

# Media Tameen Expert

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# **Introduction to Underwriting**





**KEEP  
FOCUSED  
AND  
TURN OFF  
YOUR PHONE**

# **Before we Start:**

**Highly Technical and Prudent Underwriting  
Philosophy Will Be Followed By  
Flexible Claims Philosophy and the  
Vice Versa.**

*Said by Anonymous*

# Today we will discuss:

1. The Underwriter and the Underwriting
  - A. Introduction;
  - B. Meaning;
  - C. Principles;
  - D. Underwriting Steps.
2. What does it take to be Underwriter?
3. The Underwriter's Tools.
4. The Premium Rate Components.

# **1 - The Underwriter & The Underwriting**

# A - Introduction



# Introduction:

- The underwriting process is an essential part in the Insurance Process.
- When the Insured applies for insurance he is asking for risk transfer mechanism.

# Introduction:

- The Underwriter is accepting risks on behalf of his company and he should **ACT PROFESSIONALLY & PRUDENTLY** to ensure that he is going to achieve the companies KPIs.

## Introduction Continued:

The Sums Insured are substantially high therefore, it is crucial that the Underwriter must assess the risk precisely and in a very high technical manner.

***The Insurance Mechanism is UNIQUE.***

# Introduction Continued:

- The underwriting process is an important function and it must be performed each time an insured is applying for an insurance coverage.

# B - Meaning

# Underwriter Meaning:

## Historically:

- When the risk was presented and shared at the Lloyd's café. It was presented in what is used to be broker slip, after writing all the risk details, the Insurance traders at that time (Underwriters now days), used to write their names and the percentage of their participation then sign at the bottom of the slip.



# Underwriter Meaning:

## Now Days:

- The underwriter is the professional, witty and well trained personnel who carries on the underwriting process, i.e. *generates profit.*



# **Underwriter Meaning:**

**How the Underwriter can generate profit?**

**Profit will be generated when:**

- a. Prudently determining whether or not to accept the risk;
- b. Prudently underwriting the terms and Conditions;
- c. Prudently setting the retention and the ceded share.

# **Underwriter Meaning (Definition):**

## **The Underwriter (Definition):**

An underwriter is a finance professional employed by an insurance organization to evaluate the risks associated with insuring individuals, organizations, businesses and assets.

*To be Continued...*

# **Underwriter Meaning (Definition):**

## **The Underwriter (Definition):**

Based on this risk evaluation the underwriter assigns an adequate premium to the insurance policy. An adequate premium must generate a profit while also covering anticipated losses and business expenses.

*To be Continued...*

# **Underwriter Meaning (Definition):**

## **The Underwriter (Definition):**

Policies with a higher likelihood of loss (or higher risk) are assigned a higher premium in comparison to lower risk policies with the same insurance coverage.

**The Bigger Risk, The Bigger the Premium.**

# Underwriter Meaning:

- Profit can be reduced to a simple equation:

Profit = earned premiums +  
investment income + net  
commission – (incurred loss +  
underwriting expenses).

# Underwriter Meaning:

- Insurers make money in one way;

*Through underwriting.*

*Note: The Commission and the Investment are not included.*

# Underwriter Meaning:

## Quiz:

- Why the *Commission and the Investment are not recognized as channels allowed to the underwriter to generate profit?*

# C – Principles



# Principles:

Generally underwriting consists of two components:

- i. Risk assessment;
- ii. Pricing (pricing includes the setting of the cover, conditions, exclusions and warranties).

# Principles:

There are basic principles which are applied in the concept of underwriting.

- i. Achieve an underwriting profit.**
- ii. Select prospective Insured according to the company's KPIs / PSS / RAG.**
- iii. Provide equity among the policy owners.**
- iv. Proper balance within each rate classification.**

# Principles:

## **Achieve an underwriting profit.**

- The primary objective of underwriting is to achieve an underwriting profit.
- The underwriter constantly strives to select certain types of risks and reject others to obtain a profitable portfolio of business.

# Principles:

**Select prospective Insured according to the company's KPIs / PSS / RAG.**

- The underwriter should select only those insured whose actual loss experience is not likely to exceed the loss experienced assumed in the rating structure.

# Principles:

## **Provide equity among the policy owners.**

- This means that, equitable rates should be charged and each group of policy owners should have there own way in terms of losses and expenses.

# Principles:

**Proper balance within each rate classification.**

- This means that, a below-average insured in an underwriting class should be offset by an above average insured, so that on balance the class or manual rate for the group as a whole will be adequate for paying all claims and expenses.



