Pricing Risk Excess Reinsurance

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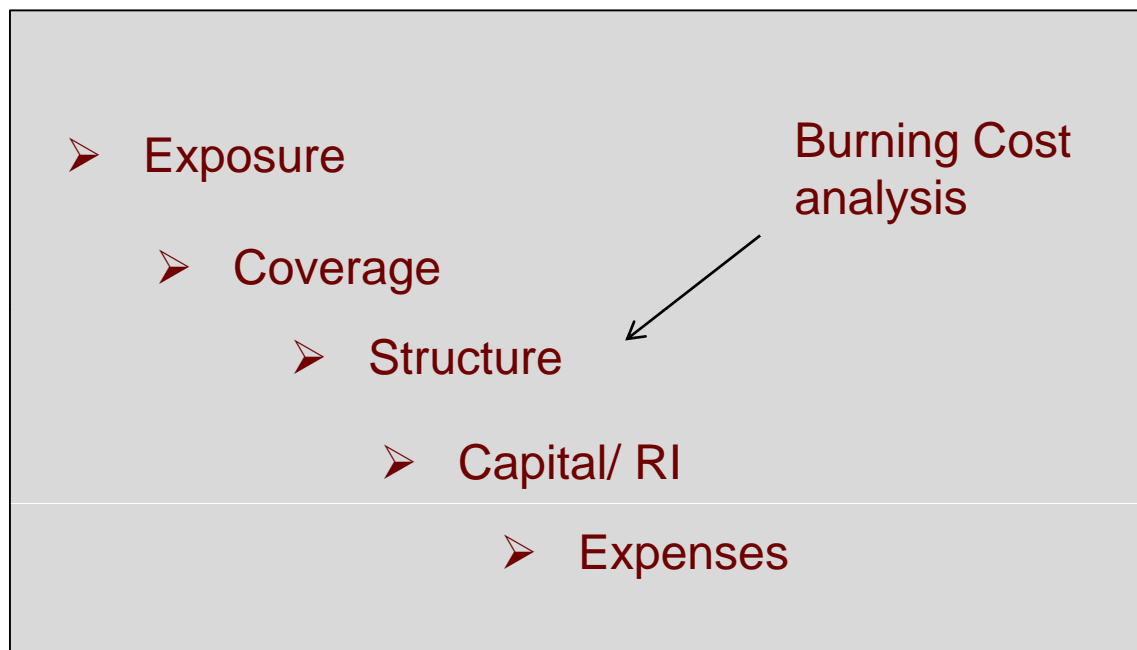**GIRO October 2010**

A varied market....

