

General insurance pricing seminar
James Tanser and John Berry

Ancillary Income Maximisation

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Ancillary Income Maximisation

- What do we mean?
- Why are we talking on this topic?
- What is happening now?
- Ancillaries and the pricing process
- Maximising the profit

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1

Ancillary Income

- Precise definition will vary from company to company depending on accounting basis
- We'll define it as income received **from services other than the core insurance contract**, such as:
 1. Add-ons sold in addition to core coverage
 2. Referral fee income (credit hire, personal injury)
 3. Income received from handing-off leads to third parties
 4. Administration fees
- We'll focus on 1.

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What do we want to maximise

- Two problems with potentially different answers
 - How to maximise ancillary product sales
 - How to maximise overall profits
- Which you do and how hard it is depend on where you sit in the value chain

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3

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4

Why the focus on add-ons?

- Unbundling a major trend over last 5-10 years, caused by:
 - similar activity in other industries (e.g. airline)
 - panel intermediaries seeking bigger role in value chain
 - success and format of UK aggregators
 - growth of new direct brands competing on (core) price
- Add-on income now a material proportion of turnover
 - add-on income > contents only premiums in many cases
- Choice of a major UK insurer to emphasise ancillary contribution in its published financial results
- Common for UK motor insurers to be able to achieve ancillary contribution equal to 10-15% GWP

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Where does the power lie? Distribution

- All about ownership of sales process (last touch)
 - And perception of value
- Aggregators indicate common add-ons to assist comparison
 - But don't (yet) offer quotes for similar cover
- Panel intermediaries in strong position, as usual
 - More traditional brokers also
- Future potential to increase transparency to policyholder

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6

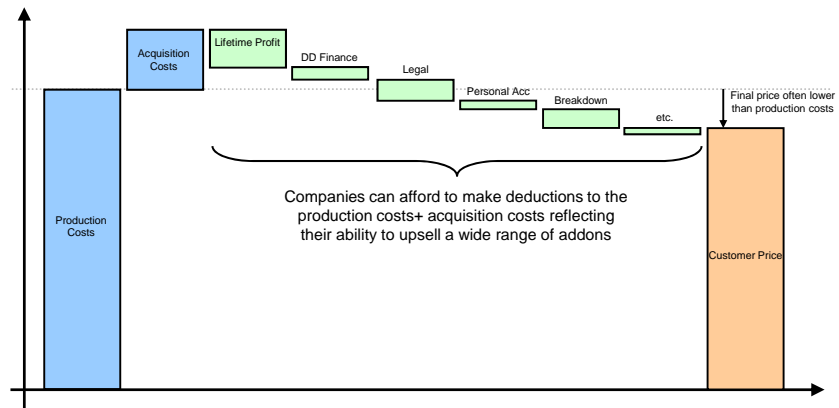
Where does the power lie? Manufacture

- Distributors have simpler job as costs do not change based on add-on choice
 - Possible selection effect to manufacturer
- Manufacturers can price for risk effect, potentially offering better prices

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Why the focus on add-ons?

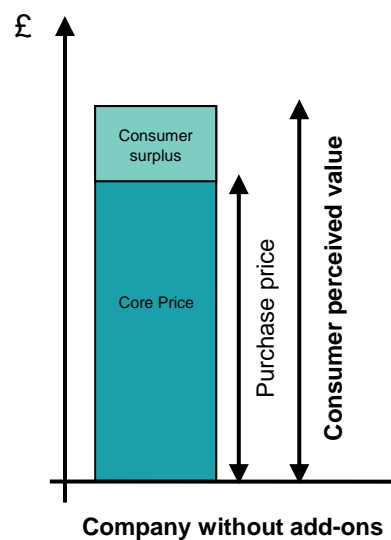


Source: Gareth Howell's presentation to 2010 Pricing Seminar, Zurich Insurance Company

