UMBRELLA: AN INSURER AND REINSURER PERSPECTIVE

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Agenda

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Actuarial perspective

- Price/Rate Monitoring
- Loss Development
- Loss Ratios
- Other issues

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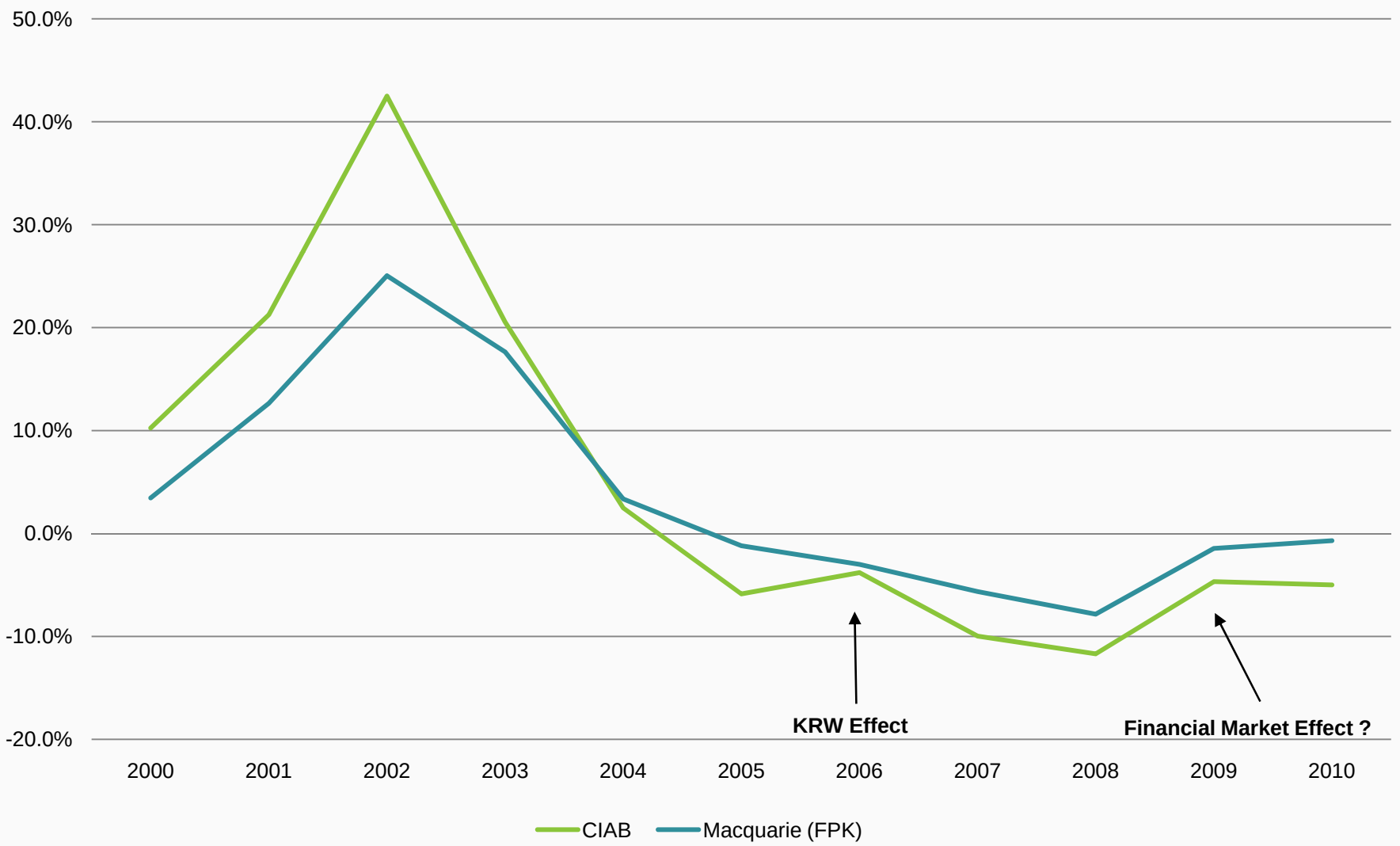
Commercial Umbrella Written Rate Changes by Year



Note: data for illustration purposes only

Rate Monitoring Information

The Family Feud of Market Rate Surveys:

