UNDERWRITING - LOGICAL APPROACHES

TO THE ONE AND ONLY ONE …

What is the underwriting logic?

- **It is the logic behind the underwriting approach.**
- **It assists in measuring the effectiveness of the underwriting decisions.**
- **When drafting the logic, we have to think of why we will underwrite the risk, why we should not right the risk, what is the underwriting decision that has been decided and how the risk disadvantages were addressed.**

What is the underwriting logic?

When Underwriting the risk:

WE UNDERWRITE TO EXPRESS NOT TO IMPRESS.

The underwriter must underwrite the risk in a manner that expresses how he / she understands it, not to impress the sales channel, hence understanding the risk is a MUST.

What is the underwriting logic?

- **Why we should underwrite the risk:**
- **Why we should abstain underwriting;**
- **The underwriting decision.**

The underwriting decisions:

1. **Accept;**
2. **Reject;**
3. **Accept with amendments.**

5 Stages of Underwriting

The first stage of underwriting is *Identify and Evaluate (I&E).*

The underwriting decision is taken simultaneously whilst running the SECOND stage of underwriting, which is *Making the Decision.*

5 Stages of Underwriting

The other 3 stages of underwriting are:

3. **Terms and Conditions.**
4. **Price and Premium.**
5. **Negotiate.**

Pricing

Before pricing:

What is CoR.

CoR is: *Loss Ratio + Expense Ratio + Commission Ratio*

When pricing:

Class Underwriting.

Experience Underwriting.

Judgmental Underwriting.

Pricing

The price should be:

- Adequacy Profitable;
- Not Excessive;
- Loss Control;
- Customer Satisfaction;
- Regulatory Compliance;
- Risk Level;
- Not discriminatory;
- Simplicity.

Pricing

The Pricing Challenge:

- **The risk cost can never be precisely calculated at the policy inception.**

Pricing

Rating Methods:

1. **Judgmental Rating:**
2. **Experience Rating;**
3. **Class / Group Rating.**
4. **Modified Class Rating.**
5. **Retrospective Rating Plans.**

Pricing

Modifying rate for motor:

- **Driver's age;**
- **Geographical area;**
- **Storage;**
- **Cover / extensions;**
- **Type and make of vehicle;**
- **Type of use;**
- **Driver's driving record;**
- **Motor modifications.**

Pricing

Modifying rate for property:

- **Construction and material;**
- **Heating and lighting;**
- **Number of floors;**
- **Types of goods stored;**
- **Safety;**
- **Location;**
- **Operate in another premises?**
- **Bottle-neck?**
- **Replacement machinery?**
- **Suppliers, customers and utilities?**

Pricing – Burning Cost

- **Revalue individual losses.**
- **Apply policy modifiers to all losses. (deductible , sub-limits ..etc..).**
- **Aggregate losses by policy year.**
- **Make adjustments for IBNR.**
- **Make adjustments for the variable expenses and / or fixed expenses – whenever possible.**
- **Revalue exposure.**

Negotiating

- **Book Rate - Benchmark;**
- **Technical Rate;**
- **Target Rate;**
- **Actual Rate;**
- ***Walk Away Price.***

Facultative Reinsurance

To the One and Only One

What is Facultative Reinsurance?

