

AEGIS POLICY RATING REVIEW *Excess Liability*

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## INFORMATION *Gathering*

- The process starts with information gathering
  - The majority of the needed information is collected via the **AEGIS application**
  - We supplement the necessary information from
    - 10K
    - FERC reports
    - DOT reports
    - Internet (company websites, SNL, etc.)

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## **RATE** *Development*

- “Base rates” are developed by our actuaries based on 30 years worth of AEGIS loss data / experience
- Rate adequacy is reviewed twice a year

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## **EXPOSURE** *Rating*

- The most significant base rate categories are **gas and electric**
  - Gas sales in volumes are collected and rated on cubic feet of gas
  - Electric sales in volumes are collected and rated on KWhs of electric
    - Both gas and electric are separately rated by customer categories as follows
      - Residential (most significant)
      - Commercial
      - Industrial
      - Wholesale
      - Transportation

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## EXPOSURE *Rating*

- Other industry base rates
  - Pipeline
  - E&P
  - IPPs / standalone generation
  - Midstream

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## EXPOSURE *Rating*

- Each underwriter has the ability to use the following **modifiers** in the rating process
  - Population density credit or debit
    - What is the service territory population?
    - This information is completed in the AEGIS application
    - External resources are also used to evaluate this data
    - Credit would be provided for operations in rural areas
    - Debit would be provided for operations in populated areas (Boston, NY, LA)

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## EXPOSURE *Rating*

- Each underwriter has the ability to use the following **modifiers** in the rating process
  - Experience credit or debit
    - What is the excess liability loss ratio?
    - Are any open claims of great concern?
    - Significant judgement is used by each underwriter based on the nature and severity of claims
    - Credit would be provided for above average experience
    - Debit would be provided for poor experience

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## EXPOSURE *Rating*

- Legal environment debit or credit
  - What is the legal climate of the state or jurisdiction and how are punitive damages are handled?
  - This data is researched and guidance is provided by our claims and legal departments
  - A credit would be given for a favorable state / jurisdiction
  - A debit would be given for a tough jurisdiction
- Geography debit
  - Which natural disasters is the state prone to (wildfires, hurricanes, etc.)?
  - The data is researched and guidance is provided by our claims and actuarial departments
  - A debit would be given for wildfire prone states
  - A debit would be given for hurricane prone states

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## EXPOSURE *Rating*

- Loss control debit or credit
  - Are the operations reviewed by AEGIS Loss Control deemed to be a model practice?
  - Information is available via AEGIS Loss Control reports
  - This data is reviewed with Loss Control professionals
  - Judgment is used by each underwriter based on Loss Control's Risk Assessments

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## EXPOSURE *Rating*

- An example of another base rate category is one that is common to everyone: automobile
  - Automobile fleets are collected and rated based on the number of units by type and by state
    - PPT
    - Small truck
    - Medium truck
    - Large / heavy truck
    - Extra large / tankers
- Same rating process is used for these other categories as with gas and electric
  - Dams
  - Drones
  - EPLI

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AEGIS POLICY RATING REVIEW *Directors & Officers*

# FRED MURNANE

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## EXPOSURE BASE *Size*

- Total assets for base rate
  - Stable and universally accepted
  - Very relevant for utility companies
- Market cap
  - Good secondary measure
  - More important for E&P and midstream companies
- TEV – total economic value
  - Market cap + total debt – cash
  - Indicator for net debt and acquisition cost measurement

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## RISK CATEGORY FACTORS

- Factors applied to base rate to adjust for classes of business
- Rankings based upon historical experience
- Factors may change based on continued experience
- Divided into eight separate risk categories
  - Private and not-for profit entities
  - Cooperatives and public power entities
  - Publicly traded entities

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## TECHNICAL MODIFIERS

### *Individual Risk Analysis*

- Objective / subjective credits and debits applied to the class-adjusted base rate
- Individual risks compared to peer group and their own historic results
- S&P Global and SNL Financial to identify peers and review financial results and ratios

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## TECHNICAL MODIFIERS

### *Operations*

- Sources of revenues
  - Used to determine risk category
  - Non-core operations may add to the risk.
- Income and cash flow results
  - Significant changes or trends
- Geographic location
  - Regulatory and litigation environment

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## TECHNICAL MODIFIERS

### *Financial Condition*

- Debt load and maturity schedule
  - Large increases / decreases or large debt payments coming due
- Leverage / liquidity ratios
  - Debt / capital, debt / equity, interest coverage, current and quick ratios
- Third party debt ratings
  - S&P, Moody's and Fitch
- Probability of financial default
  - S&P Global's *Market Signal Probability of Default* and CreditModel score

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## TECHNICAL MODIFIERS

### *Stock Fundamentals*

- Market cap
  - Overall size and historical trend
  - Significant declines or increases and the underlying causes
- Stock volatility
  - Increasing and decreasing
- Shareholder sentiment and expectations
  - P/E ratio, price / sales ratio, buy / sell recommendations and price target
- Dividends
  - Yield, payout ratio
  - Stable and increasing vs. decreasing or interrupted

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## TECHNICAL MODIFIERS

### *Management / Governance*

- Most important factor, but the most difficult to underwrite
- Management and Board dynamics
  - Tenure, diversity of backgrounds and experience
  - Potential conflicts with other owned or represented companies

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## TECHNICAL MODIFIERS

### *Litigation / Loss History*

- Loss history with AEGIS
  - Accounting for severity, frequency and age of the claims / losses
- Claims / losses with other insurers
- Claim / loss history for the industry or class of business
- Corporate litigation / investigations that could lead to claims

