Motor Fleet Underwriting

Manchester Liability Society

18 April 2018

Learning Objectives

1. Understand the main **underwriting considerations** of a fleet risk
2. Understand the main ways of **rating** a fleet risk
3. Describe the key measures of a **burning cost**
4. Understand what an underwriter looks for in a **Risk Management** Programme
5. Describe the key **disruptors** in the fleet underwriting market

The views expressed are my own and not reflective of Ageas Insurance Ltd

Underwriting Considerations

- Underwriting at its core is about blending objectivity and subjectivity in risk selection, where the underwriter ultimately decides whether to transfer the risk from client to insurer and what stipulations may be required.

- The underwriting philosophy of the company will give a good steer for the underwriting in terms of the level of risk they are willing to take

- Underwriting of risks can prove trickier for a computer (currently) which is why digital products tend to be less flexible in their risk acceptance.

Underwriting Considerations

The first stage of underwriting Fleet risk is aligned to the Underwriters’ core strategic aims

- Does the risk fit within the company’s “underwriting footprint”?

- Is it presented from a source which aligns with strategic aims?

- Could it have features which are unacceptable to reinsurers?

Underwriting Considerations

Legal Entities	New Ventures	Liquidations and CVAs	Companies House and Credit Checks	Multiple Insured Titles	Postcode Rating	Local/National/International	Garaging Postcodes
Hazardous Location	High Hazard Trades	Decline Trades and Referrals	Multiple Insured Trades	Business Descriptions	Levels and Extent of Cover	Laid Up cover	Third Party Working Risks
Excesses	Mixed Covers and Changes	Endorsements	Standard Use	Hire and Reward	Hazardous Goods	Occasional Business Use	Additional Business Use
Unauthorised Use	Driving Other Cars	Other non-standard Uses	Foreign Use	Vnuk	Who is covered as Standard	Directors Owned Vehicles	Non-Director/Company Owned Vehicles
Fronting	Young Drivers	Inexperienced Drivers	Driving Licences	Drivers with Medical Issues	Drivers with Convictions	Drivers with non-motor offences	ABI Grouping
Refer Vehicles (R)	Electric Vehicles (E)	Grey Imports (G)	Imported Vehicles	Additional Terms	Ownership	Modifications	Body Types for CV
		Attached Plant	Security	Trackers	Registration Numbers		

Underwriting Considerations

Having a good story to back up any underwriting decisions is key

This is where the subjectivity of risk acceptance is used. Two underwriters may look at the same risk, be given different stories and each may take a different approach

Fleet Rating – Credibility and Blending

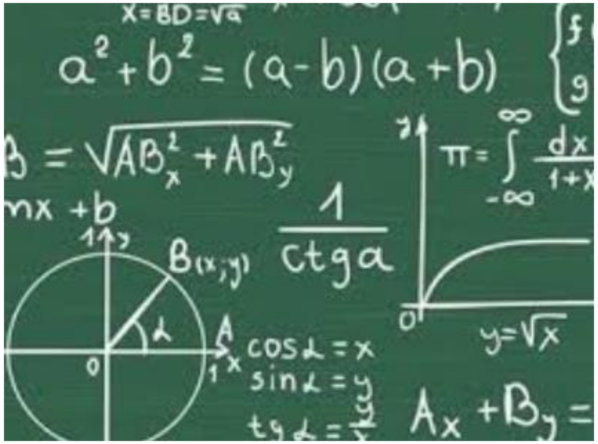
- Two main rating methods
- “Book Rating” (Exposure) / Burning Costs (Experience)
- Credibility of Claims Experience (Frequency and Costs)
- Standard Fleet Rating Factors
  - Vehicle types (ABI Group, GVW etc.) and Mix
  - Location (not just “base camp” but also area of operation, types of journeys)
  - Claims Experience
- Personal Lines rating factors are more in depth generally. Why?

Fleet Rating – Burning Costs

- The rate at which all the premium collected (earned) is used up in claims costs = 100%
  - Not to be confused with a Loss Ratio or any other Ratio (COR etc.)
- Calculation is basically done in two ways
  - Claims frequency
    - number of claims / number of vehicle years*) x Average cost per claim**
  - Average cost per vehicle year
    - Total Claims** Cost / Vehicle years*

“It’s had £15k worth of claims every year so surely £20k premium is too much.”

