Institute of Actuaries London Market Seminar

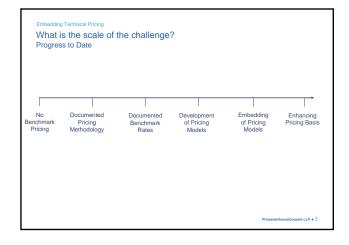
Embedding Technical Pricing



edding Technical Pricing Contents

- What is the scale of the challenge?
 - Progress to Date
 - An underwriter's perspective
- Transforming an organisation
- Framework to embed technical pricing
 - Creating a sense of urgency
 - Pricing vision
 - Quick wins
- Actuarial implications
- Key messages

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ng Technical Pricin What is the scale of the challenge? An underwriter's perspective • TP is a form of 'blackbox' underwriting Support to develop pricing models Reduces underwriting judgement Utilise / exploit external data to supplement internal information Risks are highly complex / bespoke Identify profitable / loss-making areas which cannot be technically priced of portfolio Pricing process may be perceived as Actuarial support for high value unrobust transactions What do the 'pointy heads' know about pricing my account? Support to quantify pricing impact of moving up/down layers Solely a compliance issue Significant administrative burden rs LLP • 3

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Transforming an organisation

"Guiding change may be the ultimate test of a leader – no business survives over the long term if it can't reinvent itself. But, human nature being what it is, fundamental change is often resisted mightily by the people it most affects: those in the trenches of the business. Thus, leading change is both absolutely essential and incredibly difficult."

Harvard Business Review - January 2007

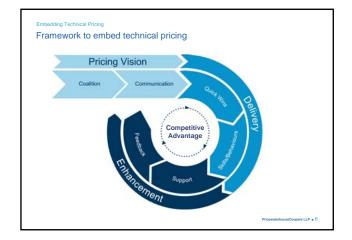
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Transforming an organisation

- 1. Creating a sense of urgency*
- 2. Forming a coalition
- 3. Creating a vision*
- 4. Communicating the vision
- 5. Empowering others to act on the vision
- 6. Planning for, and creating, short term wins*
- 7. Consolidating improvements and producing more change
- 8. Institutionalising new approaches
- Source: Harvard Business Review





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Framework to embed technical pricing Creating a sense of urgency

- Critical but challenging step
- Commercial rationale for why now?
 - Market outlook
 - 'Safe' learning zone
 - Less emotive part of the cycle
 - Gain competitive advantage
- Lead time to:
 - Engage with underwriters
 - Develop / test models
 - Change behaviours
 - Skills development
 - Build infrastructure

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Framework to embed technical pricing Pricing vision

- What does success look like?
 - Technical pricing is used at point of sale
 - Significant volume of support / queries / requests from underwriters
 - High technical pricing capture rates and quality standards
 - Ultimately, improvement in cycle downturn performance
- Commercial rationale for change
 - Competitive advantage
 - Optimise portfolio in cycle downturn
 - Underwriters spend more time on key areas of judgement
 - Consistency of pricing decisions
 - Opportunity to continually improve pricing basis

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Framework to embed technical pricing Quick Wins

- · Quick wins are critical to build momentum
- · Best 'sales' people for the project will be the 'quick win' underwriters
- Examples of quick wins include:
 - Common pricing language
 - Understanding, articulating and documenting pricing methodologies
 - Capturing existing pricing basis, including key assumptions
 - Pragmatic / automated pricing spreadsheets
 - Automatic lookups / first loss curves etc
 - Integrated notes fields
 - Flexibility over key parameters
 - Streamlining pricing data work

Embedding Technical Pricing Actuarial implications

- Leadership
- Resourcing
 - Underwriter engagement
 - Pricing model development
 - Training
- Underwriter support / fulfilment
- Pricing quality assurance
- Pricing development
- MI development / Wider integration
 - Business planning
 - Cycle management
 - Capital / Risk Management

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Key messages

- Ownership
- Technical pricing is a significant cultural change
- Create a sense of urgency
- Create a pricing vision / define success
- Little steps (quick wins), don't leap
- 80 /20 rule
- Evaluate actuarial resource implications
- This is just the start of the pricing journey
- Huge opportunity to demonstrate actuarial value

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