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. How to do it using profit focused MI

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

<table>
<thead>
<tr>
<th>ICA</th>
<th>Established volatility into insurance management thought process</th>
<th>How well are the assumptions of complex models understood?</th>
</tr>
</thead>
</table>
| Exposure Management | Management of aggregation risk now much better:  
• 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

Underwriting Management and Actuarial Consultancy Services
www.umacs.co.uk
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?
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

Underwriting Management and Actuarial Consultancy Services
www.umacs.co.uk
The weather gauge – not so good
### Implications for Underwriting

<table>
<thead>
<tr>
<th>Focus on the behaviour you want.......not the outcome</th>
<th>Accurate assessment of profit.......risk-by-risk and for portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get feedback on it</td>
<td>Benchmark Price and Rate Monitoring....... ...with verification</td>
</tr>
<tr>
<td>Be prepared to trade some operational effectiveness</td>
<td>More underwriting resources ...............and review resources</td>
</tr>
</tbody>
</table>
## Components of an Effective Approach

<table>
<thead>
<tr>
<th>Pricing Tools</th>
<th>Frameworks</th>
<th>Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Monitoring</td>
<td>Training</td>
<td>Precision</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Importance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accountability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Time Allocated</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lead</th>
<th>Follow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>Binders</td>
</tr>
</tbody>
</table>

- QA and Governance Processes
- Use it to Manage the Business
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

![First Loss Curve Graph](image_url)
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?