

# **Underwriting Risk: The Best Laid Plans.....**

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May, 2009

# Beware of Changing Book!

....and management of insurer business portfolios can change almost as quickly

# Why the Book Is Changing

- Classes of business written
- Attachment points/limits written
- Territory mix
- Distribution changes (e.g. mix of agents or use of MGAs)
- New and terminated programs
- Opportunistic business
- Terms and conditions offered (breadth of coverage, e.g., for umbrella/excess, use of liberalizing endorsements)
- Business reinsured vs. held net

# Why Management of the Book Is Changing

- Program eligibility and risk appetite
- Risk selection (e.g., willingness to write less than better risks in class)
- Excess/surplus lines market conditions
- Company management and underwriter changes
- Rating plans and individual account pricing (e.g., experience/schedule rating credits, tiered rate factors, lowered walk away prices, stealth rating plans)
- Data used in underwriting evaluation and risk selection - operations, exposures, hazards, loss history

# Why Claims Management Could Be Changing

- Claims staffing and organization (e.g., claims specialization)
- Reserve adequacy (e.g. philosophy of reserving to best current estimate or ultimate or margin)
- Management of external resources (e.g., vendors and litigation expense)
- Changes in claims systems
- Management actions (e.g., expedited adjudication, changed caseloads, litigated claims)

# Soft Market Considerations

- Restricted underwriting and pricing data
- Decreased emphasis on exposure evaluation
- Expanded coverage
- Modified limits and attachment points
- Weakened account pricing – rates, discounts, exposures
- Failure to measure price level impact (including non-rate actions)
- Quality of risks selected and bound
- Management pressures

# Addressing Effects of Change

- Identify significant issues
- Investigate and evaluate potential impact
- Isolate key factors that drive results
- Quantify impact (e.g. through proxies, audits, predictive modeling, etc. )

# Guidelines for Adjusting Data

- Track changes in mix of portfolio
- Maintain close coordination with underwriting and claims colleagues
- Evaluate new underwriting and claims programs – and test their execution
- Assess market stresses on business
- Consider future environmental issues that may not be captured by conventional trend, loss development factors etc.
- Test past actuarial assumptions: how did they play out?



# Common Change Scenarios

- Constant changes in strategy and underwriting appetite
- Opportunistic writer
- Environmentally driven changes (by economic, regulatory, legal forces)
- Make over
- The hard market is over...we've got religion again

# Guide to Data Adjustments

- Spend time with business people
- Remove significant one time transactions from data base
- Make adjustments to quantify effects of significant underwriting and claims actions
- New, terminated or changed programs: make adjustments for extraordinary actions
- Be conservative

# Constant Changes in Strategy or Underwriting Appetite

- Review actual changes in mix
- Segmentation studies to test variability and consistency of results
- Evaluate actual program changes: how substantive are these?
- Evaluate risks written: how do these appear to change over time?

# Make Over

- Use caution in relying on past experience
- New senior management represents real change in business written
- Impact of new claims management
- Make efforts to segment and project prospective book
- Attribute rate level impact to major operational changes...but allow for delay in execution
- Use proxies to supplement historical data

# Summary Comments

- Future results never same as past
- Need to consider and make adjustments to historical data
- Be methodical - give credit where due – but conservative