

Casualty Actuarial Society

Price Monitoring for P/C Insurers

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Why is Price Monitoring Important?

- ◆ Profit expectations
- ◆ Setting loss reserves
- ◆ Strategic decisions /capital mgmt
- ◆ Evaluating U/W, agents and brokers
- ◆ Monitoring the level of risks



General Thoughts on Price Monitoring

- ◆ Rating agencies are looking
- ◆ No quantitative, blanket approach
- ◆ Company mgmt must get information
- ◆ Modest impact on the U/W cycle
- ◆ Major impact on the individual company



A. M. Best Approach

- ◆ **Supplemental Rating Questionnaire**
- ◆ **Management discussion**
- ◆ **Can Impact**
 - ◆ **View of ERM**
 - ◆ **Risk charges in capital model**
 - ◆ **Profitability expectations**



Supplemental Rating Questionnaire

- ◆ **New questions in 2009**
- ◆ **Looks at new and renewal policies**
- ◆ **Looks at**
 - ◆ **Number of policies**
 - ◆ **Filed rate change impact on renewals**
 - ◆ **Schedule rating**
 - ◆ **Other rate modifications**
- ◆ **75% of DPW or 10 largest lines**



Management Discussions

- ◆ **SRQ provides only a quick glance**
- ◆ **Most programs require more detailed discussions**
- ◆ **Lines that don't fit well**
 - ◆ **Reinsurance**
 - ◆ **Surplus lines**
 - ◆ **Specialty business**
- ◆ **If your program does not fit well, discussion is very important**



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...



Impact of ERM

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



The End

