Pricing Risk Excess Reinsurance

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A varied market....

- Property RI: cat, risk excess, QS
- Hull, cargo;. Working / high excess
- D&F, Terrorism
- Specialty
- Liability
- Satellite
- PA.......etc

Different Pricing Methodologies

- External exposure analysis
- Loads on key exposure metrics
- Historical burning cost
- Allocation of income / profit share
- Explicit price for volatility
- Other – market share
Rigorous Analysis.....or ........Guessing?

- Exposure
  - Coverage
    - Structure
    - Capital/ RI
    - Expenses

Burning Cost analysis
Rigorous Analysis.....or .......Guessing?

- Exposure
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Burning Cost analysis

Analysis
Judgement
Guess ?

- What's the right balance between rigour, detail, complexity.....and judgement?

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What this session is about

Pricing Risk Excess Reinsurance

This session will be a…

1. Step-by-step demonstration of a…

2. A per risk pricing engine…

3. With consideration of the methodologies,…

4. The approximations & practical pitfalls contained therein…

• to allow us to consider…

5. How best to Price Per Risk & what to watch out for in the current market environment?
Risk profiles

- Is the level of grouping reasonable? Is it changed from last year?
- Is using average Sums Insured enough?
- Base rates & mix of business, stacking
- Policy listings
- Primary vrs Excess business
- Inuring reinsurances
- Deductibles & Self insured retentions (SIRs)
- Sums Insured or PMLs
Expected Loss to Layer

- Commissions & deductions
- Level of profit in the underlying book
- Knowing your curves
  - Guidelines when to use different ones
- Rating for PML bust
- Free & unlimited cost
Pricing for Structure

- Frequency assumptions
- Allowing for AAD, AAL
- Allowing for reinstatement premiums
- Be ready for challenge here; Model result vrs Established practice
Loading for Profit on RXL

- % load
- % load matrix/curve
- Calculating a Standard Deviation
- Loading for profit – portfolio view
Experience rating

- Allowing for inflation
- Allowing for trend
- Pareto methodology
- When is experience of any value?
- Which years should I include/exclude?
Trending and Roll-forward

Policy Profile data

Adjust for:
1. Estimated change in profile
2. Estimated U/L rate change

Jan 2010

Jan 2011
Rate Monitoring gets complicated........
Rate Monitoring gets complicated........

Market Practice

1. Up-to-date but iffy track record
2. Lags 1 year
Bringing it all together

- Pricing model specification
- How will the model be used by the underwriters
  - Quote vrs lead vrs follow market
  - Issues of volume
- Pricing for Cat exposures
Pricing Risk Excess in the Current Market

- Current profitability of the market
- Inuring reinsurances
- Aggregate features
- Wordings
- Underlying rating
- Paucity of information/brokered data
- Loading for profit, component pricing