underwriting Guidelines require actuarial review.”
- “I didn’t send the account for review because there is no loss history. There is nothing for the actuary to review.”
- “I already declined the account because of too many losses.”
- “I used the class Miscellaneous for all the exposures to make the pricing easier.”
- “I had actuarial review the account last year and the pricing was not competitive. I rated it myself this year in order to write it.”

# Underwriting and Actuarial Interaction – Large Accounts

## ❖ “Do’s and Don’ts” to Increase Impact on Pricing

- Do develop pricing tools that are easy to use and are understood by the underwriters.
- Do help evaluate the exposures used for pricing. Help understand what is being insured.
- Do discuss competition and assumptions necessary to make pricing competitive.
- Do help write business by finding the better priced business. (“There are no bad risks, only those badly priced.”)
- Do rigorously measure the use of the rating tools and price levels.
- Don’t become a box to be checked, but ignored.
- Don’t become a calculator of impacts. Do give input.



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# Reinsurer's Perspective

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# Underwriting Audits

- Typical Audit Schedule:
  - Overview Meeting
  - File Review
  - Lunch with Client (Broker)
- Possibly you'll have dinner the night before or after
  - File Review and “Huddle”
  - Wrap Up
- Total time actually spent reviewing files is frequently only 3 – 4 hours.



# Underwriting Audits

## - Typical Audit Schedule:

### - Overview Meeting

- Meet the opposing team
- Discussion of market (competitors, legal, etc.)
- Inflation expectations (frequency and severity)
- Target business
  - Compare to submission (U/W rarely do this!)



# Underwriting Audits

## - Meet with Client Actuary:

(There is important actuarial work to be done, but resist the U/W's (or your own) desire to send you off with the other actuary forever and thus keep you from file review. The underwriter does not realize your value!)

## - Review rate change monitoring tools.

- Overall rate changes
- Calculation of average debit / credit

## - Review sources of ILF, Trend, Class, etc. factors

- Insights into any changes that may impact loss development such as case reserving, legal changes...



# Underwriting Audits

- Meet with Client Actuary:
- Ask actuary to walk you through the rate review process, or pricing of an account or two, etc.:
  - May reveal unknown (to the actuary) biases
    - Analysis assumptions may be overly aggressive, or
    - He/she may see their main role is to stop deals.
  - Will give insight into thought process
  - You may learn new techniques!



# Underwriting Audits

## - File Review:

### - Much should be left to the underwriter:

- Completed Apps, Loss Histories, Loss Control Reports, MVRs, Financials, Policy Forms, Endorsements, Classification, Selection...

### - The actuary is better at determining:

- Are they writing accounts appropriate to rating plan?\*
- Are they applying the rating plan correctly?\*
- Are they watching the aggregates on retentions?
- Are they calculating the ceded premium correctly?



# Underwriting Audits

## - File Review:

- Are they writing accounts appropriate to their rating plan:

- Are they writing large accounts in a rating plan geared to manual rating, or small accounts in a plan geared to experience rating?

- Many start-ups modify competitor rating plans, calculating an off-balance based on an assumed (industry) profile, but are they writing accounts that are like that profile?

- Are they writing accounts that are overweighted in the classes in which they chose lower factors?



# Underwriting Audits

- File Review:

- **Are they applying the rating plan correctly:**

- Many field underwriters/UTAs don't really understand the rating plan, they just fill in the rating sheets the way they were trained.

- Errors/assumptions propagate through generations

- They often don't use new, blank rating sheets – just modify an old one – creating and propagating errors

- Are they using the current rating plan?

- Do they apply ILF and deductible credits correctly?

- Are schedule debits/credits applied correctly?



# Underwriting Audits

## - File /Actuarial Analysis Review:

- Is the analysis appropriate to the account/data?
- Does it account for items like case reserve strength?
- Many companies rate the excess based upon a burn rating of a lower excess layer:
  - Is it appropriate for this account given the number of years of historical data available?
  - Try rating a lower excess layer or primary
- Do they recognize incidental exposures?



