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| **Category:**  **Standard** | | **Functional Area***:*  **Global Commercial Underwriting** |
| **Effective Date***:*  ***November 1, 2013*** | | **Date Issued***:*  ***November 1, 2013*** |
| **Owner:**  **Global Commercial Underwriting Committee** | | **Contact for Questions**:  **Global Commercial Head of Technical Underwriting** |
| **Approver**: **Global Commercial Chief Underwriting Officer** | | |
| **Purpose** | Profitability Reviews are a critical aspect of *Underwriting Excellence*. They provide business leaders insight into their portfolios as well as identify profitable and unprofitable segments. These Reviews will be provided to the finance actuaries, business leaders and senior management. This Standard establishes the minimum requirements for conducting Profitability Reviews. | |
| **Scope** | The requirements set out in this Standard apply to employees of AIG Property Casualty Commercial with responsibility for conducting and producing Profitability Reviews. | |
| **Operational Requirements** |  | |
| *Objective of reviews* | Through Profitability Reviews new loss patterns and trends within a portfolio are identified and examined. These Reviews quantify changes resulting from underwriting actions, regulatory changes and/or other environmental influences, and enable business leaders to assess the profitability of the portfolio. | |
| *Methodology* | Profitability Reviews shall be reported on a policy year basis, gross of reinsurance and broker commission. They should include an analysis to assess the corresponding net result on the projection period. Where necessary, Reviews may be conducted on an accident year basis, and then converted and reported on the upcoming policy year.  Profitability Reviews must be conducted annually by each product tower.  A global uniform profitability report template is to be used for all Profitability Reviews. The results of each Profitability Review must be recorded and maintained by the Global Head of Commercial Pricing. When conducting Profitability Reviews the “Profitability Review Reporting Procedures” must be followed, which can be found on the Commercial Pricing Shared drive. | |
| *Requirements* | 1. All business units must maintain an inventory of completed Profitability Reviews and Profitability Reviews scheduled for the upcoming 12-month period. 2. Portfolio actuaries will conduct the Profitability Reviews. Prior to commencing a Profitability Review, the reviewer must communicate with all pertinent parties with knowledge of the portfolio (i.e. business leaders, claims, finance actuaries, science, operations and systems) to understand the history and nuances of the portfolio. 3. The Profitability Review should include a complete on-level and trend analysis. If possible, the trend analysis should be using data available for the Profitability Review, when necessary, the on-level and trend analysis can be referenced using outside studies (for example rate change and law adjustment changes from NCCI). There must also be a method to allocate capital to the portfolio in order to calculate a proper breakeven loss ratio. 4. All Profitability Reviews must undergo a peer review process to review the methodology and conclusions. Peer reviews must be documented. 5. Before a Profitability Review may be finalized, the draft report must be circulated and discussed with the pertinent parties (i.e. business leaders, claims, finance actuaries, science, operations and systems) to discuss the analysis and findings and jointly determine actuarial and business action plans. 6. The final Profitability Review report must be provided to the Global Head of Commercial Pricing. The Review must meet the standards set out in the AAA ASOP 41 which includes, but is not limited to, “In the actuarial report, the actuary should state the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work as presented in the actuarial report.” The final report shall follow the format outlined in the “Profitability Review Reporting Procedures”. The AAA ASOP can be found on the website of the Actuarial Standards Board. (http://www.actuarialstandardsboard.org/asops.asp) | |
| *Deviations* | Any material deviation from this Standard must be approved by the Global 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** | Standards and 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 Global Commercial Underwriting Standard document is subject to adherence to all relevant AIG Corporate Policies. | |
| **Updates** | *History of updates to the Underwriting Document*  *September 29, 2015: Template Updated* | |