

*Pravin Pather, senior underwriter at Centriq Insurance, takes a closer look at the importance of Enterprise Risk Management (ERM) within insurance companies, stating that it will continue to play an integral role going forward, especially as far as underwriting is concerned*

To ensure full integration of ERM in insurance companies, it can be expected that the ante will be upped significantly in underwriting departments going forward. “Underwriters will no longer simply be responsible for understanding and evaluating the risks insurers will assume on behalf of their clients. They will be required to step beyond this role to become a crucial part of the insurer’s ERM strategy by understanding, evaluating and managing the underwriting risks faced by the insurer, in close co-operation with the corporate risk managers,” comments Pravin Pather, senior underwriter at Centriq Insurance.

He explains that full integration of risk management into the insurance business implies that, while senior management is responsible for the risk management system and ensuring that it is used in managing the business, the concept of risk management must be owned, monitored and managed at a local level. “Therefore, each function within the organisation should understand how its decisions affect the risk and capital profile of the firm, especially with regards to underwriting. Hence, as one of the five key categories of risks faced by insurers, underwriting risks will remain fundamental to the insurance business and key to many other functions, such as product design and pricing, going forward,” he adds.

From an insurer’s global risk management perspective, Pather believes that underwriting processes should be broadened to:

- holistically identify all of the risks including inherent risks under their broad contracts as well as unintended concentrations of risks
- evaluate correlations between risks to monitor and effectively control accumulations
- collect adequate data for quantifying risk integration, accumulations and measuring diversification; and
- implementing an adequate underwriting infrastructure to measure discipline and manage exposures after reconciling to Alternative Risk Transfer measures that may have been adopted
- effectively optimise and restructure reinsurance programmes to ensure that there are no unintended and inherent risk accumulations and retentions

- to ensure underwriting risk selection limits and types, and that product wordings consistently comply with reinsurance treaty programmes
- to ensure compliant administration, including claims settlement that complies with underwriting product wording, practices and local regulations

Pather furthermore expects more and more companies to closely monitor and manage the underwriting cycle, ensuring that optimal underwriting decisions are made in line with current and expected market conditions; and for reinsurance programmes to be aligned with the overall risk tolerance. “Corporate insurance risk managers who receive up-to-date and accurate information from their underwriters will also be in the best position to respond to emerging trends by modifying pricing and underwriting guidelines,” notes Pather.

Going forward, he expects a crucial part of insurers ERM to entail continuous interaction and integration with the underwriting department and the tight management of underwriting risk. “Good underwriting starts with consistent, fully documented underwriting standards with clear risk limits and underwriting checklists to maintain standards for the nature and amount of data needed to support an underwriting decision. And it is for this very reason that training will remain essential to ensure that all role players understand the global ERM strategy of the insurer, together with the applicable standards and limits, laws, statutes, regulations and other requirements,” comments Pather.

In addition, Pather notes that underwriters should be required to fully document their underwriting decisions to assist future audits. A “four-eyes” principle, whereby each significant risk requires two peer underwriters to approve each risk could also be a useful strategy while monitoring will remain crucial to ensure any breaches of limits or authority is addressed swiftly,” he concludes.