


Underwriting and Actuarial Interaction:

The Role of the Actuary in the Underwriting Process

Stephen Meyer, FCAS - Max Bermuda
Jennifer Levine, FCAS - Zurich
James Ely, FCAS – Artex Risk Solutions



Antitrust Notice

- The Casualty Actuarial Society is committed to adhering strictly to the letter and spirit of the antitrust laws. Seminars conducted under the auspices of the CAS are designed solely to provide a forum for the expression of various points of view on topics described in the programs or agendas for such meetings.
- Under no circumstances shall CAS seminars be used as a means for competing companies or firms to reach any understanding – expressed or implied – that restricts competition or in any way impairs the ability of members to exercise independent business judgment regarding matters affecting competition.
- It is the responsibility of all seminar participants to be aware of antitrust regulations, to prevent any written or verbal discussions that appear to violate these laws, and to adhere in every respect to the CAS antitrust compliance policy.

Disclaimer

The views and opinions expressed in the following presentation are those of the individual presenters and do not necessarily represent the opinions or policies of their employers or the Casualty Actuarial Society.

Agenda

- The role and value of the actuary in underwriting audits.
 - Steve to lead, Jennifer and James to comment.
- The value of the actuary in meetings with brokers/clients
 - Jennifer to lead, James and Steve to comment
- The role of the actuary in setting underwriting strategies.
 - James to lead, Steve and Jennifer to comment

These discuss potential ways to increase your contribution to your company. They also implicitly present reasons you can show to your company for why you should be included in these processes.

▪ The role and value of the actuary in underwriting audits.

Underwriting Audits

- Typical Audit Schedule:
 - Overview Meeting
 - File Review
 - Lunch with Client (Broker)
 - Possibly you'll have dinner the night before or after
 - File Review and "Huddle"
 - Wrap Up
 - Total time actually spent reviewing files is frequently only 3 – 4 hours.

Underwriting Audits

- Typical Audit Schedule:
 - Overview Meeting
 - Meet the opposing team
 - Discussion of market (competitors, legal, etc.)
 - Inflation expectations (frequency and severity)
 - Target business
 - Compare to submission (U/W rarely do this!)

Underwriting Audits

- Meet with Client Actuary:

(There is important actuarial work to be done, but resist the U/W's (or your own) desire to send you off with the other actuary forever and thus keep you from file review. The underwriter does not realize your value!)

 - Review rate change monitoring tools.
 - Overall rate changes
 - Calculation of average debit / credit
 - Review sources of ILF, Trend, Class, etc. factors
 - Insights into any changes that may impact loss development such as case reserving, legal changes...

Underwriting Audits

- Meet with Client Actuary:
- Ask actuary to walk you through the rate review process, or pricing of an account or two, etc.:
 - May reveal unknown (to the actuary) biases
 - Analysis assumptions may be overly aggressive, or
 - He/she may see their main role is to stop deals.
 - Will give insight into thought process
 - You may learn new techniques!

Underwriting Audits

- File Review:

- Much should be left to the underwriter:

- Completed Apps, Loss Histories, Loss Control Reports, MVRs, Financials, Pol. Forms, Endorsements, Classification, Selection...

- The actuary is better at determining:

- Are they writing accounts appropriate to rating plan?*
- Are they applying the rating plan correctly?*
- Are they watching the aggregates on retentions?
- Are they calculating the ceded premium correctly?

Underwriting Audits

- File Review:

- Are they writing accounts appropriate to their rating plan:

- Are they writing large accounts in a rating plan geared to manual rating, or small accounts in a plan geared to experience rating?
- Many start-ups modify competitor rating plans, calculating an off-balance based on an assumed (industry) profile, but are they writing accounts that are like that profile?
 - Are they writing accounts that are overweighted in the classes in which they chose lower factors?

Underwriting Audits

- File Review:

- Are they applying the rating plan correctly:

- Many field underwriters/UTAs don't really understand the rating plan, they just fill in the rating sheets the way they were trained.
 - Errors/assumptions propagate through generations
- They often don't use new, blank rating sheets – just modify an old one – creating and propagating errors
- Are they using the current rating plan?
- Do they apply ILF and deductible credits correctly?
- Are schedule debits/credits applied correctly?

