Commercial Lines: Casualty and Liability

Interview preparation summary · IN track

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INT.NY.1.a · Employers' liability

For employers' liability, explain why cover is a statutory requirement in the UK, what types of claim arise, and how a policy is priced from wageroll and large losses.

Employers' liability insurance pays an employee's claim against an employer for injury or illness caused by work. In the UK the law requires most employers to hold it, with a legal minimum limit per occurrence, and to display the certificate, so the buyer has little choice and the insurer sees a wide range of employers. This is UK-specific, so check the current rules and the minimum limit. Claims fall into groups: accidents such as falls, manual handling and machinery injuries, which are reported quickly and mostly settle for modest sums; occupational disease and stress claims, which can take years to appear; and rare very large injuries, such as a spinal injury that needs lifetime care. Premium is usually a rate applied to wageroll, with the rate set by trade, since a roofer and an office are very different risks. Pricing needs a frequency and severity view for everyday claims plus a separate allowance for large losses, which can be most of the expected cost. Interviewers ask this to see whether you understand a compulsory line and why large and late claims drive results. Check current practice and limits.

WORKED EXAMPLE: PRICING AN ENGINEERING FIRM'S EMPLOYERS' LIABILITY FROM WAGEROLL AND LARGE LOSSES

Marden Fabrication, an invented UK firm, has 60 employees and a wageroll of 2,400,000. Its current premium is 0.70% of wageroll. Everyday claims are expected at 1.0 per 100 employees a year at an average of 12,000. A large injury of 400,000 is expected about once in 40 years. The insurer's target loss ratio is 70%. Is the current premium adequate?

Answer: The premium needed is about 24,571, or 1.02% of wageroll, so the current 16,800 is about 68% of what is needed. Large losses are 58% of the expected cost.

> **Interview tip:** Say that everyday claims and large claims are priced separately, show that the large claim carries most of the cost, and say that the figures are illustrative and the large-loss frequency is a judgement.

INT.NY.1.b · Employers' liability

For employers' liability, explain long-tail disease claims, how responsibility is shared across the years of exposure, and how old policies are traced.

Some employers' liability claims arise from diseases caused by exposure many years earlier, for example asbestos-related disease, hearing loss or vibration injury. The time between exposure and diagnosis, the latency, can be decades, so a claim today can fall on policies written long before. The policy that responds is usually that in force at the time of exposure or, depending on the law and the wording, the injury; the practice depends on the type of disease and on court rulings, so it is not uniform. Where an employee was exposed over several years, insurers on risk in each year commonly share the cost in proportion to the time each was on risk, and a period with no traceable policy may fall back on the employer. Many UK employers' liability insurers contribute to a central tracing office database, which helps claimants find the insurer from past years. This is UK-specific. For an insurer, the main points are that claims appear very late, that a closed account can reopen, and that reserves for disease are uncertain, so reserve review and exposure data matter. Check the current legal position.

WORKED EXAMPLE: SHARING A MESOTHELIOMA-TYPE CLAIM ACROSS YEARS OF EXPOSURE

An employee was exposed at an invented factory for 10 years. The claim, with costs, totals 360,000: damages 300,000 and costs 60,000. Insurer X was on risk for 4 years and Insurer Y for 3 years. For the remaining 3 years no policy can be traced. Allocation is by time on risk. What does each pay, and who bears the untraced share?

Answer: Insurer X pays 144,000, Insurer Y pays 108,000, and the untraced 3 years, 108,000, fall on the employer unless a policy is traced.

> **Interview tip:** Say that disease claims arrive decades after exposure, that time on risk is a common method but not the only one, and that records and tracing decide who pays.

INT.NY.1.c · Public and products liability

For public and products liability, explain occurrence versus claims-made wording, limits and aggregates, common exclusions, deductibles and product recall in outline.

Public liability pays for injury to third parties or damage to their property caused by a business's activities on its premises or work, and products liability pays when a product it makes, supplies or repairs causes injury or damage after it has left its control. Policies respond on one of two triggers. An occurrence policy responds to injury or damage that happens during the policy period, whenever the claim is made, which leaves the insurer exposed for years. A claims-made policy responds to claims first made during the period, subject to a retroactive date, so the insurer's exposure closes sooner but the customer must keep continuity of cover. Limits are usually per occurrence, and products liability often has an annual aggregate too. Common exclusions include contractual liability beyond what the law would impose, professional advice, gradual pollution, deliberate acts and recall costs. Product recall is a separate first-party cover for the costs of withdrawing a product. Deductibles reduce small claims. Interviewers ask this to see whether you can follow a claim through the trigger, the limit and the deductible. Check the actual wording.

WORKED EXAMPLE: A PRODUCTS AGGREGATE USED UP IN ONE YEAR

Brindle Tools, an invented manufacturer, has products liability with a limit of 3,000,000 any one occurrence and an annual aggregate of 5,000,000 for products claims, with a 10,000 deductible on each claim. Four claims fall in the year: 2,000,000, 2,500,000, 1,800,000 and 1,200,000. The deductible applies to each claim and the insurer's payments count against the aggregate. What does the insurer pay on each claim, and what does the customer bear? Separately, the company faces a product recall cost of 400,000, and it did not buy recall cover.

Answer: The insurer pays 1,990,000, 2,490,000, 520,000 and nothing, a total of 5,000,000. The customer bears 2,500,000 of claims and the recall cost.

> **Interview tip:** Say that the aggregate, not the per-occurrence limit, was the binding limit, and that the customer should have looked at both and at recall cover before a loss.

INT.NY.2.a · Commercial motor and fleet

For commercial motor and fleet insurance, explain fleet rating and experience rating, telematics, claims frequency and severity, and third-party bodily injury.

