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IUMI webinar

31 August 2026

Marine Underwriters' Financial Fundamentals – Portfolio Steering

Webinar 2 - Portfolio steering
Elements of loss ratios

31 Aug 2026
Prepared by Clara Yip

ELEMENTS OF LOSS RATIOS

Objective - Loss Insight

Loss ratios are an **important indicator** of an insurance company's financial performance, reflecting the relationship between claims costs and premium income.

By analyzing loss ratios, insurers can assess underwriting **profitability**, evaluate risk management effectiveness, and **identify trends** that may impact overall profit and loss performance.

Why Do We Analyse Loss ratios?

Measure Profitability

- Are premiums sufficient?

Assess Risk Quality

- Are we underwriting the right risks?

Identify Trends

- Frequency, severity & emerging exposures

Loss Ratio

=

Early Warning Signal

What drives Loss Ratios?

$$\text{Loss Ratio} = \frac{\text{Claims Cost} + \text{Claim Expense}}{\text{Earned Premium}}$$

Claims Cost
- Paid Losses
- Reserves
- Incurred But Not Reported (IBNR)

Claim Expense
- Legal
- Survey
- Salvage
- Adjuster Fee

Earned Premium
- Time Based
- Exposure Based
- Voyage Based

Question: Are Claims Growing Faster Than Premium?

Marine Claim Example: Wet Damage to Jeans (Cargo Claim) 1/2

Scenario

A shipment of 10,000 pairs of denim jeans is transported from Bangladesh to Rotterdam in containers.

During the voyage:

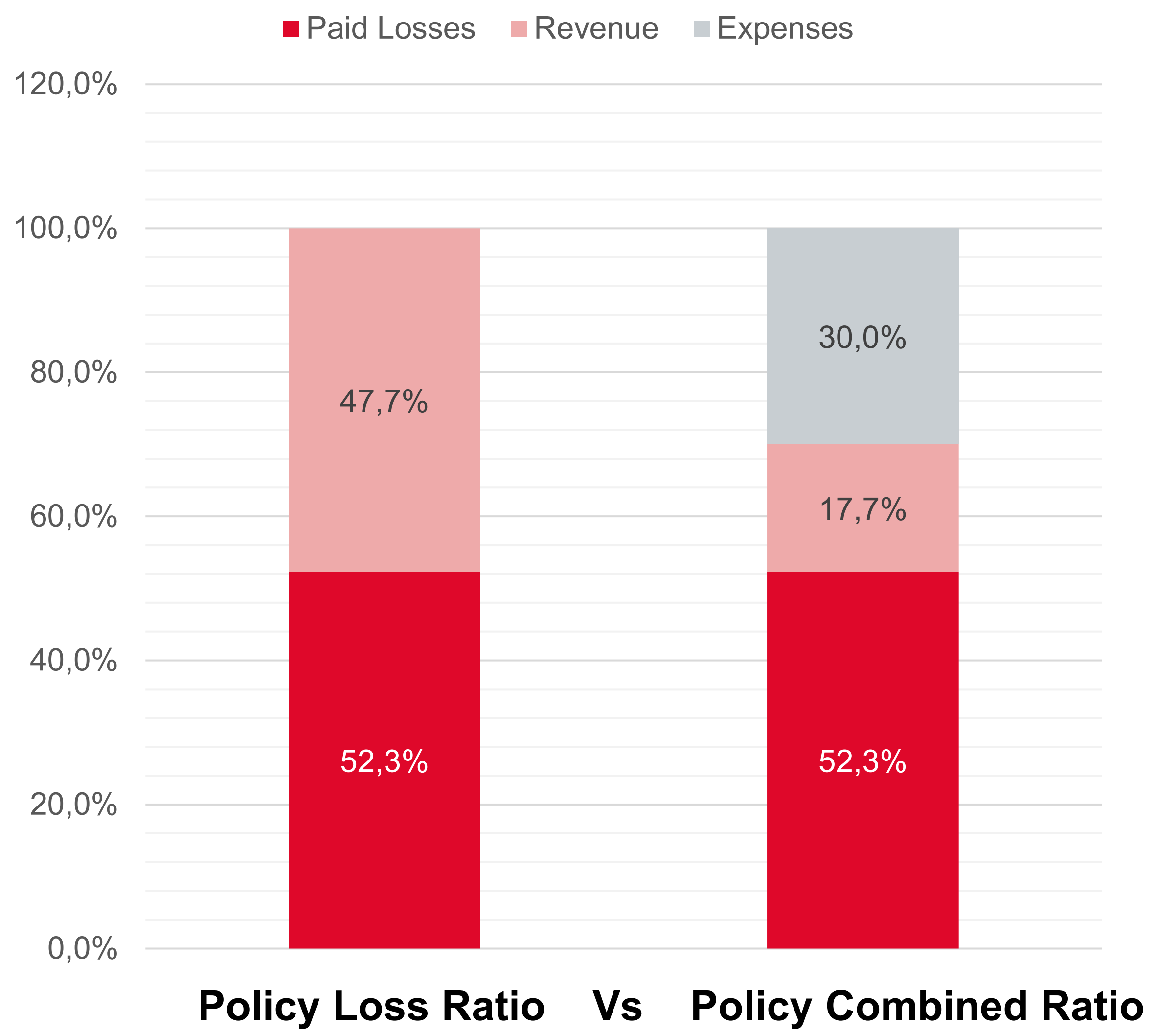
- 🚢 Voyage impacted by heavy weather
- 💧 Water ingress into container
- 📦 Cargo contaminated by moisture
- 👖 Jeans damaged by mold and staining
- ❌ Buyers rejected shipment
- 💰 Insurance claim filed