- CIAB
- Market Scout
- Macquarie (FPK)
- Tillinghast/Towers
- ISO Marketwatch

Are they helpful and useful? Yes

Are they perfect for every portfolio? No

What's important ? Does it predict/explain loss ratio movement

Source: (If Applicable)

Predicting loss ratio movement

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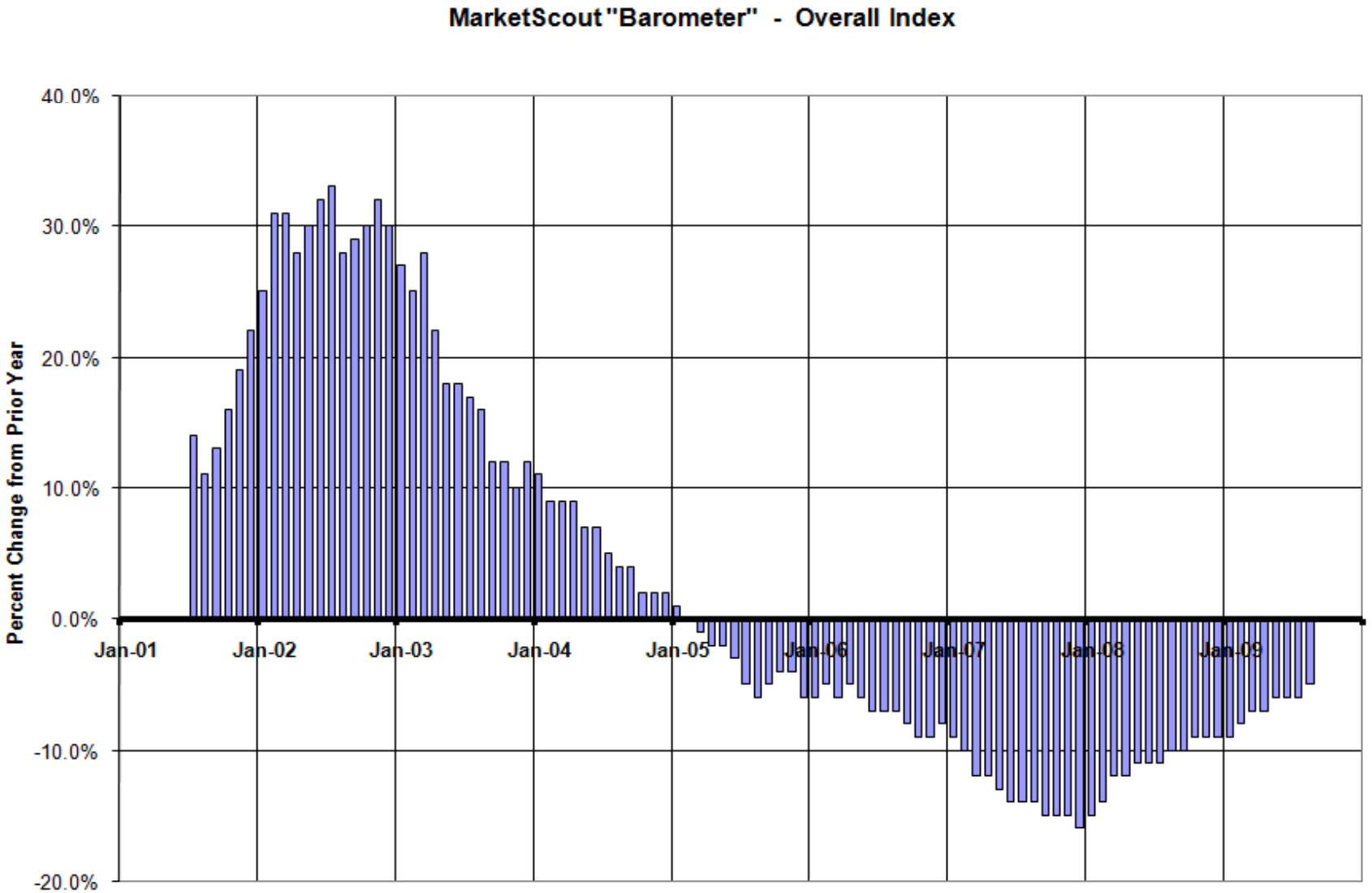

