

The Actuary and Street Pricing

A dialogue

- to help you generate ideas
- to share views
- to list things that might affect our profession

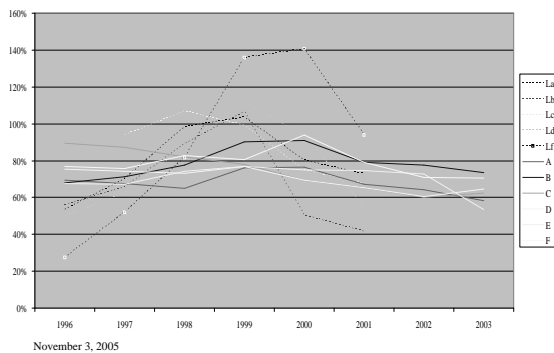
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General Insurance Actuaries

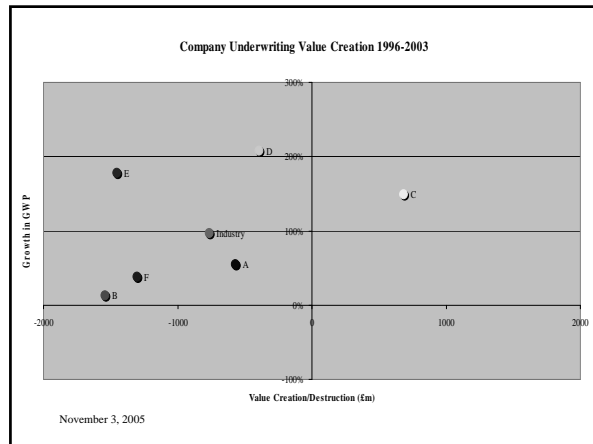
- In the mid 70s – some 30 actuaries, of which 5 or 6 did quite a bit on pricing
- Now – over 1000, of which maybe 150+ focus on pricing
- What have we achieved?

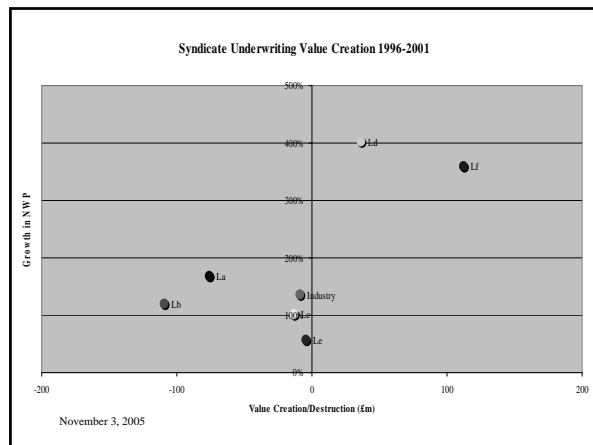
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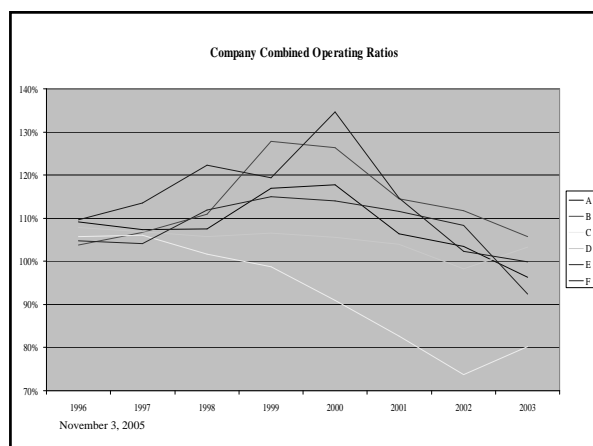
Company & Syndicate Loss Ratios



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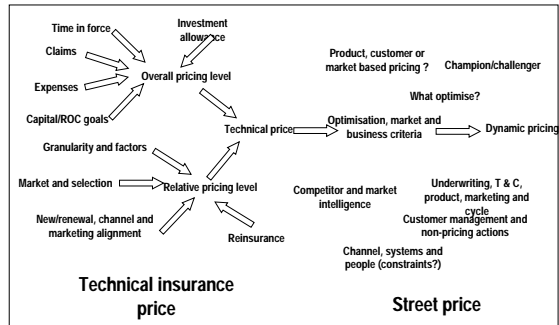




How pleased should we be????

