



Institute
and Faculty
of Actuaries

Regulation around Pricing

Wendy Seago – Aviva

Steve Powell – TMHCC

Hazel Beveridge – FRC





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Regulation – A Personal Lines Perspective

Wendy Seago – Aviva



Threats abound to established players



Consumers are seeking value and convenience

[illegible]

Is there any structural building work or renovation underway or due to take place?

YES NO

Is the property in a good state of repair, habitable and structurally sound, and will it be kept so during the policy period?

YES NO

THE PROPERTY'S SURROUNDINGS

What is the property's distance from water?

LESS THAN 40 METRES 40 TO 499 METRES WITHIN 499 METRES

To your knowledge, has the property, its outbuildings or its boundary ever been flooded by an outside source?

YES NO

To the best of your knowledge, has the property, its site or the surrounding area within 400 metres ever suffered from subsidence, landslip, heave or tree root damage?

YES NO

Does the property have any other doors that exit to the outside (in addition to those you've told us about already)?

YES NO

Do all the accessible windows at the property have key-operated locks?

YES - ALL HAVE LOCKS NO - NOT ALL HAVE LOCKS NO ACCESSIBLE WINDOWS

Does the property have an alarm system installed?

YES NO

What type of alarm is it?

NO audible only alarm

Has the alarm been fitted and maintained annually by an approved company?

YES NO

Approved installation and maintenance
 An approved installer is one who is accredited by one of the industry professional bodies e.g. NACSOS, ISABE.
 Only answer 'yes' if the alarm was fitted by an approved installer and has been maintained annually.

Are the police alerted by an Alarm Response Centre when the alarm is triggered?

YES NO

Are you a member of an active local Neighbourhood Watch Scheme?

YES NO

ABOUT YOU (THE PROPOSER)

Your title:

Mr

Your marital status:

Married

How long have you lived in the UK?

Months (mm): Year (yyyy)

☒ From birth ☐ On Since

Is your postal address the same as your home address?

Yes ☐ No ☐

Your main telephone number (Home):

077778888

An additional telephone number (if any):

Optional

Where did you hear about us?

Email

CLAIMS, CONVICTIONS & DECLARATIONS

In the past 5 years, have you or anyone (including family members) ever damaged any buildings, contents or personal belongings, or caused damage, regardless of whether a claim was made?

☒ YES ☐ NO

MAKE A CLAIM

Have you or anyone else ever made a claim for damage to your building or contents?

☐ YES ☒ NO

BUILDINGS AND CONTENTS

Do you own any buildings or contents?

☐ YES ☒ NO

Are you

When did it happen?

By:

How:

Was a claim made?

☐ YES ☒ NO

DO YOU OR ANYONE ELSE LIVING AT THE PROPERTY HAVE ANY UNRESENT CRIMINAL CONVICTIONS?

☐ YES ☒ NO

Have you or any other person linked to the policy or living with you ever been declared bankrupt?

☐ YES ☒ NO

Have you or anyone else living at the property ever had home insurance declared, cancelled, refused, or had special terms imposed?

☐ YES ☒ NO

HELPING YOU GET THE RIGHT COVER

To help you get the right cover at the best possible price, the providers with the two cheapest quotes may wish to discuss your cover with you. Are you happy to be contacted?

☐ YES

☒ NO

SIGN-IN AND SECURITY DETAILS

We use a password to ensure the security of your personal details. This also allows you to come back at a later date to review your quotes or get new quotes if needed.

i The password must be between 8 and 60 characters long. It must not contain the characters "!" " " & " / "

Now create a password:

Revised strength: Weak

Type your password again to make sure it's correct:

☒ Passwords match

Now provide a password clue:

What is your mother's maiden name?

Mother's maiden name

Some of the sites we link to get your quotes require this information for security purposes. If you are not happy to provide this information, it is acceptable for you to use any surname you wish, providing you remember the name you used as you may be asked to confirm it at a later stage.

TERMS AND CONDITIONS

To help check the information you've provided, accurately assess your premium and prevent fraud, Occompare and our partners may exchange information through various databases or use data from loyalty schemes (including transactional information as detailed in our privacy statement).