Source: MarketScout

Predicting loss ratio movement

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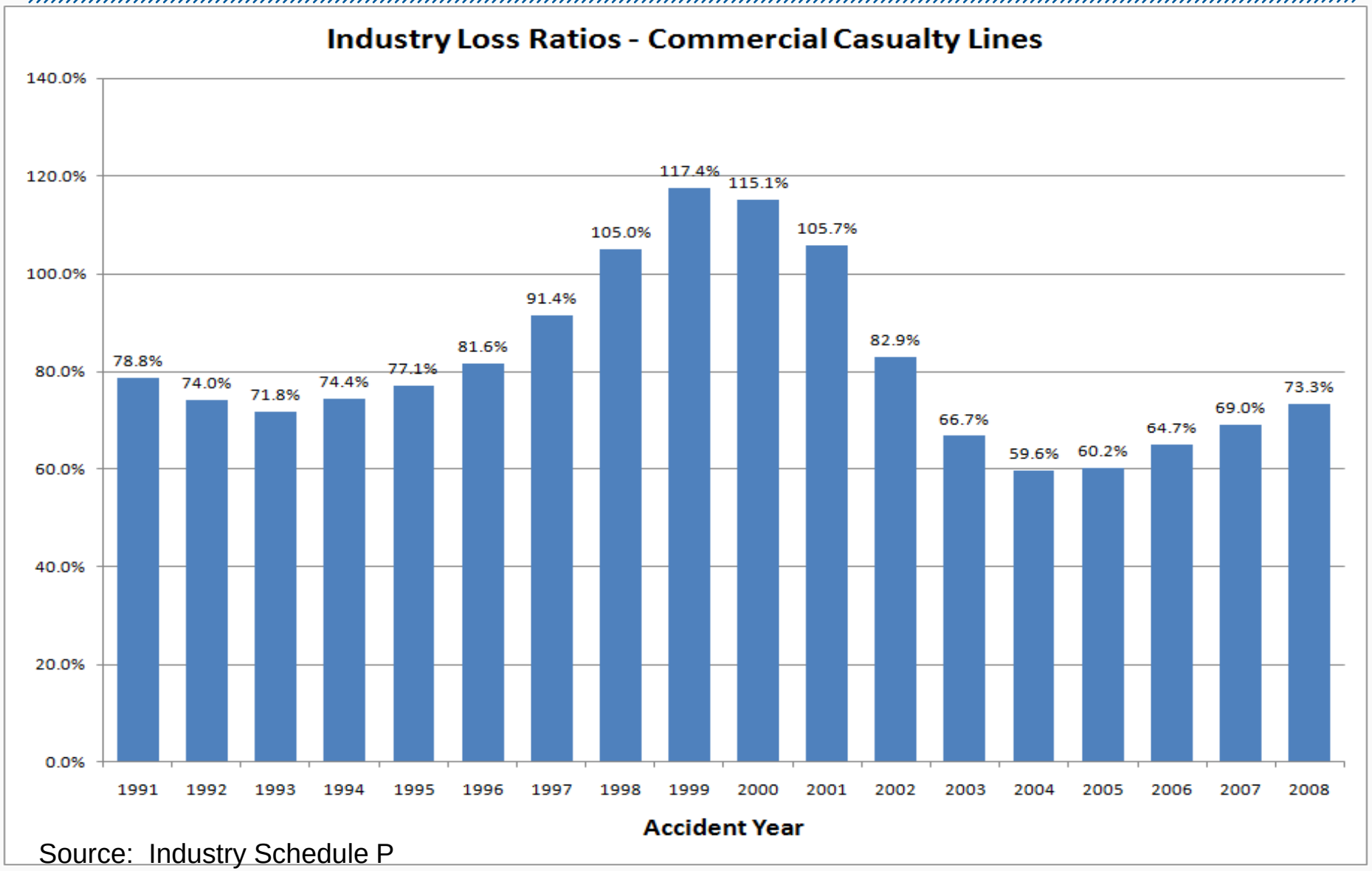

Source: Industry Schedule P

Predicting loss ratio movement

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	Loss Ratio Change versus Rate Change		
Accident Year	Carried Ult. Loss Ratios	Percent Improvement	Market Scout AY Change
2001	105.7%		
2002	82.9%	105.7% / 82.9% = 27.5%	22.2%
2003	66.7%	82.9% / 66.7% = 24.3%	25.3%
2004	59.6%	66.7% / 59.6% = 12.0%	10.8%
2005	60.2%	59.6% / 60.2% = -1.0%	1.0%
2006	64.7%	60.2% / 64.7% = -7.1%	-5.3%
2007	69.0%	64.7% / 69.0% = -6.2%	-9.8%
2008	73.3%	69.0% / 73.3% = -5.8%	-13.3%

Reporting and Payment Patterns

- Umbrella Loss Development – sources of information
  - Industry rating bureau - data does not exist
  - Schedule P - typically includes umbrella in the GL line of business
  - Other options
    - Primary industry loss data
    - Reinsurance industry loss data
    - Company specific umbrella data (most actuaries feel it is unstable)
    - Other sources (auditors, consultants, etc.)

