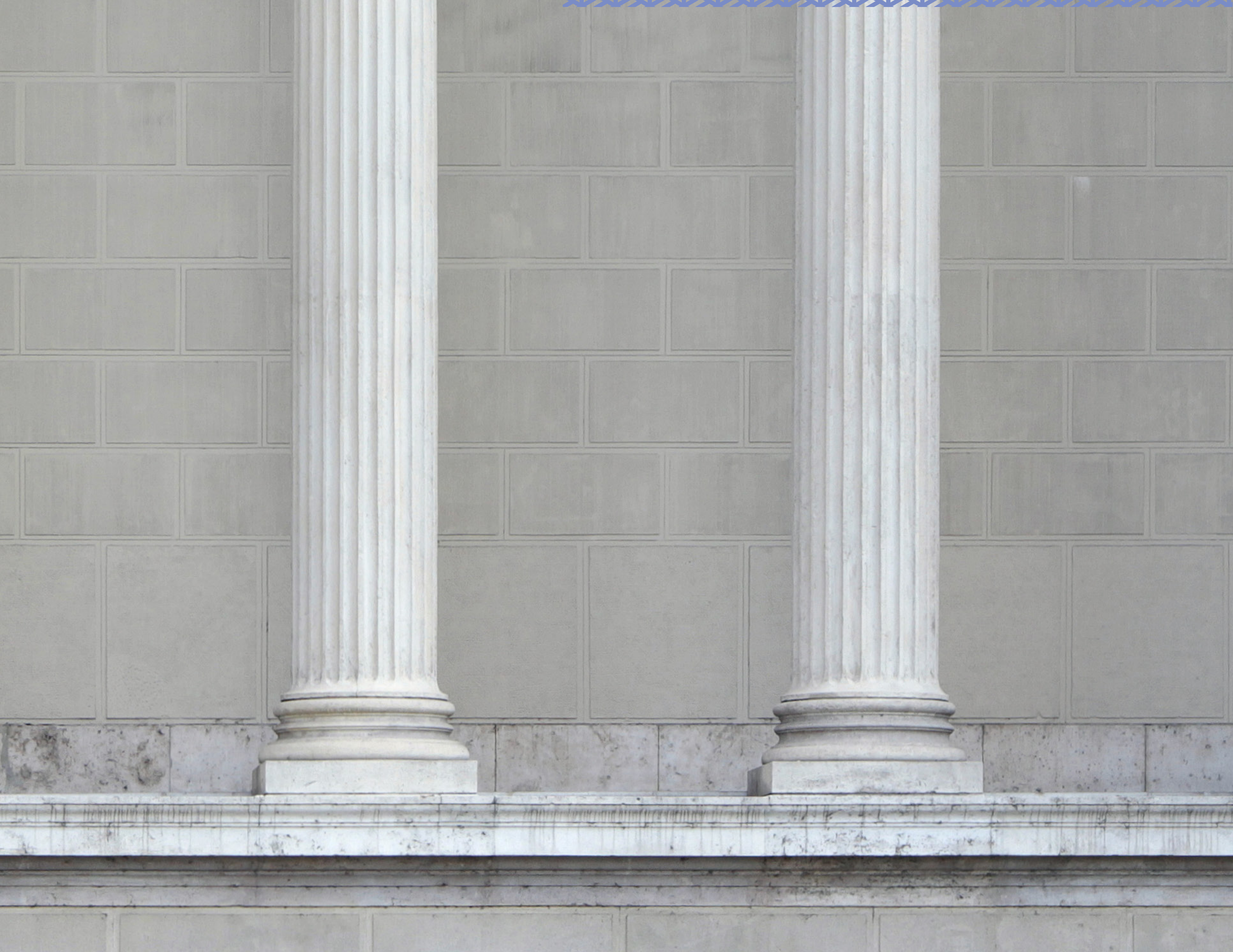
rmp

How an underwriter sets a premium

The assessment of risk and the setting of the premium can be a complex task. Here we present a guide to the main factors which feed into the process.



The property portfolio

For a public authority's buildings portfolio, it's important to understand what is meant when we mention the sum(s) insured and how important this factor is in assessing premium.

In practice public authorities will each typically have reasonably large property portfolios, so a spreadsheet that will detail each property will help to give a better picture of the overall risk.

The sum insured here is a crucial measurement for underwriters and represents the rebuilding cost in the wake of a severe event, not the market value. For a building risk quotation, it allows the insurer to work out their exposure, which is an essential aspect of calculating the premium. The underwriter will apply a premium rate to the sum insured, which will in effect provide the base premium.

Also important here is risk modelling, which insurers are able to do using models that can assess risk on a postcode basis. So, if a property is in a particular postcode area, then the insurers will be able to work out the likelihood of particular risks, such as flood risk, and this information will also be used to feed into the premium calculation.

Claims history: how far back to go?

For motor and casualty claims, claims information is important for setting a premium. Whereas for property cover, insurers will typically look for the insured to deliver five years' worth of claims information, for casualty or motor risks then they will be looking for a longer claims history, stretching back sometimes to 10 years, as for some casualty risks this can represent the length of time it takes for claims to be reported.

An insurer will also take into account previous claims experience, which will then be used to provide an equitable premium. It's important to recognise here that insurers are not seeking to penalise insureds unfairly. For example, if a particular local authority had a £2m claim six years ago relating to its leisure services, but has since outsourced those services, then the insurer will not take that claim into account when calculating the current premium.

Demonstrating effective risk management in the assessment of premium

Building up the risk profile of an insured is a process:

The claims profile in the past + The risk profile in the future = The equitable premium

Risk management is an important aspect of this process. Demonstrating an understanding of the risks inherent in the running of an authority, both in terms of property and liability, enable the underwriter to properly assess the risk. As part of the tender process, for example, they will evaluate how the authority looks at risk management from a strategic level, as well as their specific policies, such as the installation of sprinklers, or installing reversing cameras on all larger vehicles. All of this is fed into the premium calculation, but it is important to recognise that such information needs to be documented and demonstrated to the insurer.

We have a sister company, Gallagher Bassett, which provides loss control and risk control support for insureds on similar aspects of risk evaluation and is able to work with local authorities on specific risk management projects.

Why is the actual premium sometimes different to the technical premium?

In an ideal world insurers would be able to look at expenses in relation to claims and produce a premium of 'x'. In reality setting a premium is often a more complex task that factors in numerous points of data, along with an in-depth understanding of the nature of risks in the public sector. Ultimately the underwriter is looking to provide the right premium for the risk as they see it. The more insight they can gain about your risks through your tender and your broker, the better the value they'll be able to provide.

It is also worth pointing out that in the last couple of years there has been growing competition in the market, which will also have an impact on premium rating.

If you have any questions about any of the information here, or would like further guidance on preparing your tender we'll be happy to help.

Get in touch

For more information, please contact your RMP risk control consultant or account director.

Risk Management Partners
contact@rmpartners.co.uk

67 Lombard Street
London EC3V 9LJ

020 7204 1800
www.rmpartners.co.uk

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