

GIRO / CARE International Pricing Research Working Party – Property Risk

Analyzing the Disconnect Between the Reinsurance Submission and the Global Underwriters Needs

Synopsis for GIRO Annual Conference: 21 October, 2015 - Liverpool

Presenters: John Buchanan, Adam Shrubshall, Enrico Biffis

Primary insurance carriers do not always provide property reinsurers the desired and most relevant information. Lacking the needed information, reinsurance underwriters must make underwriting assumptions. Such assumptions directly affect reinsurance pricing – usually increasing the premium.

Increased reinsurance premium translates into increased primary insurance pricing. The result, higher insurance premiums for commercial property insureds. Understanding what information the reinsurer needs benefits all parties involved in an insurance transaction – from the main street buyer to the agent to the primary insurance carrier.

Toward the goal of improving reinsurance submissions, the UK Institute and Faculty of Actuaries General Insurance Research Organization (IFoA-GIRO) and the US Casualty Actuarial Society's Casualty Actuaries in Reinsurance (CAS-CARe) formed a working party to study the gaps between property reinsurance submissions and the information preferred and needed by property reinsurance underwriters. The information gathered from property reinsurers will create a compelling framework for future property reinsurance submissions.

Introduction of the Working Party

Identifying what makes the most beneficial reinsurance submission is the initial aim of the working party. Accomplishing this goal requires establishing the current submission quality compared to the needs of pricing practitioners. This first goal was accomplished through use of a survey. The initial results and observations emanating from this survey were presented at the annual CARE meeting in June 2015 in Philadelphia, USA.

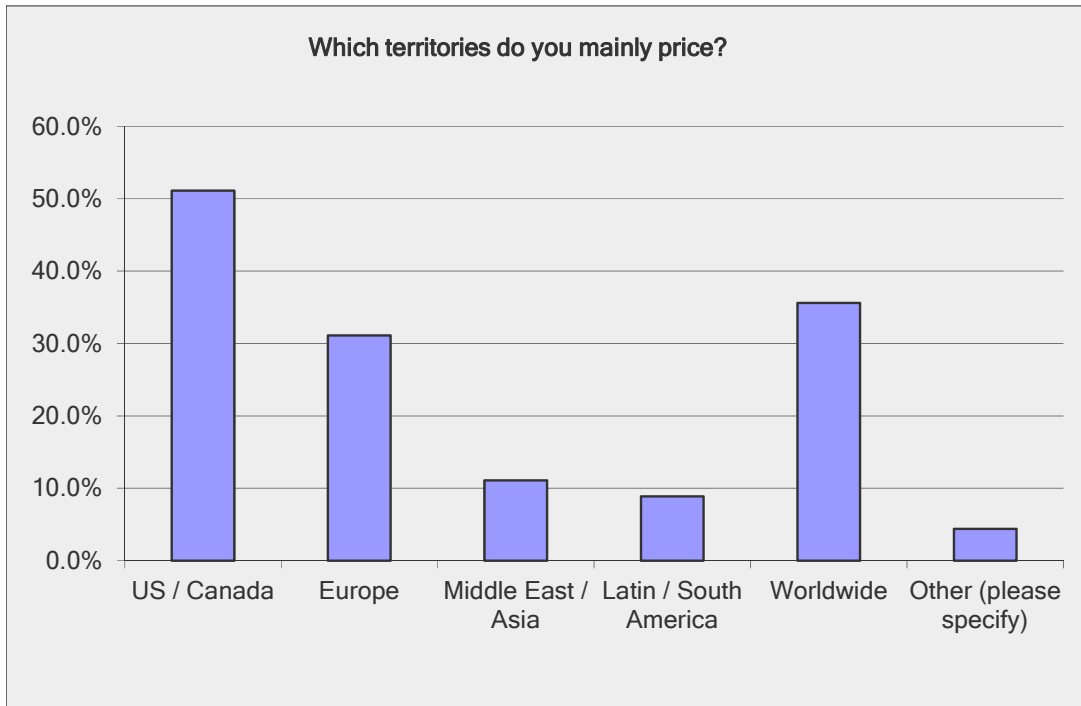
This survey is being followed by a White Paper, which includes a broad overview of many important aspects of an underwriting submission, drawing heavily upon what granular information is most critical from the initial buyers of property risk insurance, and ultimately being included in some way through to the reinsurer. The White Paper includes levels of what makes a good submission as well as a practical set of suggestions, guidelines and/or framework for producing that information. The White Paper emphasizes the advantages to the primary insureds by amassing and providing the granular and rolled up information required for properly pricing reinsurance submissions. It is hoped that the White Paper can be referred to by interested parties on all sides of the primary and ceded reinsurance transactions so all can understand the needs and benefits of the information provided obtained from producing a high quality submission.

