

Actuaries and Underwriters

Patroklos Konstantinides

Arma Underwriting Ltd, DIFC

GAS Event



Actuaries and underwriters

Rivals or an essential combination to success?



Or



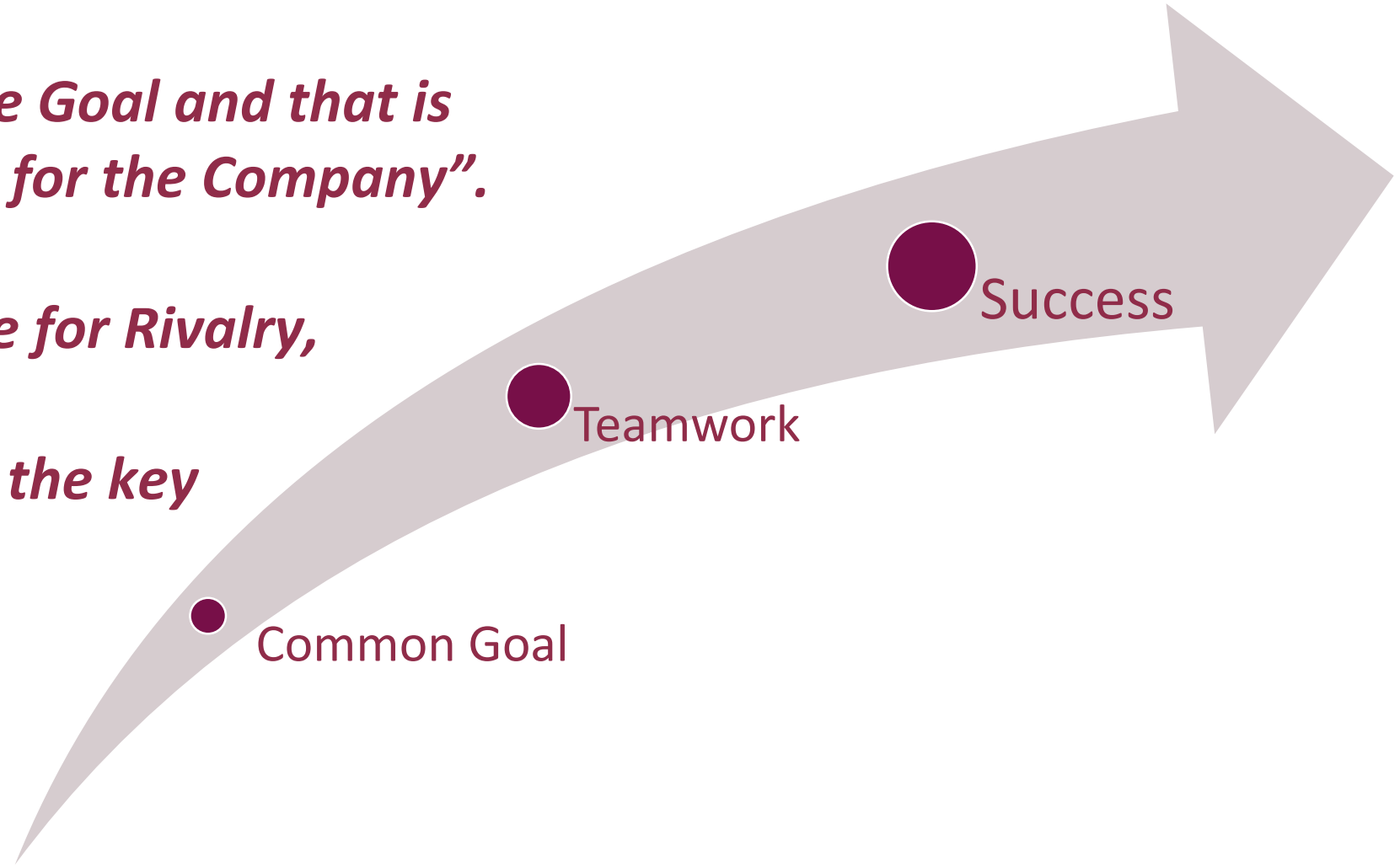
Common goal

*There is only one Goal and that is
“Creating Value for the Company”.*

There is no place for Rivalry,

Collaboration is the key

to Success!