➤ Property RI: cat, risk excess, QS

➤ Hull, cargo;. Working / high excess

➤ D&F, Terrorism
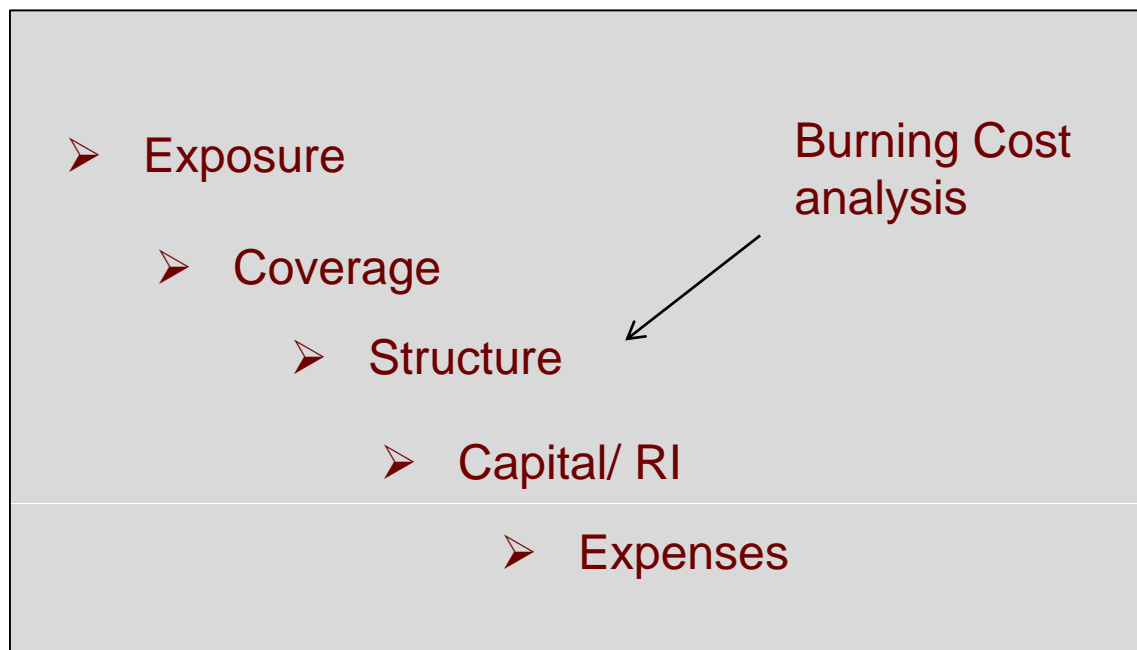
➤ Specialty

➤ Liability

➤ Satellite

➤ PA........etc

Different Pricing Methodologies

➤ External exposure analysis

➤ Loads on key exposure metrics

➤ Historical burning cost

➤ Allocation of income / profit share

➤ Explicit price for volatility

➤ Other – market share

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Managing for Profit...

Rigorous Analysis.....or ......Guessing?

➢ Exposure

Burning Cost
analysis

➢ Coverage

➢ Structure

➢ Capital/ RI

➢ Expenses

Rigorous Analysis.....or ......Guessing?

- ➢ Exposure

- ➢ Coverage

- ➢ Structure

Burning Cost analysis

- ➢ Capital/ RI

- ➢ Expenses

Analysis

Judgement

Guess ?

➢ What's the right balance between rigour, detail, complexity.....and judgement?

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Managing for Profit...

What this session is about

Pricing Risk Excess Reinsurance

This session will be a…

1. Step-by-step demonstration of a…

2. A per risk pricing engine…

3. With consideration of the methodologies,…

4. The approximations & practical pitfalls contained therein…

- *to allow us to consider…*

5. How best to Price Per Risk & what to watch out for in the current market environment?

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Risk profiles

- ➤ Is the level of grouping reasonable? Is it changed from last year?

- ➤ Is using average Sums Insured enough?

- ➤ Base rates & mix of business, stacking

- ➤ Policy listings

- ➤ Primary vrs Excess business

- ➤ Inuring reinsurances

- ➤ Deductibles & Self insured retentions (SIRs)

- ➤ Sums Insured or PMLs

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Managing for Profit...

