Dynamic Special Account Simulation

Underwriting Collaboration Seminar

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Dynamic Special Account Simulation

Example: Team C

Countrywide year 1 assumptions		Team C	Team C
		Hackers	MyBigDay
		Golf Ins	Wedding Ins
loss ratio		65.6%	53.6%
commission ratio		20%	30%
variable expense ratio		0%	0%
fixed expense		$ 750,000	$ 250,000
NPW		$ 15,000,000	$ 5,000,000
NPE		$ 15,000,000	$ 5,000,000
Combined ratio (expenses to NPW)		90.6%	88.6%
GAAP Combined ratio (ratios to NPE)		90.6%	88.6%
Team _____	rate change		
Team _____	Comm change		

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WHO WINS?

We now need to determine the <u>Winning Formula</u> constants for model.

1. Annual growth % = ?
2. Annual Risk Adjusted Profit % (RAP) = ?

(RAP % = Return on Equity (ROE) % - Cost of Capital %)

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Instructions

1. Each team reviews account data.
2. Each team must decide what , if any, renewal rate change and commission level they want to offer their existing account (s.)
3. Each team must decide if they want to offer a rate change and commission level to other industry accounts.
4. Each team turns in their actions to Commissioner Nick.
5. Time allotted = 10 minutes.

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WARNING! WARNING! WARNING!

YOUR ACCOUNT IS BEING ATTACKED!

BROKER IS GIVING YOU "LAST LOOK!"

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Last Look Instructions

1. Each team re-reviews account data.
2. Each team must decide what , if any, renewal rate change and commission level they want to offer their existing account (s) in light of attack.
3. Each team turns in their final actions to Commissioner Nick.
4. Time allotted = 5 minutes

(Since this is "Last Look" no team can change their attack strategy for industry accounts.)

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TOM TALKS

While team actions are being entered into simulation model, there is time for discussion tailored to fit audience.

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Objectives of Dynamic Simulation Model

1. Training midlevel managers.
    a. Line of business model: personal auto.
    b. Account-driven model: PLUS+.
2. Collaboration among teammates.
3. Plan in dynamic state.

Senior management mandate to us:

1. Can't spend money.
2. Must do it ourselves.

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Did we accomplish our objectives?

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Training objective

1. Used different model for group in training.
   a. Special Account model used with underwriters and managers.
   b. Able to use auto model with all departments including new hires.

2. "Tom Talks" important training feature – easily varied for different groups. Examples include:
   a. Actuarial discussion of ratemaking, trending, retention.
   b. Manager discussion on profit goals.
   c. How to measure the winner – great discussion!

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Collaboration objective

1. Pre-picked teams or random selection – each has pros and cons.
2. Every exercise I ran had successful collaboration whether pre-picked or random.
3. Lots of energy in room.
4. Lots of thinking in room.
5. Non-threatening atmosphere helped collaboration and participation.

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Plan in dynamic setting

1. Every year our company plan only involved our company's actions – never came true.
2. Model did meet objective but had limitations.
3. What about our competitors?
4. What drivers needed to be included?
5. How many drivers could model handle?
6. How many drivers could builder of model handle?

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Other benefits!

1. Simulation provided dynamic actions and results – no exercise ever was the same.
2. Debriefing of strategy of each team. How did it change after each year?
3. Interesting team dynamics – did leader emerge?
4. Great interaction; eg. Stickiness factor

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OKAY, LET'S SEE WHO WON YEAR 1!

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Conclusions

1. Simulation model very good in training situation.
2. In person sessions work best with 12-24 people.
3. Model can be built in-house.
4. Model can be tailored to fit individual needs.
5. Model can be online – one person playing 3 virtual teams.
6. It's fun! There are prizes for the winning team!

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OKAY, QUESTIONS AND/OR COMMENTS?