Financial Impact

Items	Amount
Value of Damaged Jeans	$600,000
Reconditioning Costs	$50,000
Surveyor Fees	$8,000
Disposal / Recovery Costs	$15,000
Recovery	-150,000
Total Claim Cost	**$523,000**

Earned Premium	**$1,000,000**
Loss Ratio	**52.3%**

Marine Claim Example: Wet Damage to Jeans (Cargo Claim) 2/2



Policy Combined Ratio (Profitability View)

- 52.3% is spent on claims costs.
- 30% is spent on operating expenses, acquisition costs, commissions, and administration expenses.
- Only 17.7% remains as underwriting margin before other business considerations.

Interpretation:

For every $100 of premium earned:

- $52.3 pays claims
- $30 pays expenses
- $17.7 remains as underwriting profit margin

Key Drivers of Loss Ratio

Claims Frequency

- **Number of claims** reported
- Weather-related incidents
- Cargo handling issues
- Navigation and operational risks

Claims Severity

- Average cost per claim
- Inflation in repair & replacement costs
- **Large losses & Catastrophic events**
- Rising legal & survey expenses

Premium Adequacy

- Rate increased lagging loss inflation
- **Competitive market pricing** pressure
- Insufficient catastrophe loading
- **Underestimation of exposure**

Risk Mix / Portfolio Quality

- Increase in high-risk customers or policies
- Expansion into **higher-risk products, regions, or industries**
- Deterioration in underwriting quality
- **Adverse selection** resulting in a riskier portfolio

External Factors

- Inflation driving up claim costs
- Natural catastrophes and **severe weather**
- **Regulatory or legislative changes**
- Social Inflation and increased litigation costs
- Economic conditions affecting trade flows

Marine-Specific Drivers of Loss Ratio

Cargo	Theft / Wet Damage/ Temperature variance / Storage Risk & etc.
Hull	Machinery Breakdown/ Collision/ Grounding/ Fire & etc.
Liability	Crew Injury/ Pollution/ Third Party damage & etc.
External	Port Congestion/ Geopolitical Tensions/ Supply Chain Disruption

Gross Vs Net Loss Ratio

Metric	Purpose
Gross Loss Ratio	Underlying Risk Quality
Net Loss Ratio	Retained Profitability
Difference	Reinsurance Effectiveness

Question: "Are losses being retained efficiently, or should more risk be transferred through reinsurance?"

4 Key Takeaways for Understanding Loss Ratios

One

- Loss Ratio Measures Underwriting Performance
- Loss Ratio = Claims Costs ÷ Earned Premium

Two

Loss Ratio Includes More Than Paid Claims

- Paid Losses
- Case Reserves
- IBNR
- Loss Adjustment Expenses

Three

- Loss Ratio Is Only One Part of the Profitability

Four

- Understanding Drivers Enable Better Portfolio Steering
- Pricing, Underwriting, Claims, Reinsurance Actions

THANK YOU

SOMPO

International Union of Marine Insurance

Marine Underwriters' Financial Fundamentals

Webinar 2: Portfolio Steering

Cycle Management

August 31, 2026

Andrew D'Alessio
Head of U.S. Cargo
Zurich North America

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What is an Insurance Cycle?