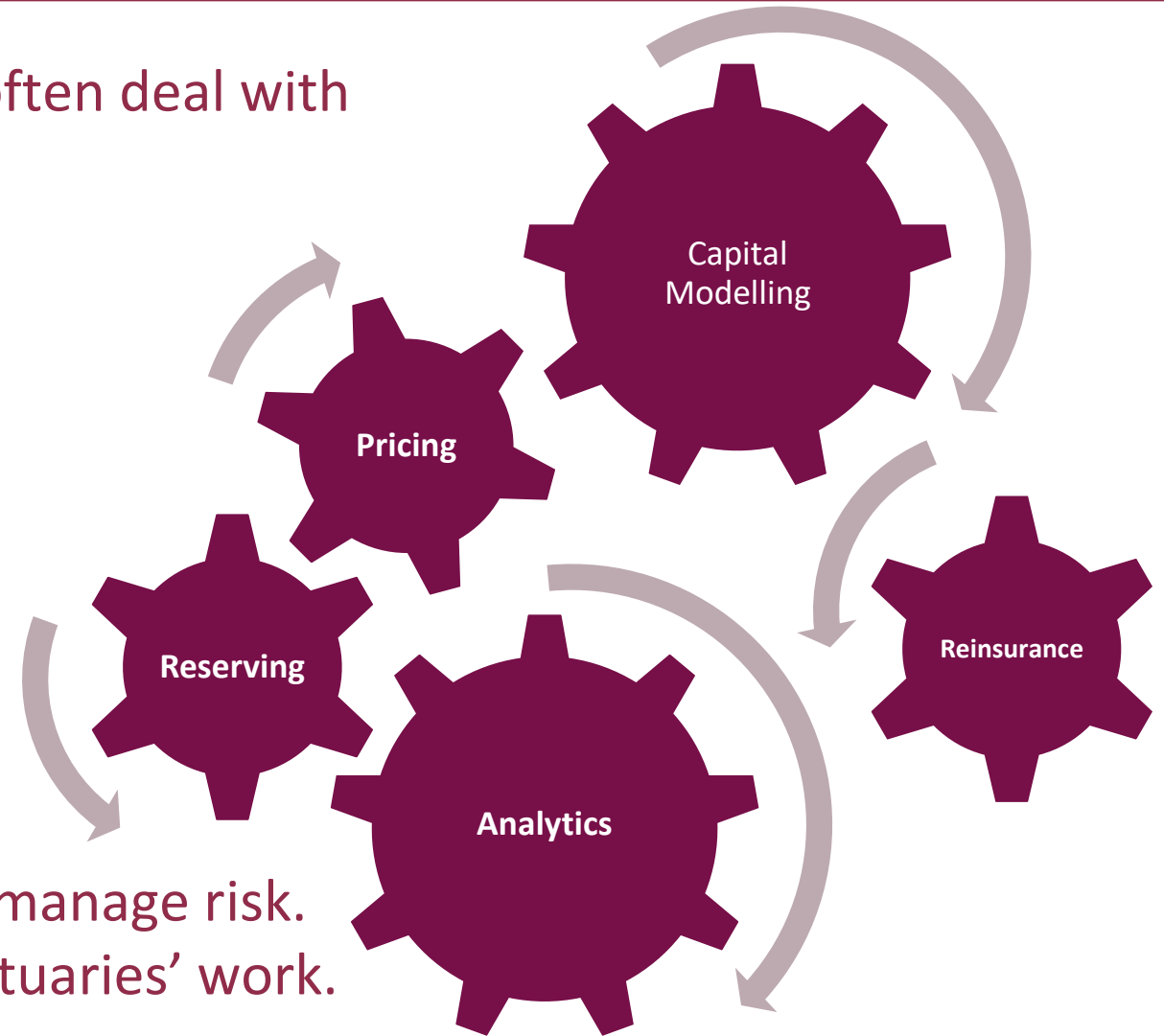


Actuaries' work

Actuaries through their analytical skills are often deal with complex tasks such as,

- Pricing
- Reserving
- Data Mining/Analytics
- Reinsurance
- Capital Modeling
- Etc.

They try to assess the financial impact of future uncertain events. They measure and manage risk. Making assumptions is an integral part of actuaries' work.