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8

Capturing some of the consumer surplus



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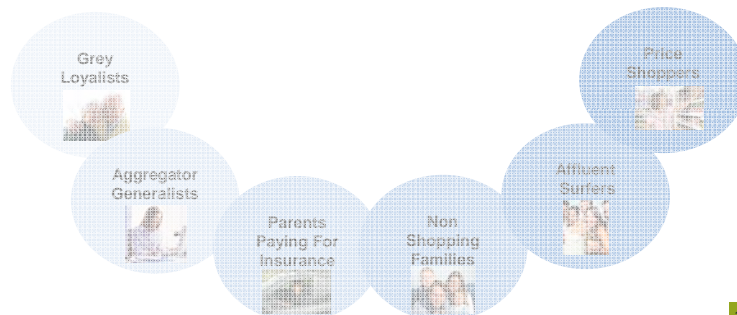
Capturing the surplus through price partitioning

Research Note

Attention Arousal Through Price Partitioning

PRICE PARTITIONING ON THE INTERNET

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10

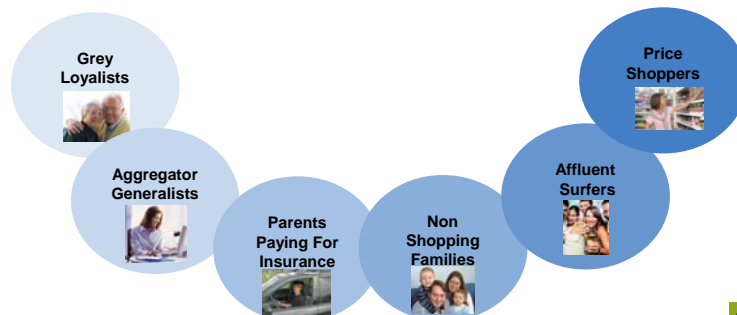
Capturing the surplus through segmentation

Research Note

Attention Arousal Through Price Partitioning

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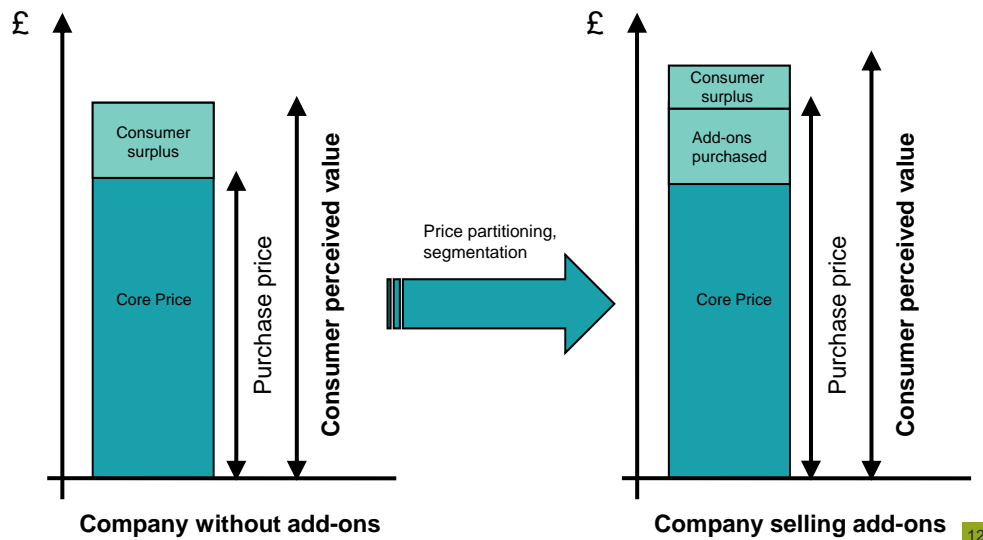
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11

Capturing some of the consumer surplus



Some interesting figures

- £700-£800
- £200-£250
- 40%
- £142,000,000
- 104,597
- 14 days
- Injury referral fee
- Credit hire referral
- Highest APR (Confused.com)
- Admiral "total ancillary contribution"
- PPI complaints in 2010
- Time taken to start outbound upsell call by broker

