

# *Underwriting strategy – how the game is changing*

**LMAG**

11 May 2022

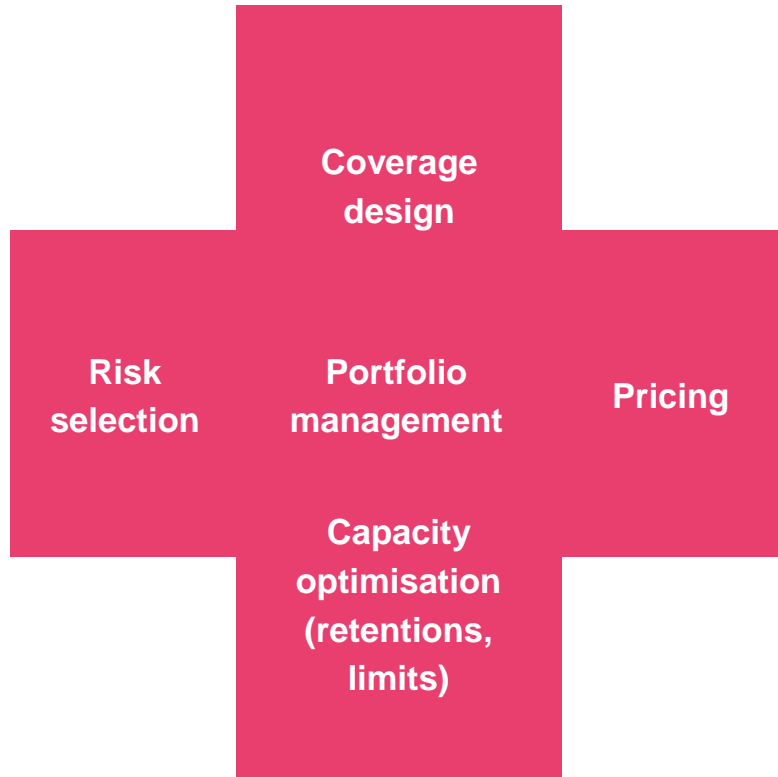


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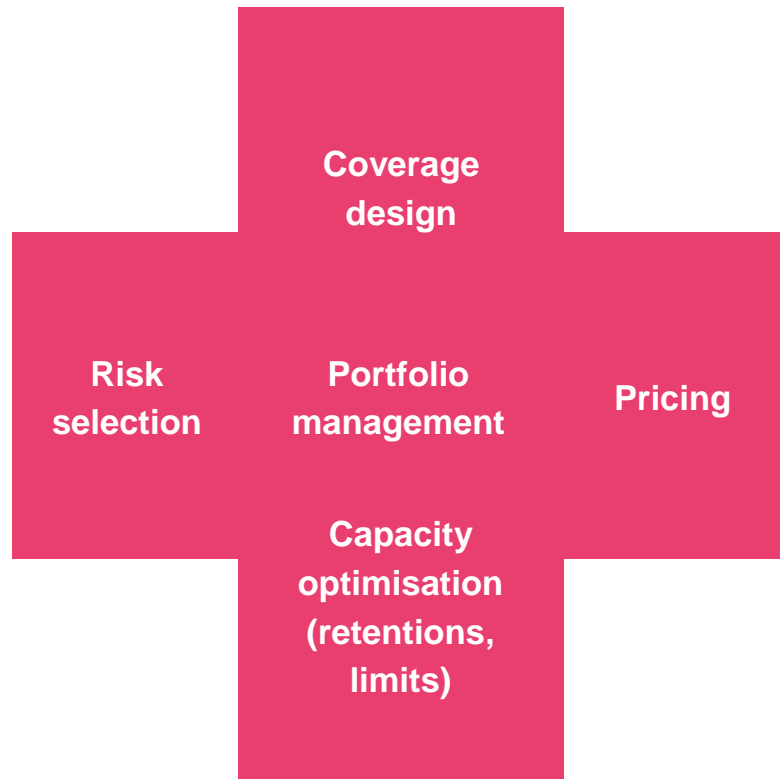
# *A holistic approach to underwriting strategy*

