CS-19
Rate Monitoring

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The Company

- Low Frequency / High Severity

- Relatively small number of policies

- Lines of Business
  - Excess Liability
  - Professional Lines
  - Excess Property
  - Political Risk

Excess Liability

- ### Coverage/Form
  - Occurrence First Reported
  - Claims-Made
  - Occurrence Follow Form

- ### Industry Segment
  - Pharmaceuticals
  - Petro-Chemical
  - Consumer Goods
  - Transportation

- ### Product
  - Up to $150m in Limit
  - Attachment above $100m

Professional Lines

- ◆ Coverage/Form
  - CODA
  - A-Side Follow Form
  - ABC
  - E&O

- ◆ Industry Segment
  - Fortune 1000

- ◆ Product
  - Up to $75m in Limit
  - Attachment above $100m

Monitoring Analytics

- Monthly Process

- Rate Change

  Excludes
  - New Business
  - Multi Year Policies
  - Possibly Outliers
  - One-time Adjustments (e.g. Additional Premiums)

- Rate Adequacy
  - New and Renewal Business

Rate Change

- Phase 1 - Written Premium Report
  - Produced one week prior to month end from internal systems
  - Separately for each line of business
  - Lists gross premium transactions that occurred during the calendar month
  - Pass to underwriters to enter detailed characteristics of policies

- Phase 2: Underwriter Input
  - Expiring vs. Renewing Premium

  Quantify changes in
  - Limits & Attachments (ILFs)
  - Exposure
  - Terms & Condition
  - Coverage
  - Other

Rate Change

- ◆ Phase 3 - Analysis
  - Check for abnormal or unusual rate changes
  - Premium ties with Finance reports

  Information is broken down by
  - Company
  - Industry code (Professional Lines) or Business Class (Excess Liability)

Rate Change

- Example
  - Consolidated exhibit is created
  - Compares Actual to Planned Rate Change
  - Summarizes rate Changes by Month, Quarter and YTD

	Renewal GWP	New GWP	Other GWP	Total GWP	Gross Renewal Price Change	Plan Price Change
April 2009						
Prof. Lines - TOTAL	14,000	1,700	1,000	15,700	5.3%	5.4%
Product A	6,000	200	-	6,200	3.4%	4.0%
Product B	2,500	1,250	-	3,750	-1.6%	0.0%
Product C	4,000	250	-	4,250	12.7%	10.0%
Product D	1,500	-	-	1,500	4.7%	7.5%

(Values in $000s)

Rate Adequacy

♦ Target Rate per Mille

   ▪ Ratio of Gross Premium to Total Limit
   ▪ Set at the beginning of the year
   ▪ Developed by business class/industry group

   Based on
   ▪ Historical Ultimate Losses
   ▪ Historical Pricing Information (adjusted for trend)
   ▪ Using on-Level Premiums

   Adjusted for
   ▪ Changes in Limit and Attachment
   ▪ Inflation

Rate Adequacy

♦ **Compares Actual RpM to Target**
  - Includes All Business (New, Renewal, APs, etc.)

  Adjusts Monthly For
  - Limit and Attachment Changes
  - Change in Mix of Business

Rate Adequacy

- **Phase 1 – Data Extraction**
  - Create a Premium Extract Table

    Group Data by
  - Department
  - Policy Year and Month
  - Sum Gross Premium and Total Limits

- **Phase 2: Calculate Individual RpMs**
  - Each Policy allocated to proper Industry Code/Business Class

Rate Adequacy

♦ Phase 3 - Analysis

- Compare Actual RpMs to Target by Industry Code/Business Class
- Calculate Overall RpM based on each classes' % of Total GWP

Consider Anomalies/Outliers
- Policies that attach over a certain level (e.g. 1 Billion)
- Policies with Extremely Low/High RpMs

Rate Adequacy

- Example
  - Actual vs Target RpMs
  - Total and separately for New and Renewals
  - Show Current Month and Cumulative YTD

	TOTAL - MONTHLY			CLASS A					CLASS B				
2009	**Target RpM**	**Actual RpM**	**Rate Adequacy**	**Target RpM**	**Actual GWP**	**Actual % of Book**	**Actual RpM**	**Rate Adequacy**	**Target RpM**	**Actual GWP**	**Actual % of Book**	**Actual RpM**	**Rate Adequacy**
January	$ 5,800	$ 6,348	109%	$ 4,000	$ 1,500	55%	$ 5,000	125%	$ 8,000	$ 1,227	45%	$ 7,995	100%
February	$ 5,405	$ 6,020	111%	$ 4,025	$ 900	60%	$ 4,000	99%	$ 7,475	$ 600	40%	$ 9,050	121%
March	$ 7,563	$ 8,209	109%	$ 6,250	$ 1,800	65%	$ 7,500	120%	$ 10,000	$ 969	35%	$ 9,525	95%
April	$ 8,352	$ 7,880	94%	$ 7,800	$ 1,200	54%	$ 6,500	83%	$ 9,000	$ 1,022	46%	$ 9,500	106%

(Values in $s)

Key Points/Issues

♦ Actuaries cannot operate in a bubble

- Interaction with Underwriting and their by-in is crucial
- Management Support is needed
- Timing is Everything

Questions?