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14

Motor examples

Add-ons

- Finance
- Legal expenses
- Breakdown
- Courtesy car
- Personal accident

Core cover extensions

- NCD protection
- Voluntary excess and excess buyback
- Windscreen cover

	Legal	Courtesy Car	Breakdown	Personal Accident	Windscreen	Driving Abroad
MSM	Y	Y	Y	Y	Y	N
Compare The Market	Y	Y	Y	Y	Y	Y
Go Compare	Y	Y	Y	Y	Y	N
Confused	Y	Y	Y	N	Y	N

Add-ons by major price comparison site

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15

Motor - interesting examples (1)

shape your cover

View your compulsory excesses
Flex your voluntary excess

£0 £150 £250 £500 £750

Windscreen cover (per year) £31.57 Add More info	Legal expenses (per year) £19.99 Add More info
Driving other cars (per year) £11.04 Add More info	Car hire (per year) From £15.14 Add More info
Breakdown cover (per year) £29.99 Add More info	No claims discount protection (per year) £35.21 Add More info
Car contents (per year) £6.44 Add More info	Roof boxes & trailers (per year) £15.90 Add More info
Foreign travel (per year) £38.39 Add More info	Personal accident (per year) £14.07 Add More info
Paper documents (per year) £7.42 Add More info	

Core cover
What is included?
[Switch to show prices per month](#)

Options added:

[Add more options from the list opposite](#)

Total quote
£418.85 (per year) or **£37.70*** (per month)
Insurance Premium Tax (IPT) will be charged at the rate that applies at the date of inception.
[Save my quote](#)

[Proceed to 'check & buy' ▶](#)

[Go back to 'your details'](#)

*10 instalments of £37.70
Initial payment of £75.36
Overall total £452.36
(includes representative APR 22.68%)

16

Motor - interesting examples (2)

Available options

Windscreen	£16.35 per year	Add +
Breakdown		
Roadside Assistance	£36.99 per year	Add +
Roadside Assistance & Homecall	£41.67 per year	Add +
Roadside Assistance, Recovery & European	£46.82 per year	Add +
Roadside Assistance, Recovery, Homecall, Recovery & European	£54.75 per year	Add +

Travel Accident Plan	£25.47 per year	Add +
Legal	£25.47 per year	Add +
Personal Items	£5.87 per year	Add +
Temporary Hire Car	£15.67 per year	Add +
In Car Entertainment		
Up to £750 cover	£10.77 per year	Add +
Up to £2,000 cover	£12.20 per year	Add +
Emergency Care	£10.77 per year	Add +

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Motor - interesting examples (3)

Optional Extras

Breakdown cover:	Road side (£35.00) <input type="checkbox"/>	Home Start (£65.00) <input type="checkbox"/>	Home Start Europe (£85.00) <input type="checkbox"/>	<input type="checkbox"/>
Courtesy car in event of theft:	14 Days (£26.00) <input type="checkbox"/>	21 Days (£32.00) <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Legal expenses insurance:		(£25.00) <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Road rage and increased personal accident benefits:		(£9.00) <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Driver Injury Cover

Medical care expenses & loss of earnings for the driver up to £1m

☐

£3.21
per month

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18

Motor - examples from overseas



Spain - *multas* - insurance for legal expenses involved with contesting road traffic offences



Germany - *fahrrerschutz* - driver protection for injury – sold as an add-on to **non-comprehensive** policies



Switzerland – *marderbiss* – insurance against furry animals biting through engine cables



Italy - *eventi naturali* - natural catastrophes



South Africa - *vehicle credit shortfall* - essentially gap insurance to cover (outstanding finance - total loss payout)

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Motor - another example from South Africa

Buddy@OUT

Finally, a designated driver at your disposal – at all hours of the night!

OUTsurance partnered with **Good Fellas** and put together an innovative optional product to add to your current **car insurance** package. Buddy@OUT provides you with a great option to get home safely after you enjoyed a few drinks and would rather be escorted home to ensure your safety and that of others. We are the only insurer in South Africa that offers a service such as this - taking the lead against driving under the influence of alcohol.