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Definition:
The insurance cycle is the recurring movement between hard and soft market conditions, reflected in changes in pricing, capacity, coverage terms, competition, and underwriting appetite.

Important:
Underwriting profitability is not automatically positive in a hard market or negative in a soft market, although market conditions and profitability are often correlated.

Core Drivers of the Insurance Underwriting Cycle

Driver	The market hardens when:	The market softens when:
Capital Capacity	Capital impairment or withdrawal	New or replenished capital
Competition	Fewer carriers or less available capacity Underwriting discipline increases	More carriers are pursuing growth
Loss Experience	Large losses and reserve deterioration	Favorable loss trends
Investment Returns	Greater need for underwriting margin	More tolerance for thinner underwriting margins

Why is cycle management important?

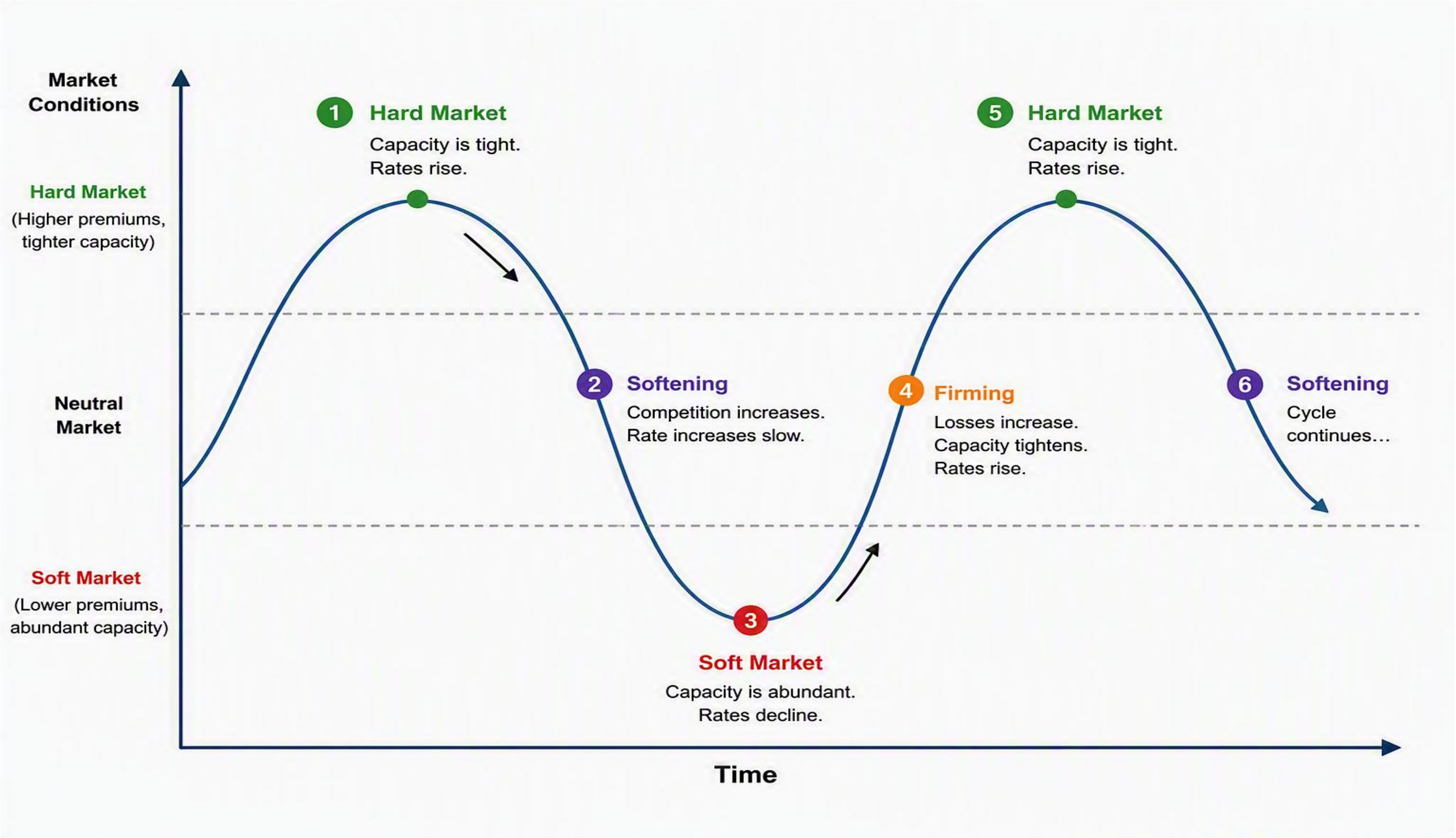
Cycle awareness helps portfolio leaders make better decisions about pricing (rate), appetite, capacity, growth, staffing, investment and reinsurance.