Pricing

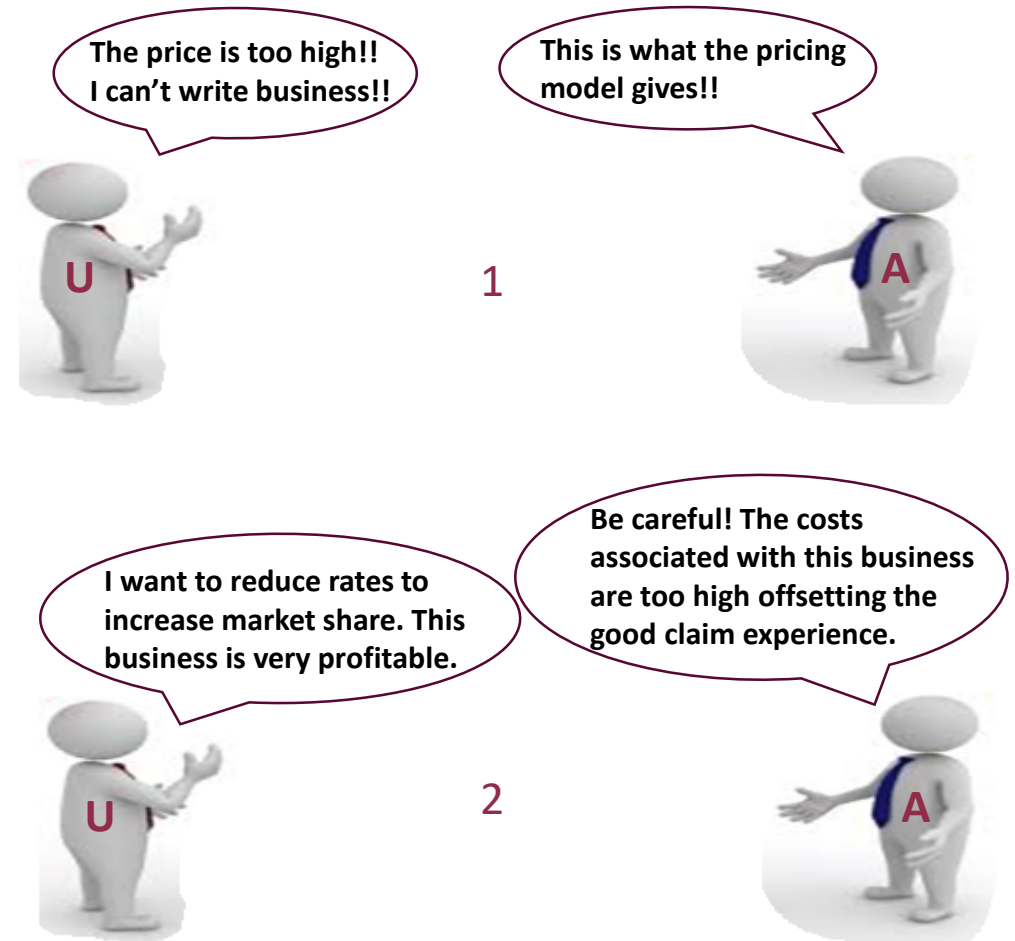
Insurance pricing is a multidimensional task. It incorporates many assumptions about the future claims experience as well as changes in market dynamics.

The actuary should utilize the underwriters experience/expertise and involvement with business to gain insights that will help setting these assumptions.

Pricing Considerations

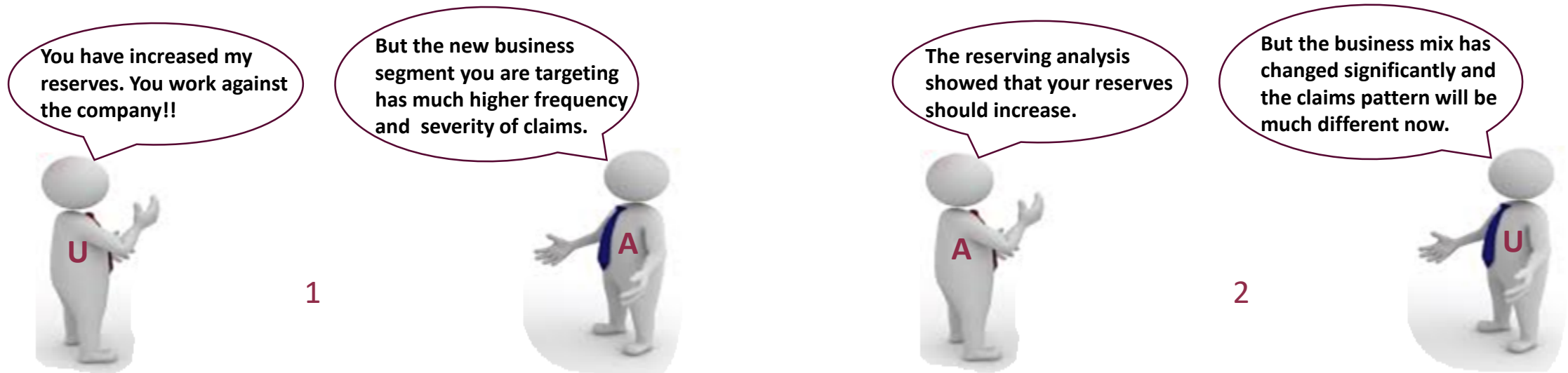
Apart from the various margins that need to be built in the premium, further pricing considerations should be made,