One phone call gets you home safely

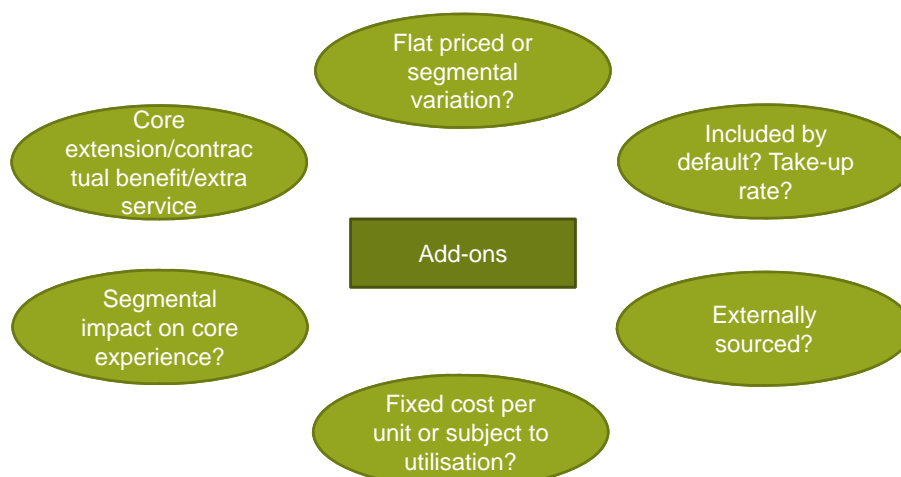
Good Fellas is a hassle free alternative to drinking and the smart way home driving.



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20

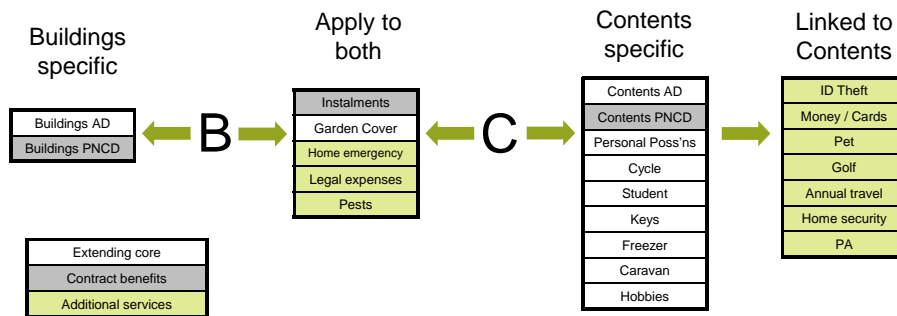
Add-ons – key features and characteristics



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21

Household examples



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Household exotica (from Australia)

Lawn Bowls Full House		✓	Standard
International Sporting Record		✓	
Multiple Births		✓	
Burnout of Electric Motors	Option	Option	Add-ons
Pet Injury Cover		Option	

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23

Household is less of a commodity product

	Combined				Contents Only				Buildings Only			
	MSM	Compare The Market	Go Compare	Confused	MSM	Compare The Market	Go Compare	Confused	MSM	Compare The Market	Go Compare	Confused
Alternative Accommodation	N	N	N	Y	N	N	N	Y	Y	N	N	Y
New for Old	Y	N	N	Y	Y	N	N	Y	N	N	N	N
Locks	Y	N	N	N	Y	N	N	N	Y	N	N	N
Emergency Cover/Hotline	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Legal	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
AD	N	Y	Y	N	N	Y	Y	N	N	Y	Y	N
Drain Pipes									N	Y	N	N
Money					N	Y	N	N				
Personal possessions					N	Y	N	N				

