ACTUARIAL ANALYSIS NOW KEY TO PROGRAM BUSINESS

Panel discusses the rising expectations of having access to own actuarial experts

By Joseph S. Harrington, CPCU

Success feeds on itself, but it doesn't necessarily make things easier. Program administrators find they have to work harder and smarter to compete in the rapidly growing business segment.

"Program administration has grown tremendously over the last decade," recounted Tom Gillingham, managing director of NFP, in a panel discussion on "Leveraging Actuarial Analysis for Competitive Advantage" during the 2023 Target Markets Mid-Year Meeting.

"With that growth come increasing responsibilities and expectations," he continued. These expectations are making actuarial analysis, once a luxury in a business renowned for improvisation, an imperative for launching and sustaining successful programs.

"Understanding and analyzing the data is a cornerstone to our success," Gillingham added. "Unlike the old days when you could come to a Target Markets meeting and leave with a handshake deal, getting a deal done today is nearly impossible without actuarial sign off."

Although some program administrators may balk at the cost and demands actuaries may bring to the process, they will have to bow to the inevitable. "Make no mistake, this is a good thing for the sustainability and profitability of our industry," said Gillingham.

For those who still have doubts, Arden Insurance Services CEO Brian Cohen offers a cautionary tale: "When we first started, we couldn't afford to hire an actuarial consultant. The lesson I learned is that you're really walking in blind.

"The best analogy I can use is driving a car in the rain," Cohen added later. "Actuarial information is your windshield wiper, allowing you to get a clearer view of how your book of business is performing.

"Looking back, I think it hurt that we didn't invest in an actuarial consultant early on. I found later that our actuarial consultants have been able to provide input from their experience with related kinds of business and the issues we need to watch."

Mutual vetting

Third-party administrators are long accustomed to proposing program ideas and relying on carriers and reinsurers to provide any needed actuarial resources.

That's changing, according to the panelists, as each program partner benefits from having access to its own actuarial experts during negotiations over targets for premium, loss ratios, and compensation, and while developing the product features and underwriting guidelines to achieve those objectives.

Speaking from a carrier perspective, Tracey Sharis, president of Liberty Mutual's Global Risk Solutions North America Programs Group, said her firm uses actuaries to help "vet" MGA and MGU counterparts and develop rates and underwriting guidelines.

"We use actuaries to be as prepared as possible to control as many variables as we can," she said, "and to get an accurate outlook on what may come with a specific partnership."

Speaking as a program administrator, Rekha Skantharaja, president and CEO of Tangram Insurance Services, said, "We have the same ability to vet carriers as they have to vet us.

"When we're dealing with carriers and looking at their actuarial capabilities, we consider several things," she continued. "These include the depth and the breadth of the data they're willing to provide and their ability to explain the assumptions they've made, the variables they've accounted for, and their logic for weighing the impact of different data points.

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"For the average lifespan of one of our programs, we stay with a carrier sometimes 10, 15, 20 years," Skantharaja said. "That makes for a great partnership, but you want to see continuous evolution of the pricing model. You want actuaries to evolve with you as a program develops instead of just hunkering down in their black boxes, as we know some carriers do.

"Last but not least, it is critical that we as a program administrator have a seat at the table; that these folks don't just go away behind the curtain, come up with some magic numbers, and spit them out."

Filling gaps

Since programs are often novel by their very nature, it follows that often there is little or no direct premium and loss experience to support ratemaking. Actuaries provide essential expertise in developing credible loss costs from data derived from comparable risks and exposures.

"Obviously, loss experience data is extremely valuable, along with any exposure information," said Jonathan Abbott, senior vice president of NFP's actuarial services. "But, for a startup, that isn't always available. So, an ability to benchmark prospective rating plans with those from known entities, such as ISO, is very valuable."

Abbott advised audience members to be well-prepared to engage with their actuaries, and not simply expect them to produce results on their own.

"Actuaries need more than data to accurately forecast how a business is going to perform," he said. "If you just provide them data and say, 'Go put it in your black box and come back with a number,' they can do that, but the results will probably be very conservative.

"Those results won't reflect a lot of the variables that program administrators can bring to the discussion," he added. "These include changes in underwriting and claims handling, or changes in a portfolio mix as you grow your business in certain segments. There's a lot that needs to be considered beyond premium and losses.

"Monitoring is extremely valuable," Abbott continued. "Not only must you be aware of how claims are developing, but you want to be ahead of any trends in frequency or severity. Loss frequency trends can show up early, even in longtail liability lines, so you should know ahead of time if claims volume is growing relative to your exposure.

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> *—Tracey Sharis*
> *President, Global Risk Solutions North America Programs Group*
> *Liberty Mutual*

Third-party actuarial resources and data provide essential support for several of Tangram's smaller programs "where the data we can provide wouldn't be statistically significant on its own," according to Skantharaja.

Intermediary role

As important as actuarial support has become for program success, it is equally important that intermediaries and program administrators not lose sight of the critical role they play in supporting actuarial functions.

"Beyond profitability analysis, we all share an ongoing concern regarding the exchange of data to maintain a program," said Sharis. "We want data in its purest, unparsed form as early and as often as possible. We make actionable decisions based on information provided through our partnership. The more accurate that information is, the better our long-term partnership will be."

Skantharaja counseled attendees that, "as intermediaries, we have to make our value in this food chain undeniable, especially given that margins are razor-thin for carriers.

"We've used actuarial analysis to negotiate better profit shares and to get carriers to invest more resources into our programs, because we believe we are making more money than they usually think we're making." ■

(Note: Some of the comments quoted in this article have been edited for context and brevity. For a recording of the Target Markets panel discussion, go to https://bit.ly/2023TMActuarial.)

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