

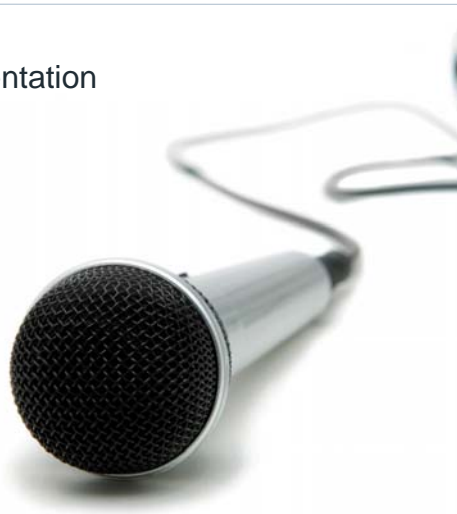
General Insurance Pricing Seminar
Graham Ross

It is just not fair!

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It is just not fair!

The rational pricing analyst's encounter with emotional customers



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What do you consider fair?

A Quick Poll

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Do you agree?

**Prices should reflect
differences in risk**

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Do you agree?

**Loyal customers should
be rewarded**

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Do you agree?

**Those who put the most
effort into shopping
around deserve the best
prices**

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Do you agree?

**Discounts are needed to
attract new customers**

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What do customers think?

A not very rigorous survey

Anger at unfair prices

Roaming
Charges

Bank
Charges

Petrol
Prices

Airline
Flights

Utility Bills

Booking
Fees

Insurance
Premiums



Recent examples of public anger

Motor price
increases

Renewal prices
vs. New
Business

Risk pricing
using
unemployed
status

Size of Admin
fees

Value of
Protected NCD



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Motor Price Increases Which? Richard Lloyd on OFT decision

“Consumers have been hit time and again with significant increases in costs for their car insurance without seeing increased benefits to their policy.

We would also welcome an investigation by the Competition Commission to put an end to bad practices and give consumers get a better deal on their car insurance.”

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Renewal Prices

Advice from MoneySavingExpert.com

“Apply for cover from your existing insurer as a new customer and it's likely you'll be given a cheaper price. This is because home insurers like any company will happily profit from apathy if they can”

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Renewal Prices

Watchdog TV show April 2012

“... drivers who've contacted us aren't only shocked that they can get cheaper deals from their own provider simply by posing as new customers - they're baffled by some of the excuses given.”

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Renewal Prices Which February 2012

“..The overwhelming feedback we received from panel members was that they were tired of playing the renewal 'game' and wanted to know why insurers couldn't just reward customers who make a commitment to stay with them.”

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Risk Pricing – using unemployed Dan Plant, MoneySavingExpert.com money analyst

“While insurance prices are based on risk, it's illogical that simply by being put out of work, at a time of massive unemployment, the same person has to pay over £1,000 extra in order to continue driving.

The proper solution is for insurers to charge fair amounts and not let one small change disproportionately skew prices astronomically high”

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Administration Fees

extract from MoneySavingExpert.com forum

“.... Slapping a £30 charge on you for a few button pushes, or £65 for daring not to need the policy any longer is outrageous.”

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Value of Protected NCD

extract from Guardian article

So, despite protecting my no-claims bonus, the fact I had made a claim came back to haunt me

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How to customers decide what is fair?

Descriptive Model for customer behaviour

Customer Behaviour

Collective
Experience



Norms



Escalation towards Anger

Not personally
fair



Not socially
fair



Attribute
responsibility



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Is the price personally fair?

Accepted
Practices



Reference
Prices



Personally
Fair



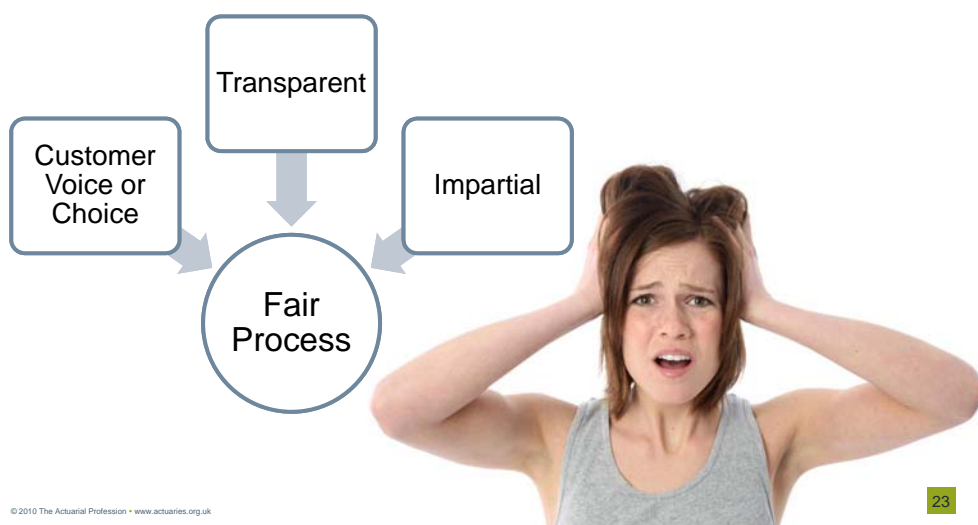
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Is the price socially fair?



Is the process socially fair?



Who is Responsible?

External
Factors

Seller's
Motive



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Is insurer pricing not fair?

Rise of Optimisation

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Accepted Pricing Approaches

Costs

Competitive

Customer



Recent examples of public anger

Motor price
increases

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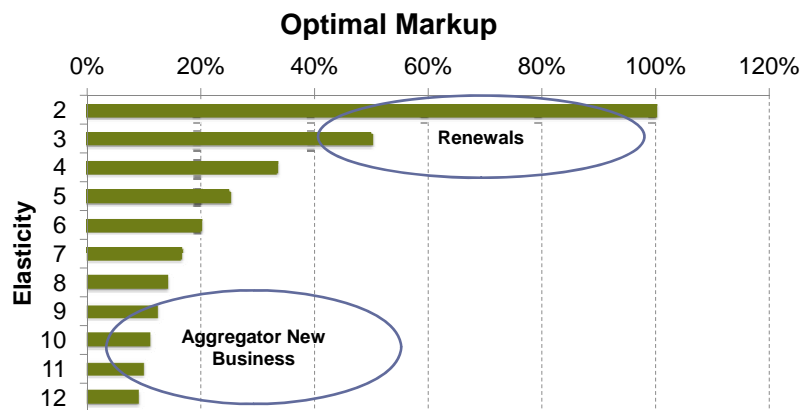
Size of Admin
fees

Value of
Protected NCD



Rational Economics vs Customer Expectation

Simple one-year profit optimisation example



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Are new business discounts now accepted?

Competitive tariffs are widely used by virtually all utilities to attract new customers

- Gas, Electricity, Mobile 'Phone, Broadband etc.

Mortgages, Savings, Credit Cards are often sold with competitive rates at start, then revert to "normal" rates

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Have customer norms for buying insurance changed?

You have to shop around to get the best deal on your insurance

73%

You can haggle with an insurer to get a better price

33%



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So what does this mean for our rational pricing analyst?

- Understanding the insurer's attitude to fairness is critical
- Implications for Life Time Value pricing if renewal elasticity is likely to increase
- How do you set prices if customers negotiating prices is more common?



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Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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