A fleet policy covers a business's vehicles, such as vans, lorries or company cars, under one contract. Fleets are priced in two ways. Rating by class uses a rate per vehicle based on type, use, radius and driver factors. Experience rating takes the fleet's own claims history, often as a burning cost, which is incurred claims divided by vehicle-years, and blends it with the class rate according to how much credibility the history deserves, since a small fleet's history is noisy. Underwriters split claims into frequency, the number of claims per vehicle-year, and severity, the average cost of a claim, because they behave differently and respond to different controls. Telematics, which means data from devices fitted to vehicles on speed, braking and routes, helps to price drivers and to manage risk, and can support discounts for better behaviour. The costliest claims are usually third-party bodily injury, because the compensation is assessed by the courts for loss of earnings and care, and in the UK compulsory motor cover for injury to others is unlimited, which is UK-specific. Interviewers ask this to see whether you can combine own history and class rates. Check current practice.

WORKED EXAMPLE: EXPERIENCE RATING A HAULAGE FLEET AND TESTING A TELEMATICS DISCOUNT

Corbel Logistics, an invented fleet, has had vehicle-years of 70, 75 and 80 over three years, with 28, 33 and 36 claims and incurred claims of 200,000, 230,000 and 250,000. It now has 80 vehicles. The class rate (manual cost) is 2,800 per vehicle. The fleet's history is given 50% credibility. The insurer's target loss ratio is 70%. A telematics scheme offers a 5% discount. Work out the frequency, severity, blended cost and premium.

Answer: Frequency is 0.431 claims per vehicle-year, severity 7,010, blended cost 2,911 per vehicle, and premium about 332,698 before and 316,063 after a 5% telematics discount.

> **Interview tip:** Show frequency and severity separately, explain why you give the fleet's own history only partial credibility, and say that a telematics discount must be earned by lower claims.

INT.NY.2.b · Excess and umbrella programmes

For excess and umbrella liability and casualty programmes, explain layers, attachment points, follow-form wording and how the price of each layer is built up.

A large business buys liability limits in layers. A primary policy pays first, up to its limit. An excess layer sits above it and pays only when the loss passes the attachment point, which is the top of the layer below, up to its own limit. Several excess layers can be stacked to reach a total limit that fits the customer's worst case. Excess layers are often written follow-form, which means they follow the primary policy's terms and exclusions unless they say otherwise, so cover is consistent across layers. An umbrella is a similar layer, but it can also be broader than the primary and can drop down to pay a loss if the underlying limit is exhausted or does not apply, depending on the wording. Pricing is usually built from the primary premium with increased limit factors, which show how much more premium a higher limit costs, and each layer's price is the difference between two total-limit prices. The rate on line, premium divided by limit, falls as layers rise, because high layers are hit less often but with large losses. Interviewers ask this to see whether you can follow a loss up the tower. Check the wording on attachment, aggregates and drop-down.

WORKED EXAMPLE: A LOSS THROUGH A THREE-LAYER TOWER AND THE PRICE OF EACH EXCESS LAYER

Alder Foods, an invented company, buys a tower of 5m primary, 10m excess of 5m, and 10m excess of 15m, in all 25m. A liability loss of 18m occurs. The primary premium is 100,000 for 5m. Increased limit factors are 1.60 for a total limit of 15m and 1.85 for 25m. How is the loss shared and what does each excess layer cost?

Answer: The layers pay 5.0m, 10.0m and 3.0m. The excess layers cost 60,000 and 25,000, rates on line of 0.60% and 0.25%.

> **Interview tip:** Walk the loss from the bottom up, say what follow-form means, and say that price per unit of limit falls up the tower even though the loss, if it comes, is large.

INT.NY.2.c · Long-tail reserving and social inflation

For long-tail casualty reserving, explain development patterns, IBNR in outline, and how social inflation, litigation and changes in the discount rate affect the cost of liability claims.

A long-tail line is one where claims take years to be reported and settled, so the insurer must estimate what it will pay long after the premium is earned. Reserving starts from a development pattern: for each accident year, the cumulative claims at 12, 24, 36 months and so on, from which age-to-age factors are taken to project the latest year's claims to ultimate. IBNR, incurred but not reported, is the difference between the ultimate estimate and what has been reported so far, and it includes late reports and further development of known claims. In casualty it can be much larger than the case reserves. The estimate rests on judgements, in particular the tail factor beyond the last observed age. Claims inflation matters because cost today is not cost when paid: courts, legal costs, third-party funding of claims and larger awards can push the cost of liability claims up faster than general prices, which is often called social inflation, a term used mainly in the US but with parallels elsewhere. In the UK, the discount rate that courts use to turn a future loss in a serious injury case into a lump sum has moved several times, and a fall in that rate raises claim costs. Interviewers ask this to see whether you know why reserves for casualty are uncertain. Check current rates and practice.

WORKED EXAMPLE: A CHAIN-LADDER ESTIMATE AND A TAIL FACTOR SENSITIVITY

A liability insurer has cumulative incurred claims in millions for four accident years. Accident year 2021: 2.0, 3.0, 3.6, 3.8 at 12, 24, 36 and 48 months. 2022: 2.2, 3.4, 4.0. 2023: 2.5, 3.7. 2024: 2.8. Use volume-weighted age-to-age factors and a tail factor of 1.10 beyond 48 months. Estimate the ultimate claims and IBNR in total, then show what a tail factor of 1.20 does.

Answer: Estimated ultimate is 19.75m, IBNR 5.45m, and a tail factor of 1.20 would add 1.80m. The tail judgement is as important as the data.

Interview tip: Say that IBNR is an estimate of future development, show the method in one line, and say the tail factor and claims inflation assumptions drive the answer more than the arithmetic does.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.