Underwriting Audits

- File /Actuarial Analysis Review:
 - Is the analysis appropriate to the account/data?
 - Does it account for items like case reserve strength?
 - Many companies rate the excess based upon a burn rating of a lower excess layer:
 - Is it appropriate for this account given the number of years of historical data available?
 - Try rating a lower excess layer or primary
 - Do they recognize incidental exposures?

Underwriting Audits

- Additional Thoughts:
 - Ask to see some deals they didn't write
 - May have to request before audit so they have files
 - You will find errors:
 - I don't point out errors in wrap up (defer to U/W.)
 - Look for patterns that might indicate bias
 - (my opinion) They should "push the envelope" to write some accounts, but not too often.
 - The other companies you reinsure is sensitive information (defer to underwriter.)

Underwriting Audits – Large Accounts Perspective

- Coordinate closely with underwriting auditors
- Ask questions – don't make assumptions

"Mainstreet" Perspective

Underwriting Audit Examples

- Ice road truckers - state class peculiarity
- Shade tree mechanics - state class peculiarity
- Surgery centers - heterogeneous class
- Competing goals - deliberate misclassification

▪ **The role and value of the actuary in meetings with brokers and clients.**

Actuarial Meetings with Brokers and Clients

- Opportunities
- Benefits
- Obstacles
- Recommendations

Actuarial Meetings with Brokers and Clients – Opportunities

- Renewal meetings
- New business meetings
- Broker calls
- Mid-term ‘state-of-account’ meetings
- Loss control visits
- Premium audit visits

Actuarial Meetings with Brokers and Clients – Benefits of Doing it Well For The Actuary

- Increased knowledge:
 - About the underwriting process: steps, timing, limitations
 - About the broker and client: operations, exposures, safety, management concerns, motivations, commitments
 - About the client’s industry: common operations, protocols, business risks
 - About the insurance marketplace: pressures, influences
- Professional relationship building with brokers, clients and their actuaries
- Increased professional value with all of the above

Actuarial Meetings with Brokers and Clients – Benefits of Doing it Well For The Underwriter

- Technical assistance – help explaining topics such as loss rating, collateral issues, loss development, experience rating, state insurance environments, inflation and other economic pressures, etc.
- Marketing assistance – by providing value, the actuary can be presented as an additional resource for an important client or broker

Actuarial Meetings with Brokers and Clients –
Benefits of Doing it Well For The Claims Adjuster

- Technical assistance – help explaining topics such as loss development, etc.
- Marketing assistance – by providing value, the actuary can be presented as an additional resource for an important client or broker

Actuarial Meetings with Brokers and Clients –
Benefits of Doing it Well For The Premium Auditor

- Technical assistance – help explaining topics such as the importance of accurate exposure classification, changes in a state insurance environment, etc.
- Marketing assistance – by providing value, the actuary can be presented as an additional resource for an important client or broker

Actuarial Meetings with Brokers and Clients –
Benefits of Doing it Well For The Loss Control Specialist

- Technical assistance – help explaining topics such as loss frequency, loss development, etc.
- Marketing assistance – by providing value, the actuary can be presented as an additional resource for an important client or broker

Actuarial Meetings with Brokers and Clients
– Benefits of Doing it Well For The Broker

- Technical assistance – help explaining topics such as loss rating, collateral issues, loss development, experience rating, state insurance environments, inflation and other economic pressures, etc.

- Marketing assistance – by providing value, the actuary, even a carrier actuary, can be presented as an additional resource for an important client

Actuarial Meetings with Brokers and Clients
– Benefits of Doing it Well For The Client

- Increased knowledge about insurance topics, such as loss rating, collateral issues, loss development, experience rating, credibility, state insurance environments, inflation and other economic pressures

- Increased appreciation of insurance companies and insurance industry

- Insurance carrier and industry with more knowledge of the client's industry, business and perspective

Actuarial Meetings with Brokers and Clients – Benefits of
Doing it Well For The Actuarial Employer Carrier

- More knowledgeable and, thus, valuable actuary

- Brokers and clients with increased knowledge and appreciation of insurance companies and insurance industry (more educated marketplace)

Actuarial Meetings with Brokers and Clients – Benefits of Doing it Well For The Insurance Industry