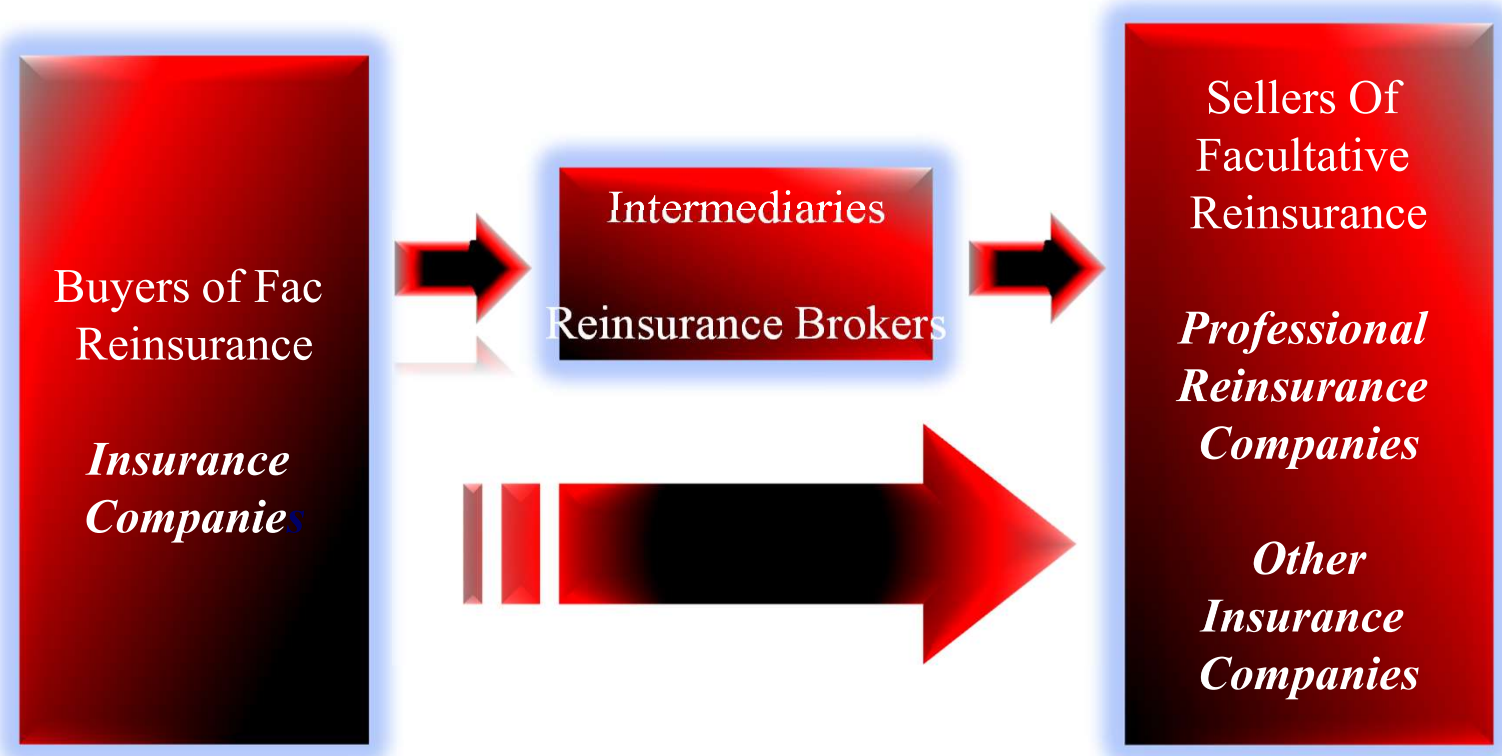
Definition: -

- **Arrangement in which individual risks are offered by an insurer to a reinsurer, who has the right (in other words the "faculty") to either accept or reject each individual risk.**

It is Noteworthy to State that it is the:

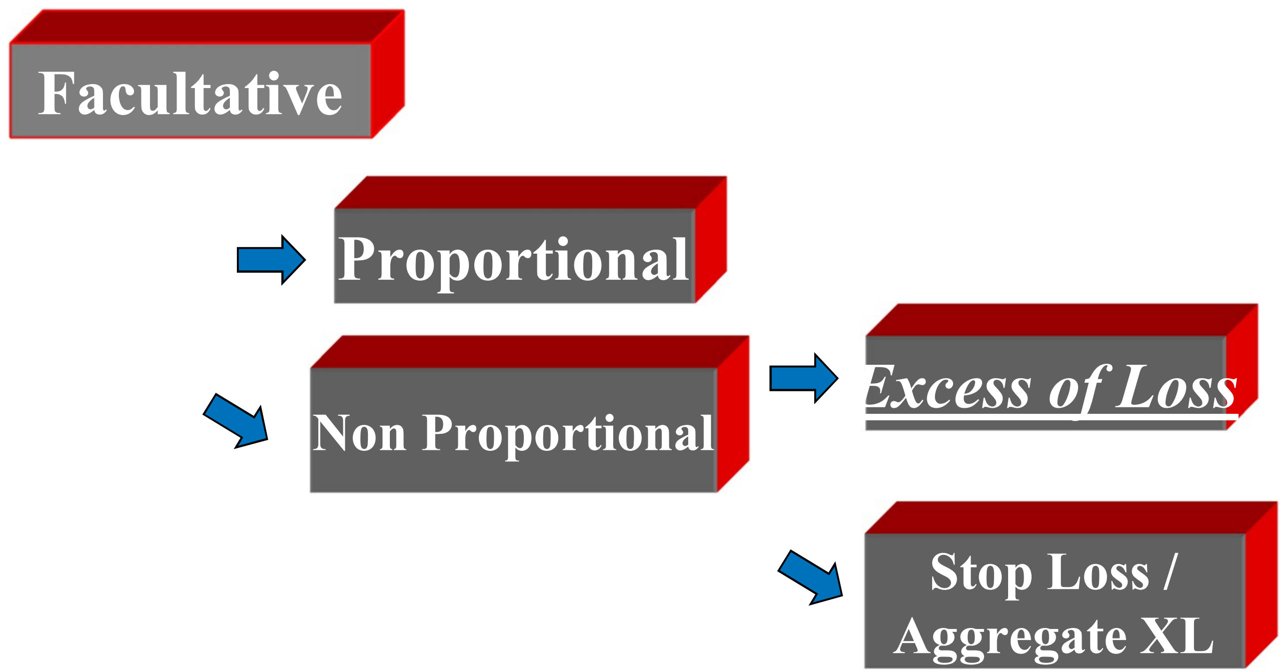
i. **Oldest form of reinsurance.**
ii. **Optional reinsurance of individual risks.**
iii. **Usage of facultative business usually to complement treaty reinsurances.**
iv. **Involves cession of individual risks to reinsurers.**
v. **Cedents must provide all material facts.**

