

Russ Buckley, The Hartford

**R-8 Loss Sensitive Large Account Pricing:  
Approaches and Challenges**



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**Opening Questions**

How many years have you worked as an actuary?

1. I am not an actuary
2. Under 5 years
3. 5 to 10 years
4. 10 to 20 years
5. 20 years or more

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**Opening Questions**

Please rate your experience and understanding of the pricing of loss sensitive large account pricing?

1. Other than the exam material, none at all
2. Some exposure to this area in a prior role
3. Occasional involvement in current role
4. I live for this stuff & I do this work every day →



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**Agenda**

- Options for Large Account Insurance
- Structure used for larger commercial risks
- Methods used to estimate loss costs
- Data needs
- Decision points in the process
  - Trend
  - Loss development
  - Credibility
  - Primary vs. Specific Excess vs. Aggregate Excess

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**Options for Large Account Insurance**

- Self-Insurance Mechanisms
  - Large Dollar Deductible (LDD) Policy (i.e., \$100k+ deductible)
  - Self-insurance with an Excess policy
  - Captives
- Retrospective Rating
- Loss-Rated Risks
- Conventional Policy
  - Experience Rating
  - Schedule Rating

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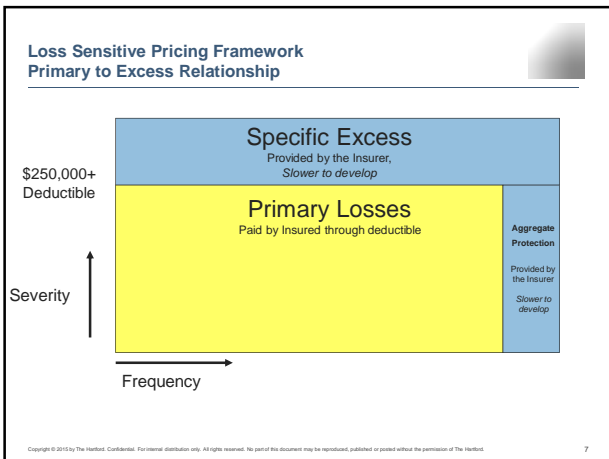
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- Methods used to estimate future loss costs**
- NCCI has a formula for partial credibility, as does ISO.....
    - This approach is looking purely at historical actual results to create a experience modification ratio
  - This is useful when the goal is to make an adjustment to a manual premium, but it does not provide a separate loss cost estimate.
  - Also, the focus of these plans have been on small to moderately sized risks
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**Large risks - methods used to estimate future loss costs**

Which end of the barbell is the right place to start?

Manual loss costs adjusted for experience modification factors

Complete reliance on an insured's historical loss experience

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**Complete reliance on an insured's historical loss experience?**

What does complete reliance (i.e. self rating) mean when estimating future loss costs?

- Estimating losses from zero to the policy limit or infinity (for WC only) using only client experience?
- Estimating loss development using only client experience?
- Estimating loss trend using only client experience?
- Estimating the impact of benefit changes using only a single client's experience?



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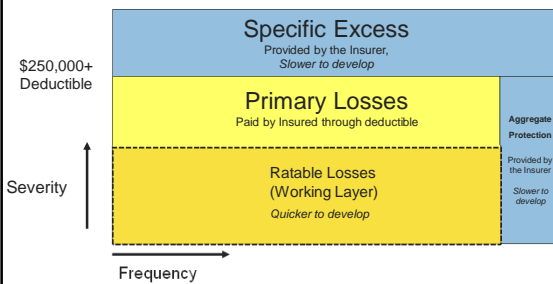
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**Loss Sensitive Pricing Framework  
Primary to Excess Relationship**



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**Methods used to estimate future loss costs**

- If the primary or ratable client experience is not considered fully credible, what is used for the complement of credibility?
- How do you calculate your credibility?
- What are your adjustments for trend, benefit changes, loss development and changes in exposure? How to adjust the parameters to reflect loss limits?

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**Methods used to estimate future loss costs**

- Is the Specific Excess client experience given any credibility?
- If Yes, what is used for the complement of credibility or your "default result"?

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**Methods used to estimate future loss costs**

Aggregate Excess Coverage

- Single line of coverage or multiple lines?
- Evaluation of attachment point for providing coverage?
- Estimation of the expected losses for various limit options?

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