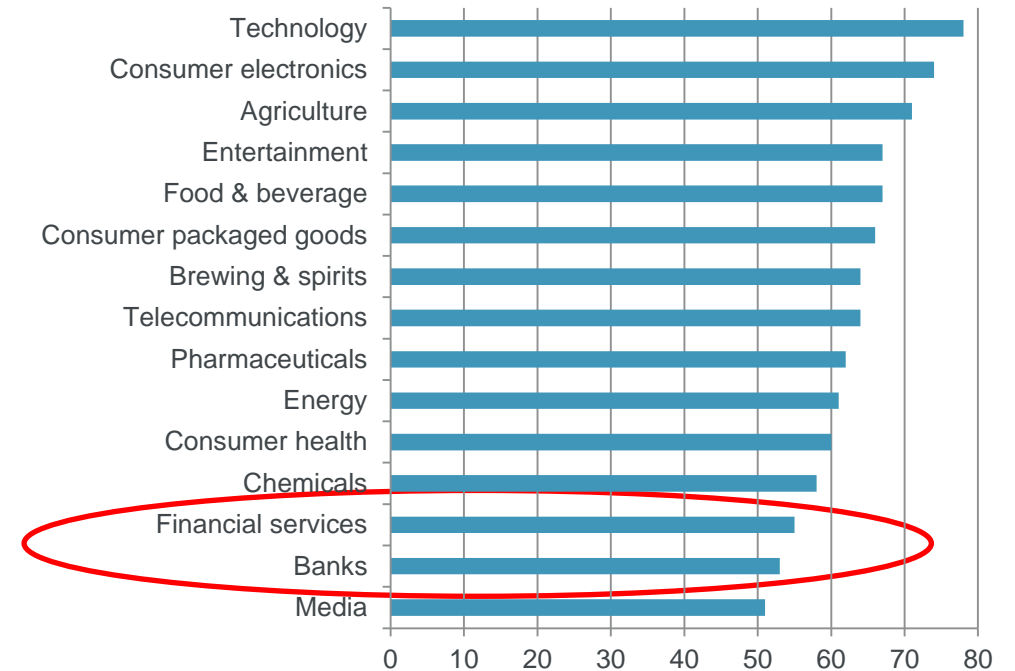
Please read our [terms & conditions](#) and [privacy statement](#) before you proceed, as by clicking next and Get Quote, you confirm you have read and accept them.

Once you have completed a quote, you can access a copy of the terms & conditions, along with your demands and needs, at any time in the Quote Summary section of My Account.

How do we appear to consumers?

- A grudge purchase
- Hard to do business with
- Not trusted
 - only 36% of UK consumers state they have trust in financial services firms
 - We have a reputational issue

Edelman Trust Barometer 2015



Financial services and banks are the second least trusted industries, only just ahead of media

Media stories do not help our cause

Shame of insurance giants: How loyal customers are ripped off by up to £1,000 a year - to fund cut-price deals for new homeowners and drivers

Punish the insurance pirates

Insurance scandal: Up to three million shoppers could get compensation over 'rip-off' warranties

Insurers that charge the sick 60 TIMES too much for travel cover: Cancer sufferer quoted £1,551 for a two week holiday in Spain

“
Insurance loyalty = stupidity

”
Post Magazine

After we exposed how loyal customers are fleeced...
Victory for Mail over insurance sharks' rip-offs

Telegraph investigation: Drivers overcharged for motor insurance as firms use secret deals to inflate repair costs by up to 100pc

Unfortunately, a sizeable proportion of our customers think....

- We may rely on small print to avoid paying claims
- We do not reward loyalty

.... and that leaves us at real risk of disruption

What role can pricing play in addressing the trust issue?

We need to tackle NB v renewal pricing differentials

- Do our pricing models accurately predict the threat of disruption? Do they factor in the long term consequences of current practices?
- Are our pricing models too focused on short term revenue considerations?
- Can any insurer afford to “go it alone” and break the mould?
- Competition law is a barrier to creating an industry wide solution
- Maybe we need a regulatory intervention, despite the further short term reputational damage



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Regulation – A London Market Pricing Actuary's Perspective

Steve Powell – TMHCC



Current Actuarial Pricing Regulation

- TAS 100, TAS 200, APS X2
- Actuaries Code

Framework for FRC actuarial standards

**Applies to all technical
actuarial work**

TAS 100

Apply to specified work

TASs 200, 300, 400 etc
(Insurance, Pensions, Funeral Plans etc)

- Not here to lecture on these
- But how should we comply with these without negative impact on our work and companies

Statements of Recommended Practice
Guidance

Common Sense Approach

- Balancing timely and efficient delivery with increasing requirements for communication and documentation
- However not 'reserved work'
- Less public interest than Personal Lines
- Pricing actuary can do variety non-actuarial work
- Underwriter or senior management involvement
- Without TAS's, Actuaries Code etc. we'd still be a responsible profession, that follows the majority of this anyway.
- Do we sometimes 'gold plate' the regulation ourselves?
- Then end up over-caveating, over-documenting



Key Thoughts/Points – Common Sense (continued)

- Overriding Reliability Objective – user can rely on our work but we communicate uncertainty
- Judgement – justifiable. Data – appropriate. Assumption – appropriate.
- Models - fit for purpose. Communication – clear. Documentation
- Always proportionate
- Communication (obviously) done at time of delivery
- Not so full of detail that material information is obscured
- Documentation can be afterwards.
- Spreadsheet can be a document



