

The Actuarial Profession
making financial sense of the future

General Insurance pricing seminar
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Pricing & Underwriting The Brand Effect

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Objectives

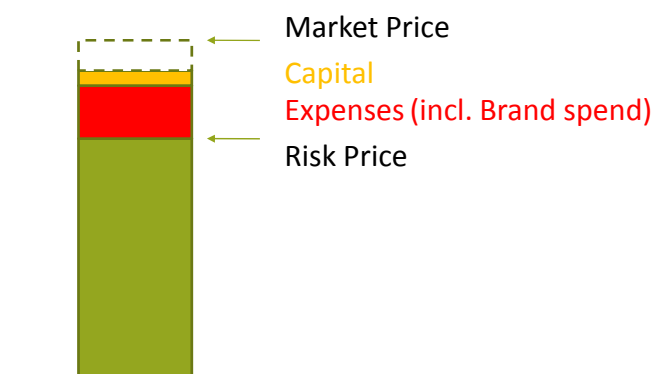
- Discuss brand effect in pricing
- Business perspective, NOT actuarial (no formulas / techniques)
- Challenges – embedding / influencing commercial outcomes



Winners Curse paper (2009)

- GIRO Working party
- Assumption – ‘customers always chooses cheapest price – no brand effect’ (p. 53)
- Personal Lines is an ultra-competitive “lowest-price wins” auction (p. 70)
- Certainty of price – superior pricing models – better outcomes

Pricing analysis – risk costs



But . . . Some recognition of brand

- Impact of brand:
 - Win if within 5% cheapest price
 - Lower loss ratio
 - Greater market share
- Caveat . . . Brand strength (p. 59):
 - Subjective
 - Varies over time
 - Dependent on layout of results screen
 - 'Circumstantial evidence of influence'
- But, Implications for Insurers:
 - "Insurers can build a proposition not solely based on price – [by] building a strong brand" (p. 74)

Aggregators – perfect market?

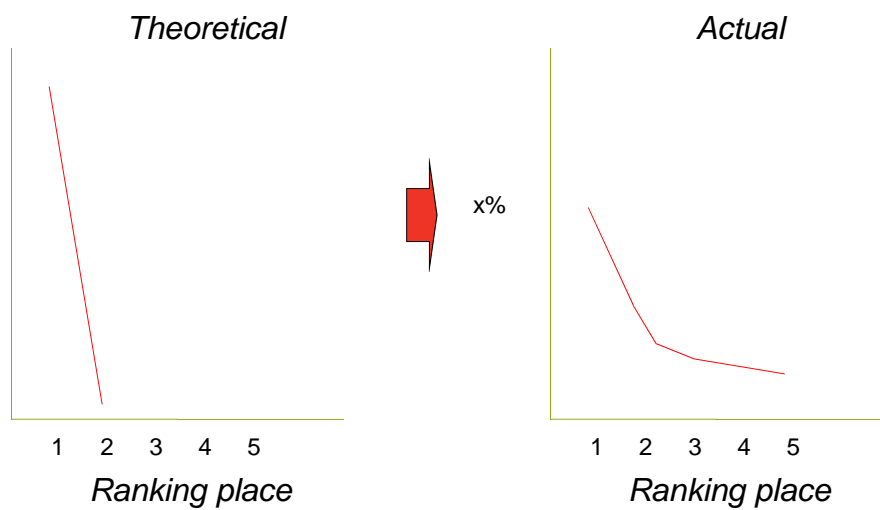
Your vehicle: Toyota Corolla Sportif Se Auto 1996-1997 1332cc 5 Door Hatchback Automatic Petrol

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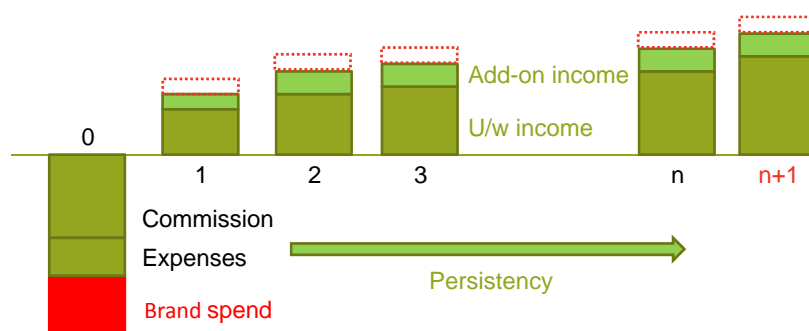
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	Annual Premium	Monthly Premium	Excess	Courtesy Car	Legal Cover	Breakdown Cover	Windscreen Cover	
Swinton	£372.00	1 x £44.40 10 x £44.40 £444.40	Comp: £200 Vol: £100 Total: £300	✓	£27.50 extra	From £30.00 extra	✓	More
✓ Exclusive Special Offer: Price Includes: £55 cash back. T&Cs apply.								
MOTOR INSURANCE WAREHOUSE <small>Part of the Swinton Group</small>	£387.82	1 x £40.37 10 x £40.37 £403.70	Comp: £200 Vol: £100 Total: £300	✓	£27.50 extra	From £30.00 extra	✓	More
3 months FREE Breakdown Cover available to all motor customers								
its4me <small>Part of the Swinton Group</small>	£417.88	1 x £43.50 10 x £43.50 £435.00	Comp: £200 Vol: £100 Total: £300	✓	£27.50 extra	From £30.00 extra	✓	More
3 months FREE flexible Breakdown Cover, then from just £3.49 a month								
EXPRESS Insurance	£434.85	1 x £46.16 11 x £41.82 £529.98	Comp: £200 Vol: £100 Total: £300	✗	£28.00 extra	From £70.00 extra	✓	More
TESCO	£436.15	Check with provider	Comp: £0 Vol: £100 Total: £100	✓	£23.32 extra	From £15.00 extra	✓	More

Price-volume



Customer Lifetime Value

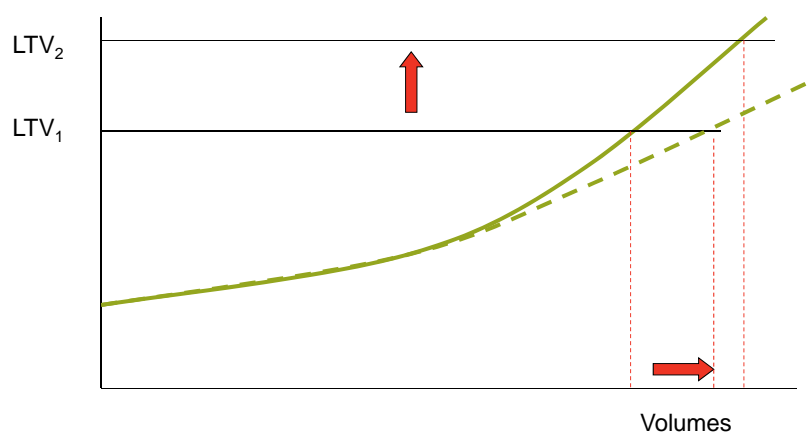


Brand influences

- Market Price
- Elasticity - Conversion
- Loss Ratio (claims behaviour?)
- Add-on's / ancillaries
- Persistency / shopping behaviour
- Expenses

Brand is driver of economic value.

Marketing analytics



Pricing insight

- Customer insight – behaviours
- Channel dynamics – price discovery, comparisons
- Data
- Modelling
- Experimentation – trials
- Influence – commercial colleagues, marketing
- Drive commercial benefits

Summary

- Clear brands are important – key economic levers
- Commercial benefits, not theoretical
- Pricing / analytical roles critical
- Influencing commercial decisions