# Underwriting Audits

- Additional Thoughts:
  - Ask to see some deals they didn't write
- May have to request before audit so they have files
  - You will find errors:
- I don't point out errors in wrap up (defer to U/W.)
- Look for patterns that might indicate bias
  - (my opinion) They should “push the envelope” to write some accounts, but not too often.
  - The other companies you reinsure is sensitive information (defer to underwriter.)



# Meetings with Brokers / Clients

## - Brokers:

- U/W frequently don't fully understand what you are looking for
  - Debit/Credit information (what reflects exposure vs. what reduces rate charged.)
  - What makes a good price index
  - How average debit / credit should be calculated
    - New Products / Innovations in the market:
      - If broker actuary is there, may provide more rigorous discussion of pricing aspects
        - Broker's analysis provides lower bound to pricing!



# Meetings with Brokers / Clients

## - Brokers:

- (Reinsurance) Read the proposed contract
  - Looks hideous, but most sections are fairly boilerplate
- ALE eroding/pro rata?
- Clash included?
- Treatment of systemic losses?
  - Potential errors in broker's analysis:
- Don't say "I picked 1.04 LDF verses 1.03..."
- Restatement of limits, treatment of ALE, etc.



# Meetings with Brokers / Clients

## - Clients:

- Get to know the client – can design programs tailored to their needs
  - Often very little work since you'd analyze client anyway, but client familiarity helps you to “think out of the box”.
    - If client's actuary is there, you are there to interpret his/her comments
      - If client's actuary is not there, often results in an invitation to call directly
      - If client uses consultants they often appreciate your insights into the consultant's analysis and/or what they should ask for from their consultants

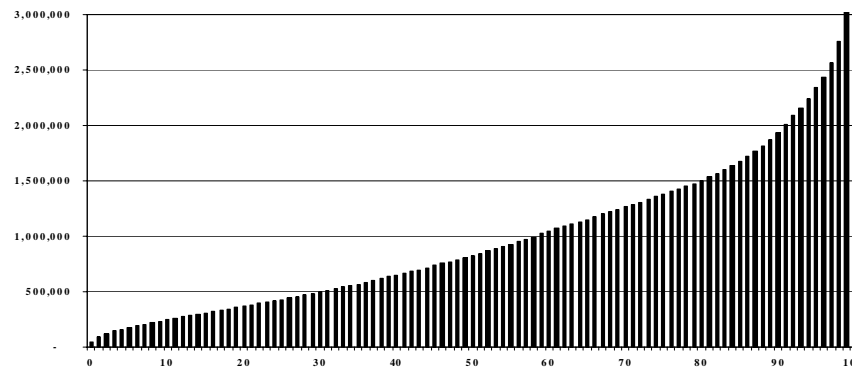


# Meetings with Brokers / Clients

## - Clients:

- Actuaries can play an important role when delivering news of a rate increase.
- Graphs are well received.

Example RRG - Setting Agg on Retention



- Clients often just want to talk (defer to underwriter.)





# Commercial Account Perspective

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## Small Business Market – Pricing Reviews

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- Many parts to the review
  - Analysis by class
  - Analysis by territory
  - Analysis by segment
  - Analysis by company (preferred, standard, non-standard)
- Competitive analysis
- Rate proposal review
- Filing preparation

## Small Business Market – Product Review

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- New product development vs. product redesign
- Competitive analysis plays a big role
- Need input from all parts of organization
  - Actuarial
  - Underwriting
  - Field marketing and underwriting
  - Claim
  - Systems
- Implementation plan – roll out plan of new/redesigned product to all states.

## The Actuary's Role – various forms

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- There are three main forms in which the actuary participates in the small business reviews
  - The corporate or division actuary – responsible for the monitoring of profitability for all lines of business; interacts with the line actuaries
  - The line actuary – responsible for the monitoring of profitability for the line and actuarial input into pricing/product decisions; interacts with the product managers and field managers
  - The product manager – responsible for the profitability and production for the line and ultimate decision maker on price of the products; interacts with all parties that have input into the pricing/product decisions



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# Questions?

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