The core objective is to build a portfolio capable of delivering sustainable returns through changing market conditions.

Portfolio Management Considerations

Area	Soft Market Focus	Hard Market Focus
People & Operating Expense	Manage workload, hire selectively Maintain or reduce expenses (direct, indirect, broker remuneration)	Team expansion, underwriter training, plan succession Invest in systems, analytics, distribution, new products
Growth & Distribution	Protect best business; accept controlled contraction; pursue only disciplined growth Deepen broker relationships, defend key accounts	Capture rate increases and profitable new business Expand selectively through productive distribution channels
Appetite & Portfolio Mix	Tighten underwriting discipline to avoid chasing price Shift toward resilient segments and clients	Expand selectively where pricing becomes adequate Rebalance toward opportunities with the strongest risk-adjusted returns
Capital & Reinsurance	Evaluate available reinsurance and its economics Defend return on capital	Deploy capital selectively where expected returns justify it Optimize retentions based on capital, volatility, and reinsurance solutions

What does the insurance cycle look like?



Key Insights

1: Understand where in the cycle the market is operating

2: Manage the portfolio in real time

3: Plan for the next part of the cycle

4: Expect cycle duration & timing to be uncertain

Cycle Characteristics & Behaviors

Adapted from Paul Ingrey's 1985 insurance clock

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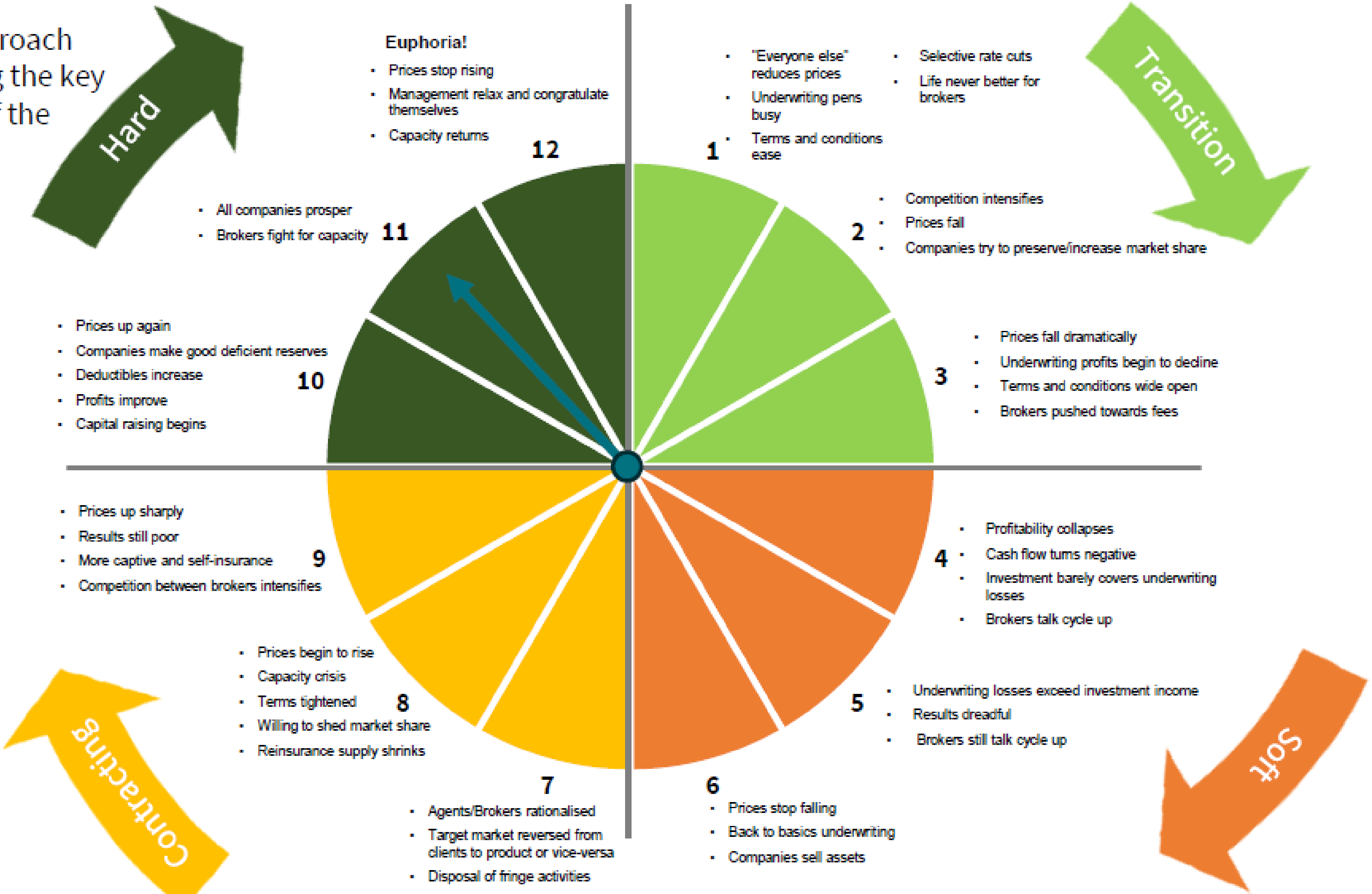
A qualitative approach to understanding the key characteristics of the Insurance Cycle



