Embedding 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

What is the scale of the challenge?
Progress to Date
## Embedding Technical Pricing

### What is the scale of the challenge?

**An underwriter’s perspective**

**Negative Perceptions**
- 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

**Positive Requirements**
- 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

### 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*

### 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*
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

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
Embedding Technical Pricing

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

Actuarial implications

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

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