

Managing Underwriting in the London Market

Tony Jones
Fiachra McLoughlin

UMACS Limited

Underwriting Management & Actuarial Consultancy Services

GIRO October 2009



What this session is about

Managing Underwriting Profitability in the London Market

This session will discuss

1.

2. How to do it using profit focused MI

What this session is about

Managing Underwriting Profitability in the London Market

This session will discuss

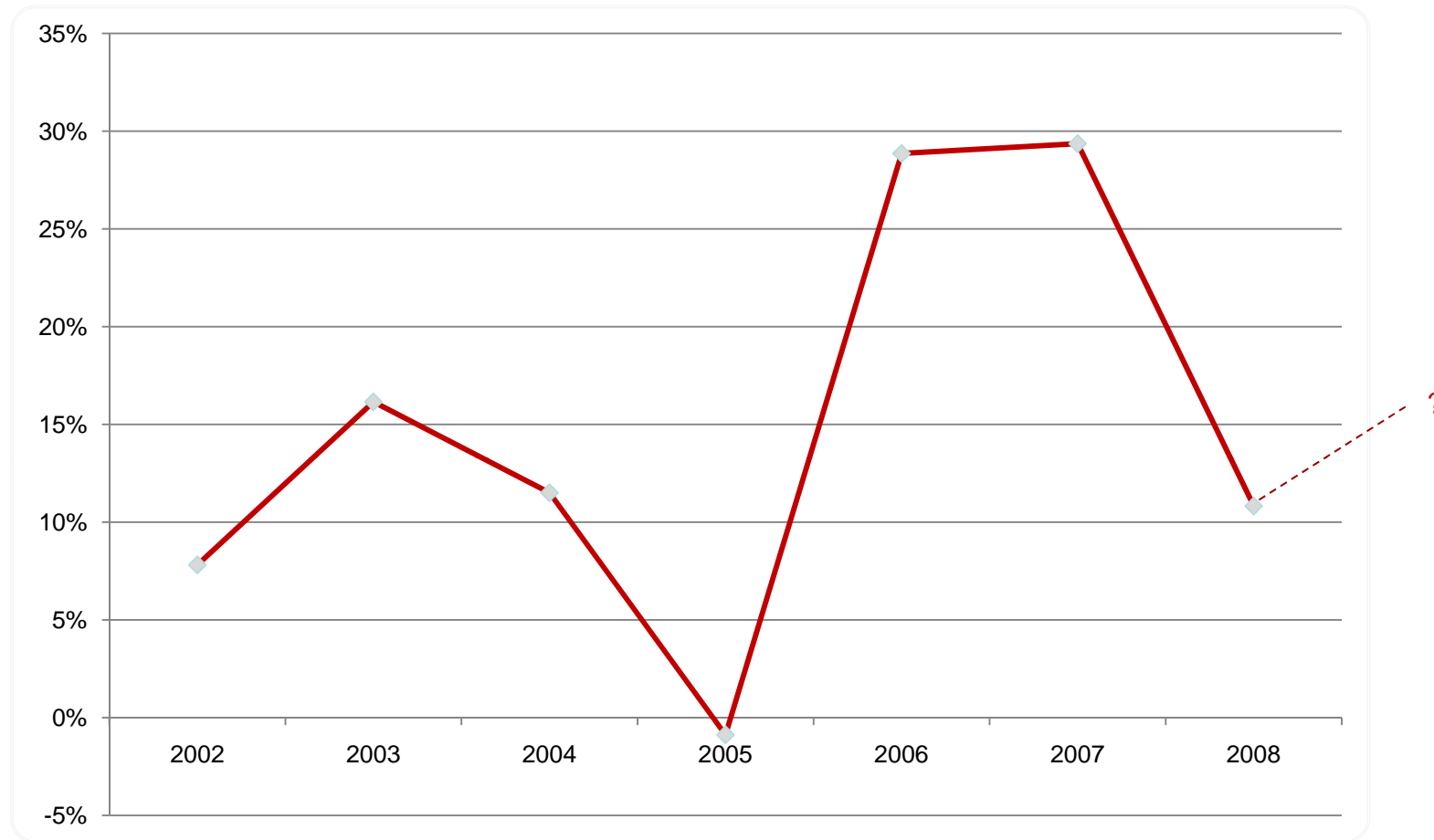
1. How important is Managing the Profitability of Underwriting
2. How to do it using profit focused MI