Unnamed Insurance Broker



*Vehicle years is most common expression of Exposure – other exposures are claims/policy or per million miles driven (telematics)

** Claims costs must be adjusted for inflation and IBNR

Fleet Rating – Costing Calculation

	Vehicle Years	Claims	WS Claim	AD Paid	FT Paid	TP Paid	OS	AD OS	FT OS	TP Os	Total Paid and OS
12/13	391.5	38		5,488	1,267	30,628	-	--	--	--	37,383
13/14	392	50	1	9,944	--	93,632	1	1	--	22,044	135,621
14/15	408	36	4	20,430	--	49,371	2	--	--	56,085	125,886
15/16	433.68	35	3	15,097	16,750	21,820	4	1,000	--	10,785	65,452
16/17	362.3	36		20,329	5,480	19,828	23	3,453	--	17,948	67,038

5 Year Frequency = 10.03%
5 Year ACPC = £2212
5 Year CCPVY = £217
5 Year Burning Cost = (£222 + £217) / 2 = £219.50

Fleet Rating – Costing Calculation

5 Year Burning Cost	= (£222 + £217) / 2	= **£219.50**
Claims cost inflation And IBNR/IBNER	= 20%	
5 Year Inflated Burn	= £219.50 + 20%	= **£263.40**
Target Loss Ratio (60%)	= £263.40 / 60%	= **£439.00**
Commission (10%)	= £439 / 90%	= **£487.77**

Based on 100% credibility

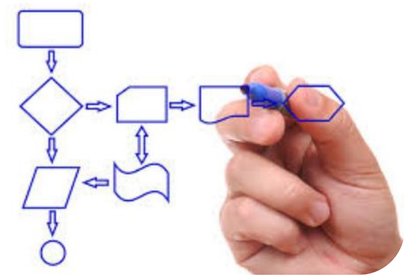
Plus IPT!

Fleet Risk Management Programmes

Training

- Drivers, Managers, H&S, Specialisation

H&S, Safe Driving, Claims reporting policies



Processes and Procedures, Culture

In vehicle Feedback

Driver Profiling

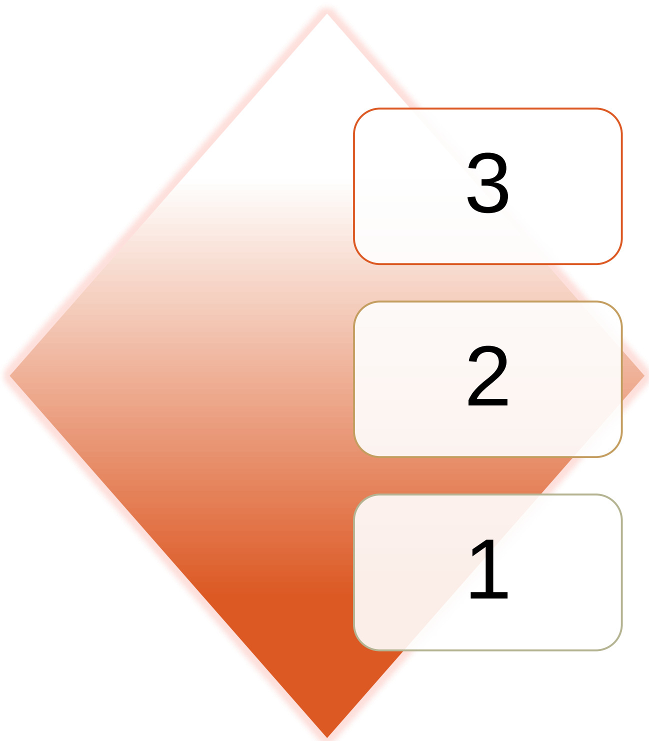
Telematics

Dashcams

Decals

Robust Management Procedures, Processes and Controls are the Key to Success

Fleet Risk Management Programmes



Traditional Risk Management techniques are effective in situations where they are targeted to overcome a known problem or trend

The benefits to the claims experience are realised after the bedding in period and before the reversion to norms.

The main exception to this is where the programme leads to a fundamental positive shift in the role of managing risk within a business. Where this happens, benefits can be realised for a longer period

The other side to this coin is that once benefits have become the norm, they are reflected in the claims experience and priced accordingly

Disruptors in the Fleet Market

- Vnuk / Rodrigues
- Brexit
- Claims Cost Inflation
  - AD
  - TP
- Theft on the rise
- Whiplash Reforms
- Ogden
- Autonomous and Connected Vehicles
- Alternative Fuel
- Fraud
- Increased Underwriting Capacity
- Artificial Intelligence
- Digital Underwriting Capability

Questions