


**Underwriting and Actuarial
Interaction:**

**The Role of the Actuary in the
Underwriting Process**

Stephen Meyer, FCAS - Max Bermuda
Ira Robbin, PhD - Endurance
James Ely, FCAS – Artex Risk Solutions



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Agenda

- The role and value of the actuary in underwriting audits.
 - Ira to lead, Steve and James to comment.
- The value of the actuary in meetings with brokers/clients
 - Steve to lead, James and Ira to comment
- The role of the actuary in setting underwriting strategies.
 - James to lead, Ira and Steve to comment

These discuss potential ways to increase your contribution to your company. They also implicitly present reasons you can show to your company for why you should be included in these processes.

The Role of the Actuary in Auditing *Actuaries on Audits*



Actuaries on Audits Who and Why?

- Who is the being audited?
 - Reinsured (Cedant)
 - MGA or MGU
 - UW Unit/Branch within your company
 - Merger/Acquisition prospect
- Purpose
 - Impact on decisions
 - Possible need for multiple reports
- Maintain integrity of audit process
- Advantage of on-site audit
 - More immediate access to files and personnel



Actuaries on Audits
Audit Players

- Your team
 - Underwriter
 - Auditor
 - IT/Systems/Operations
 - Claims/Actuarial/Finance
 - Legal/HR
- Others
 - Agents/Brokers/Consultants
 - Direct insurer/fronting carrier reps



Actuaries on Audits
What is the Actuarial Role?

- Define purpose
 - Why do they want an actuary there?
 - Why should they want an actuary there?
 - What is the actuary uniquely qualified to do?
- List items the actuary should report on
- Refuse to act as an extra file reviewer
 - Usually the actuary does not work for the underwriter or the auditor

Actuaries on Audits
Pre-planning

- Review prior audit reports and recs
- Draft a report format before you go, but leave out the adjectives and scores
- List items you want to report on
- Make advance requests
 - Price monitors
 - Pricing tools
 - Reserve studies
- Schedule special meeting with the client's actuarial support



Actuaries on Audits
Communications

- Make all requests through your underwriter or auditor.
 - Do not act on your own
 - Do not open separate lines of communication with the broker or client or client actuary
- Speak up, ask questions, let them talk
 - Ask top people for context and history
 - Find the techie for inside details
- Be positive, intelligible, and professional
 - Be informative and direct
 - Don't bore them with actuarial jargon.
 - Don't argue with the client!

Actuaries on Audits
Audit Schedule for the Actuary

- Overview Meeting
- File review
- Walk-through underwriting process with client UW or TA.
- Meet with client/broker actuary
- Share conclusions/questions with audit team
- Wrap-up meeting with client

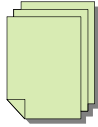
Actuaries on Audits
Overview Kick-off Meeting

- Meet all players
 - Exchange cards
- Opening discussion
 - State of market
 - Major corporate changes
- Identify key issues
- Actuarial comments
 - Highlight a few key concerns (rates, LRs)
 - Express interest in learning more

Actuaries on Audits

File Review

- Look through the whole file
 - Understand file organization
 - Prevent embarrassing mistakes
- Review/print key documents
- Sample different accounts
 - Different offices/LOBs
 - Declined/ non-renewed accounts
- Learn client approach to business
 - Jargon and names of forms
- Evaluate feasibility of capturing new data or generating new statistics if needed



Actuaries on Audits

What's in a File?

- Completed App with Named Insureds
 - Financials
- Projected Exposures by Class
- Loss Control Report
 - Follow-ups
- Policy Forms and Endorsements,
- Correspondence
- Loss History and Large Loss Reports
- Rating tool input and output
 - Experience and schedule mod support
- UW analysis, approvals and peer reviews

Actuaries on Audits

UW Process Walk-through

- Understand the process
 - Who does what?
 - Who signs off on what?
- How sophisticated is the system?
 - Ask TAs about workarounds
- Evaluate personnel/system interaction
 - Does system enable or frustrate UWs?
 - Do TAs know what to enter?
- Assess likely data quality



Actuaries on Audits

Meeting with Client's Actuary

- Actuarial meeting - your show
 - Invite others to attend, don't let them run it.
 - Some UWs will try to take over the meeting- others will ignore it
 - Ask if client wants to bring in additional people
 - Claims or Finance may add value
- Provide a 1 –page 3-5 bullet point agenda
- “Tee up” the client actuary on specifics topics
 - Don't give them an opportunity to free associate

Actuaries on Audits

Actuarial Support Overview

- Ask for summary of actuarial support
 - Internal vs outsourced vs broker
 - Rate filings
 - Reserve reviews
- Names and credentials of actuaries
 - Time with the client
- Who do the actuaries report to?
 - Are they allowed to come to an objective number?

Actuaries on Audits

Actuarial Discussion of Experience

- Review PY and AY experience
 - LR reported to date
 - prior 5 years
- Projections of ultimate
 - Client estimates
 - Actuarial studies from outside consultants
- Claims
 - Frequency and severity
 - Trends – new types of claims

Actuaries on Audits

Actuarial Discussion of Rates

- Rate change monitors
 - Monitoring tools and reports
 - Overall rate changes and average debit / credit
- Rate filings for admitted
 - Independently derived, following rate advisory organization loss costs, or me-too of another carrier
- LCMs
 - Do they vary by state/territory? Why?
- Parameters
 - Base rates, class factors, ILFs, trends
 - How do they compare to industry?

Actuaries on Audits

Discussion of Rating

- For each business, find out if actuary, UW, or TA does the ratings
 - Criteria for referral to actuarial
 - CAT Modeling or other inputs?
- Assess role of client actuary
 - Fully involved or marginal
- Ask about new tools/systems
 - Learn about unique algorithms, advanced methods
- Testing and impact
 - Was model tested on existing book?



