



Critical Elements for Advantageous Underwriting Positioning
December 7, 2011



Discussion Outline

- The Current Environment
- Opportunities Created
- Market Realities
- Critical Elements for Advantageous Underwriting Positioning
 - Underwriting/Profitability
 - Value-Added
 - Distribution
 - People
 - Culture
 - Technology
 - Core Operating Strategies
- Closing Summary



Current Environment

Economic Environment	Insurance Environment
Prolonged Weakness, Global Slowdown	Lackluster Growth
Low Interest Rates	Lower Investment Earnings
Lack of Recovery in Homebuilding	Holding back Payroll & Exposure Growth
Low Near Term Inflation	Modest Loss Cost Increases
Low Consumer Confidence	Prior Period Reserve Releases of 4pts in 2010
High Unemployment	Catastrophic Global Losses; US Cats Avg 3.5-4.5 pts of Combined Ratio
Upcoming Election Impact	Premium to Equity at Near Record Lows (0.75x), Capital Abundant



Soft Economy Opportunities Created

- Competitors are weakened or tired
- Hard times are best times for tapping into the talent pool – better qualified, less expensive employees than at any other
- Most things are cheaper – opportunity costs are lower
- Customers seek alternatives – when times are good, customers more likely to stick with supplier
- As companies manage costs, some customers can often get lost in the strategy and become opportunities for others
- In hard times, companies rethink spending and often cut back on R&D
- Loyalties loosen – Corporate actions result in customers being less loyal and negatively impact employee morale

All of the above create an opportunity to innovate and invest in new processes and markets.



Market Realities

- Stays Softer Longer than Ever Anticipated
 - Surplus hit record level 3/31/11
- Lower Investment Earnings Place a Greater Emphasis on Underwriting and Pricing Discipline
- Competition Does Not Want to Lose Market Share
- Must be Capable of Delivering a Proven Track Record Irrespective of Cycle

Magnified when you are developing a start-up Managing General Underwriter.



Underwriting is the Primary Driving Source

Underwriting Philosophy:

- Disciplined – Underwriting Not Sacrificed for Top Line Growth
- Consistent – Focus on Profitability
- Value in Stable, Competitive Pricing
- Focus on your “Expertise” (“Niche”)
- Create Market Differentiation that you can “Sell”



Underwriting is the Primary Driving Source

State of the Art Rating Analysis and Progressive Underwriting Models:

- Market Analysis & Research – “Homework” Phase
- Technical Rate and Rating Plan – All Elements Capture
 - A starting point from which to modify
- Segmentation
- Controlled Underwriting Using Technology to Monitor
- Advanced Underwriting Tools
- Sophisticated Price Monitoring
- Minimum of Annual Gross/Pricing Profitability Reviews
- Sales Meetings and Pipeline Technology Fundamental to Operation
- Underwriting Leadership that Embraces and Champions the Implementation



Workers' Compensation Example of Analysis

- Analysis by State, Size of Account, Experience Modification Factor
- Analysis by Class Code – Lack of Credibility
 - Experience Based
 - Can be Rule Based Underwritten
 - Validated with Data
- Analysis by Frequency
- Combine all Elements
- Regulatory Environment
- Historical Rate Approval
- Determine Adequate Loss Cost Multiplier and Manage to Manual
- Capture all Rating Elements
- After 9 Months of Data Collection, Added Two New Loss Ratio Rules
 - Loss Severity Evaluation, Frequency of Claims



Earthquake DIC Example of Rating Model

- Development of Proforma Portfolio using Industry Data
- Development of 2 Marginal Probable Maximum Loss Calculations to Supplement Traditional Rating Methodologies
 - 250 Year Marginal Calculation
 - 2% Tail Marginal Calculation
- Development of Sophisticated Rating Model to Display 10 Actuarial Based Rating Indications
- Investment in Direct Data Feed to Earthquake Modeling Company
- Capture of All Rating Elements
- Store Location and Model Information on All Accounts Rated
- Submission Report with Rating Output to Prioritize Submission Activity
- Rating Model feeds Policy Issuance System to Ensure Rated Appropriately
- After 9 months of Data, Updating Proforma with over 9,000 Accounts



Innovative Value-Added Products

- Competing on Just Price is a Losing Strategy in the Long Term
- Customized Policy Forms – “Niche” Marketing
- Value-Added Coverages
 - Reputation Restoration, Red Flags
- Superior Form Comparisons
- Value-Added Services
- Customized Solutions
- Staying on Top of Current Developments
- Study and Modify from Claims Data
- Commitment to Drive Innovation and Manage the Planning Effort to Keep on Track
- Build for Change



Distribution

- Superior, Personalized Service
- Distribution Focus: Retail, Wholesale, Alternative
- Attention to Channel Conflict
- Value of “Semi-Exclusive” Arrangements
- Close to Distribution, where Appropriate
- Internal Process for Quick Turnaround Response to Distribution
 - Allows you to be Better and Faster than Competition



People

- Team has to Share, Believe and be able to Execute the Strategy
- Key Asset
- High Achievers
- Passion for the Business
- Service Oriented
- Appropriate Profile for Task at Hand
 - Technical (Knowledgeable)
 - Distribution Following
 - Mix



Culture

- Clear, Articulate Strategy – Where the Team Can Stay the Course
- Critical to Keep Message Consistent and at the Forefront
- Over-Communicate
- Culture:
 - Leadership
 - Independence
 - High Accountability
 - Decision Making
 - Absolute Responsibility
 - Team Environment - Collaboration
 - Great Place to Work
 - Sense of Urgency



Technology

- Dashboard
 - Pricing Metrics
 - Hit Ratio Reports
 - Pipeline Accounts
 - Limit and Deductible Profiles
 - Discretionary Pricing Levels
- All Risk and Rating Elements Captured – Future Segmentation Analysis
- Matching of Loss Records to Premium Records
- Control Environment
 - Authority Levels
 - Guideline Requirements
 - Risk and Limit Aggregations
- Build for Change



Core Operating Principles

- Planning – Develop, Validate, Track
- Execution Aligned to Strategic Plans and Vision
- Strict Adherence to Financial Results - Constant Monitoring
- Use all Available Information
- Highest Standards and Technology Applied to Control Environment



Summary

- Underwriting Knowledge Is Respected
- Data, Research, Analysis – Powerful Tools
- Passion and Belief in Strategy
- Investment in “Homework” Yields Huge Benefits
 - All driven by the Quality and Strength of the Foundation
- Execute on Strategies and Results Fall into Place

Building an Advantageous Underwriting Position.



Susan Rivera

Susan.Rivera@V3ins.com