Are they helpful and useful? Yes

Are they perfect for every portfolio? No

Source: (If Applicable)

Reporting and Payment Patterns

- Do umbrella losses develop in a manner similar to industry primary data ?
- Will two different umbrella portfolios report and pay in similar manner ?

- What drives the reporting and payment patterns ?
  - Timing of the reporting of the claim
  - Timing of case reserving, including reinsurance involvement
  - Portfolio composition
  - Relative amount of exposure to auto claims vs. GL claims vs. other causes of loss
  - Payment patterns are also affected by all of the above and is also affected by a company's willingness to settle claims vs. litigation.

Source: (If Applicable)

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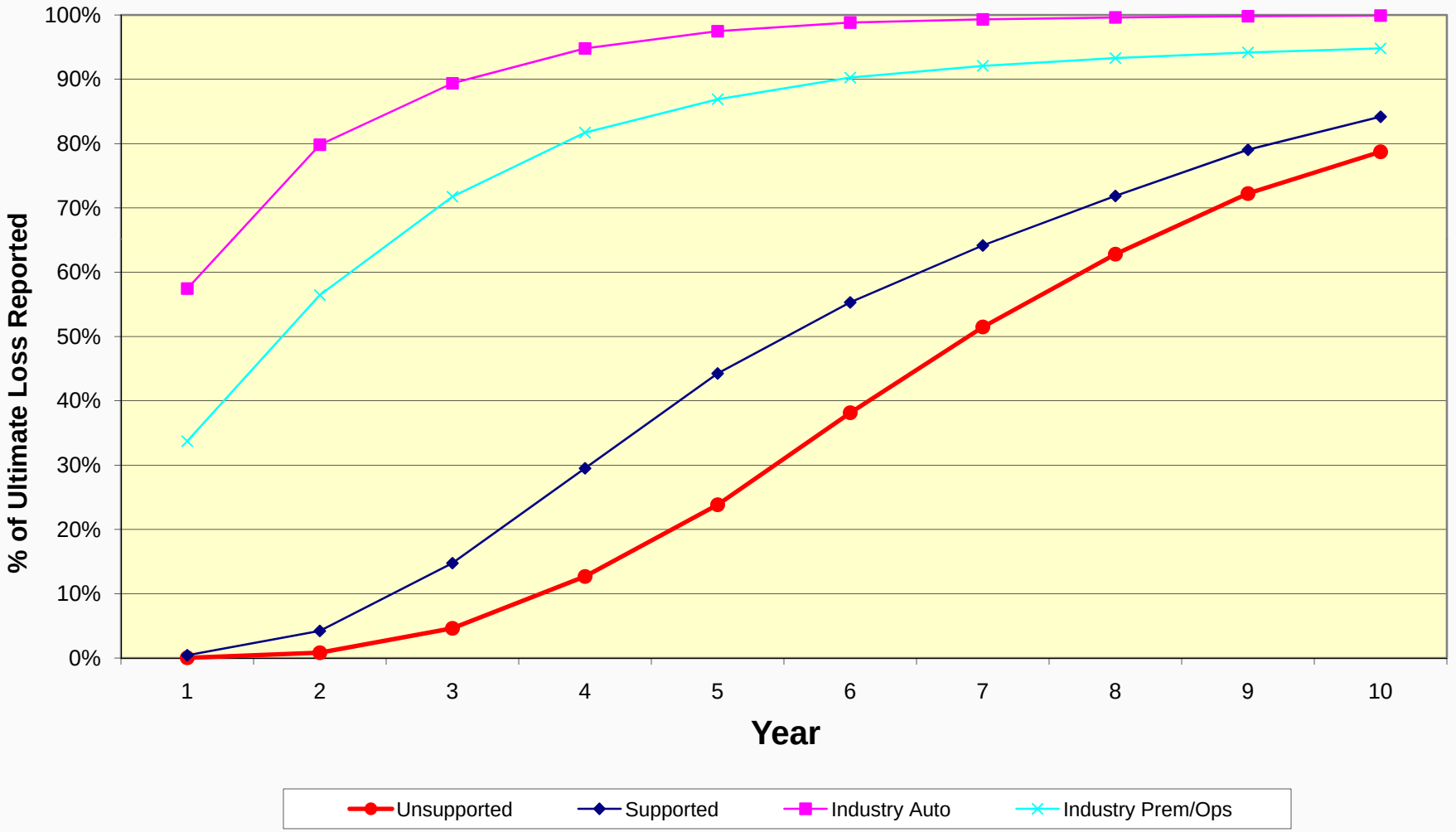
Commercial Umbrella Reporting Patterns