Current state of profitability management

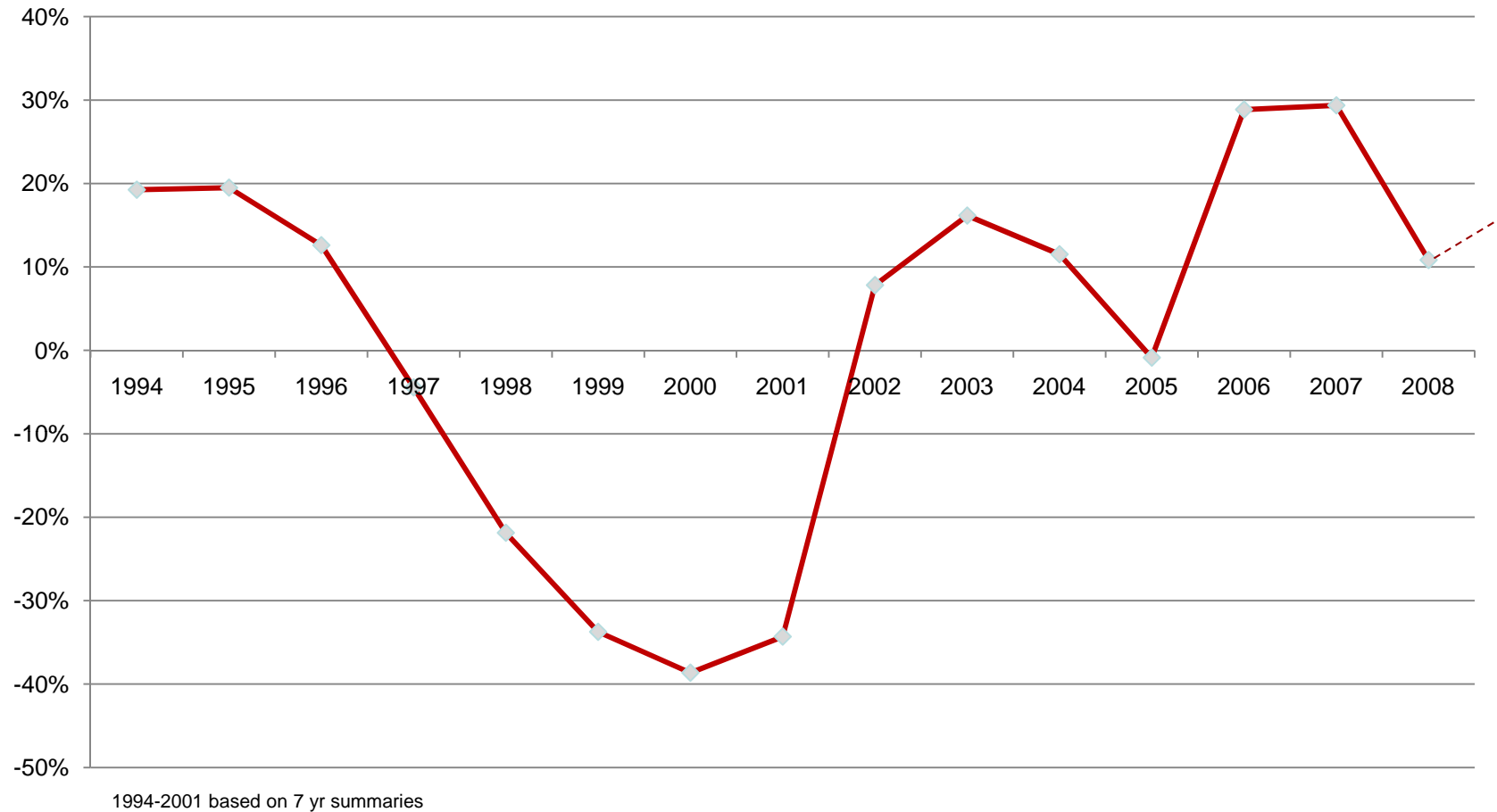
ICA	Established volatility into insurance management thought process	How well are the assumptions of complex models understood?
Exposure Management	Management of aggregation risk now much better: <ul style="list-style-type: none">•RDS process in Lloyd's•Cat modelling in widespread use	Over dependence on models?
Rate Monitoring Benchmark Pricing	Introduced by Lloyds as part of Franchise standards. Redresses informational imbalance between management and underwriters	Effective implementation is patchy – cycle risk is underestimated

Aggregate Lloyd's Performance



Profit as Percentage of Premium

Aggregate Lloyd's Performance



Profit as Percentage of Premium

How important is it to manage profitability?