Expected Loss to Layer

➢ Commissions & deductions

➢ Level of profit in the underlying book

➢ Knowing your curves

    ➢ Guidelines when to use different ones

➢ Rating for PML bust

➢ Free & unlimited cost

Pricing for Structure

➤ Frequency assumptions

➤ Allowing for AAD, AAL

➤ Allowing for reinstatement premiums

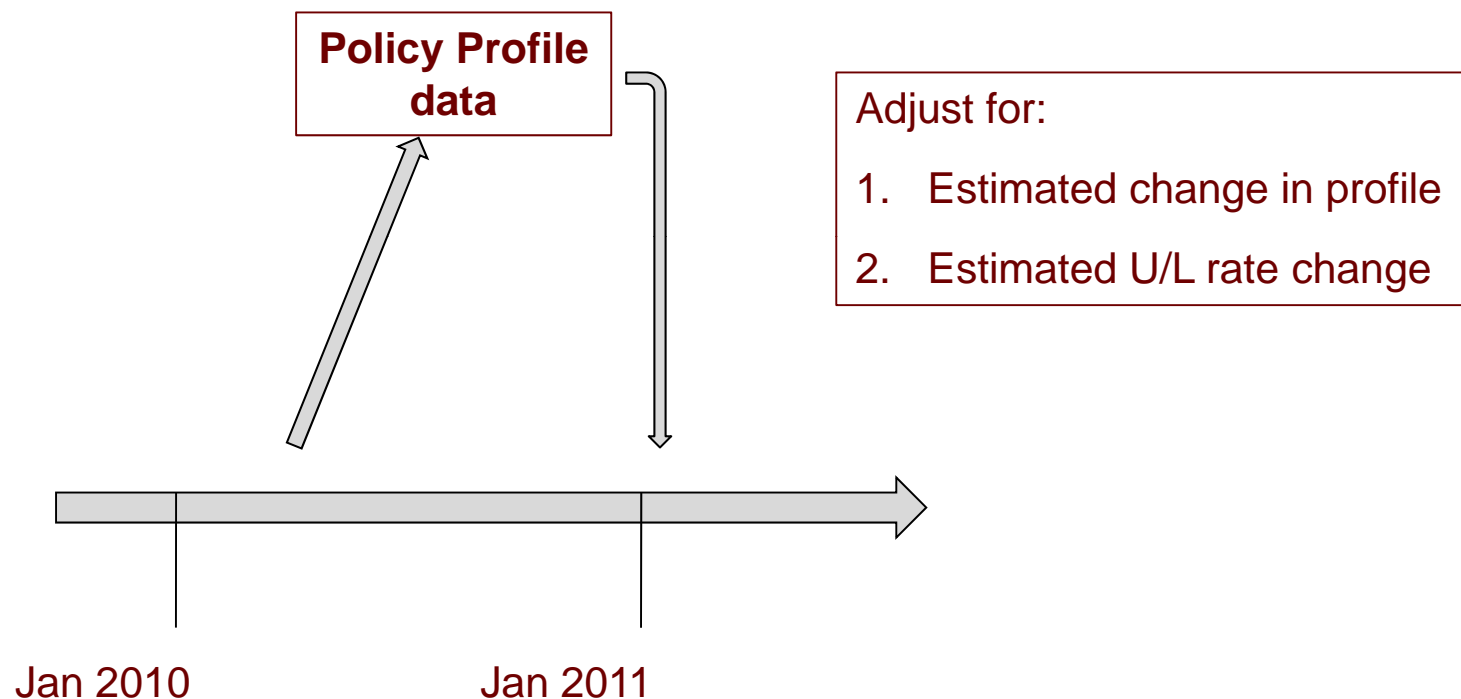➤ Be ready for challenge here; Model result vrs Established practice

