

Thinking Ahead: Underwriting Philosophy in a Shifting World



Mandarin Re's Chief Underwriting Officer, Mr. Arthur Underwood, reflects on the future of risk, the role of technology, and why discipline still matters in a world of accelerating change.

In a reinsurance market marked by volatility and transformation, Mr. Arthur Underwood brings clarity and conviction. As Chief Underwriting Officer at Mandarin Re, he's steering strategy with both discipline and adaptability. In this conversation, he discusses climate change, cyber threats, technology, and the evolving philosophy behind risk selection.

What do you see as the biggest challenges currently facing the global reinsurance market, and how do you believe the industry should address them?

Climate change is one of the most urgent challenges we're facing. As natural disasters become more frequent and severe, traditional underwriting models are starting to show their limits. The global climate is changing in ways that are harder to predict. This is why the reinsurance industry needs to step up and develop innovative strategies to more accurately assess and mitigate these risks.

Leveraging AI and data analytics can play a crucial role in this adaptation process. By analyzing both historical weather data and predictive climate models, AI enables underwriters to better understand and price climate-related risks. Advanced machine learning algorithms can also be used to forecast the potential impact of climate change on various sectors, making it easier to make informed decision-making and build resilient portfolio management.

The same kind of shift is also needed with cyber risks. The rise of cyber risks necessitates the re-evaluation of traditional risk assessment frameworks as these threats become increasingly complex and unpredictable. What is clear is that the present approach to risk assessment does not capture the dynamic nature of cyber risks. Underwriting cyber threats requires real-time data and AI-driven insights to identify vulnerabilities and predict potential breaches before they happen.

Automation, on the other hand, can help make the process more efficient and responsive, allowing for continuous monitoring and rapid response when new threats emerge. By integrating AI and automation into their risk management strategies, reinsurance companies not only improve their ability to underwrite cyber risks but also foster a culture of innovation and agility within the industry.

As Chief Underwriting Officer, what is your overarching philosophy when it comes to risk selection and portfolio management at Mandarin Re?

The overarching philosophy is simple: promote and maintain Mandarin Re's underwriting profitability. That's the priority. This means that we will aim for prudent growth when we can reasonably anticipate an underwriting profit. Profit will always matter, but we will consistently value profit more than growth for its own sake.

Another aspect of this philosophy is building and upholding the Company's reputation as a knowledgeable, market-savvy, and professional reinsurer with a global reach. The goal here is to build respect in the market for our underwriting position on key issues, so that when we speak, people trust that our perspective is informed and credible.

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In your opinion, what emerging risks (e.g., cyber, climate change) are underrepresented in the reinsurance market, and how can the industry adapt to address them?

Insurance and reinsurance rely heavily on reasoned risk assessment processes, which are now under strain. The pace of change is accelerating. There is growing uncertainty, less confidence in historical trends, and the emergence of new types of risk with cyber being a significant concern. All this puts pressure on how we assess and price risks. It also affects risk appetite, with some newer risks being underrepresented in the reinsurance market.

To adapt, the industry must embrace a forward-looking approach to risk evaluation and mitigation. This means leveraging cutting-edge technologies such as AI and machine learning to analyze vast amounts of data and generate better predictive insights. By doing so, reinsurance companies can better understand and price these emerging risks more accurately and offer coverage that reflects today's realities.

But it's not just about technology. Collaboration matters too. Governments, academic institutions, and the private sector all need to work together to develop comprehensive strategies for mitigating these risks. Sharing data, knowledge, and resources, leads to more effective risk management solutions.

The industry should also keep investing in people, especially underwriters. Risks are changing, and so too must our thinking and approach to risks. Give underwriters the training to allow them to stay ahead of emerging threats and evolving market conditions.

Mandarin Re operates in various markets with diverse risks, how do you balance regional considerations while maintaining a global underwriting strategy?

Flexibility is key here. Exposures vary in type and intensity depending on the location of the risk, and how the local market behaves. That's why rates and coverages must adapt to meet the needs, expectations and competitive pressures of each particular market. This is one of the advantages of having experience working in Europe, America, and Asia. The experience taught me not to label any market as "bad" or "good". They're just different.

Another important consideration is seeing the value in global diversification. Profit margins might vary across markets, but a solid global underwriting strategy should focus on balancing results from a myriad of markets to avoid having too much exposure in any single market, line of business, class of risk or level of risk exposure.

How do you think the reinsurance industry will evolve in the next 5-10 years, particularly regarding underwriting strategies and risk appetite?

The reinsurance industry is likely to see significant shifts in underwriting strategies and risk appetite. Over the next five to ten years, companies will need to adapt to new realities, new risks, rising uncertainty and the pace at which everything seems to be changing.

Catastrophe risks are a major part of the uncertainty. As they become harder to predict, we may see more public-private partnerships taking shape, since this growing uncertainty impacts risk appetite.

On the other hand, the adoption of advanced technologies, such as AI and machine learning, may assist in dealing with some of these uncertainties and ultimately, may result in significant modifications in the underwriting process.

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As these technologies become more prevalent, they can provide more accurate risk assessments and pricing. With the integration of such technology, reinsurers can build smarter, more responsive underwriting frameworks that adapt to the fast changing risk landscape.

Risk appetite will continue to evolve with the emergence of new risks and market opportunities. Reinsurers will need to find the right balance between trying new ideas and maintaining robust capital reserves to ensure long-term stability. Environmental, social, and governance (ESG) criteria will also carry more weight in underwriting decisions, reflecting the growing emphasis on sustainability and ethical considerations.

How does Mandarin Re approach innovation in underwriting to stay competitive, especially in emerging lines of business?

Mandarin Re might not be seen as a market leader just yet, but we often support innovative market solutions, especially where more traditional reinsurers are less active. As the industry faces growing uncertainties and a wave of emerging risks, this kind of flexibility could become one of our biggest strengths.