## **Five core competencies**



# *A holistic approach to underwriting strategy*

## Five core competencies



## Five key “enablers”



# Strategic levelling-up

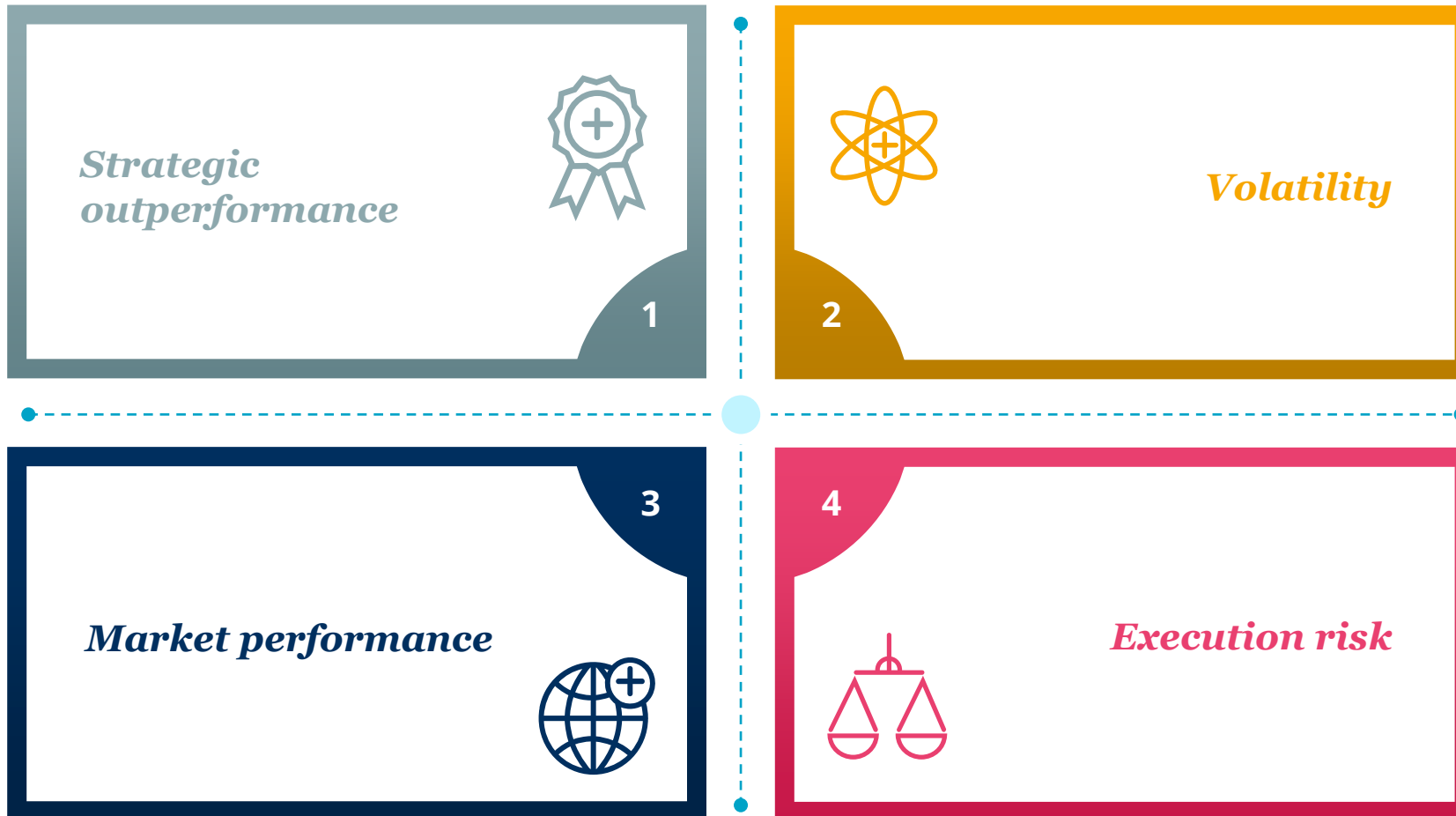


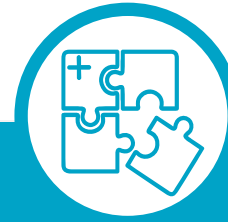
Performance attribution

Opportunity appraisal

Portfolio optimisation

# Performance attribution





## Performance attribution

Best practice

- Attribution “buckets” and rules defined in advance
- Buy-in from underwriters and the board
- Integrated into underwriting strategy as articulated by the board

Essentials

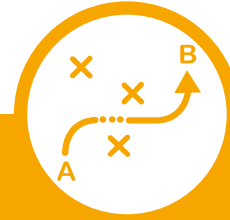
- Standardised analytics
- Appropriate use of benchmarks
- Statistical framework for attributing volatility

Behaviours to  
avoid

- Lack of clarity on the board’s expectations
- Poor data
- Lack of consistency across classes