How the Cycle Changes Your Playbook

Different cycle positions demand different portfolio management strategies

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HARD MARKET | Top-line Focus

- Secure risk-adequate pricing and terms
- Retain attractive, adequately priced business
- Grow selectively where capacity earns an acceptable return
- Avoid expanding appetite solely because rates are rising

HARD MARKET | Bottom-line Focus

- Maintain reinsurance discipline
- Invest in data, risk engineering, and underwriting capability
- Monitor accumulation and reserve emergence
- Prepare for eventual softening

SOFT MARKET | Top-line Focus

- Defend the best accounts, not every account
- Accept controlled premium contraction
- Reduce exposure to inadequately priced segments
- Set clear expectations with brokers and clients

SOFT MARKET | Bottom-line Focus

- Reassess limits, retentions, and reinsurance
- Intensify claims, recovery, and loss-prevention activity
- Control expenses without undermining capabilities
- Protect capital and preserve options for the next turn

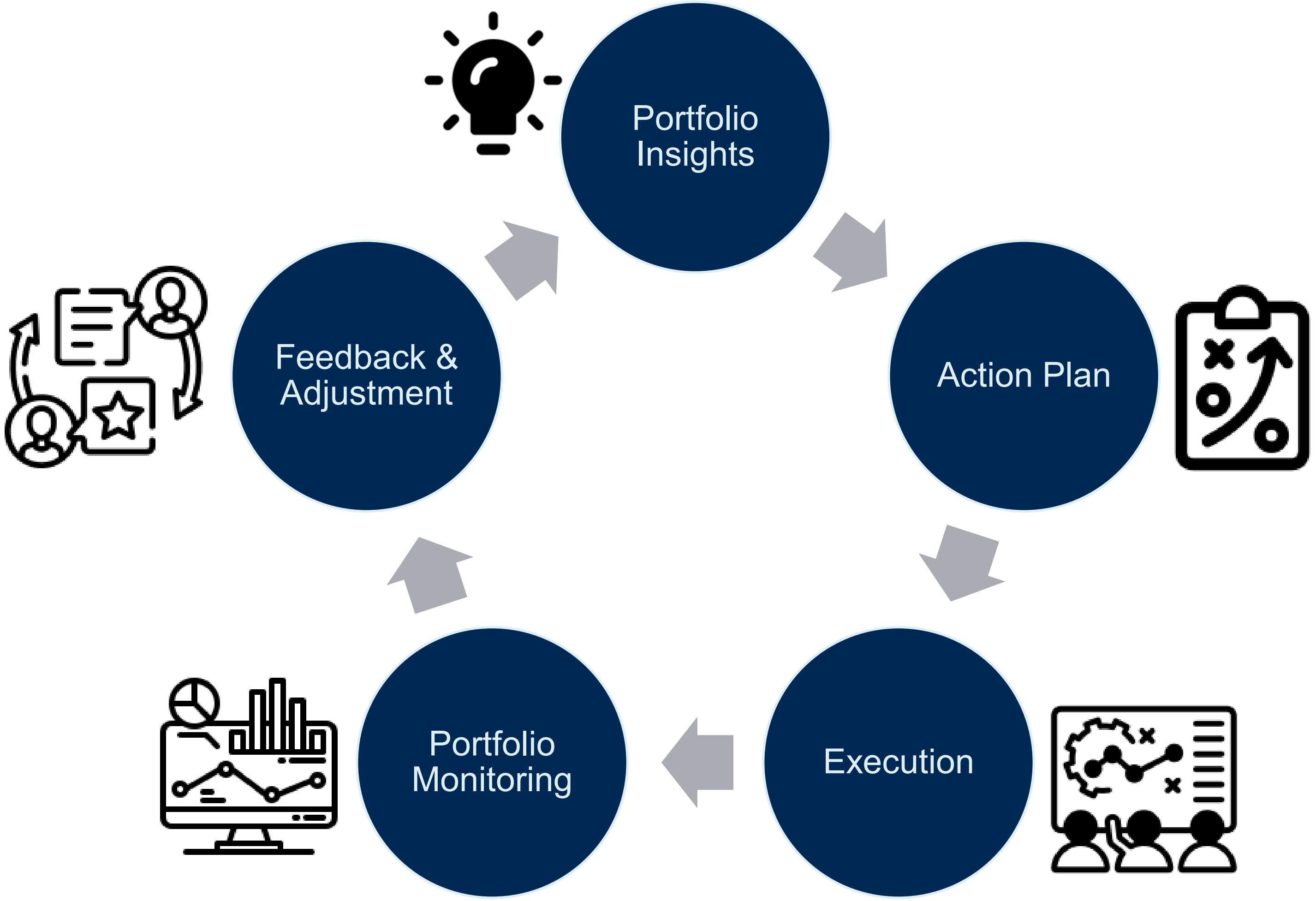
Key Takeaways

What to do differently after today

1. We cannot control the cycle, but we can control our response
2. Cycle position should change the portfolio-management playbook
3. Act early and coordinate across underwriting, actuarial, claims, reinsurance, and distribution

Portfolio Steering

Portfolio Steering is not a one-off exercise



Using your portfolio Insight

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Zooming in the issues

Product? Segment? Country? Locations? Distribution Chanel?

Before you look at account level

Premiums? Expenses? Or Claims?

Each will require different actions

Trends is more important!

Claims inflation

Rate adjustments

Frequency and severity trends

Brokerage and deductions

Policy conditions and structure changes

Portfolio Mix

Turning into Action Plan

Find framework that helps you to prioritise

Which accounts are attractive and you should maintain or increase participation?	