Why were the losses so big

- Underwriters went along with the market?
- Management blind to what was happening?

Fighting sail Royal Navy

The fighting sail Royal Navy

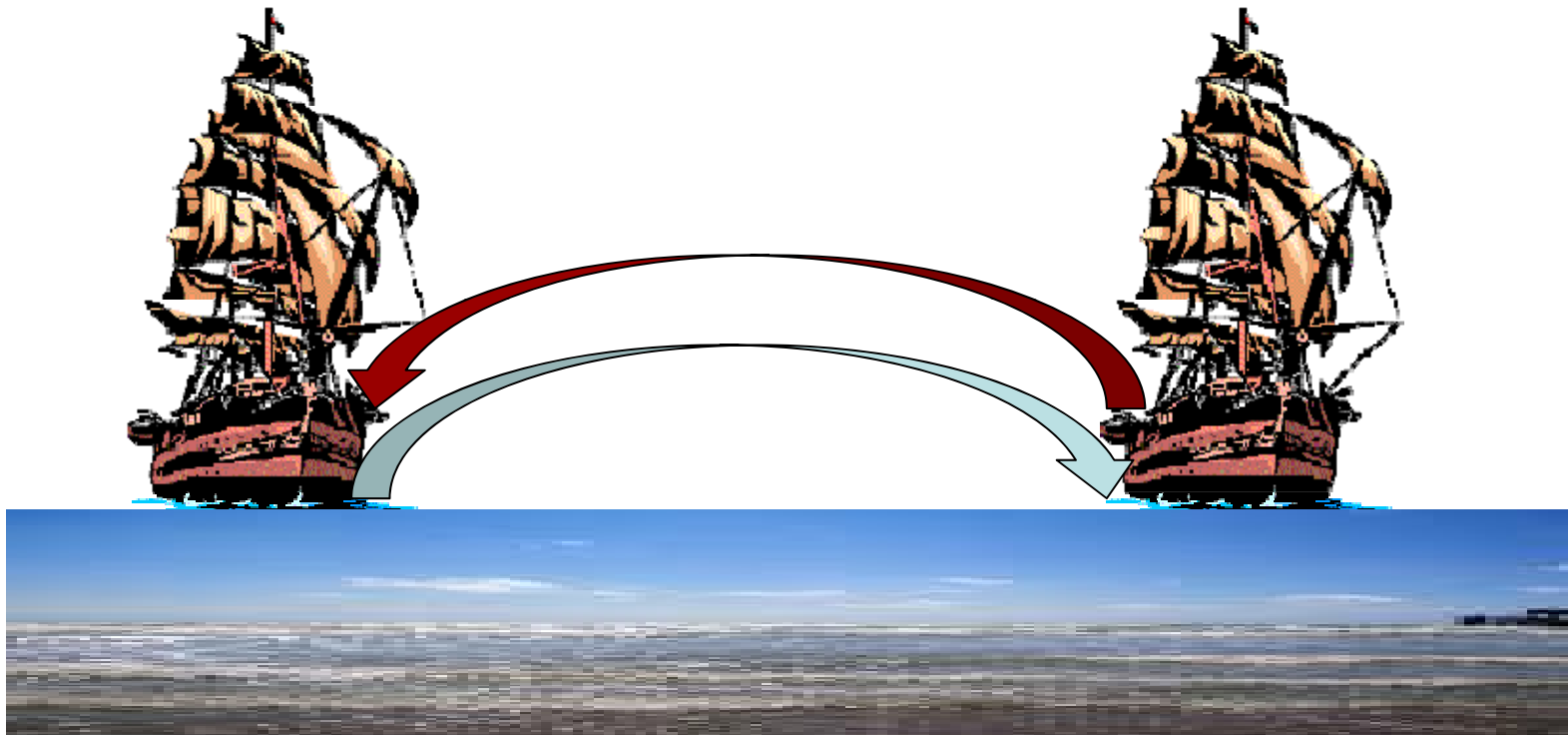
- **More extreme informational asymmetry than insurance**
- **Phenomenally successful**

