# GIRO 2006 – REINSURANCE MATTERS! WORKSHOP

# “REINSURANCE ONION” PRICING EXERCISE

## QUESTIONS YOU MIGHT ASK AT EACH STAGE

This list is illustrative and not exhaustive!!

### Layer 1

- What were the equivalent rates last year?
  - This gives you some feel for year on year changes in the account
- No central data reporting in Mongolia, so what is the exposure curve based on?
- Is the first year fully developed?
  - Ideally you want individual paid and incurred loss developments
  - How many open claims? How often do closed claims get reopened?
- How has the composition of the account changed as it has grown?
  - Note that 2001 is almost meaningless given the size
  - How has the limit/attachment profile changed over time?
  - What might the implications be for loss development patterns, etc?
- In recent years premium growth has been slowing down (05 c20%, 06 c10%) so why is 07 growth at c30%?
- What are the expected rate changes for 07?
- Rate index/on level premium in past years
  - Need to know if rate changes encompass the 5% claims inflation, as well as any other changes in exposures, policy terms / conditions etc

## Layer 2

- What problem?
- How re-underwritten – non-renewed segment? Contracts? Changed T&C?
- What was the income on the non-renewed element? Is this taken into account in the ‘as if’ burn and ‘as if’ experience?
- Is this really ‘as if’ or more ‘if only’?
- Does the rate change history encompass the 5% claims inflation?
- Why are rate changes higher in 07 than 06?
- Ask for detailed example of a rate change calculation – different companies include different things!
- Ask how they are monitoring rate levels on new business. Are you satisfied it is at least as well priced as the renewals?
- What do the retention ratios (or lapse ratios) look like? Are they changing? Are they in line with market norms?
- What cycle? What is happening to market rates compared to company rate changes?

## Layer 3

- What info is there on the Chinese business?
  - How is this new market being underwritten?
  - What is your sales source?
  - How do the exposures differ from Mongolia?
  - Is there any market experience you can review? Presumably they did some due diligence on market conditions before deciding to enter – what did it show?

- How will they win this business? More aggressive rates? How's the competition?
- How does the rating tool apply to the new business?
- Why are retention rates up? Are they undercutting the market?

## Layer 4

- Surely depends on relationship of insured values and losses – how do you know less total losses in Mongolia……
- Steeper ILFs do not always mean higher exposure rates for a given excess of loss layer, especially low layers like this one. Exposures are "pushed out the top" of the layer as well as forced into it from below.
- UNL versus Pro Rata is significant – what is the Indemnity to LAE split on this business? The more LAE, the bigger the difference between the two methods.

## Layer 5

- Why the increase in LR cap?
  - Who asked for this – client or broker?
  - Related to the expansion in China or the addition of Section B?
- The broker has taken 5% off the prices in return for a 5% aggregate deductible. Technically this is incorrect – there is a chance losses will amount to less than 5% (gross of the IAD) so the value of the IAD is a bit less than 5%. The broker has inadvertently undercut the net price by the difference.
- EL on an LOD basis should ring alarm bells!!!
  - Can change the loss severity pattern, the loss development patterns, etc
  - Over what period have there been no losses?
  - Disease and accident covered? What scope is there for latent claims?!!
  - Why are we being asked to cover this for the first time now?