

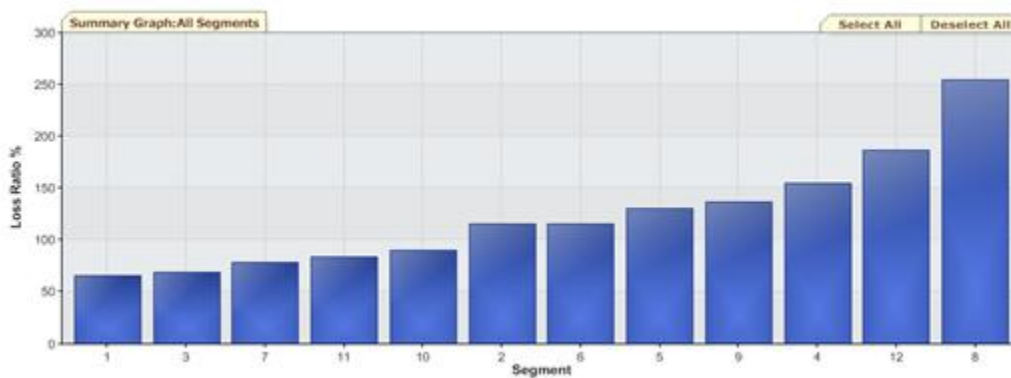
Identifying and Dealing with Adverse Selection

Adverse selection is very real, ever present, and accelerates with time. In some cases it is creeping. In others it is roaring. The impact on your business depends on your perceived pricing relative to competitors, your risk levels and transparency of pricing versus the competition.

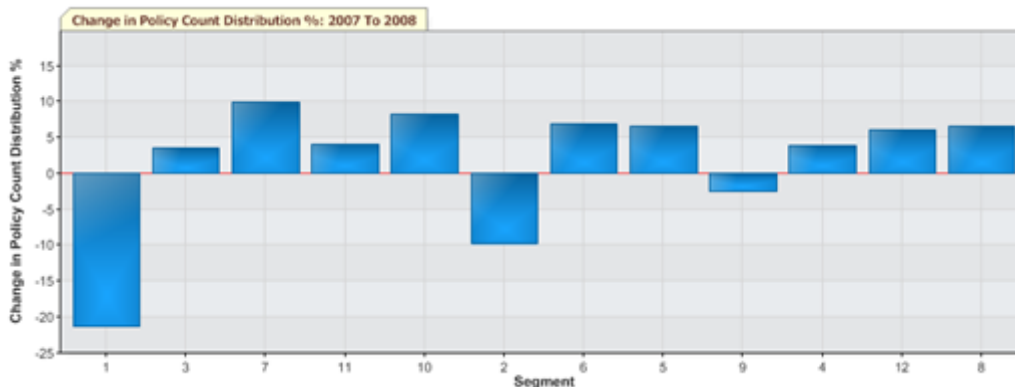
Identifying Adverse Selection

Our Loss Ratio Complete Segmentation analysis will assist carriers in specifically identifying adverse selection within your book of business. Typically we think about the Loss Ratio analysis as a ranking from the most profitable to the least profitable. Another way to think about it is as a spectrum from the most overpriced to the most underpriced. This puts the analysis in a context to consider potential adverse selection.

Loss Ratio Analysis – Example of Adverse Selection



Change in Policy Count – the Best is Shrinking and the Worst is Growing



Best segment is shrinking 20% and the worst 3 are growing over 5%

Actions

Having the book segmented allows carriers to take rating or underwriting actions to quickly address specific problematic areas, minimize dislocation and dramatically improve profitability. Since adverse

selection shows up as increasing new business volumes in underperforming segments and as increasing attrition in outperforming segments, the possible actions based on your specific segment descriptions could be:

- increasing rates or underwriting rules to appropriately reflect the higher than anticipated losses in underperforming segments, and
- reducing rates, increasing commissions, creating new retention programs, increasing discounts or eliminating underwriting steps for profitable business in segments that are shrinking.

Our Clients' experiences have shown that taking targeted actions, focused on the problem areas have a profound impact on the profitability of their business. **Some clients are saving in excess of \$10 million annually, because they are taking aggressive actions to deal with their adverse selection issues.** As shown in the example above losing 20% of the volume in the best segment of business and growing 5% in each of the three worst segments can easily result in a deterioration of the aggregate loss ratio by 2 points or more. Experience has also shown that left unchecked the rate of adverse selection only increases, until your highly profitable business has largely gone away and you have captured significant market share in your unprofitable segments.

We would be happy to show you how to identify areas of adverse selection in your business or to design a specific plan of action with you.

To find out more please contact us at actions@eeanalytics.com or call Sarah Lloyd at 803.726.7208.

If you would like to submit creative actions your company has taken please send them to actions@eeanalytics.com.

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