

The Cologne Re.
Oldest Reinsurance Company in the World - Established 1246

The Insurance Institute of Dublin

The Rediscovery of Technical Underwriting

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Insurance management has shifted its focus over the decades

50's / 60's	60's / 70's	70's / 80's	90's
<p>Predominance of technical departments</p> <ul style="list-style-type: none"> - standardized products - restrictive conditions - sufficient rates - high profitability 	<p>Predominance of sales force</p> <ul style="list-style-type: none"> - volume - growth rates - market shares - cost reduction - satisfactory profitability 	<p>Predominance of marketing departments</p> <ul style="list-style-type: none"> - customer orientation - consumerism - growth through acquisition - new sales channels/methods - reduced profit margins 	<p style="text-align: center; font-size: 48px; font-weight: bold;">?</p>



Points for discussion

- State of the insurance industry today
- Developments in the nineties
- Special problems in selected lines of business
- Challenges facing management in the nineties



State of the insurance industry today

Dramatic reduction in profitability

Reasons:

- increased competition
- consumerism
- complex claims developments

and above all:

- insufficient attention to technical aspects of insuring risks



Fears on US claims pull
Lloyd's into £510m loss

Profits down
at Sedgwick

London insurance market
faced with heavy claims

Eagle Star loss rises to £284m

Sun Alliance set for
£320m loss on DMI

Royal Insurance losses increase sharply

Royal's
problems
growing

Axa profit
growth slows

Commercial Union drops
£42.4m into the red

GA losses 'better' as
balance sheet falls

Names 'concerned at
litigation damage'