# **D – Underwriting Steps**

# **Underwriting Steps:**

**To make an underwriting decision, the following procedures / steps are considered:**

- A. Evaluating loss exposure.**
- B. Determining underwriting alternatives.**
- C. Selecting an underwriting alternative.**
- D. Determining the appropriate premium.**
- E. Implementing the underwriting decisions.**
- F. Monitoring the loss exposures for this very risk and the performance of the entire portfolio, through special indicators such as COR and ROCAA.**



# **Underwriting Steps:**

## **1. Evaluating loss exposure.**

- In this step information is gathered about an Insured's loss exposure.**
- The underwriter must understand the activities, operations and character of Insured.**
- An underwriter can gather information through many methods.**

# Underwriting Steps:

## 2. Determining underwriting alternatives.

There are three underwriting alternatives which are:

- Accept the submission as is,
- Reject the submission and,
- Make a counteroffer to accept the submission subject to certain **modifications – This is the Most Common Alternative.**

***Modifications will vary in E&E Case***

# **Underwriting Steps:**

➤ **Five major types of modifications are:**

**There are three underwriting alternatives which are:**

- a. Loss control measures to reduce hazards.**
- b. Change insurance rates, rating plans or policy limits.**
- c. Amend policy terms and conditions.**
- d. Add exclusions and warranties.**
- e. Use facultative reinsurance.**

# Underwriting Steps:

## 3. Selecting an underwriting alternative

- a. The underwriter must decide whether to accept the submission as offered, accept it with modifications or reject it.
- b. Rejection is sometimes unavoidable, **however, rejections produce neither premium nor commission, only expenses. Rejection ratios must be monitored closely.**

# **Underwriting Steps:**

## **4. Determining the appropriate premium**

- The Underwriters must ensure that each loss exposure is properly classified so that it is properly rated.**
- Miss classification can produce adverse result, including insufficient premium to cover losses and expense or inability to sell policies because prices are higher than competitors.**

# Underwriting Steps:

## 5. Implementing the underwriting decision.

Implementing underwriting decision generally involves three steps:-

- I. **Contact the Insured / Intermediary.**
- II. **Put coverage into effect – Hold Covers.**
- III. **Record the policy and Insured's information for *accounting, statistical and monitoring processes.***

# Underwriting Steps:

## 6. Monitoring the loss exposures.

After an underwriting decision has been made on a new business submission or a renewal, the underwriter must monitor activity on the individual policies to ensure that satisfactory results are achieved and corrective actions are taken when deemed necessary.

# Conclusion:

- Underwriting is a critical and important function and it is performed whenever risk is assessed.

