

## Commercial Lines: Pricing in an Imperfect World

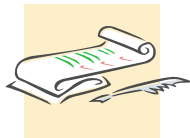
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GIRO - Sorrento

### Agenda

- Differences between Commercial Lines and Personal Lines
- Data issues
- Approaches to pricing
- Working with underwriters
- Building models for underwriters



### The Crux of The Problem



*"One feature that generally distinguishes the pricing of commercial business from personal insurance business is the increased scope for judgement to be applied."*

The Premium Rating of Commercial Risks  
GIRO 1997

## Differences Between Pricing Commercial and Personal Lines Risks

- Risks less homogenous
- Risks tend to be much larger
- Wide variation in risk sizes
- Wide variation in coverage
- Less standard and more bespoke policies
- Substantially less data available



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## Data Issues

- Less detailed data collected than for Personal Lines
- Data may be supplied by third parties
- The volume and quality of the available data can vary hugely



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## Common Data Problems

- No data on individual claims
- No triangles
- Only latest claim position available
- Data only for a limited number of origin years
- Data inconsistent regarding changing terms and conditions
- Net or gross of deductibles?



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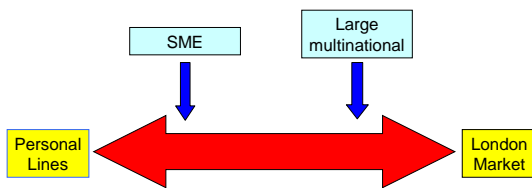
## Common Data Problems

- No data on individual claims
- No triangles
- Only latest claim position available
- Data only for a limited number of origin years
- Data inconsistent regarding changing terms and conditions
- Net or gross of deductibles?
- Do the best you can with the available data



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## Risks of Different Sizes Require Different Approaches to Pricing



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## Approaches to Pricing

- Sometimes, use similar techniques to Personal Lines
  - usually with fewer rating factors
- Other times, use similar techniques to London Market
- Often use a blend of experience and exposure rating
- Modelling the market
- Because of paucity of data, important to utilise market information



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## The Underwriter is King



- In Commercial Lines, the underwriter usually has the final say on premiums
- The best way for the actuary to influence the premium is to gain the trust of the underwriter
- Ideally, pricing should be a partnership between the actuary and the underwriter
- There is much variation in the openness of Commercial Lines underwriters to actuarial input
- The actuary's working relationship with the underwriter is central to the actuary's influence

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## How to Gain the Trust of Your Underwriter in Ten Easy Steps



1. Don't give the impression that you know better
2. Make it clear that you see the relationship as a partnership
3. Take time to understand their concerns
4. Get to know them
  - eg, at the pub, at company social events, just chatting
5. Take time to understand their account
6. Demonstrate that you can add value

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## How to Gain the Trust of Your Underwriter in Ten Easy Steps



7. Commercial Lines underwriters tend to be less technical than Personal Lines underwriters
  - Explain your analysis in a way they can understand
8. Talk through your key assumptions with them and give them the opportunity to influence them
9. Provide regular feedback on the profitability of their account
10. Assist them with other issues

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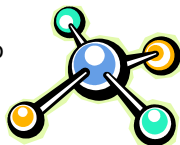
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## Building Models for Underwriters - The Benefits

- Efficient way of pricing a portfolio of similar risks
- Great for building relationships with underwriters
- Helps underwriters to understand the actuarial pricing process
- Less work for the actuary to do
- Saves time



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## Building Models for Underwriters - Avoiding The Risks

- Test the model thoroughly
- Make it robust and as difficult to corrupt as possible
- Make it easy to use and make sure the underwriters understand how to use it
- Make sure they understand its limitations
- Help the underwriters to apply common sense to check the reasonableness of the output
- Ensure that the underwriters seek actuarial assistance if in any doubt as to the reasonableness of the output



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