Seriatim Reporting Adds Value to Insurer Pricing

A few years ago a client requested a quote for YRT reinsurance coverage. They presented their mortality tables along with the seriatim data used to develop those tables. They informed us that an outside actuarial firm had just reviewed and approved the proposed tables. Upon review we discovered some material anomalies. When we presented our findings – and the potential loss in revenue that they could experience – the client was shocked. Their actuaries revised the tables based on our findings; as a result, the insurer is writing competitive and profitable term life.

The most helpful tool in identifying these situations is our massive database of client seriatim data. The availability of per-record data allows our actuaries and underwriters to examine current mortality experience and provides the starting point for a genuine conversation with clients about their marketing strategies and product goals. For many insurers, collecting such information in a usable format for their reinsurers is a laborious task and, therefore, not a high priority. Carriers incur costs in time, labor and systems. However, the resulting benefits of providing seriatim data often outweigh these costs.

More Accurate (Re)Insurance Rates
For term life reinsurance quotes many carriers submit premium rates based on their internal tables and request the rates we would charge based on their tables. This provides an opportunity for our marketing actuaries and underwriters to have a productive discussion about the direction and velocity of their rates. Most of these discussions result in the insurers adjusting their rates not only for the cost of reinsurance but more importantly for the value added by gaining the reinsurer’s view on the projected performance of the book. In some cases the final premium rates that insurers charge end up greatly different from their initial rates. If an insurer cannot provide such data, we must adjust our reinsurance rates to reflect the greater uncertainty from not being able to see the business at a granular level.

A Partner on the Risk
Actuarial consulting firms do a good job at reviewing a proposed product and recommending a rate structure to a direct writer. However, when the case is closed, their role is concluded. In contrast, reinsurers remain engaged to ensure that the rate structures support the carrier’s underwriting, marketing and profit strategies.

In addition to being a risk and capital partner, your reinsurer can also play important consulting and advisory roles. Data submitted to SCOR not only helps direct writers avoid potentially significant pricing errors but also identify areas for growth.

Arms-Length, with Vested Interest
From time to time many carriers consider changing their class structure, modifying their reinsurance guidelines or taking a different approach to
Reinsurers’ Insatiable Appetite for Data

When companies provide us seriatim data, we can scour the information using a number of pertinent factors. These include:

- Claim amounts
- Claim counts
- Exposure amounts
- Exposure counts
- Gender
- Issue age
- Issue year
- Premium band
- Product type
- Term period
- Underwriting class

By cross-tabbing such information, we can identify variances from expected, both on our own internal pricing models and on industry standard models (75-80 CSO, 2001 VBT, etc.). After isolating cells of data that exhibit extreme variance and exploring the underlying data more closely, we work with client companies to determine the source of the aberration and ways to explain and/or control for it.

band pricing strategies. Using seriatim data, reinsurers can apply the proposed changes to their data set and simulate future performance of the affected block of business – before the client makes the product modifications. We can help determine what mix of mortality, lapse, band and class structure should create the best performing product given the carrier’s unique underwriting and marketing strategies.

Reinsurers assist direct writers in supplying consumers with sufficient insurance coverage at an appropriate rate. Therefore, reinsurers are in effect an extension of the direct writer, participating not only in various aspects of the risk under its reinsurance treaties but also in assisting the direct writer in developing its business strategy and objectives.

To provide the greatest value to the client, reinsurers need access to the same data that direct writers have. Using our experience database, we can “torture” the client’s data, slicing and dicing the information in a variety of ways to observe underlying trends. We can segment the data by band, gender, issue age, risk class, etc., apply the data to our table (or an industry table) and review the results for anomalies. Once we identify the outliers, we can examine the underlying data more closely and against the carrier’s underwriting and marketing strategies to determine what might be happening with the block. In some cases the adverse results may simply be due to normal fluctuations or specific company goals. However, such a thorough review can also help expose fundamental weaknesses in an insurer’s pricing assumptions or risk controls.

Real-Life Examples

Here are a few real-world examples of where access to such data resulted in tangible benefits for SGLA clients:

- **Experience Studies.** In trying to validate seriatim data provided by a client, our pricing team could not duplicate durational exposure amounts tied to the client’s issue and termination dates. After reviewing our findings with the client, we discovered that the client had recently converted their experience studies from a grouped basis to a seriatim basis but had continued a “grouped” approximation approach for exposure calculation. While the client knew this approximation introduced some conservatism into their experience studies, they were surprised at just how conservative they were: the seriatim adjustment resulted in 10 percent overall better mortality experience and as much as 50 percent better experience in the first two policy durations. As a result, we were able to offer a much more competitive quote that the client could convert into a much more competitive product.

- **Proper Data Set.** A client submitted a request for quote, providing seriatim data on request. Our pricing actuaries applied the data against our tables and identified a block of policies with mortality experience that was consistently more than 500 percent of expected. We brought the issue to the client’s attention. Upon further investigation, the insurer determined that this particular segment of the business involved group conversions and should not have been included in the quote. After identifying and correcting the issue, the insurer resubmitted requests for reinsurance quotes, and we were able to provide a much more competitive rate.

- **Gender Mortality.** A fraternal requested a quote on a new term life policy they planned to introduce and provided their pricing tables. After applying our tables to the business, our pricing actuaries had difficulty in matching their gender-based pricing. Mortality experience for males was much higher than for females, though this discrepancy was not reflected in the client’s pricing. We discussed this issue with the client and worked with their underwriting team to identify probable causes for the material pricing differentials. The client used this information to adjust its male pricing tables.

Acting as a genuine business partner, a reinsurer can advise a life insurer on how to optimize its business strategy and capital deployment. To get the greatest advantage of this relationship, a carrier needs to provide seriatim data as part of the reinsurance treaty process. Your reinsurer can return the favor by providing a much more in-depth summary of your business. ∞