

# Casualty Actuarial Society

Underwriting Cycles – Are They Avoidable

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# Cycle Drivers

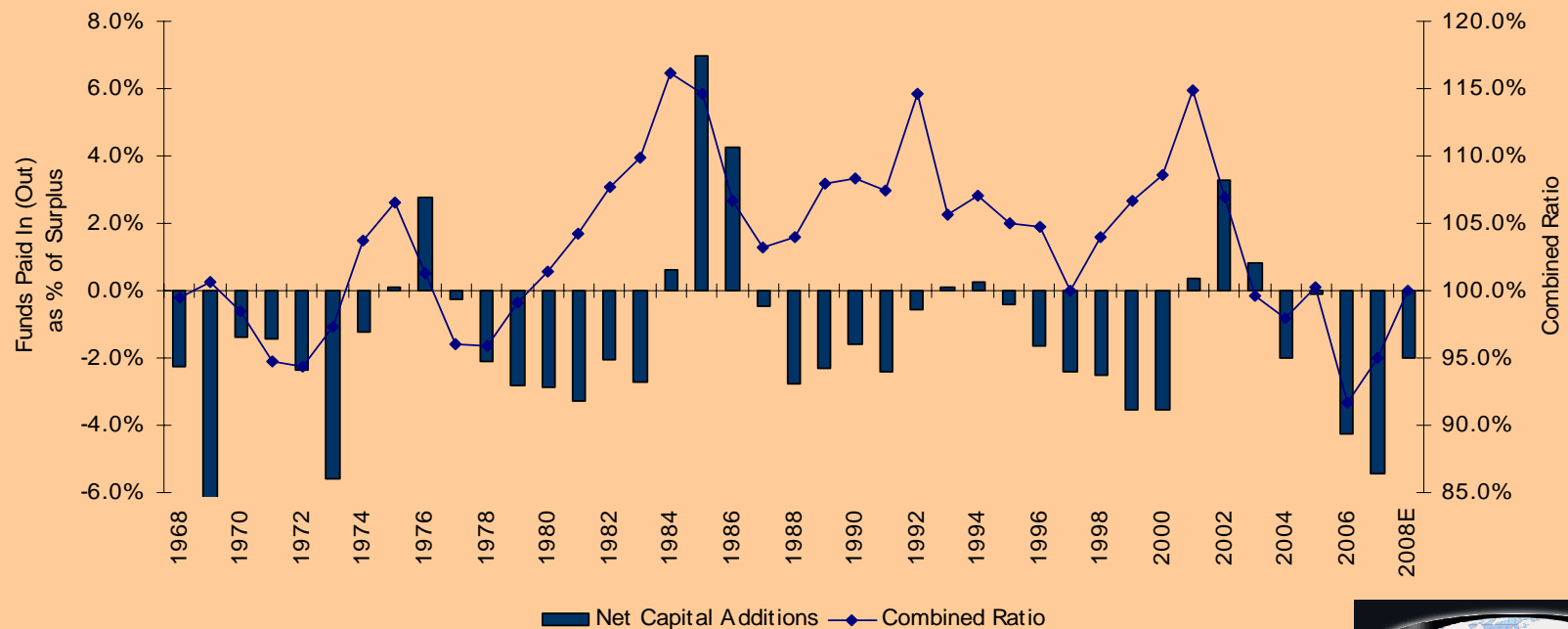
- ◆ **Excess Capital**
- ◆ **Investment Returns**
- ◆ **Underwriting Profitability**
- ◆ **Return on Equity/Surplus**



# P&C cycle and capital flows

- ◆ Historically, capital enters the P&C industry after high combined ratios
- ◆ U/W Results deteriorate during times of Net Capital Outflow
  - ◆ Profitability lagged the actual pricing trends due to Reserving
  - ◆ New capital requires improved returns