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## CONCLUSION

- Base rates and class factors must be reviewed periodically for adequacy
- Technical modifiers require updating and refinement based upon changing exposures within industries and individual risks
- Competition from the commercial market

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AEGIS POLICY RATING REVIEW *Property*

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## INTRODUCTION TO PROPERTY RATING

- It is a long-standing joke that property rating is very simple
- Value X Rate = Premium **CORRECT**
- To get the full picture of what goes into the formula above, let's look at the components of this equation
- The most significant item missing from the above is the actual underwriting decisions that go into developing an account premium

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## INTRODUCTION TO PROPERTY RATING

- Rating is just one component of underwriting a risk
- There needs to be a relationship between the exposure, the limit provided, and the cost of the coverage for that specific exposure
- There are many different exposures and coverages that go into an all-risk property program
- The final premium is a composite of the various charges for all the coverages and exposures

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## INTRODUCTION TO PROPERTY RATING

- Coverages are split up between two categories
- Property damage – actual physical damage to the property insured
- Time element – resultant loss of income or additional expenses incurred as a result of an insured physical damage event / occurrence

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## INTRODUCTION TO PROPERTY RATING

- Property damage rating is based on the assessment of the physical assets and the various perils to which they are exposed
- Rated perils include catastrophic events
  - Named windstorm
  - Flood
  - Earthquake

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## INTRODUCTION TO PROPERTY RATING

- Other coverages / exposures are
  - Fire
  - Machinery breakdown
  - Newly acquired property
  - Property in the course of construction
  - Property in transit
  - Expediting costs
- Each of these coverages get their own limit of liability and are rated
- Rating is based on the limit provided and the risk presented in the underwriter's opinion

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## INTRODUCTION TO PROPERTY RATING

- Property damage coverage is based on the value of the assets insured – this is known as TIV
- The thought process is that the greater the TIV, the more assets insured
- More assets insured means more exposure to the perils that assets are exposed to
- The more expensive the asset, the greater the potential loss will be

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## INTRODUCTION TO PROPERTY RATING

- Assets are classified into groupings
  - Coal or gas plants
  - Substations
  - Compressor stations
  - Office buildings
  - Pipeline
  - Processing plants
  - Windfarms
  - Solar facilities

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## INTRODUCTION TO PROPERTY RATING

- For each of the various classification we assign a TIV
- Each classification has it own unique rates
- Each class has its TIV (per hundred) multiplied by its unique assigned rate
- Additional rates are applied to each of the additional coverages
- All coverages are totaled to develop the basic rate for property damage

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## INTRODUCTION TO PROPERTY RATING

- The underwriter now reviews charges for each of the coverages
- Credits or debits are applied to the various coverages based upon loss experience, overall loss control evaluations and deductibles

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## INTRODUCTION TO PROPERTY RATING

- In addition to insuring assets for property damage, a very significant exposure for many of our members is loss of income that results from the physical damage event
- In the majority of losses, the loss of income far exceeds the amount of the property loss
- It is more difficult to evaluate the exposures in order to underwrite and price time element coverages than property damage

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## INTRODUCTION TO PROPERTY RATING

- Business interruption is the loss of income from the time of the occurrence until the plant is fully operational again
- This must be as a result of an insured physical loss
- It is critical for loss control to establish the maximum amount of time it would take to get the plant in operation
- Doing so allows the underwriter to establish proper terms and conditions in order to achieve adequate pricing

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## INTRODUCTION TO PROPERTY RATING

- Underwriter needs to fully understand the annual, monthly and daily income at risk
- Underwriter determines if the B.I. exposure is low, normal or severe
- Once this has been determined the underwriter will apply the rate assigned by the exposure against the B.I. values for the location

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## INTRODUCTION TO PROPERTY RATING

- Business interruption rate is applied against the values submitted and are a multiple (3 to 10) times the P.D. rate
- This is now the premium for business interruption
- Additional time element coverages are rated based on a ratio to the B.I. rate and limits
- These coverages are contingent B.I. / extra expense, service interruption and extra expense

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## INTRODUCTION TO PROPERTY RATING

- As in the rating for P.D. all the various time element coverages get credits or debits for deductibles and how exposures are managed
  - CAT exposures
  - Spare parts on hand and availability
  - Bottlenecks
  - Contingency plans and redundancies
- All premiums have now been developed and are totaled. This is the true **technical rate**.

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## INTRODUCTION TO PROPERTY RATING

- Final price is determined by evaluating the overall account, terms and conditions as well as technical rate vs proposed or market rate
- If technical rate is to be adjusted either up or down, a market adjustment is applied
- Size of market adjustments are tracked and technical rate remains as a benchmark for renewals

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AEGIS POLICY RATING REVIEW *Cyber*

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## CYBER POLICY *Coverage*

### **First Party Coverages**

- Breach response services coverage
- Business interruption loss coverage
- Data asset restoration coverage
- Cyber extortion coverage
- Reputation mitigation coverage

### **Third Party Coverages**

- Breach coverage
- Media liability coverage
- Payment card industry coverage
- Failure to Supply

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## PRICING APPROACH

- Coverage flexibility
- Information Technology (IT ) and Operational Technology (OT)
- Underwriting variables
- Cylance Assessment
- Limits and Retention

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## UNDERWRITING VARIABLES

- Nature of operations
- Scale of exposure
- Regulatory compliance
- Contract and vendor management
- Loss history
- Cylance assessment score

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## CHARACTERISTICS OF A *Good Risk*

- Enterprise-wide cyber security strategy
- Information awareness – “crown jewels”
- Adherence to regulations and industry standards
- Employee awareness and training
- Critical vendor management
- Vigilance

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QUESTIONS?

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