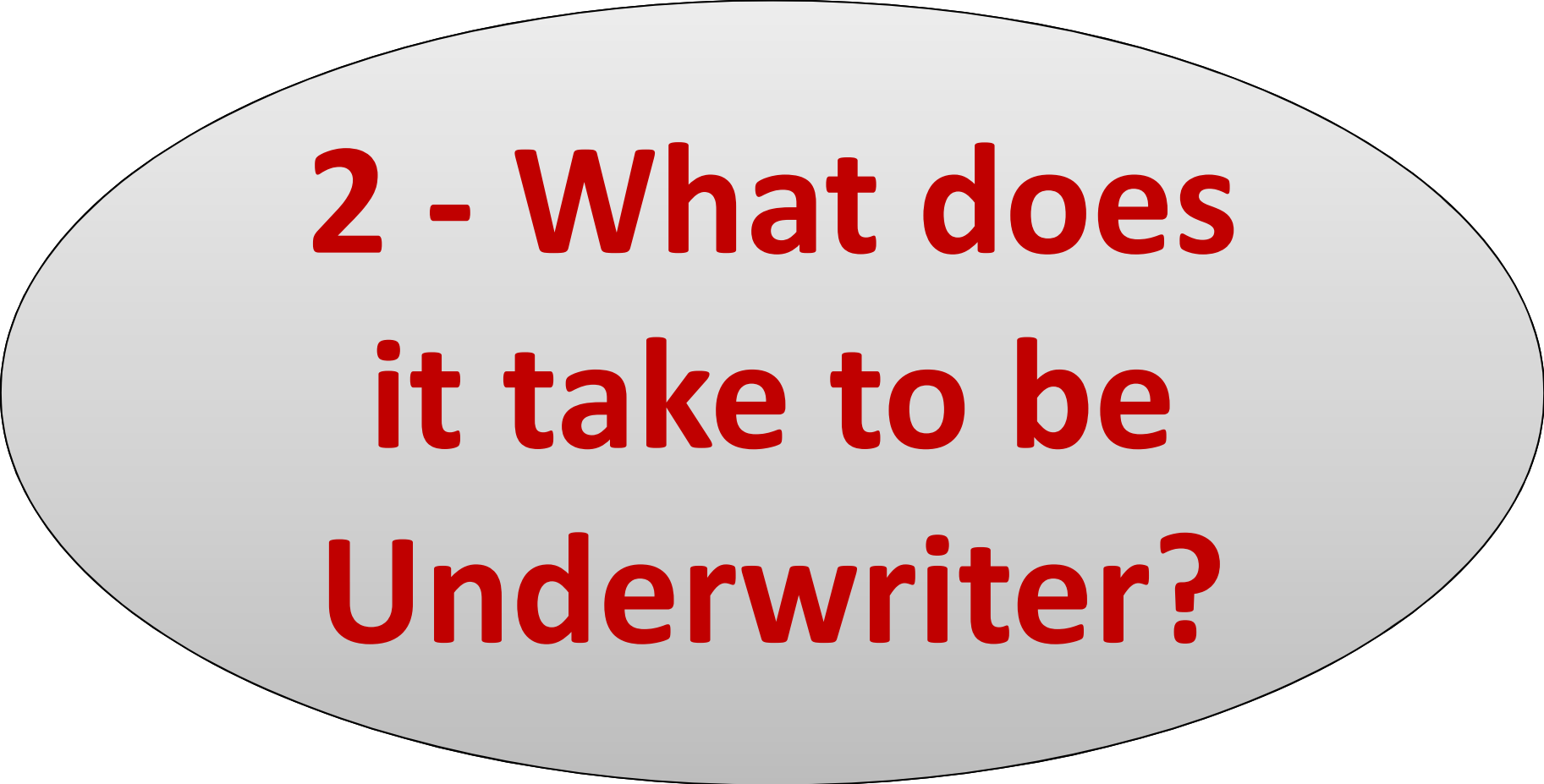


Take a little



COFFEE BREAK

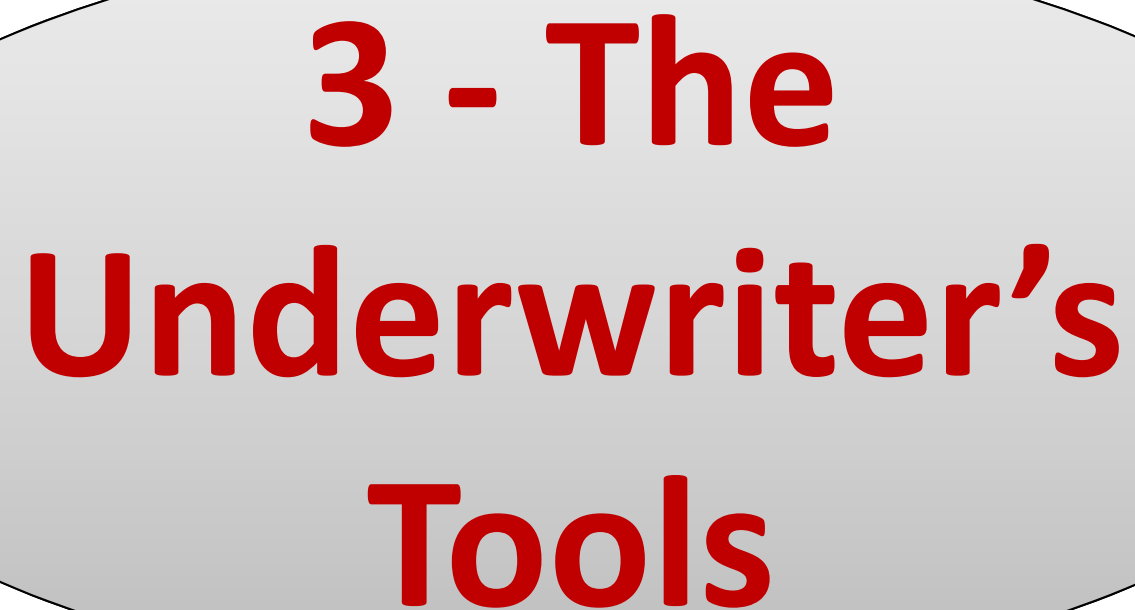
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## **2 - What does it take to be Underwriter?**

