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A newsletter from Lighthouse Consulting, LLC

Keeping you off the rocks

Rate change: is it apples to apples?

'Tis the season for retail insurance brokers to announce rate change by line of business for the past year. Typically, they use a single figure for all commercial property. But the commercial property market has several segments. Reinsurers understand that rate change varies by segment due to the market. However, rate change can be calculated differently by market segment. It is this latter point we will discuss.

In my opinion comparing the expiring rate and the renewal rate *without* including any changes in coverage or terms is "apples to apples" and produces the most accurate rate change. The reason? There are no standard industry factors for things like deductible credits, changes in cat limits, or coverage changes. Underwriters estimate rate change using their judgment which, of course, varies by company. Therefore, we do not get "apples to apples" resulting in an inaccurate rate change for the portfolio.

Here is my opinion of the accuracy of rate change by market segment.

Small and Middle Market: Apples to Apples

These segments usually have no significant changes in coverages or terms at renewal, so underwriting judgment is not needed. The rate change should be accurate.

Large Property: Apples to Oranges

These are National or Global Accounts where a single market can provide 100% of the limit. This market has had losses and underwriters are restricting terms. These insurers use their rating plans, but underwriting judgment is required on coverage changes.

E&S: Apples to Bananas

This market requires the flexibility to insure difficult risks so renewal terms are likely to vary widely. Underwriters are guided by company rating plans but use a great deal of individual judgment.

Shared and Layered: Apples to Horses

These accounts require high cat or risk capacity and in a hard market the renewals can be dramatically different. Rate change is heavily based on underwriting judgment.

Conclusion

In my audits I ask insurers to explain their rate change methodology and would recommend that reinsurers do the same. In my rate change worksheet, I'm careful to not include accounts with excessive or unreasonable underwriting judgment.

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