Fighting sail Royal Navy

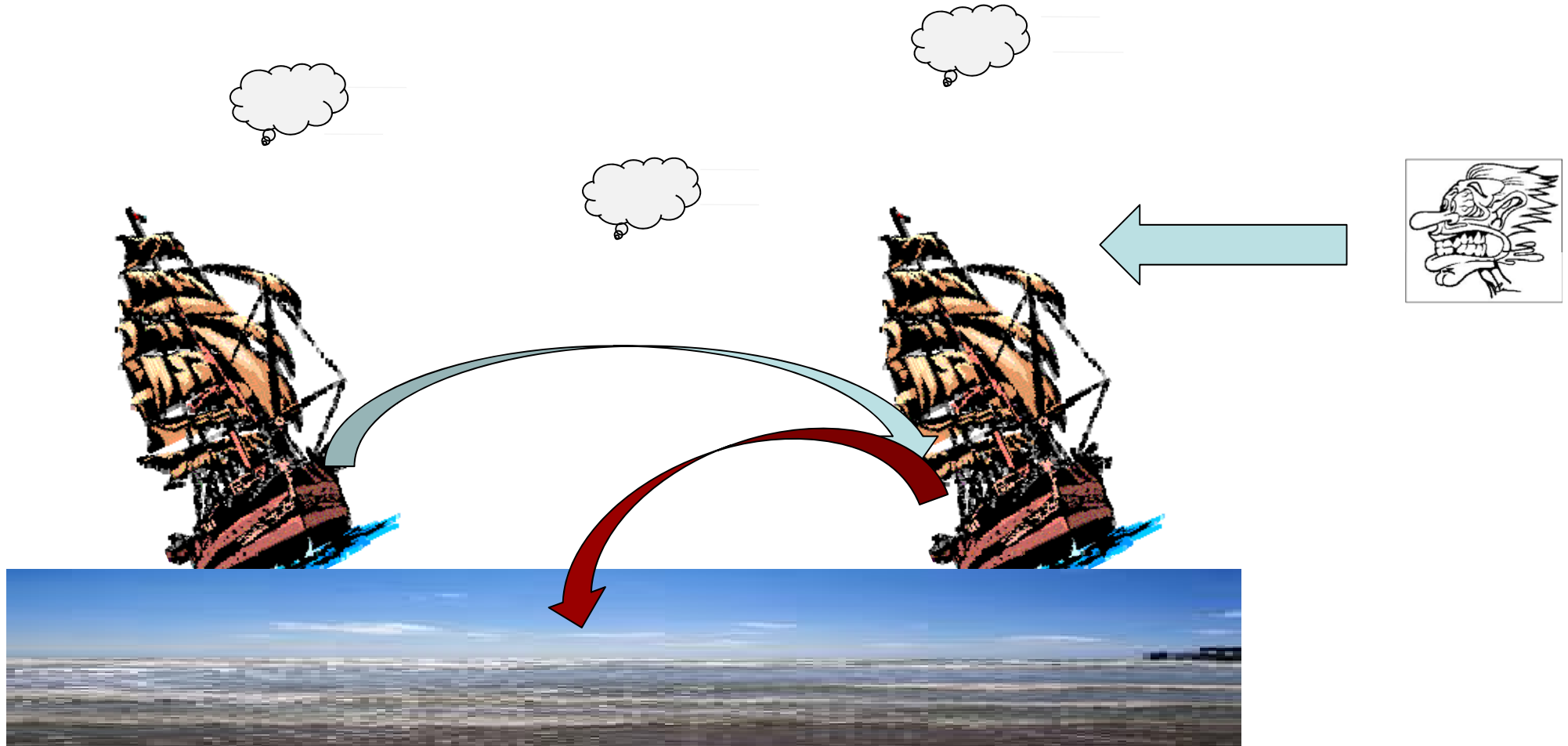
The Navy's governance

- **Aggressive bonus policy – prize money**
- **Motivate to fight**
 - **Very clear rules**
 - **Monitoring Devices that worked**
 - **Adverse consequences**
- **At expense of inferior military tactics**