Loading for Profit on RXL

➢ % load

➢ % load matrix/curve

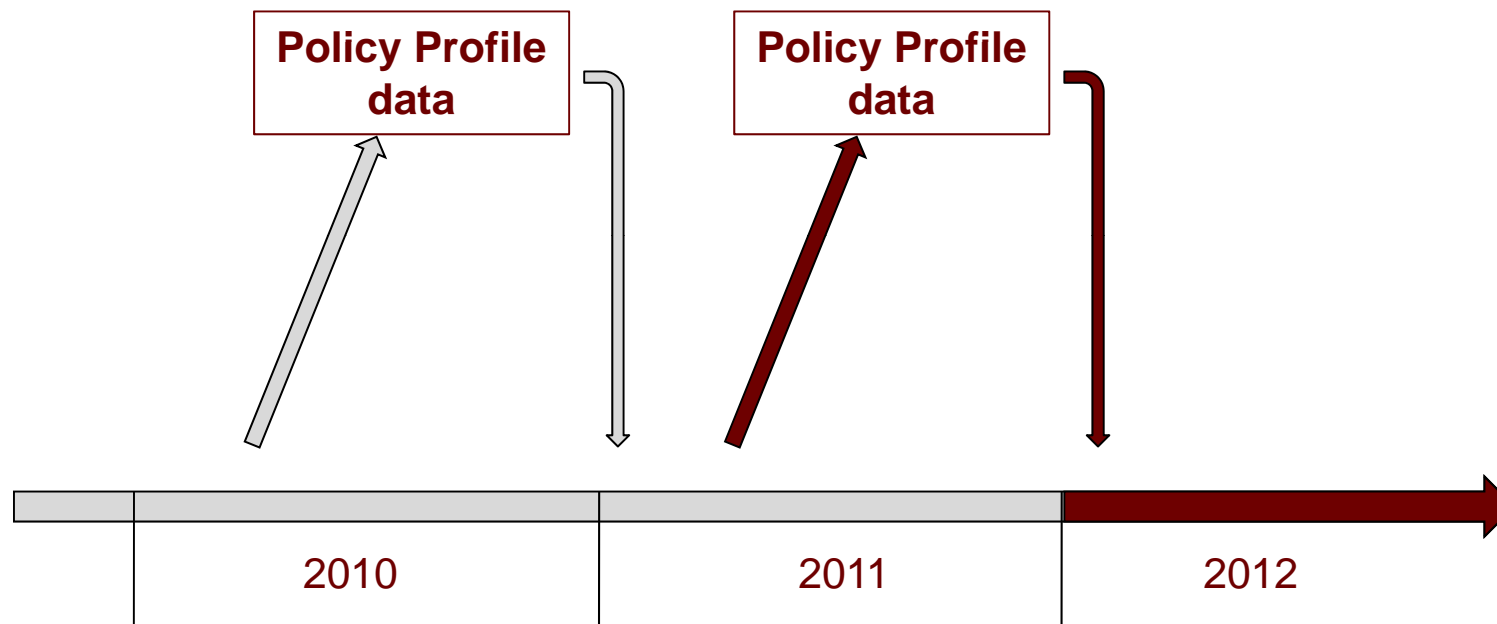➢ Calculating a Standard Deviation

➢ Loading for profit – portfolio view

Experience rating

➢ Allowing for inflation

➢ Allowing for trend

➢ Pareto methodology

➢ When is experience of any value?

➢ Which years should I include/exclude?
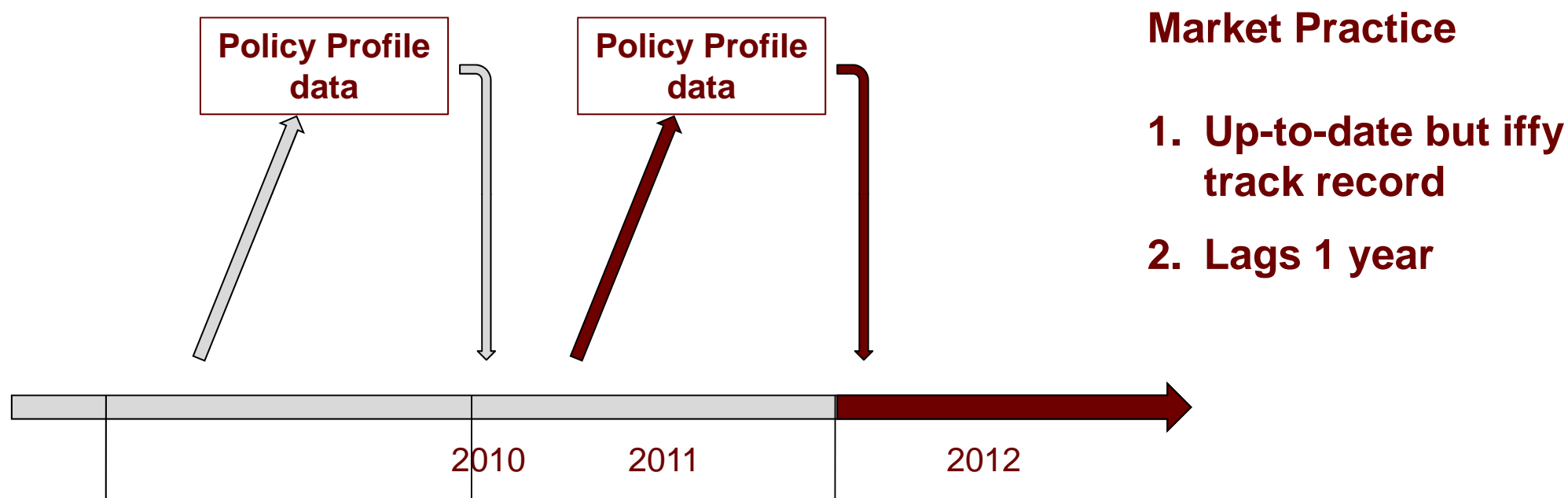
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Trending and Roll-forward

Policy Profile data

Adjust for:

1. Estimated change in profile

2. Estimated U/L rate change

Jan 2010   Jan 2011

Rate Monitoring gets complicated........

Rate Monitoring gets complicated........

Market Practice

1. **Up-to-date but iffy track record**

2. **Lags 1 year**

Policy Profile data		Policy Profile data

2010   2011   2012

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Bringing it all together

➢ Pricing model specification

➢ How will the model be used by the underwriters

  ➢ Quote vrs lead vrs follow market

  ➢ Issues of volume

➢ Pricing for Cat exposures

Pricing Risk Excess in the Current Market

➢ Current profitability of the market

➢ Inuring reinsurances

➢ Aggregate features

➢ Wordings

➢ Underlying rating

➢ Paucity of information/brokered data

➢ Loading for profit, component pricing

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