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Pricing: A message from your 2025 self

Chloe Paillot

Edward Tredger



Agenda

- Where are we now?
- Where is the insurance industry going?
- What should we do now to get ready?





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Where are we now?

23 October 2018

Pricing actuaries in 2008

1. Important role in Reinsurers already established (albeit lesser than 2018)
2. Mostly a technical role in Direct Insurers. Most actuaries come from very academic backgrounds
3. Actuaries rare in brokers / alternative roles
4. Generally small teams, mixed roles common and little influence in commercial decision making
5. Benchmark pricing at Lloyd's drove expansion
6. **Focus on Rate adequacy and Rate change**



State of London market

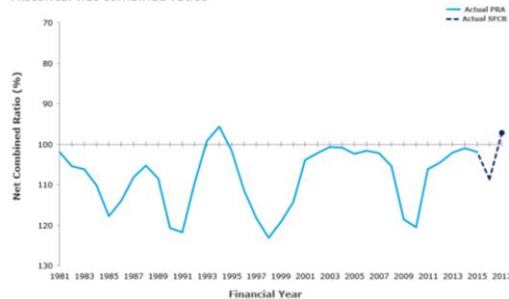
1. 1990s was \$1m, now lines of \$100m+ are not uncommon
2. Leads to increased use of alternative capital / reinsurance and potential for more personal losses
3. Consolidation / cost drives common e.g. all Lloyd's syndicates recently told to reduce expenses in 2019
4. Declining rates and rising acquisition costs have wiped out cat budgets / profitability – some are accusing brokers of killing the market but is this just clients searching for more cost-effective risk transfer?
5. Increasing focus on underperforming lines and portfolio management – both by management and regulators
6. Remains a disconnect between actual and expected performance – firms repeatedly optimistic on price adequacy
7. Pricing does not seem to respond in the way it has done historically even in loss-exposed lines (business moves easily or moves out of London into domestic markets). Difficult decisions need to be made on how to move forwards – pricing may not solve the issue alone, so costs / portfolio management / efficient capital use / intelligent use of reinsurance all need to be deployed to seek out an acceptable return



State of Retail Market

UK Motor Insurance Market

Historical net combined ratios

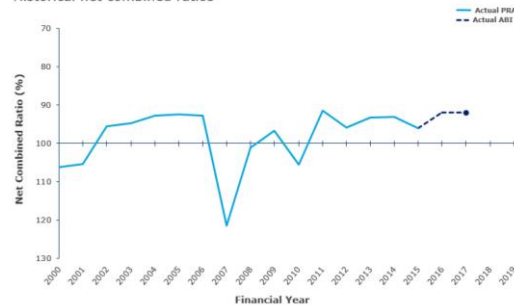


Source: Deloitte Analytics based on ARI Best data and SFCRs
Deloitte Motor Insurance Seminar July 2018

Source: Deloitte Motor Insurance Seminar – July 2018

UK Home Insurance Market

Historical net combined ratios



Source: Deloitte Analytics based on ARI Best data and ABI
Deloitte Home Insurance Seminar October 2018

Source: Deloitte Home Insurance Seminar – October 2018

Dear Chief Actuary
PRA letter

FCA announces investigation into home
and motor insurance pricing (28 Sep)



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Pricing actuary in 2018

1. Expansion of team size, responsibilities and influence
2. Pure pricing roles the norm now, often specialists in specific areas
3. Essential across all lines and every credible company
4. Increasing emphasis on commercial impact as well as need for governance
5. Personal lines structured around technical and retail pricing
6. Desire to improve portfolios and underwriting drives expansion
7. Limited use of new techniques and some areas are still very non-technical!!!
8. **Focus on Gross Loss ratios**



