

BINDER PROFITABILITY REVIEWS

Binder profitability reviews can be used to justify the Underwriting Agents allowable margins charged to the capacity provider and to determine the projected level of profitability of the binder.

In today's market most capacity providers will have a team of actuaries to review and closely monitor the performance of delegated authority business. A detailed actuarial model will be built and updated at renewal for each risk.

For this reason it is vital for Underwriting Agents to take a proactive approach and ensure they understand how the binder is performing from an actuarial perspective. This will give them sufficient time to identify areas of weakness and take corrective action. Furthermore if it can be demonstrated that the binder is performing extremely profitably a strong case can be made to increase the Underwriting Agents allowable margins.

METHODOLOGY

We would build an actuarial model taking into consideration:

- Claims history;
- Claims triangulations;
- Historical and forecasted GWP;
- Rate change.

The first step will be to determine the development patterns from the incurred claims triangulation. This will give us an insight into how open claims are likely to progress and the potential claims size of new notifications that have not yet been reported.

The second step involves trending historical claims for claims inflation and using actuarial methods to project these claims to their ultimate position.

The third step is to trend historical GWP for rate change and together with the ultimate claims we are able to deduce the forecasted gross loss ratio for the binder.

The final step involves us taking into account insurer expenses and acquisition costs to calculate the combined loss ratio.

WHY COMPLETE SUCH AN EXERCISE?

- Insight into movements in loss ratios year on year and identifying trends

- Help for Underwriting Agents in negotiating with carrier actuaries and assisting in negotiating higher Underwriting Agent allowable margins depending on binder performance
- Identify areas of weakness in the binder and take corrective action
- A report that is Technical Actuarial Standards (TAS) compliant providing collateral for challenge by auditors or capacity providers
- Provide results in a easy to understand format

WHY PERRENIAL?

Our actuaries have a proven track record in assessing binder performance across a whole spectrum of risks for a range of Underwriting Agents. Our team have varied backgrounds in broking and actuarial enabling us to bring a wider breadth of knowledge to the modeling process.

Perrenial also have the ability to access trends and patterns from our database in order to supplement the exercise where necessary.

CASE STUDY

Perrenial were asked to carry out a binder profitability review for an Underwriting Agent.

The loss history had meant that over the years the profitability of the binder had diminished. Due to the business case requirements of the Lloyd's syndicate there was a real prospect of capacity not being renewed.

Perrenial built an actuarial model which reflected more favorable model assumptions that we were able to justify using the data provided. We also recommended a number of corrective actions which should be taken by the Underwriting Agent such as premium rate increases.

Our modelling output satisfied the underwriter and the business case requirements and resulted in capacity for the Underwriting Agent being renewed.

CONTACT DETAILS

Asad Khalil, FIA - Managing Director of Perrenial
Email: asad.khalil@perrenial.co.uk
Telephone: +44 (0)7399 025 851