Add-ons listed on results page for major price comparison sites

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24

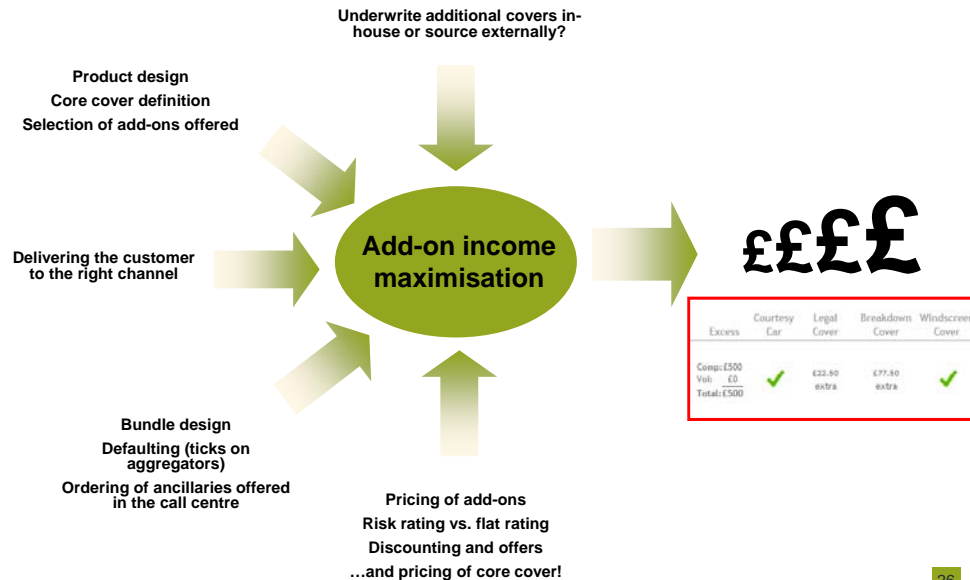
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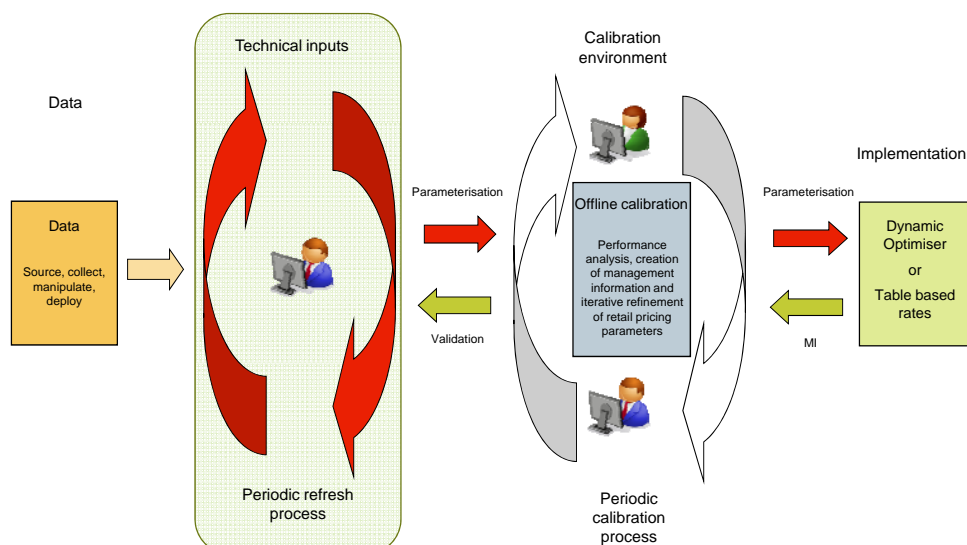
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25

Key levers of control



Ancillaries and the (optimised) retail pricing process



Technical inputs to the retail pricing process

- NB and R require different approaches for including add-ons in LTV calculations
 - at NB the game is to establish the expected uptake of add-ons
 - at R it's more about recognising existing add-on holdings
- Uptake propensity models
- Risk premium models for core covers which adequately reflect the influence of add-ons
- Cash flow models for add-ons are needed:
 - separate claims cost models are used where appropriate.