# **What does it take to be Underwriter:**

- **Detail oriented & Investigative nature;**
- **Ability to analyze and investigate large amounts of data;**
- **Ability to reach sound decisions with supporting data;**
- **Ability to coordinate and organize complex tasks;**
- **Ability to pass knowledge and coach the team;**
- **Ability to communicate properly and use the knowledge to generate new business and provide customer service.**



# **3 - The Underwriter's Tools**

# The Underwriter's Tools:

- Underwriting is unique, but yet it is a profession and each profession has its own tools.
- The tools are not the laptop and the stationary, it is something totally different.

# The Underwriter's Tools:

The common underwriting tools are:

- I. Wording;*
- II. Conditions;*
- III. Exclusions;*
- IV. Warranties;*
- V. Deductibles;*
- VI. Premium Rate.*

# The Underwriter's Tools:

- **Wording:**

The wording plays a major role in when it comes to setting the cover, All Risks cover can't be granted all the time, on the other hand it is not recommended to deprive the Insured from an all risks cover, for certain measures.

The underwriter should balance the tools and determine when all risks cover or named perils policy will be utilized.

# The Underwriter's Tools:

- **Conditions:**

For every risk, there are certain conditions that are usually added to the cover, mainly these conditions are:

- I. Mandatory: for treaty purposes;

- II. Optional: based on the risk circumstances.



# The Underwriter's Tools:

- **Exclusions:**

Exclusions are added to serve the following purposes / in these cases:

- a. To avoid inevitable risks;
- b. To avoid the moral hazards;
- c. To cover the excluded risk with a more specialized cover;
- d. When the consequences of the risk are huge;
- e. When the risk is covered by governmental programs.

# The Underwriter's Tools:

- **Warranties:**

Warranties are added by the Underwriter to ensure that the risk will go on during the policy period in the same manner in which he / she accepted the risk at the first place, and according to the warranty the Insured is obliged to either do certain things or refrain doing others.

***Warranties are either expressed or implied.***

# The Underwriter's Tools:

- **Deductible:**

What is the difference between:

**A. Deductible;**

**B. Excess;**

**C. Franchise.**

- **Deductible and Excess:** works by the same mechanism, but usually the word excess is used with motor and medical insurance and the word deductible is used for the property, engineering, ...etc.
- **Franchise:** Increases the moral hazard.

# The Underwriter's Tools:

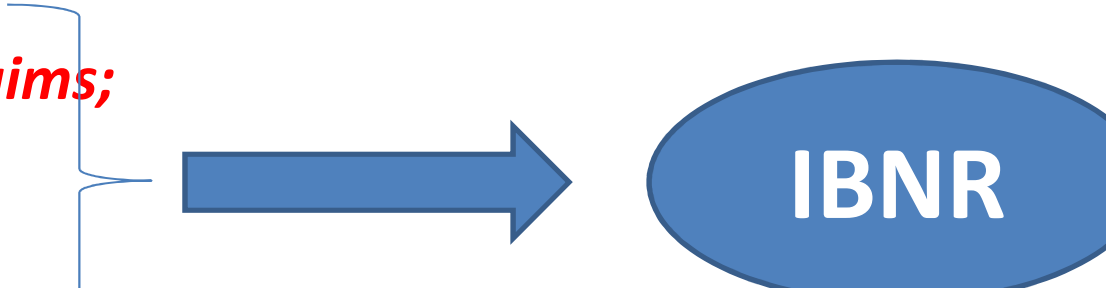
- **Premium Rate:**

According to many it is the most important tool, according to the rest, it is not that crucial because it is trivial in case of total loss.



# **4 - The Premium Rate Components**

# The Premium Rate Components:

1. + Profit / Cost on Capital.
  2. - Investment Income – It is better no to include investment;
  3. + Commission;
  4. + Fixed Expenses;
  5. + Variable Expenses;
  6. + Reinsurance;
  7. **+ Catastrophic Claims;**
  8. **+ Large Claims;**
  9. **Attritional Claims.**
- 
- ```
graph LR; A["7. + Catastrophic Claims;  
8. + Large Claims;  
9. Attritional Claims."] --> B((IBNR))
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**ANY QUESTION?**



**NO HARD QUESTION  
PLEASE...**



**THANK YOU**  
**YOU ARE AWESOME!**

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