Plain Sailing



The weather gauge – not so good

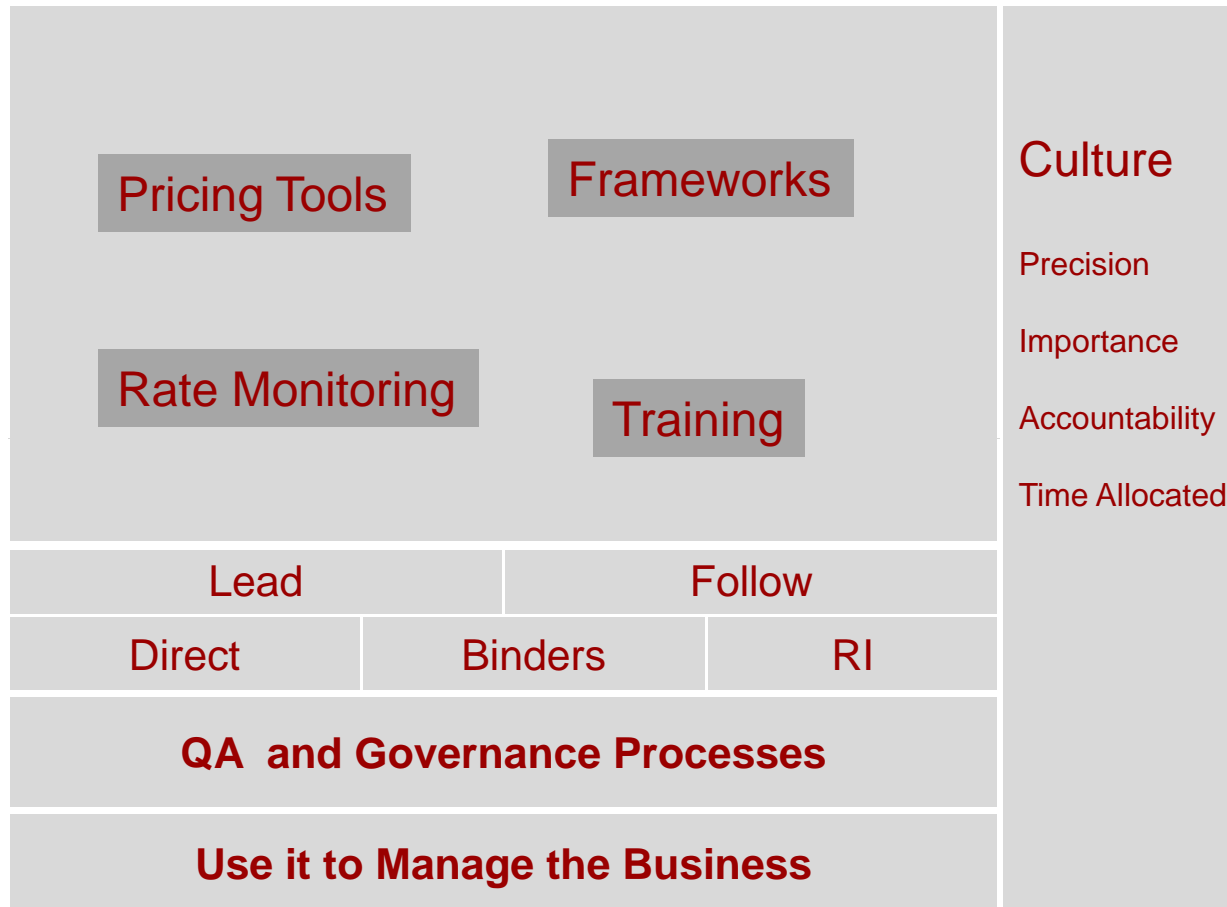


Implications for Underwriting

Focus on the behaviour you want.....not the outcome	Accurate assessment of profit.....risk-by-risk and for portfolio
Get feedback on it	Benchmark Price and Rate Monitoring..... ...with verification
Be prepared to trade some operational effectiveness	More underwriting resourcesand review resources



Components of an Effective Approach



Pricing Tools for underwriters

- What makes a 'good' model
 - Supports way the underwriters work
 - UW-friendly & easy to use
 - Sophisticated, technically right & rigorous
 - One model & pricing policy

- Practical Example

Where are you in the food-chain?

