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?


- 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?