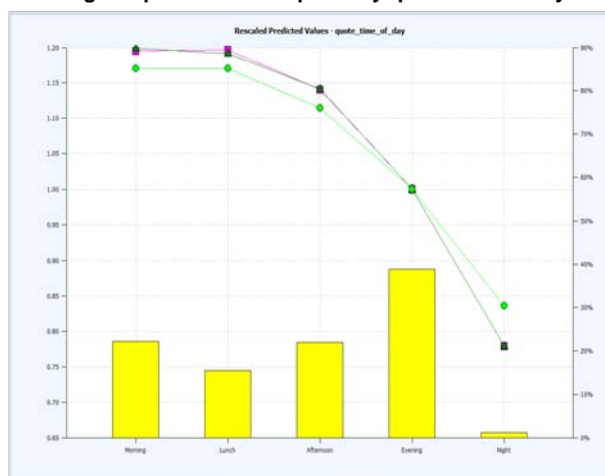
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28

Technical inputs to the retail pricing process

- Importance of factors related to customer attributes, sales process and agent behaviours

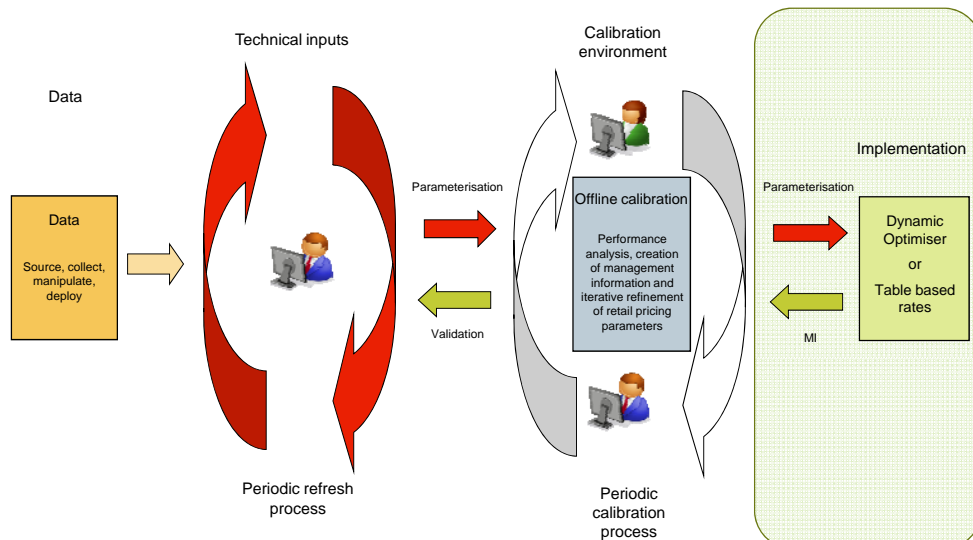
Legal expenses cover uptake by quote time of day



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29

Ancillaries and the (optimised) retail pricing process



30

Retail pricing implementation

- Rates should allow for the expected contribution (+ve or –ve) from add-ons and core cover extensions
- We wish to capture and store the following:
 - Probability of uptake for each add-on
 - Expected contribution (including impact on core) for each add-on
 - Expected LTV inclusive of core coverage and add-ons
- We can use this information in real time in the call centre or to drive targetted outbounding later on

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31

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MI for maximising ancillary income

- Take up rates and combination rates by product and segment
- Cost and income comparisons
 - Core risk cost varies depending on add-on and this should be reflected in MI

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What should actuaries be doing?

- Design/Analysis of:
 - Core offerings
 - Cross subsidy
 - Experiments
 - Script, screen and packages
- Optimisation (including core product)
- Moral guidance (TCF)?

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The future of ancillary products

- Ancillary value targeted by organisations further up the chain:
 - Eg Aggregators could offer policy building services
 - Increased transparency bad for manufacturers?
- Telematics offers new ancillary services and charging models
 - Road side assistance
 - Carbon offsetting
- Gender proxy?
 - Beware sales process!

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Any questions?

- Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.
- The views expressed in this presentation are those of the presenters.



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36

Contact Details

- James Tanser
 - james.tanser@towerswatson.com
- John Berry
 - john.berry@towerswatson.com

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37