The interested audience should include reinsurance and primary pricing practitioners, actuaries, underwriters, front-line insureds, agents and brokers or reinsurance purchasers in various global settings.

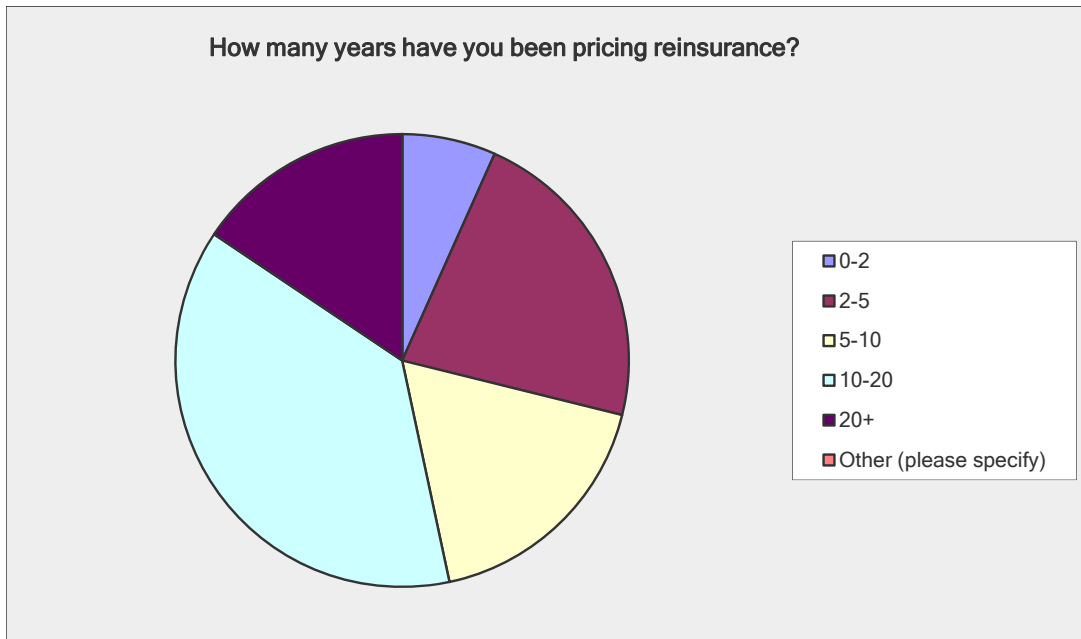
In 2015 the focus is on Property Risk and in the future may extend to other property or casualty lines such as e.g. property cat, crop insurance, motor, employers liability, cyber or other emerging issues.

Survey overview

- Survey had 44 responses, 86% actuaries and 14% from other areas including actuary turned underwriter, underwriter turned actuary and CRO
- 25 members of CAS, 16 members of IFOA, 13 members of other organisations including French, Chinese and Australia / NZ (some members of multiple organisations)
- Wide variety of priced territories:



