

Reviewable premiums

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Recap



Key milestones so far:

- August 2005 : FSA SoGP – fairness of terms in consumer contracts
- May 2006 : ABI paper on reviewability

And previous industry views:

- Hickman, CI Current Issues Seminar 2005
- Griffiths & Colton, Healthcare Conference 2006

Agenda



- A reinsurer's perspective
- Valid reasons for review

A reinsurer's perspective



- FSA Statement refers to consumer contracts
- However, if a change in reinsurance rates is itself unfair then the change cannot be used as a reason for the life office to review the rates charged to the consumer
- There remains a risk that insurer and reinsurer approach to review may differ

A reinsurer's perspective



Where might insurer & reinsurer differ?

- Timing
 - Are the insurer's and reinsurer's plans aligned?
 - Are there differences in priority/materiality and resources?
 - How regularly are pricing reviews conducted?
- Information
 - Are there differences in experience information?
 - Are there differences in frequency and depth of analysis?
 - Is there a complete record of original pricing?

A reinsurer's perspective



Where might insurer & reinsurer differ?

- Interpretation
 - Methodology differences, such as application of IBNR/S
 - Need for independent view
 - Materiality differences
- Future Expectations
 - By definition, a subjective view

A reinsurer's perspective



Where might insurer & reinsurer differ?

- Philosophy
Differences in application
- ABI advice
Does reinsurer subscribe to ABI advice?
- Contracts
Treaty wording vs policy wording
- Sharing of information

Valid reasons for review

- Control
- Predictability
- Impact
- Scope



Valid reasons for review : control

	Inside	Outside
Claims - level		UNDERWRITING/CLAIMS MANAGEMENT
- Selection shape	RISK MANAGEMENT	SELF SELECTION
- Age/sex/smoker/product differential		
- IBNR		PRICING
- RBNS		
Trends		TERMS AND CONDITIONS
Interest rates		
Expenses	INTERNAL CAPITAL MODEL	BOTH
Capital		EXTERNAL EQ. FUND COSTS
Tax		REGULATOR, RATING AGENCY
Profit targets		TAX PLANNING
Reserving PADS		
Independent view		

Valid reasons for review: predictability



- Does sufficient data exist?
- Are the issues well understood?
- Where are the uncertainties?
- How have uncertainties been allowed for?

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Valid reasons for review



Impact

- Most assumptions have a material impact
- Where to set materiality level?

Scope

- Need principles on grouping
- Should be informed by availability of data
- If sufficient data exists for a specific cell, OK to review?

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Questions to leave you with



- How are you managing your insurer to reinsurer relationship with regard to reviewability?
- Valid reasons – have you documented your philosophy?

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