

# Considerations for Underwriting Audits

**CAS Annual Meeting – Seattle**

**November 19, 2008**

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# Underwriting Audits

- Objectives
- Sponsors
- Potential Outcomes
- Audit team
- Key factors for success
- Obstacles and pitfalls
- Soft market considerations
- Key issues

# Objectives

- Understand book of business
- Evaluate underwriting strategies - as executed in underwriting and related operations
- Test adherence to company underwriting guidelines and controls
- Evaluate underwriting team decision practices and processes
- Evaluate sources of business
- Identify needed changes
- Assess worthiness of “investment”

# Sponsors

- Primary company management
- Re-insurers
- Investors
- Underwriting agencies
- Alternative market entities
- Law firms
- Governments

# Potential Outcomes

- Evaluate exposure to loss and risk
- Identify needed improvements in underwriting, risk selection, pricing, agency management
- Provide focus for Claims reviews
- Implications for reinsurance program
- Identify issues that affect reserving
- Predict future AY results
- Enable management action

# Audit Team

- Company underwriters
- Reinsurance underwriters
- Consultants
- Actuaries
- Accounting, Loss Control, Claims may participate

# Key Factors for Success

- Focused goals
- Thorough preparation
- Objectivity
- Audit team coordination
- Access to key players
- File sample selection (random vs. stratified) and size (to ensure credibility)

# Key Factors for Success (cont'd)

- Depth of analysis
- Communication of findings
- Follow through and up
- Audit team coordination, calibration, consistency
- Peer review



# Obstacles and Pitfalls

- Broad agenda
- Inadequate depth of review (leads to premature conclusions)
- Lack of coordination among disciplines
- Unwillingness to deliver real findings
- Inadequate follow through and up
- Lack of management commitment

# Soft Market Considerations

- Restricted availability of and access to underwriting and pricing data
- Decreased emphasis on exposure evaluation
- Expansion of coverage
- Expansion of limits and attachment points
- Weaker pricing of accounts – rates and exposures

# Soft Market Considerations (cont'd)

- Proliferation of rating programs and applied discounts
- Failure to measure non-rate actions
- Compromised price monitoring systems
- Diminution in quality of risks selected and bound
- Pitfalls and obstacles magnified

# Key Issues

- Plan for each audit
- Analyze business in depth
- Ensure consistent standards for evaluation
- Evaluate underwriting team
- Communicate findings to constituents
- Pursue needed improvements
- Build outcomes into performance monitoring and planning processes