

4.1.0 Overview

 5m

So far, we've focused extensively on the implications of the fundamental insurance equation.

$$\text{Premium} = \text{Losses} + \text{LAE} + \text{UW Expenses} + \text{UW Profit}$$

When creating an indication, the immediate goal is to determine a rate that keeps the fundamental insurance equation in balance, i.e., a rate that is sufficient to cover all expected costs and achieve the target underwriting profit. However, the indicated rate isn't always the rate that ends up being put into effect. Several other factors should be considered when determining the rate to implement.

In this section, we'll discuss other considerations and constraints that influence the rate implementation. These constraints and considerations can be broken into three categories:

- Regulatory constraints
- Operational constraints
- Marketing considerations