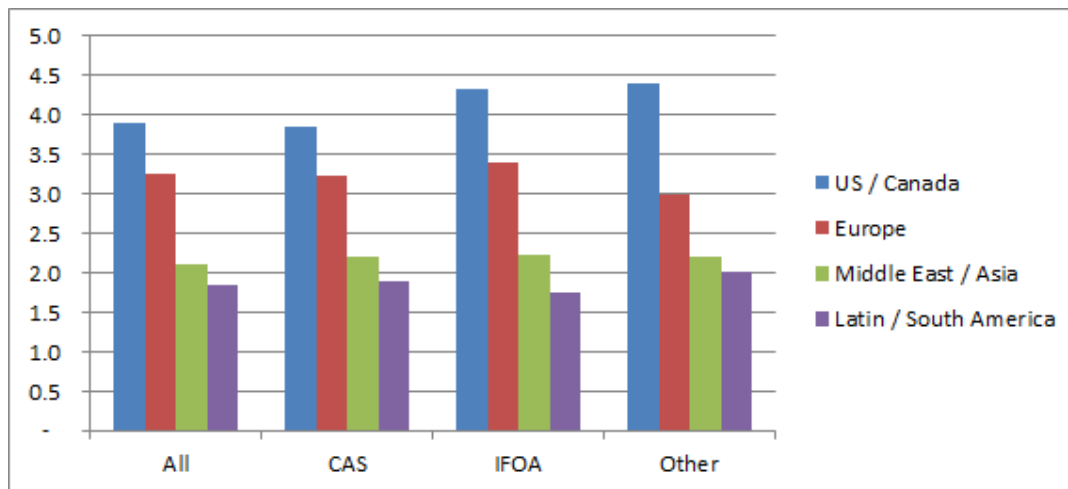
- Relatively experienced respondents, with 53% pricing reinsurance for more than 10 years and 71% for more than 5 years:



Current status of submission quality

The survey showed that submission quality is generally considered to be at least "Average" (3 out of 5) in Europe and towards "Good" (4 out of 5) in the US / Canada. Submission quality is considered "Below Average" (2 out of 5) in other territories. There is some differentiation in responses of the different Actuarial organisations with the Non-CAS respondents ranking US submissions higher than the CAS members but generally responses were similar across Actuarial communities.

The graph below shows the submission quality rank (1 = poor, 5 = Excellent) by Territory and Actuarial organization. Note that respondents were asked to only rank submissions for territories they are familiar with:

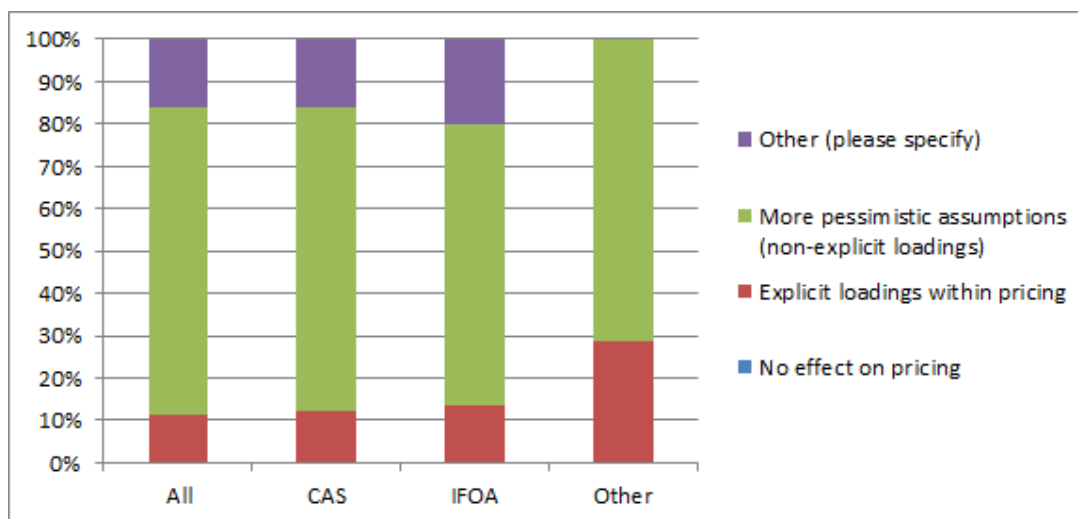


It was noted in the responses that it might be useful to distinguish between UK and Rest of Europe as well as to indicate Australia separately. Additionally comments were made that Asia tends to have higher quality submissions than the Middle East and North Africa. One respondent noted the importance of size and sophistication of the broker and ceding company on the submission quality.

