It is just not fair!

Notice

The views expressed in this presentation are those of the presenter.
It is just not fair!

The rational pricing analyst’s encounter with emotional customers

What do you consider fair?

A Quick Poll
Do you agree?

Prices should reflect differences in risk

Do you agree?

Loyal customers should be rewarded
Do you agree?

Those who put the most effort into shopping around deserve the best prices

Do you agree?

Discounts are needed to attract new customers
What do customers think?

A not very rigorous survey

Anger at unfair prices

- Roaming Charges
- Bank Charges
- Petrol Prices
- Airline Flights
- Utility Bills
- Booking Fees
- Insurance Premiums
Recent examples of public anger

- Motor price increases
- Renewal prices vs. New Business
- Risk pricing using unemployed status
- Size of Admin fees
- Value of Protected NCD

Motor Price Increases
Which? Richard Lloyd on OFT decision

“Consumers have been hit time and again with significant increases in costs for their car insurance without seeing increased benefits to their policy.

We would also welcome an investigation by the Competition Commission to put an end to bad practices and give consumers get a better deal on their car insurance.”
Renewal Prices
Advice from MoneySavingExpert.com

“Apply for cover from your existing insurer as a new customer and it's likely you'll be given a cheaper price. This is because home insurers like any company will happily profit from apathy if they can”

Renewal Prices
Watchdog TV show April 2012

“… drivers who've contacted us aren't only shocked that they can get cheaper deals from their own provider simply by posing as new customers - they're baffled by some of the excuses given.”
Renewal Prices
Which February 2012

“..The overwhelming feedback we received from panel members was that they were tired of playing the renewal 'game' and wanted to know why insurers couldn't just reward customers who make a commitment to stay with them.”

Risk Pricing – using unemployed
Dan Plant, MoneySavingExpert.com money analyst

“While insurance prices are based on risk, it's illogical that simply by being put out of work, at a time of massive unemployment, the same person has to pay over £1,000 extra in order to continue driving.

The proper solution is for insurers to charge fair amounts and not let one small change disproportionately skew prices astronomically high”
Administration Fees
extract from MoneySavingExpert.com forum

“.... Slapping a £30 charge on you for a few button pushes, or £65 for daring not to need the policy any longer is outrageous.”

Value of Protected NCD
extract from Guardian article

So, despite protecting my no-claims bonus, the fact I had made a claim came back to haunt me
How to customers decide what is fair?

Descriptive Model for customer behaviour

Customer Behaviour

Collective Experience  →  Norms
Escalation towards Anger

Not personally fair

Not socially fair

Attribute responsibility

Is the price personally fair?

Accepted Practices

Reference Prices

Personally Fair
Is the price socially fair?

- Equality
- Equity
- Need
- Fair Outcome

Is the process socially fair?

- Transparent
- Customer Voice or Choice
- Impartial
- Fair Process
Who is Responsible?

External Factors

Seller’s Motive

Is insurer pricing not fair?

Rise of Optimisation
Accepted Pricing Approaches

- Costs
- Competitive
- Customer

Recent examples of public anger

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Rational Economics vs Customer Expectation

Simple one-year profit optimisation example

Optimal Markup

Are new business discounts now accepted?

Competitive tariffs are widely used by virtually all utilities to attract new customers
• Gas, Electricity, Mobile ‘Phone, Broadband etc.

Mortgages, Savings, Credit Cards are often sold with competitive rates at start, then revert to “normal” rates
Have customer norms for buying insurance changed?

You have to shop around to get the best deal on your insurance: 73%

You can haggle with an insurer to get a better price: 33%

So what does this mean for our rational pricing analyst?

• Understanding the insurer’s attitude to fairness is critical
• Implications for Life Time Value pricing if renewal elasticity is likely to increase
• How do you set prices if customers negotiating prices is more common?
Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged. The views expressed in this presentation are those of the presenter.