Profits up 11% despite £284m loss for subsidiary

BAT endures
Eagle's slump

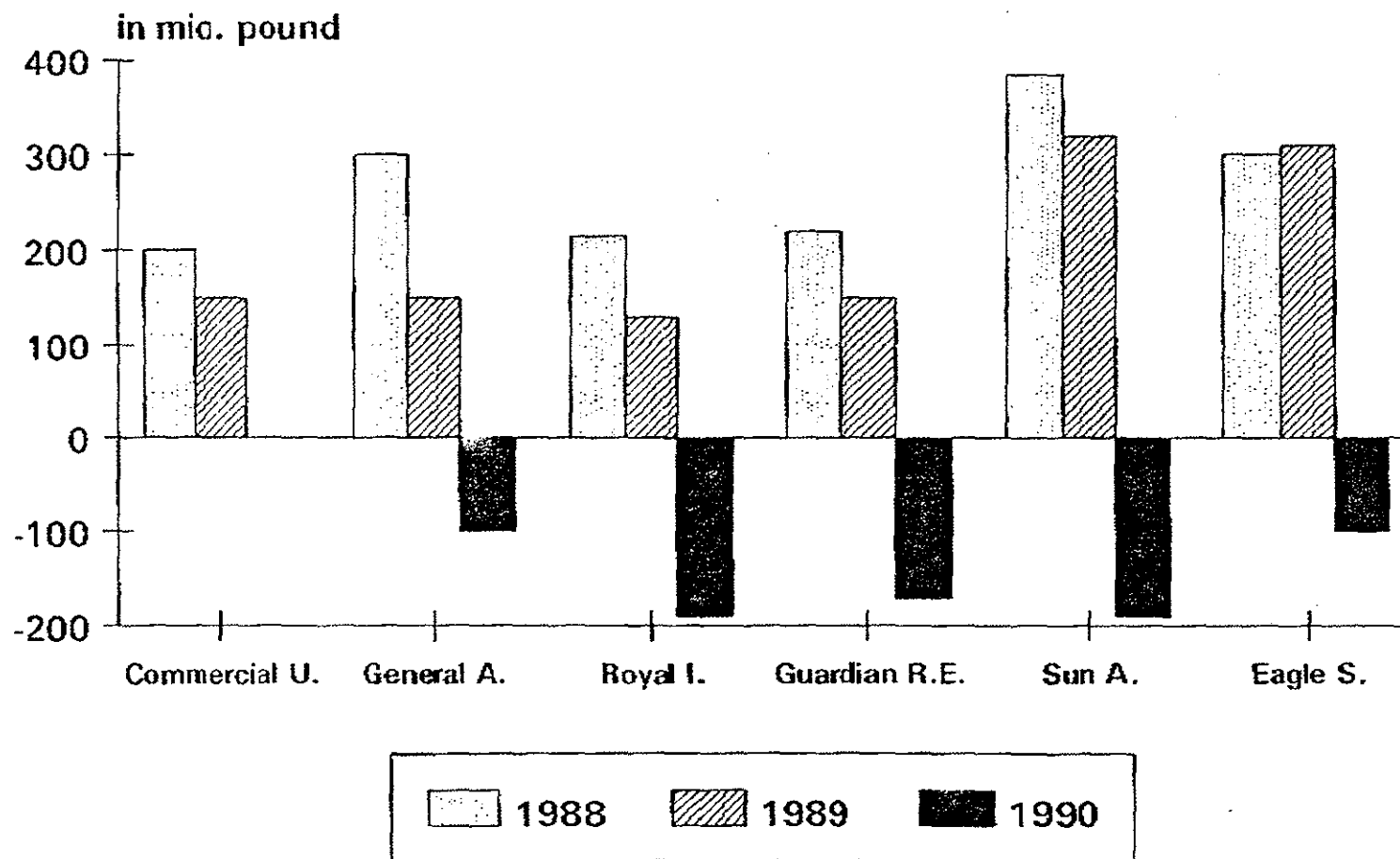
Skandia results weaker

Simon London explains UK insurers' search for capital

Repairing the balance sheet



UK-Market: dramatic decline in profitability pre tax profit 1988 - 1990



Insurance Correspondent FIONA GIBSON examines the implications of the Lloyd's Task Force report for market professionals

Competency could become main issue

COMPETENCY testing for members' agents along with tougher requirements for professional and vocational qualifications for the market players in general could be on the cards as a result of recommendations in the Lloyd's Task Force report.

The competence of Lloyd's market professionals has been a continuing issue over the last year as names suffering from heavy losses have questioned the ability of underwriters and members' agents alike.

Therefore, it is perhaps not surprising that the question of strengthening the market's professional skills forms a significant part of the Task Force's recommendations. The changes in the as-

Recent moves to strengthen professionalism

Competence of new active underwriters

- Requirements for formal qualifications for new active underwriters
- Requirements for 12 references attesting to underwriting competence
- Minimum experience requirement
- Interviews by panel of underwriters of
 - All new active underwriters
 - Existing underwriters, if concerns expressed over competence

Qualifications and training at Lloyd's

- Commitment to increase supply of professionally and vocationally trained people
- Creation of formal structure of education and training
- Standards to be established to assess employees' performance
- Establishing central examining body
- Review extension of Lloyd's Market Certificate

Association of Lloyd's Members (ALM) which sees this as an important area.

These measures involve:

- A more independent agents review process with an independent chairman, backed by the correct balance of market exper-

Underwriting Agents' Association (LUAA) should work in conjunction with the Corporation of Lloyd's to develop a set of guidelines for competence in the agency system similar to those already developed for new active under-

take a leading role in loss reviews after the fact and asserts that there should also be a mechanism for utilising market practitioners at an early stage in the review process.

In the case of professional qualifications, it says that it is essential that the agency system is fully into Lloyd's professional training and profes-

Lloyd's list 17.1.92



Developments in the nineties

The nineties will demand a refocussing of management attention

Restoring the industry to profitability given the current trends of

- globalization / internationalization
- changing risk patterns
- market restructuring

will require greater emphasis on technical expertise



Developments in the nineties (cont'd)

1st trend:

Globalization / internationalization

The insurance industry is having to adjust to fundamental changes
in world business life

- multinational corporate insurance buyers
- large exposures
- mobility of insureds
- free trade zones: EC, North America



Developments in the nineties (cont'd)

2nd trend:

Changing risk patterns

Risk assessment and rate setting will have to cope with growing complexity

- technology
- accumulation of values
- legal environment, deregulation
- ecology
- climate, catastrophes



Developments in the nineties (cont'd)

3rd trend:

Market restructuring

Changes on the supplier and customer sides will intensify competition

- large international insurance buyers
- more sophisticated private customers
- polarization of suppliers
 - . larger insurance groups
 - . niche players



Developments in the nineties (cont'd)

Market trends will squeeze insurers' profitability

- lower technical margins
- higher expense ratios

aggravated by larger, more volatile risks



Developments in the nineties (cont'd)

Consequence:

Narrower profit margins and high risk exposures increase the importance of comprehensive technical underwriting expertise

- portfolio management
- loss prevention
- underwriting
- product development
- rate setting
- claims handling
- buying of reinsurance



Special problems in selected lines of business

Some lines will be affected more than others by these trends:

- fire
- liability
- life



Special problems in selected lines of business (cont'd)

Fire

A turn-around will take several years and require

- strict accountability by line of business
- better risk assessment and improved rating of cover extensions
- intensive pruning of risk portfolios
- proactive risk management



Special problems in selected lines of business (cont'd)

Fire

Increased competition will lead to rate cutting and extending coverage

- drive for growth and market share
- foreign competitors
- large international brokers



Special problems in selected lines of business (cont'd)

Liability

Dramatic changes in the technical basis

- technological developments
- legislation / development of laws
 - . strict product liability
 - . professional liability
 - . environmental impairment liability
- consumer attitudes
- court rulings
- problems of long-tail claims



Special problems in selected lines of business (cont'd)

Liability

Greater technical sophistication required

- covering a broad range of technical disciplines
- precise contract wordings
- reserves for long-tail claims
- active claims handling



Special problems in selected lines of business (cont'd)