Actuaries on Audits

Share Opinions with Audit Team

- State opinions concisely
- Overall: “Actuarial support is (more than adequate, adequate, inadequate) for the business”
- Identify key strengths and weaknesses
 - Quality of technical personnel
 - Rating systems
- Opine on LR estimates
- List major and minor detail items
- Supply 4-5 bullets for Wrap-up session

Actuaries on Audits
Wrap-up Session

- Try to support UW and Audit team position
- Mention positives and negatives
 - Call it straight down the middle
 - Don't reveal more than you should
- Don't let your silence be taken for assent
 - Disagree tactfully using positive phrasing
- Avoid long-winded actuarial discourse
- Suggest follow-up on technical issues
 - Do not debate equations/parameters

Actuaries on Audits
Post Audit

- Write actuarial section of audit reports
 - Write a draft promptly
 - A week later you may not remember
 - Label each report
 - Confidential –Internal to Your Company
 - Audit Report for Client X
- Act on follow-up list
 - If you are on the hook to send material to the client, send a draft or status report to your UW within a week or two.

Large Account Pricing
Underwriting Audits

- Internal File Review:
 - Many companies now have systems that allow you to review accounts remotely.
 - May be unannounced (audit and results)
 - The purpose is not to review risk selection; it is to review adherence to the rating plan.

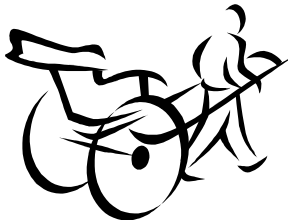
Large Account Pricing
Underwriting Audits

- Internal File Review:
- **Is the rating plan applied 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 Audit Examples

- Ice road truckers
- Shade tree mechanics
- Surgery centers

▪ **The role and value of the actuary in meetings with brokers and clients.**



Actuarial Meetings with Brokers / Clients

(Roughly Ranked by the importance of the opportunity)

- Main Opportunities

- 1) Broker calls
- 1) Renewal meetings
- 1) New business meetings
- 4) Mid-term 'state-of-account' meetings

- Lesser Opportunities

- Loss control visits
- Premium audit visits

Meeting the Broker

- Establish a personal relationship with broker
 - Broker will now be corresponding with a friend/colleague instead of an email address or "the actuary" in U/W letter.
 - This also increases your own "name currency"
- Obtain "first person" reply to questions
 - Generally better than through 3rd party (your underwriter)
 - Actuary must have reviewed submission

Meeting the Broker

- New Products / Innovations in the market:
 - Keep up with "state of the art" products and their pricing
 - If the broker's actuary is there, he/she may provide more rigorous discussion of pricing aspects
 - Data used
 - Assumptions
 - Treatment of issues like systemic, Jones Act, etc.
 - Broker's analysis provides a lower bound to pricing!

Meeting the Client New Business Meetings

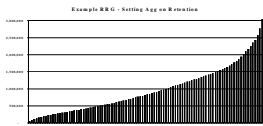
- Get to know the client so you can design programs tailored to their needs
 - Often very little work since you'd analyze client anyway, but you can make the program look tailored, and client familiarity may help to "think out of the box".
- Your Underwriter may shape the product based upon their personal style when they discuss with you; your meeting gives you a direct feel for what the client wants.
 - You must balance "Broker Likes" with "U/W likes".

Meeting the Client New Business Meetings

- If client's actuary is not there, this meeting often results in an invitation to call directly.
- If the client uses consultants they often appreciate your insights into the consultant's analysis and/or what they should ask for from their consultants.
 - You become a resource to the client.

Meeting the Client Renewal Meetings

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



- Clients often just want to talk (defer to U/writer.)

Meeting the Broker or Client

- Whether a broker call, new/renewal or mid-term:
 - All opportunities to increase understanding of client's industry:
 - Protocols, new/old exposures, risk management, etc
 - You gain understanding of marketplace.
 - Increases your participation/partnership in the underwriting process (not just the pricing machine.)
 - You gain professional visibility with brokers/consults
 - You develop public speaking presentation skills.

Meeting the Broker or Client

- Tips:
 - Avoid overly detailed discussion of your analysis or consultant's work.
 - "I think you should pick 1.05 tail instead of 1.03..." will result in eyes immediately glazing over.
 - Provide details in separate email.
 - Know the sophistication of your audience beforehand and gear your presentation to it.
 - Avoid direct contradiction of your underwriter (Until/unless you have established your value.)

Actuary's Role in Developing Underwriting Strategy

- Strategy is the area where actuaries begin to influence operational elements other than price.

Basic Strategies

- Low Cost / Commodity
- Specialization

Specialization

– ‘Successful strategy involves modifying internal company operations or external industry characteristics to enhance the alignment between the firm and its environment’

[Sholom Felblum – The Actuary as Strategist]

Company Capabilities

- Underwriting expertise
- Rating plans and policy forms
- Capacity (specific and aggregate)
- Systems
- Service capabilities

Risk Characteristics

- Policy size
- Severity potential
- Homogeneity
- Dispersion

Real World Examples

1. High Value Homeowners
2. Mobile home
3. PEO Workers Compensation

Actuary's Role in Developing Strategy – Large Accounts Perspective

- **How Could Actuarial Involvement Improve?**
 - Identify Account types or states
 - Develop a submission template so brokers/clients get consistent feedback
 - Design pricing models that target the characteristics of the accounts you want
 - Alternative pricing
 - Suggest multiple retention and limit options.