# Opportunity appraisal





## Opportunity appraisal

Best practice

- Underwriters articulate business plans through the lens of the “four buckets” and the “five competencies”
- Proposed actions feed into future performance attribution



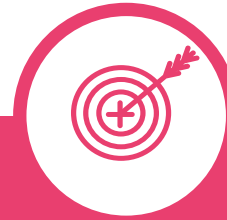
Essentials

- Level playing field for assessment of new vs repeat opportunities
- Quantification of “conviction” levels regarding repeatability of good performance or remediation of poor performance

Behaviours to avoid

- Appraisal criteria not set in advance
- Cognitive bias (eg towards new classes, big classes, novelty, classes with little data, etc)
- Tolerance for varying from the agreed business mix





## Portfolio optimisation

Best practice

- “Balanced scorecard” of optimisation criteria
- Strong understanding and buy-in from board
- Clarity on how judgemental overlays are applied and justified

Essentials

- Quantification of “fantasy portfolio”
- Identification of commercial/practical barriers to achieving it
- Robust methodology for assessing new classes without track record

Behaviours to avoid

- Black box capital allocation – lack of buy-in
- Model results often overruled by opaque judgements
- Lack of clarity on what it would take for us to stop writing class X

# Quantitative analyses plus soft factors

For each class of business:

## Quantitative analysis

### Historical profitability

- Suite of profitability measures, including attribution of causes of good/poor performance
- Use of Machine Learning to measure confidence in observed development trends
- Correlation with market performance

### Future prospects

- Bridging analysis between 5-year history and 1-2 year expectation
- Market comparison: loss ratio expectations vs market interquartile range

### Synergies

- Diversification with other business (impacts on regulatory capital, rating agency capital)
- Day-to-day diversification vs tail diversification
- Contribution to fixed expenses

DECISION MAKING



## Soft factors

- Sector growth prospects and market share prospects
- Underwriting skills, resources and track record
- Relevant claims handling expertise
- Ability to leverage existing relationships (brokers, MGAs, reinsurers, co-insurers, ILS market)
- Technology opportunities

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Quantitative analysis

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with 5-year expectation  
 loss ratio  
 at interquartile

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Other business  
statutory capital, rating

Classification vs tail

Unpaid expenses

Prospects and market

Skills, resources and

DECISION MAKING

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- Bridging analysis of historical performance and 1-2 year outlook
- Market comparison of expectations vs actual performance range

**Synergies**

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DECISION MAKING

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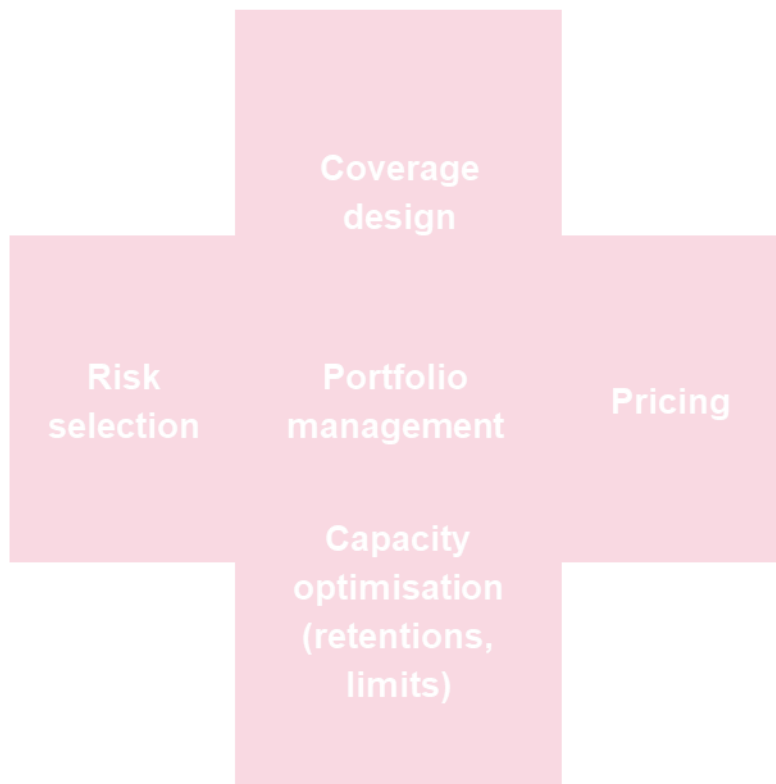
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DECISION MAKING



# A final word - enablers

## Five core competencies



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