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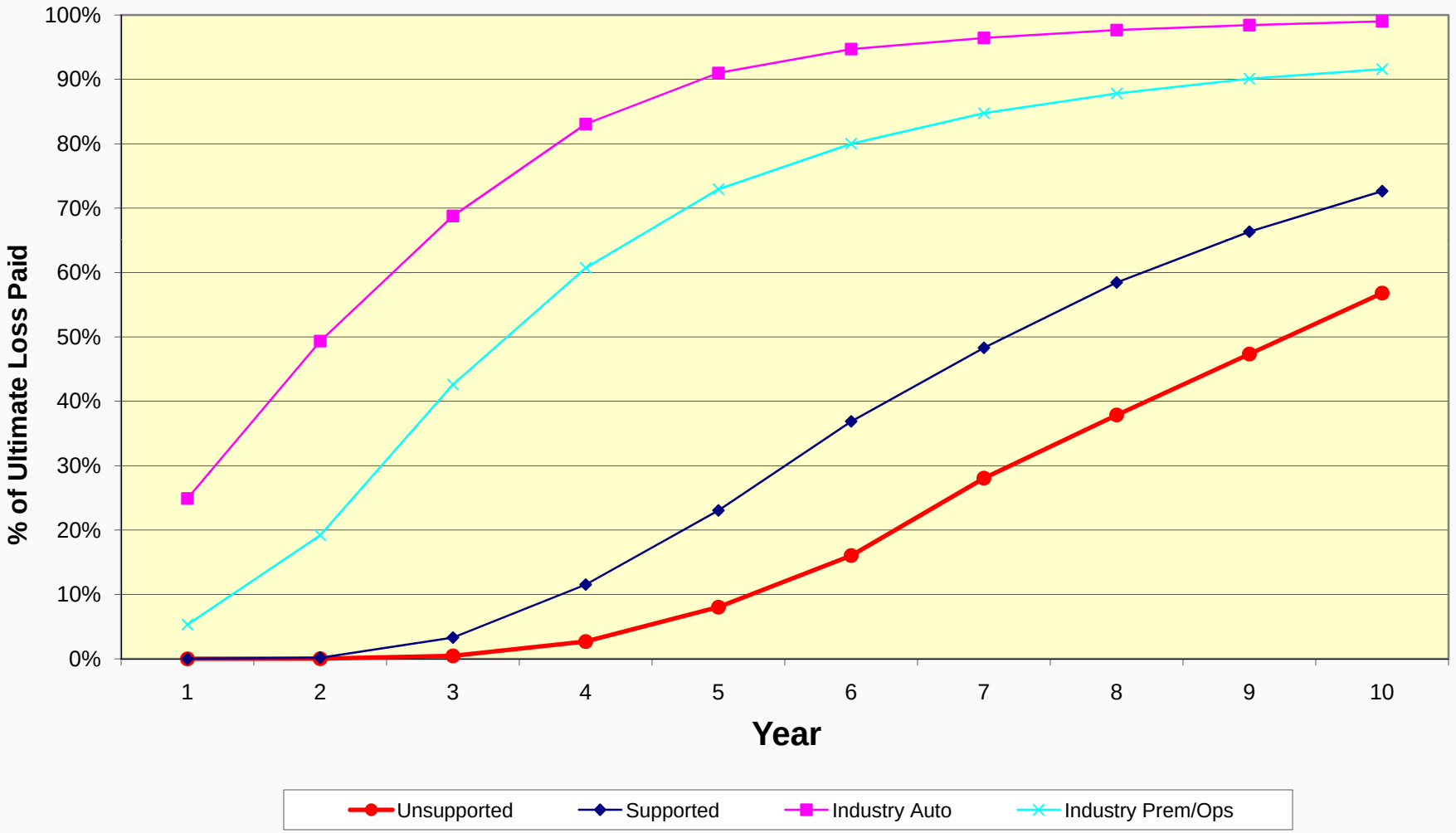
Commercial Umbrella Payment Patterns