Which accounts you should monitor more closely?	Reducing your lines Varying product mix
Which are the accounts you should consider coming off?	Balancing against long term client /broker relationship
Which areas target for growth?	Product / Country / Broker / Segments
Improve pricing adequacy	Analyse your technical price not just past loss ratio Pricing target vs where you are in the cycle
Tighten Policy Conditions	Dealing with specific claims trend Changes in risk landscape

How do you Execute your plan

Understand	Mobilise	Get	Work
the Challenges: • Expected underwriting impact • Speed to impact • Ease of implementation • Strategic importance • Risk of unintended consequences	your team • Individual member of the team may be more affected than others • Empower decision making	management support • Get buy-in • Additional resources • Capacity changes	with your distribution channel • Communicate your preference and rationales • Manage expectation early • Find flexibility for long term relationship

Portfolio Monitoring

- Your management information set up should reflect your action plan. For example:
    - If are you are set out to improve rate adequacy, you should monitor your rate changes in the portfolio
    - If you are set out to grow in segment/country X, you should monitor Y-o-Y changes in premium volumes and client counts

- Using dashboard for team meeting can help aligning objectives and get your team in focus

- Tracking actual results vs plan allow you to demonstrate your progress towards management

- Careful in balancing empowering your team and death by dashboard

Other considerations

Reinsurance strategy optimisation

Improve data collection and quality

Cycle monitoring and management

Capability development and talent acquisition

Thank you!

✓ Feedback survey

✓Masterclasses Cargo and Hull,
27-30 October 2026 in London
(limited seats available)

✓Next in our webinar series
"*Marine Underwriter's Financial Fundamentals*":

3. *Financial Basic Literacy* – 9 September, 15:00-16:00 CEST

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