



Institute of Actuaries
London Market Seminar

Embedding Technical Pricing

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Embedding Technical Pricing

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Embedding Technical Pricing

What is the scale of the challenge?

Progress to Date



No
Benchmark
Pricing

Documented
Pricing
Methodology

Documented
Benchmark
Rates

Development
of Pricing
Models

Embedding
of Pricing
Models

Enhancing
Pricing Basis

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What is the scale of the challenge?
An underwriter's perspective

| Negative Perceptions | Positive Requirements |
|---|---|
| <ul style="list-style-type: none">• TP is a form of 'blackbox' underwriting• Reduces underwriting judgement• Risks are highly complex / bespoke which cannot be technically priced• Pricing process may be perceived as unrobust• What do the 'pointy heads' know about pricing my account?• Solely a compliance issue• Significant administrative burden | <ul style="list-style-type: none">• Support to develop pricing models• Utilise / exploit external data to supplement internal information• Identify profitable / loss-making areas of portfolio• Actuarial support for high value transactions• Support to quantify pricing impact of moving up/down layers |

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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



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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

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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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