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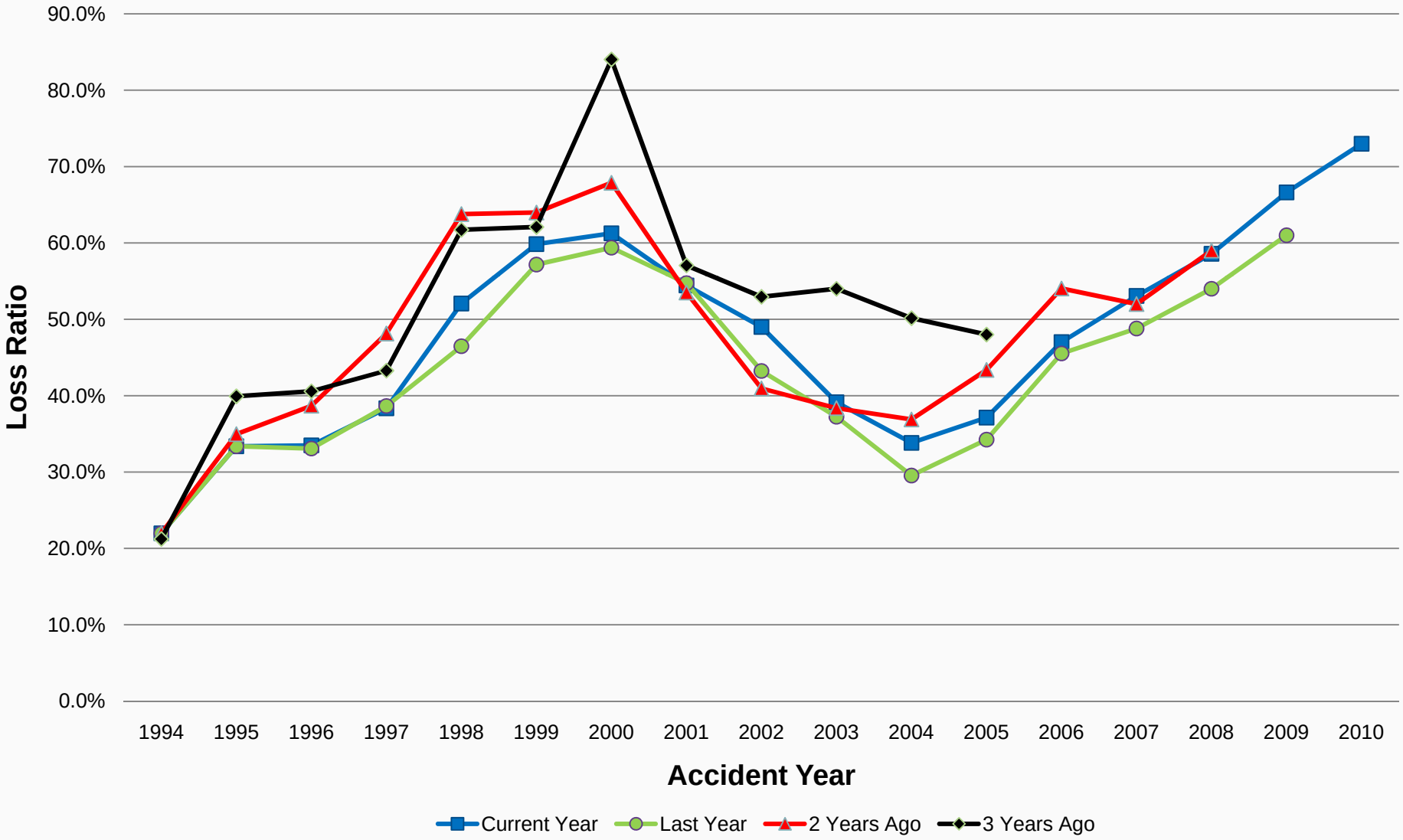
Supported Commercial Umbrella
Historical Ultimate Loss & ALAE Ratios