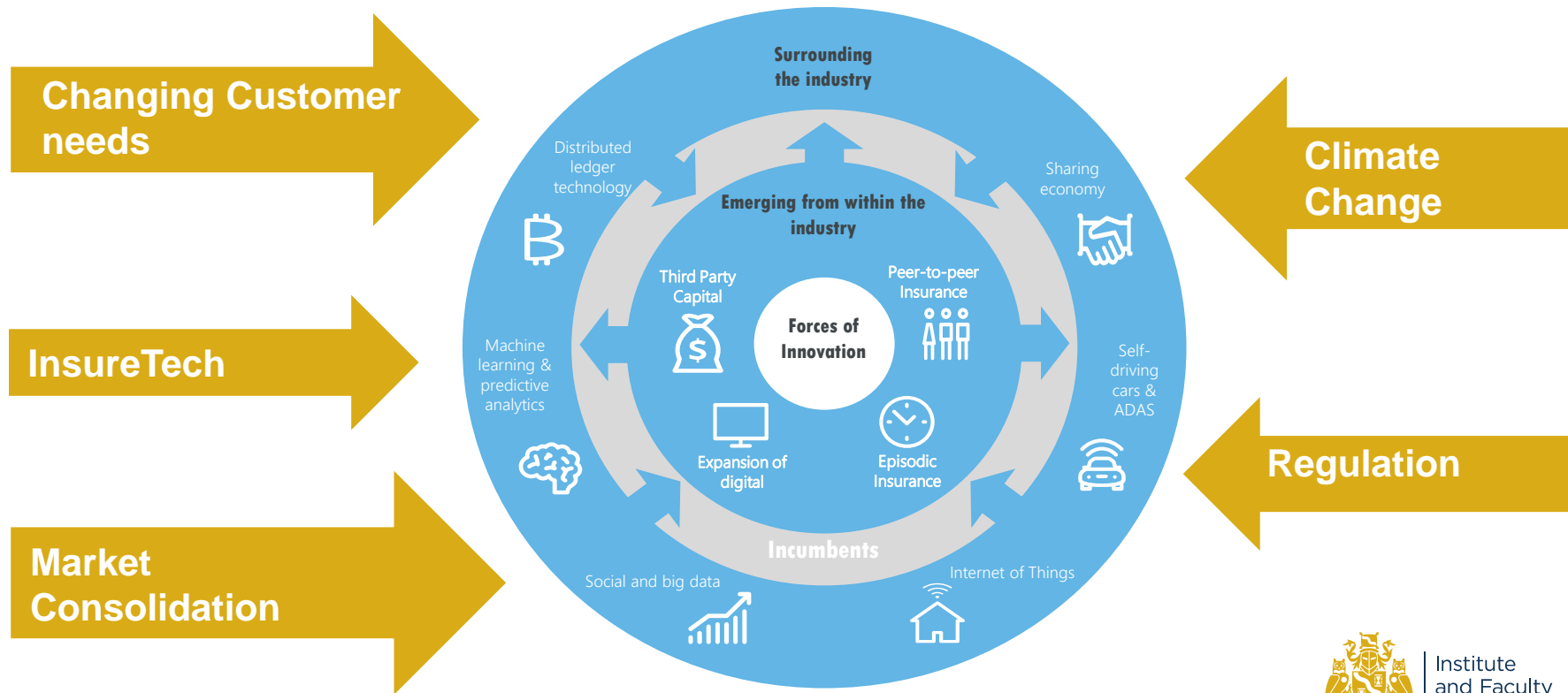


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Where are we heading towards?

