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IBA Newsletter

November 2017 ISSUE: An Underwriter's Perspective

The underwriter is the linchpin of the insurance industry, without whom approval of accepting risk would not occur. Underwriters are the gatekeepers for insurers by ensuring

that all required criteria are successfully met, thereby providing sufficient flow of premium as well as that which is required for the reserve to pay claims. This aspect of the underwriter is generally well known.

What is not as well known are the other functions underwriters are responsible for: working with actuaries to determine future policy rates; assisting corporate counsel for insurance department filings and implementation of those policy changes; assisting reinsurers with ceding of risk; reviewing policies and broker books of business to ensure the criteria set by the insurance department are being met; and policy retention, among others.

Amassing such varied experience grants the underwriter insight into the inner workings of how rates are issued for all size groups, as well as a unique way of viewing policy renewals. There is an old actuarial joke, told to me many years ago by an Ernst & Young actuary, that goes like this: Q-“How does an actuary see the glass, as half empty or as half full?” A- “Yes”. The same can be said for underwriters, and I speak from experience as this is how I started my own insurance career in 1994.

Underwriters have a multi-dimensional view, neither half empty nor half full, but viewed in its entirety years ahead with the consequences of our actions lasting decades. Nothing is done without that consideration at the forefront of our minds. In fact, it is the careful consideration that allows us to function.

The way this approach is implemented in real time can be illustrated by the following example. Say there is a large group that has been loyal to the same insurer for years, receiving reasonable annual rate increases. As is customary, the group requests competitive proposals, and one insurer offers rates over 16% lower than the renewal.

From the perspective of the insured, this is a huge savings that needs to be taken advantage of. Think of all the good it can do, from additional benefits at no cost to the employees to the financial benefit to the employees of lower premiums. That is something with which I cannot disagree. Or can I?

When looking at it through my underwriting prism, there is a very different reality, and the alarm bells would be sounded quickly and loudly. First, the decrease in premium generated is so great that there would not be enough reserve to pay claims, the amount of which has already been established.

Second, this would have to be rectified at renewal. So, to begin to bring the reserve back to a level which could support claims, the initial substantial rate reduction is replaced with a rate increase of over 20%. This level of rate increase could continue for years as the

deficient premium generated plays perpetual catch up to claims received. But wait, it can get worse.

To prevent this never-ending cycle of staggering increases from continuing, the request is then made by the group to have the insurer that it left the year prior provide a proposal. The underwriter at that insurer would view the group not only as new, but as one in a transient state, willing to move for the lowest premium. In order to protect the insurer from adverse losses in excess of earned premium in the event the group leaves again at its next renewal, those proposal rates could be equal to or greater than the over 20% increase already stated.

Although nothing can be guaranteed in the future, looking at what has occurred can be used as a gauge to determine “What may happen if...” and mitigate the consequences. In this regard, what is past is truly prologue and this thought process is applied to all of the groups that Ipswich Bay Advisors is privileged to count as clients and partners. Advising is not just part of our name, it is integral to who we are.

In closing, perhaps the best assessment of the underwriter is a quote from the great and legendary New York Yankee Yogi Berra: “You can observe a lot by just watching.”

Excelsior to all.

Marc S. Marlow
Director of Benefits



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