Communication/Documentation Framework

- Proportionate

	Communication / Documentation	Checks
Level of Work	Min / TAS Requirement	Min / APS X2 Requirement
High	<ul style="list-style-type: none"> - Detailed document produced so user understands the recommendation and uncertainties/limitations at time of decision - Short document produced so user understands the recommendation and uncertainties/limitations at time of decision (if the work follows on from other work for which detailed documentation is available, eg annual capital reports or annual reserving reports) - Clear, logical spreadsheets available at time of decision - TAS Checklist completed (for detailed documentation) 	<ul style="list-style-type: none"> - Tech checks of calculations - Review by senior independent actuary - Sense check by appropriate user of work product
Medium	<ul style="list-style-type: none"> - Short document produced so user understands the recommendation and uncertainties/limitations at time of decision - Clear, logical spreadsheets available at time of decision 	<ul style="list-style-type: none"> - Tech checks of calculations - Sense check by appropriate user of work product
Low	<ul style="list-style-type: none"> - User understands the recommendation and uncertainties/limitations at time of decision - Clear, logical spreadsheets (available post decision) - Annual sample review to check quality of spreadsheets 	<ul style="list-style-type: none"> - Initial Review/Checks & Quarterly or Annual sample Review

Example Work (Pricing)

Level of Work	Example Work
High	<p>Large (>\$1m premium) account/lineslip/binder pricing - pre-bind, in which actuarial pricing analysis is key to underwriting decision.</p> <p>Rate review and pricing model development – if rates used directly in quoting/pricing without underwriter discretion - >\$1m annual premium; otherwise, >\$10m</p>
Medium	<p>Medium-sized (\$100k-\$1m premium) account pricing strongly influencing underwriting decision</p> <p>Actuary-led review and amendments to pricing model expected to affect/change underwriting decisions on >10% of a line of business</p>
Low	<p>Individual account or outwards RI treaty pricing exercise undertaken to support (but not key to) underwriter/management decision.</p> <p>Technical review of sub-section of pricing model (e.g. individual credit/debit) with minor effect on overall pricing and underwriting decisions.</p>
Out of Scope (where not presented as Actuarial work)	<p>Basic loss cost calculations or catastrophe modelling work that could otherwise have been performed by reasonably technical analyst or underwriter.</p> <p>Pricing Model development work to implement underwriter-led changes and/or improve efficiency</p> <p>Routine Management Information production</p>

Evidencing Compliance

Date	Area	Title	Description	Frequency? (N/A if one-off)	Directory	Owner	Reviewer	Level	Level Rationale	CRO Agreed
Jun-17	Pricing	Budget Loss Ratio Analysis	Projections for business planning purposes	Annual	S:\Actuarial\Reserving\2016\1612\Budget LR Projections			H	Output to Exec and head office. Influence budgeted loss ratios used throughout business.	Y
Sep-17	Pricing	FI Pricing Model	FI Pricing Model Development	N/A	\\hcch.com\hcln\Actuarial\Actuarial\Pricing\D&O\LoBs - FI - PI D&O Crime\2017			M	Actuarial analysis to support some sections of rating, but core rating based on UW judgement. Technical assistance/training/support.	Y
Sep-17	Pricing	LoB A RI Pricing	Arms-length pricing for internal reinsurance	N/A	\\hcch.com\hcln\Actuarial\Actuarial\Pricing\Reinsurance\2017			L	Internal reinsurance cost allocation	Y
Aug-17	Pricing	PMD Report Development	Adapting report to new Policy Admin System	N/A	\\hcch.com\hcln\Actuarial\Actuarial\Pricing\Rate monitoring\PMD Report Development			Out of Scope	Communication of basic calculation/Lloyd's requirements to IT	Y
Jul-17	Pricing	LoB B RI Review	Review of Reinsurance effectiveness and possible alternative structures	N/A	\\hcch.com\hcln\Actuarial\Actuarial\Pricing\Reinsurance\2017			M	Possible costs/downside from recommendations <\$1m. Supporting decision, but many other factors considered. Significant portion of work non-actuarial.	Y
Oct-17	Pricing	Actuarial Function Report - Opinions on UW Policy & RI Adequacy	Annual Actuarial Function Opinions x 3 Entities	Annual	\\hcch.com\hcln\Actuarial\Actuarial\Solvency II\Actuarial function report\2017\UW Opinion and RI Adequacy			H	Board and regulator use. Opinions on strategic business decisions	Y

Nothing in TAS 100 should be interpreted as requiring work to be performed that is not proportionate to the nature, scale and complexity of the decision or assignment to which the work relates and the benefit that users would be expected to obtain from the work.