Impact of submission quality on pricing

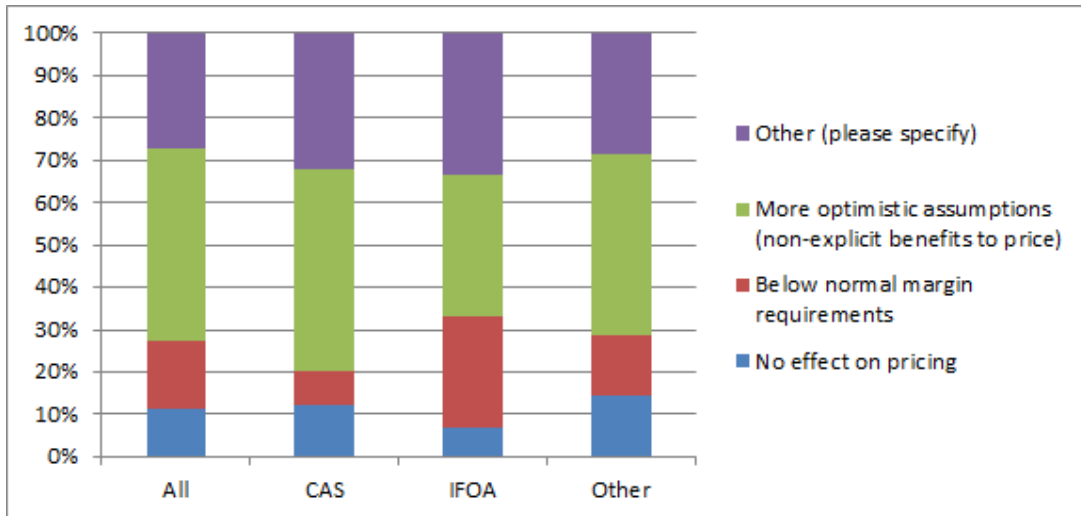
The survey then went on to discuss the impact of submission quality on pricing. Respondents were asked firstly how a poor quality submission impacts price and secondly how an excellent quality submission impacts price. They were then asked to rate, subjectively, how much submission quality impacts price.

How does a poor quality submission impact price?



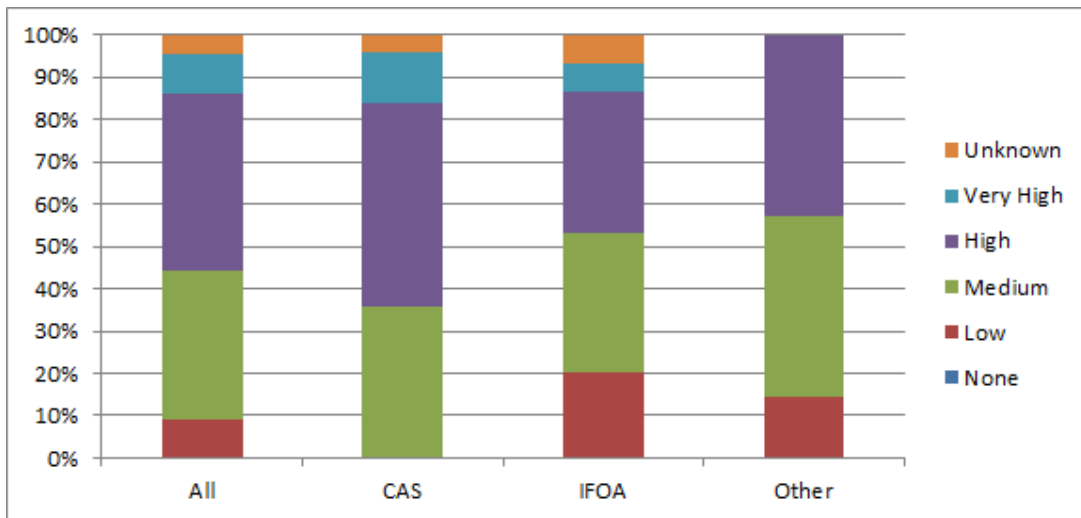
As shown above, no respondents said that there was no impact on price with the majority giving the answer that more pessimistic assumptions would be made rather than explicit loadings. The “other” responses included comments that it would be a combination of assumptions and loadings, often leads to declination of the risk, more uncertainty in pricing and less likely to perform a full pricing.