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Unsupported Commercial Umbrella
Historical Ultimate Loss & ALAE Ratios

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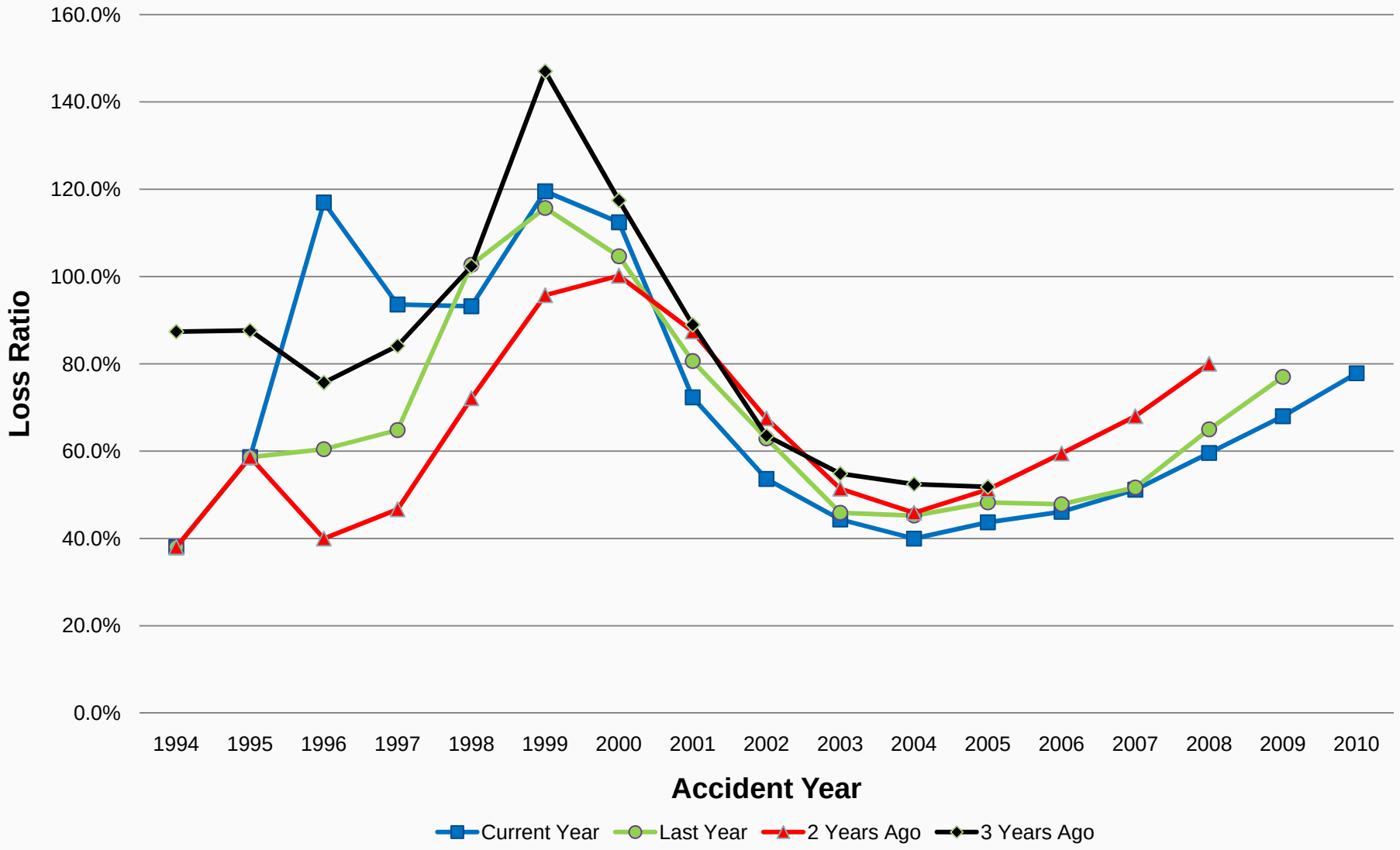

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Other issues

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Pricing
- Manual or Modified Premium
- Source of Premium used in Pricing
- Average Credit/Debit on Umbrella
- Impact of Minimum premiums

Risk Selection techniques
- Class of business

Claims handling philosophies

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THANK YOU FOR YOUR ATTENTION

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