Exposures

Underwriting Risk

How has the level of cover changed?

Have any of the following changed?

- Terms and conditions
- Sums insured
- Limits
- Types of risk written, for example:
  - Country/geography
  - Industry
  - Specialism
  - Type of individual
  - Catastrophe/Non catastrophe
- Mix of business
- Personnel changes – have the underwriters themselves changed? What is the anticipated impact of this?
- Delegated authority strategy
- New accounts within the reserving line or new intermediaries

Has a record been kept, so it is easy to refer to in future years – and the knowledge built up each year?

Exposure

Is the underlying exposure and any changes over time understood?

Take into account:

- Accumulations of risk
- Changing business volumes
- Change in mix of business - by distribution channel, geography, industry, cover level and so on
- New sources of business with particular concentrations
- Changes in underwriting limits leading to a different sum insured profile or mix
- Changes in legislation or rules
- Changes in economic factors – for example inflation linking, negative equity in Mortgage Indemnity Guarantee business
- Changing competitive environment driving appetite in particular sectors
- Impacts of reinsurance and coinsurance

Is the understanding of exposure and any changes over time clearly documented and understood and agreed across the business?

Have areas where the underlying exposure is not clear been identified and documented? Can the impact be quantified? What improvements can be made going forward?

Have new risks evolving with unknown frequency, severity impact or development, been considered? For example, cyber risk and risks associated with driverless cars. These also give rise to pricing risk and model risk.

Pricing Risk

How has the pricing basis changed over time?

- Have the pricing models been correctly parameterised and when were they last updated?
- How much have the underwriters deviated from the technical price? Has this been influenced by level of competition in the market or specific business strategy?
- Level of cross-subsidies?
- To what extent are the pricing loss ratios used as IELRs (initial expected loss ratios for setting reserves? Do they look reasonable (eg can they be record breaking every year or for every product)?
- Have changes in terms and conditions been adjusted for (i.e. where past claims were not reflective of the future)?
- Have historic rate changes been allowed for appropriately in past data?
- Have policy features been allowed for correctly (eg: aggregate limits and deductibles or reinstatement premiums)? Hard or soft point in the underwriting cycle, and how is this affecting the price?
- What exposure measure has been used for pricing? If it is premiums, have historic rate changes been adjusted for appropriately? This also applies to use of IELR technique.
- For reinsurance covers, are exposure curves available, and if so how reliable are they?
- What large losses have been allowed for in the price? Is this consistent with underwriters' and reserving actuaries' views?
- Is there a risk of anti-selection and how would this affect IELRs and development?
- Can a risk mix index be used, which is popular in personal lines.
  - This is constructed from either the burning cost model or a measurable change in mix that correlates with changes in the projected KPIs.
  - It gives the relative level of frequency, severity and other KPIs which can be tested for fit to initial reserving projections and then used to guide assumptions for methods to project forward, e.g. Bornhuetter-Ferguson (BF) methods.
  - How much of the account is covered by the risk mix?

We have chosen to describe what we mean by each element very simply - by just listing examples of the kinds of uncertainty that may be encountered. This is not intended to be an exhaustive list and ***we actively discourage use of the framework as a checklist.***