How does an excellent quality submission impact price?



As shown above approximately 10% said there was no effect on pricing from an excellent quality submission with approximately 60% saying there would be a price benefit to the cedant in some form. There were a large number of “other” responses here with many comments along the lines of an excellent quality submission means that more credit is given to the cedant data and less benchmark pricing is involved. It was noted that this does not necessarily mean a lower price, more that the price is tailored to the cedant’s data. Comments were also made that high quality submissions give credibility to what the cedant is saying about their underwriting, are easy to validate, provide insight to the underlying portfolio and give confidence that they are competent, which in turn helps with underwriting appetite.

How much does quality of submission impact your price?



Clearly this is a subjective question but as demonstrated above no respondents said that there was no impact of submission quality on price, with approximately 50% saying the impact was “high” or “very high”.

Respondents were asked whether they normally receive 8 common exposure rating items and 8 common experience rating items in a submission. They were then asked to rank each of the items in terms of what they would like to receive. The tables below show the results and the White Paper will go into more detail:

Exposure Rating

	All		CAS		IFOA		Other	
	% Receiving	Rank	% Receiving	Rank	% Receiving	Rank	% Receiving	Rank
a. In-force risk profile (banded)	93%	1	92%	1	87%	1	86%	1
b. Historic risk profiles (banded)	23%	5	8%	6	60%	4	29%	3
c. Individual risk listing (all cat/non-cat exposures)	30%	3	24%	2	33%	2	43%	6
d. Individual risk listing (above certain threshold)	48%	7	48%	7	53%	5	29%	8
e. Historic from ground up loss ratios (cat and non-cat)	57%	2	68%	3	40%	3	71%	2
f. Written explanation of risk profile	25%	4	20%	5	27%	5	29%	4
g. Risk profile detail	34%	6	32%	4	40%	7	29%	5
h. Link of claims to risk profiles	7%	8	4%	8	7%	8	29%	7

Experience Rating

	All		CAS		IFOA		Other	
	% Receiving	Rank	% Receiving	Rank	% Receiving	Rank	% Receiving	Rank
a. Large loss listing (no triangle)	100%	1	100%	1	100%	1	100%	1
b. Historic large loss listing (triangle)	30%	3	24%	3	33%	2	29%	4
c. Large loss claim description including cat/non-cat indicator	82%	4	96%	4	73%	4	71%	3
d. Historic premium	93%	2	96%	2	87%	3	100%	2
e. Historic exposures (# of risks, # of exposures / risk)	30%	6	20%	6	40%	5	57%	5
f. Projected rate change	43%	7	56%	6	27%	7	29%	7
g. Historic rate change	59%	5	84%	5	33%	6	57%	6
h. Rate monitor (renewal policies)	18%	8	24%	8	20%	8	0%	8

The White Paper will consider further survey results (also shown in attached Excel file) around the type of data required and how important that data is in pricing. We also try to highlight the benefits to ceding companies in collecting and providing high quality submission data. These benefits are not limited to reinsurance purchasing / pricing but also directly to the primary insurers original business. The White Paper topics are as follows:

2. **Primary Company Considerations**
3. **Reinsurance Company Considerations**
4. **Types of Submissions**
5. **Amount of Insurance**
6. **Historical Profiles**
7. **Construction, Occupancy, Protections and other COPE characteristics**
8. **Large Claim information and link of Amount of Insurance to Claims**
9. **Loss ratio information**
10. **Price Monitors**
11. **Using and reconciling Property Risk submissions with Cat submissions**
12. **Various Country Issues**