Underwriting Risks

The book value (technical provisions) and economic value of insurance liabilities are dependent on (i) the size and timing of future claims payments including expenses and (ii) the interest rates used to discount these claims payments to current date. In this section the focus is mainly on the first component and hence on the underwriting risk. Discount rate risk and its effect on technical provisions are also described in this section. The interest rate risk affecting the economic value of liabilities is covered later in ALM risk section.

Underwriting risk can be defined in general as a change in value caused by ultimate costs for full contractual obligations varying from those assumed when these obligations were estimated. Hence, underwriting risk realizes as a loss or adverse change in the value of insurance liabilities due to pricing and provisioning assumptions on claims payments being different than the actual ones.

With respect to the underwriting businesses carried out in the subsidiary companies, it has been established that If P&C and Mandatum Life are operating mostly in different lines of business and hence their underwriting risks are different by nature. The most material common risk factor is life expectancy in Finland that is affecting both companies' technical provisions.

Hence, there are no material underwriting risk concentrations under normal course of business and, consequently, business lines as such are contributing diversification benefits rather than concentration of risks. This is why Underwriting risks can be described only at Company level.