Understanding Asset-Based Underwriting and the Role of Declared Values

Underwriting is fundamental to risk-based contribution setting. Contributions are generally a function of how often claims occur (frequency) and how large claims can be (severity).

Like General Insurers, Unimutual's approach to underwriting property protection is asset based, meaning that contributions are primarily determined by the total declared values submitted by Members in accordance with the Product Disclosure Statement (PDS). This differs from limit based underwriting, where pricing is tied mainly to the limit selected. Because Unimutual prices based on exposure to the actual assets at risk, accurate Member declared values are essential for setting appropriate contributions based on a Member's risk profile.

Why Accurate Declared Values Matter

Members are required to declare their asset values in line with Section 1.3 – Calculation of Protection of the PDS. These values should reflect the full replacement or reinstatement cost of assets, including:

- removal of debris
- professional fees
- escalation costs during the rebuild period

This is a consistent approach across General Insurers and Mutuals.

Escalation is particularly important; the cost of labour and materials can shift significantly between the start and end of the protection period, especially in high-inflation environments. Under-declaring values can therefore distort the true exposure and lead to pricing adjustments or loadings during underwriting.

Accurate declared values also ensure that loss estimates and modelling outputs reflect a more realistic exposure. If a Member selects a Protection limit based on incomplete or incorrect values, they risk being under-protected, which may have serious implications in a major loss event.

How Unimutual Underwrites the Risk

Unimutual evaluates risk using a combination of actuarial modelling, historical loss experience data, and risk factors provided through the data collection process. The models are calibrated using full declared values, obtained from either detailed Member information or, where gaps exist, from professional assumptions made by the underwriter or market data. To avoid unnecessary loadings or conservative assumptions, Unimutual strongly prefers complete and professionally prepared valuations that accurately represent the Member's asset base and risk profile.

Because asset based underwriting directly links exposure to the scale of the assets insured/protected, higher declared values typically reflects the increase in both claims frequency an insurer or Unimutual expects as well as the increased cost of claims. Therefore, an insurer or mutual would charge more contribution for the increased exposure even if the limit does not change. This ensures that contributions are aligned with the actual exposure each Member brings to the Mutual.

The Role of the Insurance Limit

While Unimutual primarily underwrites based on asset values, the overall limit of liability also plays an important role. Insurers and reinsurers often apply minimum premiums, driven by capital requirements and the maximum amount they may be required to pay, even when the probability of a full-limit loss is low. As a result, increasing the limit can sometimes trigger a disproportionate increase in Contributions, particularly where minimum reinsurance premium thresholds apply.

In Summary

Unimutual's underwriting process is influenced by both declared asset values and the selected limit of liability, but asset values are the primary driver.

Higher declared values increase the modelled severity and frequency of claims and therefore Contributions.

Higher limits may trigger disproportionate contribution increases if minimum capital driven charges apply.

Accurate, professionally supported declared values are essential to avoid loadings, ensure proper protection, and achieve fair, exposure-based pricing.