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| **Policy Title:**  **Standard** | | **Functional Area***:*  **Global Commercial Underwriting** |
| **Effective Date***:*  ***November 1, 2013*** | | **Date Issued***:*  ***November 1, 2013*** |
| **Owner:**  **Global Commercial Underwriting Committee** | | **Contact**:  **Global Commercial Head of Technical Underwriting** |
| **Approver**:  **Global Commercial Chief Underwriting Officer** | | |
| **Purpose** | Renewal Rate Change is a key business performance indicator, and a tool employed in evaluating profitability. Monitoring rate change allows us to understand and report on current market trends and help project the accident year reserves. This Standard establishes the minimum requirement for monitoring Renewal Rate Change. | |
| **Scope** | The requirements set out in this Standard apply to all employees of AIG Property Casualty Commercial with responsibility for underwriting and/or managing insurance risks, policies and portfolios. | |
| **Operational Standards** |  | |
| *General Principles* | Commercial Insurance will use one consistent definition of Renewal Rate Change. Where its use is not practicable, there may be documented deviations from this definition. Each product tower must present an annual summary showing what percentage of its business is using the agreed-upon definition and an explanation for any segment where this Standard could not be met, along with a plan to rectify if practicable. Any such plans to remediate, or not to remediate, the segment(s) where this Standard could not be met must be approved by the Head of Commercial Pricing, or his/her delegate. | |
| *Definition* | **Renewal Rate Change** is the annual percentage change in premium for a renewal policy or portfolio after adjusting for changes in exposure. It compares the current year coverage at the current year rate to the current year coverage at the prior year rate. It is calculated at a per risk level. | |
|  | **Exposure Change** includes all changes in rating elements, such as, limits, attachment points, coverages, exposure base changes and objective individual risk modifiers that are based on physical characteristics of the insured. | |
| *Reinsurance* | Renewal Rate Change is reported on a gross basis (direct and assumed) and does not consider the effect of ceded reinsurance. Where relevant to the business, Renewal Rate Change may also be measured net of reinsurance. | |
| *Loss Ratio Basis* | Renewal Rate Change is used to predict loss ratio change. Therefore, changes to commission or other fixed and variable expenses are considered Rate Changes, and should not be considered as Exposure changes in the Renewal Rate Change calculation. | |
| *Policy Level aggregation* | Renewal Rate Change must be determined on a per risk basis. | |
| *Reporting Procedure* | Each product tower pricing officer, or his/her designee, will distribute on a monthly basis the Renewal Rate Change report to all appropriate stakeholders including the Head of Commercial Pricing. | |
| **Implementation** | Product Towers and Regions are required to develop a plan for implementing this Global Underwriting Standard.  This plan must be agreed with the Global Commercial CUO and set out the projected implementation timeframes and any exemptions that will be made. | |
| **Roles and Responsibilities** |  | |
| *Global Commercial Underwriting Committee* | The Global Commercial Underwriting Committee is responsible for establishing and maintaining global underwriting policies and standards, and is accountable for ensuring that they are consistently and uniformly implemented locally. | |
| *Global Commercial Pricing Committee* | The Global Commercial Pricing Committee is responsible for establishing and maintaining global pricing policies and standards, and is accountable for ensuring that they are consistently and uniformly implemented locally. | |
| *Heads of Product Towers Pricing* | Heads of Product Towers Pricing are responsible for establishing and maintaining product pricing standards, guidelines, and procedures, and are accountable for ensuring that these are consistently and uniformly implemented in their product areas. | |
| *All employees* | All employees performing functions subject to this Standard must adhere to its principles, as well as all other applicable standards, guidelines and procedures. | |
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| **Country Specific Requirements** | Guidelines will be written and agreed where there is the need for distinct local clarification or to comply with local rules and regulations. Any conflict between Global and locally required standards must be identified, documented, escalated and addressed in accordance with applicable AIG corporate policies. | |
| **Reference to Corporate Policies** | This AIG PC Global Commercial Underwriting policy document is subject to adherence to all relevant AIG Corporate Policies | |
| **Updates** | *History of updates to the Underwriting Document*  *September 29th, 2015: Template Updated* | |