- More knowledgeable marketplace and players

Actuarial Meetings with Brokers and Clients – Obstacles

- Actuarial services unknown or untested by underwriter or other disciplines, broker and / or client
- Past negative experiences with actuaries (confusing, unresponsive or too slow for pace of business, ineffective, 'drive by looking in the rear-view mirror,' 'only deliver bad news')
- Employer structure or culture (actuaries only a 'Home Office' resource, seen as unnecessary expense, actuarial disinterest)

Actuarial Meetings with Brokers and Clients – Recommendations

- Coordinate and prepare with other disciplines in advance – know your objectives
- Varying levels of broker and client knowledge – know your audience
- Ask questions
- Listen
- Keep it clear and concise
- Provide value to the underwriter and other disciplines, the broker and client

Reinsurance

Meetings with Brokers / Clients

- Brokers:
 - U/W frequently don't fully understand what you are looking for
 - Debit/Credit information (what reflects exposure vs. what reduces rate charged.)
 - What makes a good price index
 - How average debit / credit should be calculated
- New Products / Innovations in the market:
 - If broker's actuary is there, may provide more rigorous discussion of pricing aspects
 - Broker's analysis provides lower bound to pricing!

Reinsurance

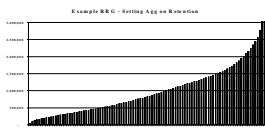
Meetings with Brokers / Clients

- Clients:
 - Get to know the client – can design programs tailored to their needs
 - Often very little work since you'd analyze client anyway, but you get brownie points and client familiarity may help to "think out of the box".
 - If client's actuary is not there, often results in an invitation to call directly
 - If client uses consultants they often appreciate your insights into the consultant's analysis and/or what they should ask for from their consultants

Reinsurance

Meetings with Brokers / Clients

- Clients:
 - Actuaries can play an important role when delivering news of a rate increase.
 - Graphs are well received.



- Clients often just want to talk (defer to underwriter.)

▪ **The role and value of the actuary in setting underwriting strategies.**

Actuary's Role in Developing Underwriting Strategy

- Alignment of company capabilities with target markets in pursuit of profit
- Which risks fit the company's capabilities?
- What capabilities does the company need to develop?

Company Capabilities

- Underwriting expertise
- Rating plans and policy forms
- Capacity (specific and aggregate)
- Systems
- Service capabilities

Risk Characteristics

- Policy size (service and systems)
- Severity potential (specific capacity)
- Homogeneity (pricing and systems)
- Dispersion (aggregate capacity)
- Price elasticity (profitability)

Real World Example circa 1999

- Specialty workers compensation writer
- Large account market remains highly competitive
- Small account market begins to contract

Actuary's Recommendation

- Focus on small accounts
- Emphasize guaranteed cost policies
- Narrow class eligibility guidelines
- Increase processing staff
- Re-write systems

Reinsurance Actuary's Role in Developing Underwriting Strategy

- Reinsurance is largely a “people” business
 - Actuary’s knowledge of other professionals is valuable input.
 - Stresses importance of networking and attending industry functions
- Important to keep track of “state of the art”
- Maintain comparisons of trend factors, increased limits, rates, minimum rates, etc.

Actuary's Role in Developing Strategy – Large Accounts Perspective

- **How Could Actuarial Involvement Improve?**
 - Target Accounts
 - Work with Underwriting and Marketing to target accounts based on historical or potential class or account profitability
 - Submissions
 - Review for consistency of data
 - Discuss with underwriter the importance of data to risk assessment and therefore pricing
 - Pricing
 - Design pricing models to be simple and efficient, capturing only the data critical to the premium
 - Help underwriters to understand both inputs and outputs
 - Actuarial Review
 - Discuss with underwriter their impressions of account, likely competitor reactions, broker relationship, etc.
 - Final recommendations should address above issues
 - Premium Selection
 - Suggest alternative retention and limit options that would address specific concerns of account’s losses and allow for more competitive pricing

Actuary's Role in Developing Strategy – Large Accounts Perspective

- **Recommendations for Increasing Impact on Pricing**
 - Develop pricing tools that are easy to use and understand.
 - Help evaluate the exposures being insured and consistency with those used for pricing.
 - Discuss competition and assumptions implied by competitive pricing.
 - Help write business by identifying more appropriately-priced business. (“There are no bad risks, only those badly priced.”)
 - Measure the use of the pricing tools and price levels.
 - Provide value by giving relevant input.