Life

Strong growth and increasing complexity

- changing demographic patterns
- new competitors
- consumer sophistication
- medical advances



Special problems in selected lines of business (cont'd)

Life

Variety of reactions necessary

- new sales channels and methods
- better training for sales force (advisers)
- sales support systems
- new products
 - . long-term care insurance
 - . business overhead / keyman insurance
 - . dread disease
- concepts for financial services



Challenges facing management in the nineties

Key factor for success in the nineties:
effective integration of three functions

- technical underwriting
- marketing
- systems development and application



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Challenges facing management in the nineties (cont'd)

Effective integration requires new priorities

- technical underwriting and marketing of prime importance
- the sales function comes next
- information technology as an integral support function



Effective integration of three functions

Example: Motor Third Party Liability

Function	Technical Departments	Marketing	Information Technology
Portfolio planning	<ul style="list-style-type: none"> - risk selection - profit analysis 	<ul style="list-style-type: none"> - customer segmentation 	<ul style="list-style-type: none"> - customer/risk data bank
Product development	<ul style="list-style-type: none"> - benefit definition - pricing 	<ul style="list-style-type: none"> - market research - communication planning 	<ul style="list-style-type: none"> - market data banks - pricing systems (modelling)
Selling	<ul style="list-style-type: none"> - underwriting 	<ul style="list-style-type: none"> - sales support 	<ul style="list-style-type: none"> - illustration/quotation systems - networks
Claims	<ul style="list-style-type: none"> - claims expenditure control - reserve setting 	<ul style="list-style-type: none"> - customer information 	<ul style="list-style-type: none"> - claims data bank - reserving models



Effective integrat' n of three functions (cont')

Example: Industrial Fire

Function	Technical Departments	Marketing	Information Technology
Portfolio planning	<ul style="list-style-type: none"> - risk selection - profit analysis 	<ul style="list-style-type: none"> - customer segmentation 	<ul style="list-style-type: none"> - customer/risk data bank
Product development	<ul style="list-style-type: none"> - definition of risk management concepts - benefit definition - pricing 	<ul style="list-style-type: none"> - market research - communication planning 	<ul style="list-style-type: none"> - market data banks - pricing systems (modelling)
Underwriting	<ul style="list-style-type: none"> - risk inspection - loss prevention 	<ul style="list-style-type: none"> - broker relations 	<ul style="list-style-type: none"> - illustration systems - networks
Claims	<ul style="list-style-type: none"> - claims expenditure control - reserve setting 		<ul style="list-style-type: none"> - claims data bank - reserving models
Reinsurance	<ul style="list-style-type: none"> - portfolio analysis - definition of re-insurance program 		<ul style="list-style-type: none"> - analysing systems - simulation models - networks



Effective integration of three functions (cont'd)

Example: Liability

Function	Technical Departments	Marketing	Outside Experts
Portfolio planning	<ul style="list-style-type: none"> - risk selection - profit analysis 	<ul style="list-style-type: none"> - customer segmentation 	<ul style="list-style-type: none"> - risk assessment
Product development	<ul style="list-style-type: none"> - coverage definition - pricing 	<ul style="list-style-type: none"> - market research - communication planning 	<ul style="list-style-type: none"> - wording - cover limits - pricing systems (modelling)
Selling	<ul style="list-style-type: none"> - underwriting 	<ul style="list-style-type: none"> - sales support 	
Claims	<ul style="list-style-type: none"> - claims expenditure control - reserve setting 		<ul style="list-style-type: none"> - claims services



Effective integration of three functions (cont'd)

Example: Life/Disability

Function	Technical Departments	Marketing	Information Technology
Portfolio planning	<ul style="list-style-type: none"> - risk selection - valuation - profit analysis 	<ul style="list-style-type: none"> - customer segmentation 	<ul style="list-style-type: none"> - customer/risk data bank
Product development	<ul style="list-style-type: none"> - benefit definition - pricing 	<ul style="list-style-type: none"> - market research - communication planning 	<ul style="list-style-type: none"> - market data banks - pricing systems (modelling)
Investment planning	<ul style="list-style-type: none"> - yield/risk analysis 	<ul style="list-style-type: none"> - market research 	<ul style="list-style-type: none"> - financial data banks - optimization/immunization models
Selling	<ul style="list-style-type: none"> - underwriting 	<ul style="list-style-type: none"> - sales support 	<ul style="list-style-type: none"> - illustration/quotation systems - networks
Claims	<ul style="list-style-type: none"> - claims expenditure control - reserve setting 		<ul style="list-style-type: none"> - claims data bank - reserving models



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Challenges facing management in the nineties (cont'd)

Key activities for management

- to refocus corporate philosophies and objectives
- to build multi-functional project groups
- to reorganize with a view to smaller profit centres
 - customer group management
 - product management
- to recruit and train high-calibre, flexible professionals

and above all:

- to direct and monitor the process



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