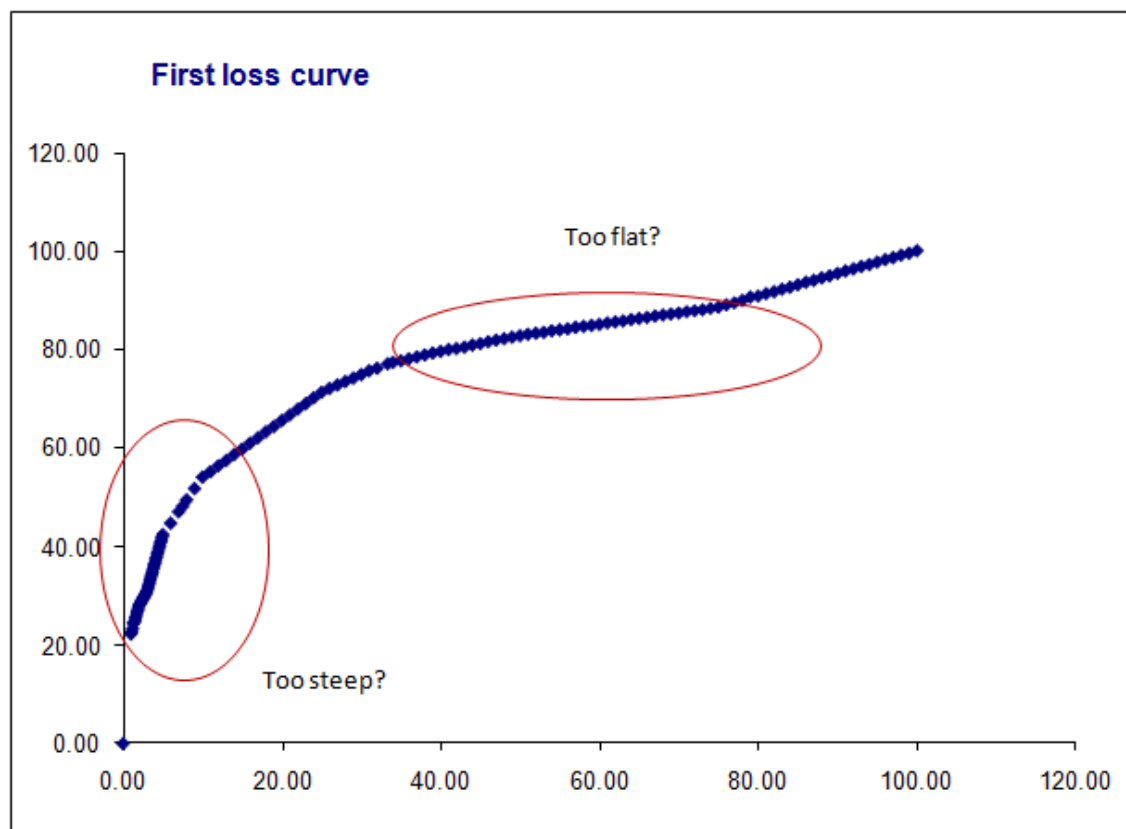
- Lead Direct
 - Support consistent quoting
 - Feed supporting market
 - Better quality info
- Follow Direct
 - Less detailed info
 - Leaders rating models
- R/I
 - U/L rates
 - This year/last year
- Binders
 - Assess and capture quality of info and control
 - Review on prioritised basis
 - Track monitoring and updating

Pricing & Rate Monitoring – Things to watch out for

- ILF curves often wrong. Big impact on price.
- Exposures & Values
- Not detailed enough
- This year / Last year
- Allowing for loss history
- Cancel & renew
- NCB, PCs etc
- Currency
- Precision in a marginal market

'Lloyd's Curve'

First Loss Curve



QA and Governance

- Essential – but not always popular
- Issues
 - Streetwise underwriters
 - Coverage issues
 - Working relationships
 - Forcing a conclusion
- Who should do it
 - Peer Review underwriters
 - Internal Audit
 - Internal actuaries
 - Pricing actuaries
 - Reserving actuaries
 - External – formal or informal

Bringing it all together

➤ Portfolio Management

Assignment of responsibility for assessing and calculating the impact that pricing movements, new business and non-renewed business may have on the syndicate loss ratios to a nominated director. {Lloyd's Minimum Standards}

➤ Practical Example

Questions / Discussion

- How important is this?
- How well is it done at the moment?
- Anything we've not covered?