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High level framework



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What do we mean by terms?

- Technical price
 - Claims cost model
 - Risk premium
 - Best estimate of real costs from underwriting a policy
 - Best estimate of premium to achieve target ROC
- Street price
 - Price actually charged to the ‘customer’
 - Price before broker adjustments
 - Price as used by underwriter

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So what are the weaknesses? Results of Brainstorm at GIRO

- Is the actuary to blame
- Other pressures
- CEO goals
- Finite business (zero sum game)
- Risk and less than ideal margins
- Volatility
- Goal satisfying
- Not using complex customer buying power information
- Upper echelons don't understand? Complexity?
- Relative rather than overall pricing been our focus
- Capital costs
- Push for more influential roles
- Should we be underwriters
- Human nature – that people want to ignore the truth?
- Too many oars
- Only just starting to get involved in the demand side
- Trade-off goals : maximise profit, with business constraints?
- Inadequate impact analyses
- Systems constraints
- Time constrained
- Not understanding the modelling assumptions/method constraints

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Weaknesses – pre-GIRO thoughts

- Expense allocation
- Combining U/W and pricing
- Marketing and selling
- Focus on claims cost analysis
- Inward looking?
- Tendency to GLMs alone
- Not market focused – games theory, optimisation
- Overall lack of alignment
- Overly mathematical
- Not forward looking enough; heterogeneity
- Too product driven
- Predictive factors still only proxies
- Too inward looking (by industry and geography)
- Seen as technical, overly mathematical and not streetwise

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Market intelligence systems

- Don't mean 'what-if'!
- List all possible sources of relevant information
- Seek intelligence
 - Conversations
 - Surveillance
 - Bugging
 - Web-sites
 - Press and media
 - Campaigns (ATL/BTL)

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Underwriting

- How does capital allocation affect overall and individual risk pricing?
- What is an optimal portfolio mix?
- How do we respond to current market pricing conditions?
- What do we do, now our plan assumptions are invalidated?
- How do we allocate expense, and what approach do we take to lifetime value thinking?
- What risk do we retain/lay-off?
- How controlled should we be with our front-line underwriting?

The move to allocating diversified capital will change business unit and individual performance measures. The MIS and risk/investment thinking will affect the market

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Claims

- How do we judge the trade-off between cost performance and productivity?
- As we change our organisation what will loss of expertise do to our ICA?
- How are we dealing with fraud and large claims settlement risks?
- Do we need to add new KPIs to our tracking?
- What does the feedback loop to underwriting mean?
- How does change in claims practice affect reserving, and when does it feed into the P & L account?
- Does the new system deliver what we want at terms that make sense to our ICA?
- How do we make the required new performance system relevant to front line claims people?

A proper risk/control framework can improve value, reduce unexpected loss and help all departments ensure their work is aligned to group objectives

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Behavioural pricing

- Inertia pricing?
- People respond in different ways
 - A phone call
 - An e-mail
 - At the moment of claim
 - On going dialogue, eg mid-term (how expensive??)
 - Recognise individual's propensity to claim

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Optimisation

- Of what
 - Marginal contribution
 - Life time value
 - Risk adjusted lifetime value
- Focus of effort
- Parameter/model/risk uncertainty

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Organisations!

- Where does the leadership come from
- How clear and consistent are the objectives
- How are roles and responsibilities allocated
- What sort of behaviours work
- How are decisions taken
- What degree of risk is acceptable (action vs governance)
- What is the culture
- What is the degree of change – and appetite going forward
- How is conflict dealt with
- Where does the power lie and how does it view actuaries
- What do people say about you

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Systems

- Speed of change
- Degree of flexibility
- Channel variations
- Data – reliability, access, timeliness,

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Processes

- How clearly mapped is the street pricing and underwriting process
- Links and controls
- How are judgements made
- What is the governance
- Where are the delays built into the system
- What degree of tailoring
- Who has business responsibility

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Communication

- What
- How
- Whom (to and from)
- When
- Purpose (shared/conflict/one or n-way)
- Frequency
- Style

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The Mckinsey way?

- Buying McKinsey won't get you sacked.....
- But will it make you a true winner

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