- The stage of the underwriting cycle – Hard Market, Soft Market.
- The competitive pressures.
- The future business mix and the target segment.
- Cross-subsidization?
- Etc.



Reserving

Claim reserves are set to cover future insurance obligations. As with pricing and almost every work actuaries are involved with, reserving incorporates many assumptions about the future claims experience as well as changes in market dynamics.



Actuaries and underwriters should work closely together. Discussing with each other is much more efficient than working in silos.

Reinsurance

Actuaries can evaluate the performance of reinsurance arrangements in place as well as decide the optimal reinsurance arrangement to be purchased.

I think the current RI structure does not work for us.



1

Lets discuss the nature of the business and I will help you optimize it.



I have observed that the number of attritional claims have increased significantly. The current RI arrangement is not efficient anymore.



2

Yes, I write more small risks that have higher frequency but lower severity. You are right.



Capital modelling

Assessing and allocating capital is required by regulators, rating agencies and other key stakeholders such as shareholders and senior management. The main reason of its assessment is to ensure that companies hold enough capital to meet policyholders obligations.

However, allocated capital can be used to measure profitability when “return on capital” is calculated.



Actuaries as data miners

Various analytics could be performed on the data and divulge many insights of the business. Deep-dive analysis will help the underwriters better monitor their portfolios and take more informed decisions. It will provide a better sense of the risks as well as opportunities.

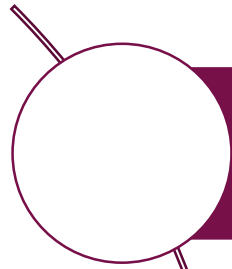
Through a deep-dive analysis,

- The most profitable/unprofitable segments can be identified,
- The most profitable/unprofitable channels to source the business can be explored,
- The most profitable/unprofitable products are highlighted,
- Performance drivers can be brought to the surface.
- The premium adequacy can be assessed.
- The reinsurance structure effectiveness could be evaluated.

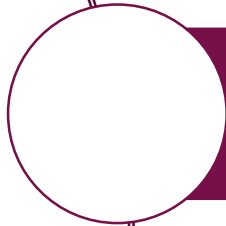
Different KPIs could help the identification process. This could include different descriptive statistics such as,

- a. Frequency of Claims.
- b. Severity of Claims.
- c. Average premiums.
- d. Average exposure.
- e. Rates charged.
- f. The impact of large losses in the portfolio.
- g. Loss ratios.
- h. Commission ratios.
- i. Expense ratios.
- j. Combined ratios.
- k. Etc.

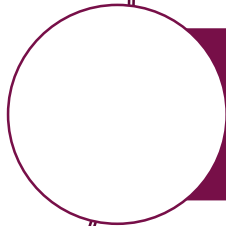
Conclusions



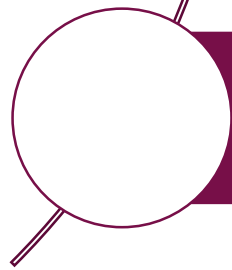
It is vital for a company Actuaries and Underwriters to work together, in a collaborative environment.



Discussing, sharing and working closely together creates an environment which puts you in a stronger position for positive outcomes / better results.



Data mining and analysis help the decision-making process. It allows underwriters to take better risk-return trade-offs.



Active engagement leads to more adaptive underwriting approach which is critical in managing the current market cycle.

Thank you!