



CAGNY December 2007: Pricing in a Soft Market

Bill Miller
FCAS, MAAA
SVP & Actuary
ACE INA

Top 10 most common comments from Underwriters

- 1) "Is there any room to reduce your loss pick? The broker says other carriers are coming in much lower. They must know something that you don't."
- 2) "I realize I just got the data today but this is a great opportunity and we need to quote this today"
- 3) "Oh, did you want me to enter the oldest years into the loss rating model? I know they have the large losses but that won't happen again."
- 4) "Do we have to enter the large losses separately or can we just enter one large loss equal to the sum of all large losses?"
- 5) "I just don't understand why you would apply development to losses that have been paid already"
- 6) "I realize all the historical years look bad, the business has been re-underwritten and you can expect to see major improvement next year."
- 7) "If it wasn't for the large losses this program would look GREAT!"
- 8) "You have got to be a team player! Work with us!"
- 9) "If you set prices like this we won't write any business and we will all be out of a job"
- 10) Nothing - the underwriters stop talking to you!

Pricing

- Individual Deal Pricing
- Monitoring Overall Adequacy
- Program Structures
- Terms and Conditions
- Impact of availability and price of reinsurance

Impact of the Soft Market on Pricing

- Information ↓
- Coverage ↑
- Pricing ↓
- Attachment Points ↓
- Capacity/Limits ↑
- Attractive
Reinsurance ↑
- Underwriting ↓

Individual Deal Pricing

- Dealing with the Pressure
 - Underwriters
 - Brokers
 - Time
 - Data Quality
 - Resources
 - Management

Individual Deal Pricing

➤ Issues

- Data Quality – missing key information
- Case reserving concerns – adjuster resources, authority levels, process changes
- Only the positive information is presented
- Is Account/Program in your comfort zone?

Monitoring Overall Adequacy

- Rate change
- Price adequacy
- New v renewal
- Impact of
 - Program structure changes
 - Terms and conditions changes
 - Reinsurance

Program Structure Changes

- **ALAE Treatment**
- **Retentions/Attachment points**
- **Aggregates**
- **Policy Limits**

Program Structure Changes

ALAE Treatment

- **This can have significant impact**
- **May not have ALAE split out**
- **Combined with expanded coverage, not in historical experience**
- **External information - ISO curves, Reinsurance**

Term and Conditions

Expanding coverage by removing hard market exclusions

EXAMPLES

- Insured Handles Claims or has say in TPA
- Inclusion of lower hazard professional E&O (e.g. printers, broadcasters)
- Weakening of pollution exclusion
- Removal of Silica Exclusion (typically in accounts where exposure would not be expected to exist)
- Choice of counsel

Must Attempt to reflect changes in price monitor

Reinsurance Impact

- Focus on gross profitability
- Maintain underwriting discipline
- Use of reinsurance no substitute for proper underwriting
- Only good short term strategy
- Your track record stays with you
- Markets can change fast

Bridge between Pricing & Reserving



Evaluation of Pricing/Parameters

Pricing/Price Monitoring



Initial Estimates for Reserving



Takeaways

- Have courage out there - Stick to your guns
- Communicate and document your position
- Monitor price adequacy and changes
- Demand that underwriters support their position with facts and figures
- In or out of the comfort zone
- maintain the link between pricing and reserving
- Pick your battles