23 October 2018

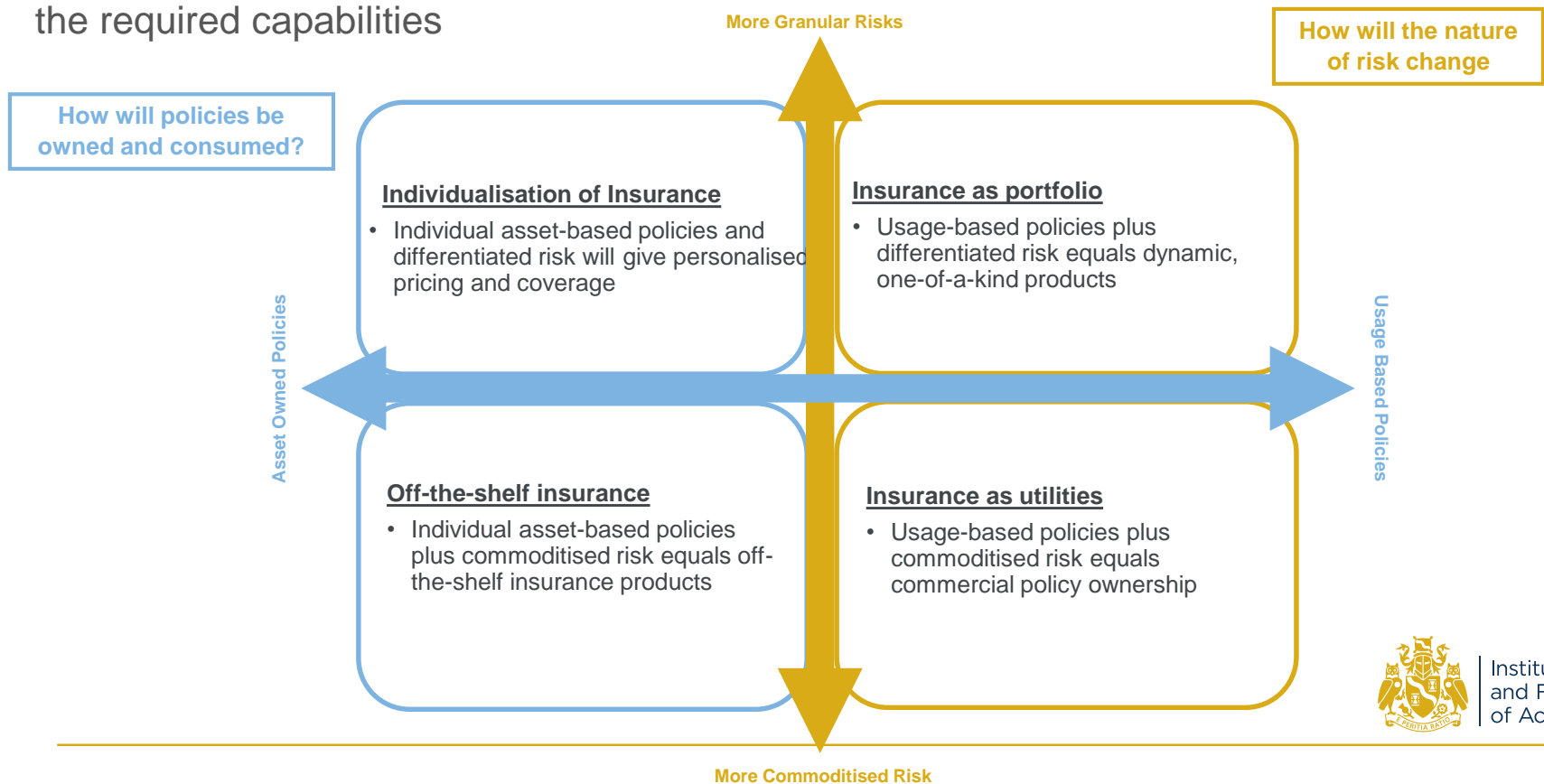
Changing forces in the Insurance market



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The future of General Insurance

Consideration of two questions enables us to draw four possible scenarios for the future and the required capabilities



Future of Underwriting and Pricing function

A unified underwriting and pricing operating model with clarity of control, underpinned by data and insights

Control
Controls to align, guide and enforce the underwriting appetite



Insight Driven Appetite

Leverage insights to inform and define our underwriting appetite:

- Risk / UW&P appetite and guidelines are driven by insights and data
- Forecasting and prediction of exposure is enabled
- Data is provisioned to enable quicker 'time-to-insight' at lower cost

Operational Efficiency

Roles and processes are designed and organised to drive operational efficiencies



Adaptable

A flexible operating model which can respond effectively to internal and external demands:

- Adaptability of Underwriting business processes
- Culture that fosters and enables change
- Agility and flexibility

FUTURE OF
UNDERWRITING &
PRICING

DRIVEN BY DATA & INSIGHTS



DATA DRIVEN
UNDERWRITER



TECHNICAL UNDERWRITING &
PRICING



CONSISTENT PROCESSES
& GOVERNANCE



DATA & ANALYTICS



ENABLING TECHNOLOGIES



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Pricing actuaries in 2025

1. Will the pace of changes in sophistication in models and data being used vary significantly between Personal and Commercial Lines?
2. For commercial lines:
 - Quantitative specialists in underwriting and portfolio management
 - Provides independent view for management
 - Integral role in technical underwriting
 - Commercial and external presence will become important
3. For personal lines:
 - Commercial and external presence will become important
 - Greater use of new data and new modelling techniques
4. Role in designing new insurance products and flexibility to price them
5. Fairness to the customer – how does this constrain our role?
6. **Focus on all elements of RoE**





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What should we do now?

Some controversial questions

1. Very few new techniques have been developed in the last 10 years – we still use the same models in commercial lines (largely) as 2008. Why is this?
2. Is understanding the business more important than having more data? Or do the two go hand in hand?
3. In London we work with heavy constraints on what business can be written – Insurance is not a stock market, and this limits the use of pure ‘risk selection’ techniques. Do we have the ability / willingness to act on data-driven pricing approaches?
4. What value will education / exams have in the future work place? Are we over-trained technically vs business acumen and people skills?
5. Should roles be split out more into front-of-house / technical / independent etc.?
6. How will distribution change our jobs?



Questions

Comments

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