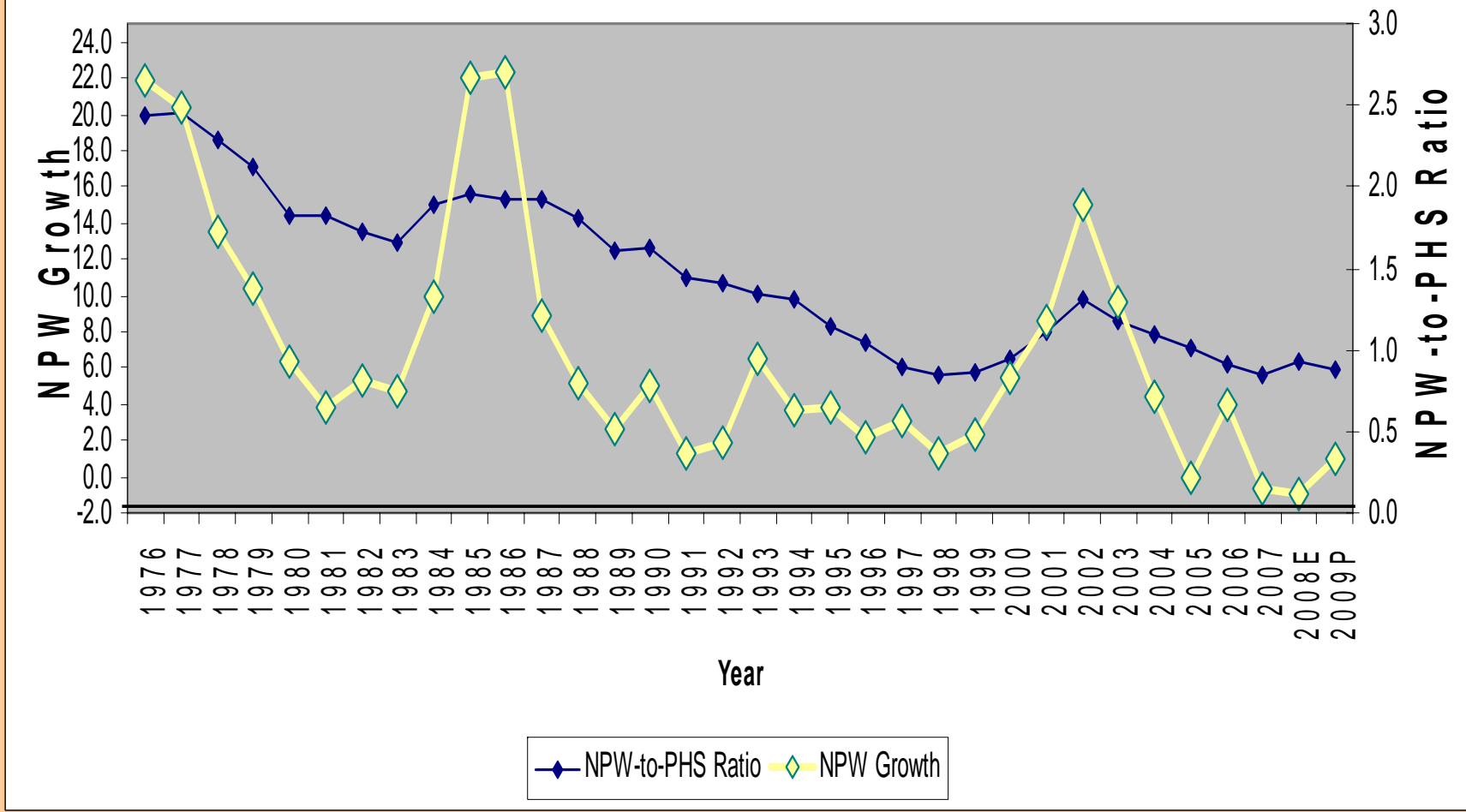
Net Capital Additions as % of Policyholders' Surplus vs. Total Industry Combined Ratios