The Facultative Market:



To the One and Only One

Types Of Facultative Reinsurance



Proportional Facultative:

i. **The easiest way to place RI.**
ii. **Fixed Rate.**
iii. **Certain Portion of the Risk.**
iv. **Same Portion of the Premium.**
v. **Same Portion of the Claims if Any.**

Proportional Facultative:

When it Comes to Claims:

We have **Three** Scenarios:

I. **Follow the Fortune** – This is the common practice;

II. **Claims Cooperation Clause** – Restricts the ability of the claims handler to work free.

III. **Claims Control Clause** – The claims handler is merely handling the claim, he is actually a post office.

Proportional Facultative:

Some expected to be Problems: -

- Errors in calculating premiums and shares;
- Failure to secure cover promptly;
- Non placement of business;
- Placement with undesired securities;
- Communication with various parties.

Non Proportional Facultative:

1. Reinsured chooses to retain the **“First”** or **“Primary”** part of the risk.
2. Reinsurer charges lower premium than proportional percentage.
3. Reinsured retains all claims up to the excess point.
4. Premium is shared between deductible and limit of excess layer . Higher deductibles result in higher premium being retained.

TYPICAL FIRST LOSS SCALE:

% "First Loss" to Declared Full SI	Premium as a % of OG (Cedant Share)	Premium as % of OG) R/I share
10%	54%	46%
20%	66%	34%
30%	75%	25%
40%	80%	20%
50%	83%	17%
60%	85%	15%
70%	87%	13%
80%	91%	9%
90%	95%	5%

When Non Proportional Facultative RI is Purchased?

i. When cedant intends to retain more premium
ii. When original rating is insufficient to attract reinsurance support proportionally.
iii. When Frequency of losses is high.
iv. When there is a Large risk or risks in cat. prone areas.

Moreover: It is the most effective way to reduce an insurers exposure in the least expensive way.

Why Facultative Reinsurance?

The traditional reasons:

i. Additional Capacity;

ii. Unique project;

iii. Inadequate experience in place;

iv. Getting the RIs experience;

v. Enhancing the Treaty Results;

vi. Excluded risks from the treaty;

vii. Commercial Financial Strategies.

Why Facultative Reinsurance?

The Modern Reasons:

i. To **improve risk profile** – by removing certain risks from the portfolio;

ii. To **gross up participation** – to be the leader on a certain risk**;**

iii. To **remove a particular layer of exposure -** the first layer in the event that the account has a loss frequency issue;

Advantages of Facultative RI:

- **Individual risk consideration;**
- **Competitive edge;**
- **Freedom to offer;**
- **Improving treaty results;**
- **Facultative RI knowledge;**
- **Developing relationship.**

Disadvantages Of Facultative RI:

i. **Lack of certainty;**
ii. **labour intensive;**
iii. **Disclosure;**
iv. **Influence on underwriting;**
v. **Lack of control.**

Good Practices In Transacting Facultative Reinsurance:

i. **Maintain a cordial working relationship with reinsurers.**
ii. **Involve reinsurers as early as possible on risks that will require Fac. support;**
iii. **Utilise the reinsurance technical support;**
iv. **Keep proper record of all facultative transactions;**
v. **Properly record all reinsurance arrangements made.**

Good Practices In Transacting Facultative Reinsurance – Cont..:

vi. **Only confirm cover to client when reinsurance arrangements are complete.**

vii. **Hold cover instructions to be sent and valid for X days – as per the market practice;**

viii. **Confirm telephonic placements by writing ASAP;**

ix. **Prepare slip and premium ASAP and get them duly signed by reinsurers.**

THANK YOU FOR YOUR TIME