Overview - Underwriting (Risk Calculation)

NOTE: *This document is descriptive only. This is a general overview and it is not an insurance policy or an analysis of your risk and exposures.*

General Underwriting Process

When considering commercial insurance, coverage, premium, and risk is carefully calculated and reviewed on a case-by-case basis. The underwriter will have set parameters to operate within depending on the insurer’s risk appetite or specialty with its book of business – basically level of understanding and comfort with a certain type of risk. The underwriter effectively acts on behalf of the insurer to bring in business and premium while also protecting their own shareholder’s return on investment. Similar to banks, insurers will make most profit off investing the large reserves of money, as opposed to the premium itself.

The insurance market tends to ebb and flow with soft (less stringent underwriting, large capacity, competitive premium) and hard markets (stricter underwriting, less capacity, higher premiums). This plays a big part in the underwriter’s direction.

Generally, underwriters will have set minimum rates (the $ per amount of insurance – e.g. $0.25 per $100 of insurance coverage) and loadings set by actuaries who are setting the rate by estimating the likelihood of a claim occurring in the future by looking at the trends and patterns of past losses (probability theory, law of large numbers, etc…). Based on the general characteristics of sharing pools or certain classes of operations, along with the unique risk factors of the individual organization at hand, the underwriter will apply the minimum rates and add any additional loadings or increases to account for added exposures.

Underwriters can either decline a risk, accept a risk, or accept a risk with conditions (reduce coverage, increase premium, increase deductibles, add exclusions and/or conditions). Some of the key risk elements (there is variability for property and other lines) considered for liability include, but are not limited to:

- Type and location of the business;
- Age of the business;
- Prior and future financial characteristics and successes (size, stability, revenues, assets, management);
- Nature of activities (# of clients/participants, types of activities, level of hazard with activity (e.g. chances of participant injury, proximity to hospital, overnight venue));
- Insurance history;
- Prior or pending litigation (employment, volunteers, clients, community members, etc…);
- Prior and pending insurance claims (nature of, size, frequency, trending);
- Loss history (amount of premium paid vs amount of claims paid – 1yr, 3yr, 5yr, 10yr, historical);
- Post-Claim actions to mitigate future losses;
- Risk Controls and Loss-prevention practices (e.g. dual cheque signing, waivers, supervision, parent to child ratio, internal auditing);
- Coverage limits and retro-active coverages.