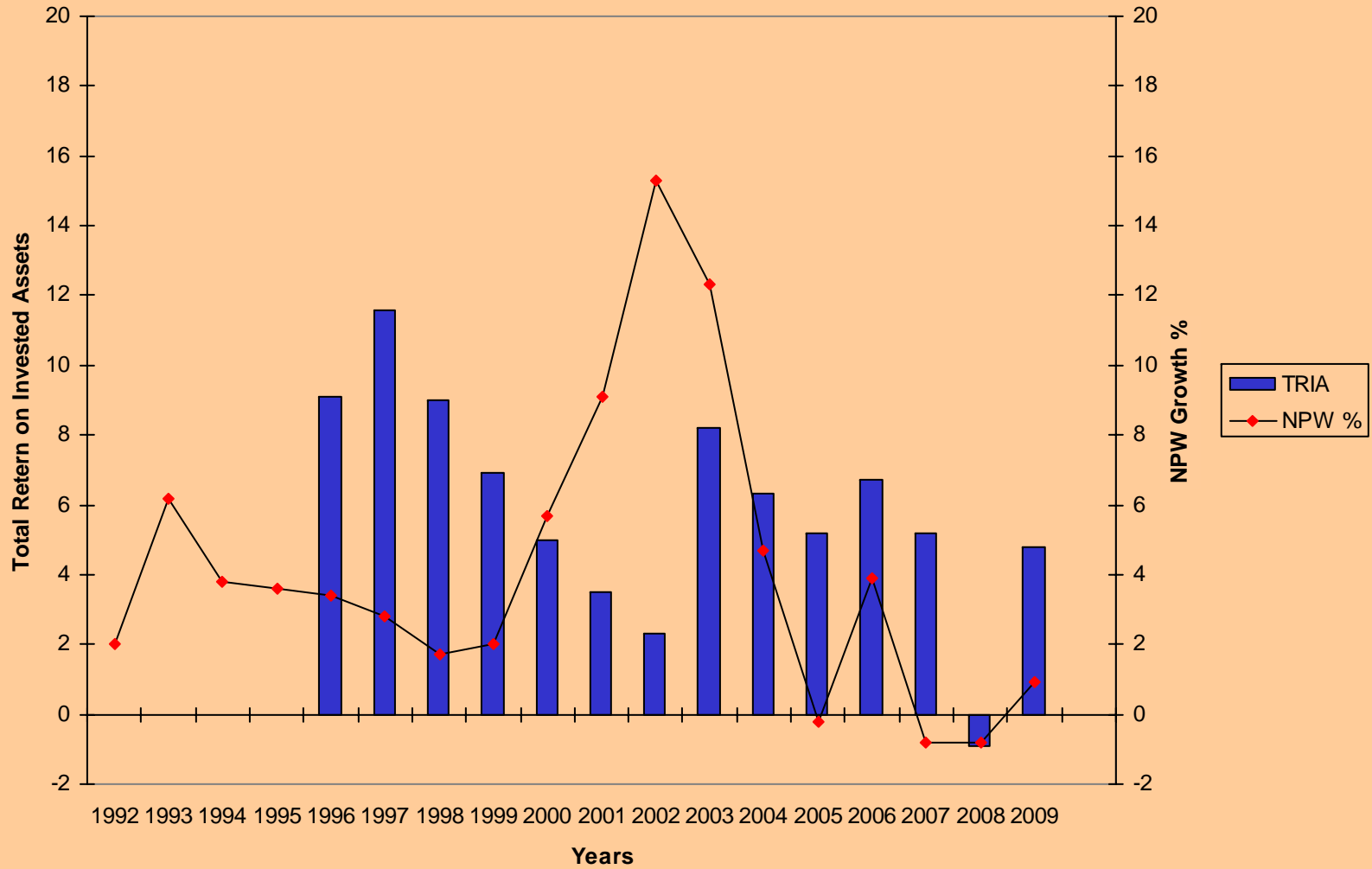
Source: A. M. Best Aggregates & Averages and FPK estimates.



