



**BEAMS FROM THE LIGHTHOUSE VOL. 8; MAY, 2016**  
**A NEWSLETTER FROM LIGHTHOUSE CONSULTING, LLC**  
**KEEPING YOU OFF THE ROCKS**

**What's Your Line?**

Baby boomers may remember the very popular game show *What's My Line?* Celebrity panelists guessed the occupation of a contestant by asking a limited number of yes or no questions. According to Wikipedia it has the record for being the longest running prime time game show in U.S. television.

The first question a broker asks an underwriter is-what's *your* line? He is not asking about his job but about his available property capacity. It is an important question. Property insurers sell capacity, and the amount of that capacity defines who they are in the market.

Underwriters calculate their property capacity by a *line setting* process. Since most of their capacity is someone else's money (i.e. their reinsurers) it is important to understand how they decide how much of your money to offer a particular account. There are three basic ways.

**First, the easy way**

There is no line setting process. Every risk gets treaty full capacity regardless of class, construction or protection. Some markets nuance this by adjusting downward for adverse risk conditions or very hazardous classes. Reinsurers are exposed all the way up the program to nearly every risk written by the insurer.

**Next, the simple way.**

It is called a line guide, usually expressed as a chart. The insurer groups similar classes together and gives them a number, say 1 to 5, with the 1's being the least hazardous. They then assign a line to each group by construction, and that is that. The least hazardous class with the best construction get the most capacity, and vice versa. Advantage to the reinsurer? They know the types of risks that are coming into their layer.

**Finally, the complicated way.**

The line is set on some loss expectancy measure such as PML or MFL. So, the insurer tells the broker, "I have \$50 million capacity in the PML and \$100 million outside the PML." Large property insurers like this approach because it fits with their loss control and underwriting expertise. However, these are estimates so reinsurers could be subject to a blown PML.

**Which way is your way?**

If you don't know, ask. Most insurers are happy to talk about line setting. Look at a few risks-maybe do an audit. Hey, there's an idea...