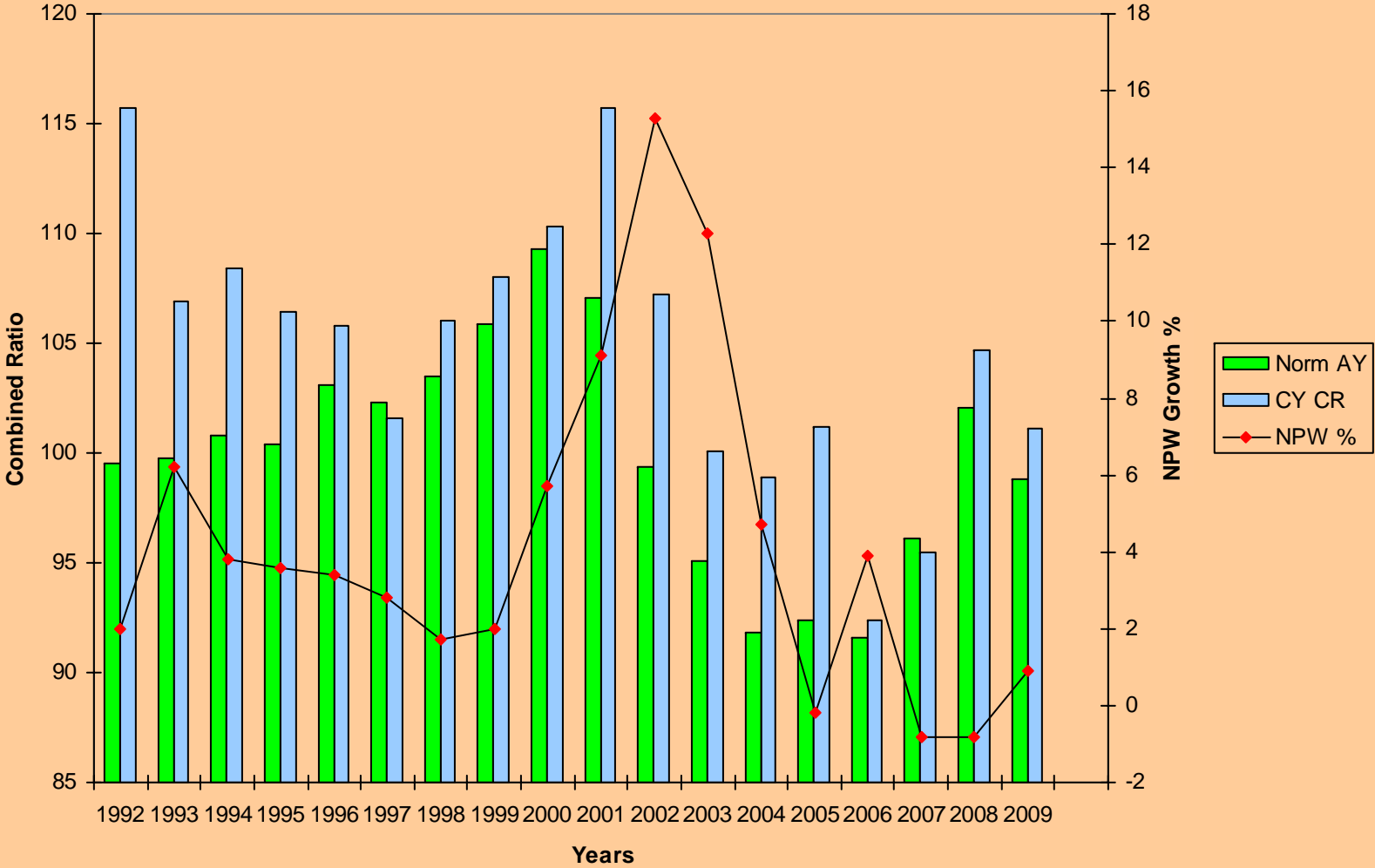
## U.S. Property/Casualty Industry



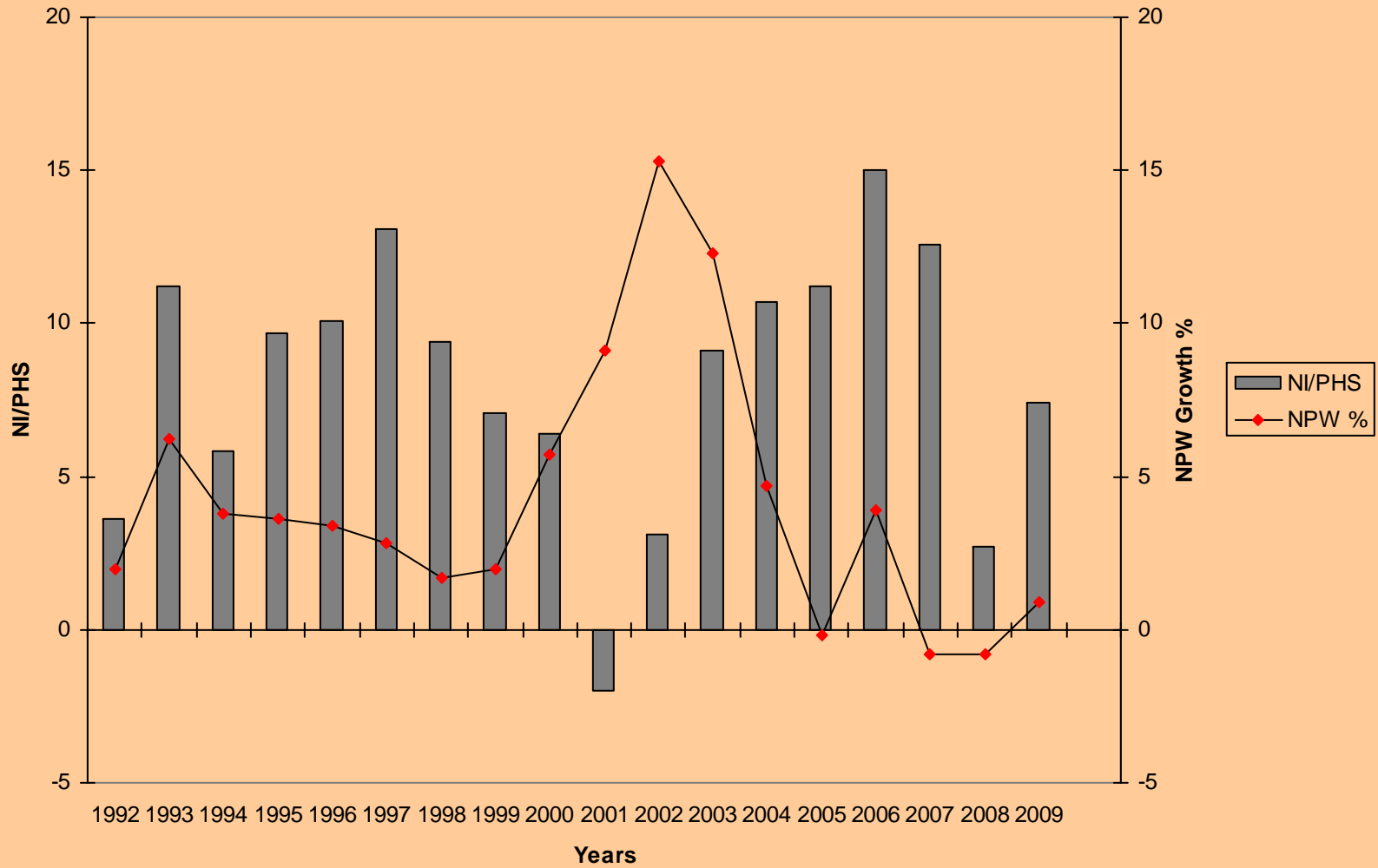
## NPW Growth vs Total ROIA



# NPW Growth vs U/W Performance



## NPW Growth vs NI/PHS



# Cycle Management

- ◆ **Soft market appears to be stabilizing**
- ◆ **Underwriting results remain under pressure**
- ◆ **Capitalization is adequate**
- ◆ **Access to additional capital limited**
- ◆ **Investment market uncertainty 2009**
- ◆ **Despite external forces, management decisions critical**





# Key Cycle Issues

- ◆ Underwriting cycles can be managed
- ◆ Enterprise risk management
- ◆ Capital management
- ◆ Management leadership
- ◆ Focus on long-term profitability
- ◆ Company culture



# Reserving Cycle

- ◆ Overestimate underwriting changes
- ◆ Optimistic view of loss trends
- ◆ Pressures for earnings

Leads to

- ◆ Inadequate loss reserves

Leads to

- ◆ Inadequate rates and premium

Leads to

- ◆ Inadequate IBNR...



# Reserving Cycle

- ◆ Don't get caught in this cycle
- ◆ Reserve adequacy is a philosophy
- ◆ Actuaries must constantly look for and consider adverse changes



# Impact of ERM

- ◆ Improved data availability
- ◆ Improved management controls
- ◆ Need to communicate company goals
- ◆ ERM serves to improve communication



**The End**

