GIRO Convention

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Hilton Sorrento Palace

B3 - Price Optimisation: Successful Practical Implementation
Stephen Jones, EMB
Implementation path of price optimisation techniques in the UK

- **Tuned to Organisation**
- **Depth Of Expertise**
- **BAU Operational Experience**
- **Recognise Strategic Opportunity**
- **Recognise Financial Opportunity**
- **Awareness of Techniques**

**Extent of Implementation**

- **RFP/ITT**
- **Pilot**
- **Single Implementation**
- **Roll Out**
- **Embedded in BAU**

**Key Phases**

- **2006**
- **2007**
- **2008**
- **2009 +**

**Phases**

- Direct Writings
- 'Follower' Directs & Panel Intermediaries
- 'Leader' Panel Intermediaries
- Early Adopters Of Automated Systems

**'Leader' Panel Intermediaries**

**'Follower' Directs & Panel Intermediaries**

**Direct Writings**

**2006**

**2007**

**2008**

**2009 +**

**The Actuarial Profession**

making financial sense of the future
CIGI Slides

What is optimisation best practice in 2008?

**General Approach**
- Roll-out complete across products, lifestages, channels
- Established as BAU pricing approach within processes and systems
- Optimisation of policy add-ons pricing
- Benefits proven, quantified and measured ongoing
- Solution tuned to aggregator environment

**Inputs**
- Established position on elasticity modelling approach, supported by relevant data inputs
- Risk models enhanced and maintained to optimisation standard
- Second-order assumptions (expenses, MTCs etc.) revisited
- Input refresh and review process established

**Operation**
- Optimisation "operators" experienced in:
  - what levers on KPI performance are provided
  - boundaries of predictiveness and performance
  - sensitivities of business outcomes to assumptions (how close to efficient frontier can you get in practice?)
- Pricing management is familiar with its role and timetable for decisions

**Integration With Marketing Function**
- Marketing activities aligned with optimisation objectives:
  - consistent customer value definitions
  - acquisition activities "fuel" NB optimisation
  - non-price drivers of retention managed consistently
  - marketing messages costed as optimisation constraints
What is optimisation best practice in 2008?

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How do aggregators affect price optimisation?

- We now need to understand:
  - price elasticity within aggregator environment, and the impact of aggregators on the elasticities of other channels
  - aggregator-source retention rate levels, and aggregator impact on retention rates of other channels
  - channel-specific profitability and lifetime value

- We need to review any existing optimisation solution:
  - additional channel to optimise within multi-channel distribution strategy
  - reduced enquiry levels into own-brand web, phone channels
  - value of “traditional” sources of customer price data e.g. broker What-If? is reduced?
Price elasticity in the aggregator environment

- Differences in price elasticity fuel price optimisation…
- …but in the aggregator environment everyone is very elastic
Price elasticity in the aggregator environment

- Building elasticity models is challenging as conversion rates are low, and conversion depends heavily on rank, which is difficult to predict.

Relative Conversion Rate By Aggregator Quote Rank

Graphic removed
Price elasticity in the aggregator environment

- What if shopping behaviours give additional insight into customer elasticity differences?
  - when shopped (day, daypart, lead-time)
  - numbers of quote variants generated
  - number of excess levels tested
  - behaviours existing customers at previous renewal, inception or mid-term
Example Profile - Young Single Females

- This profile consists of females, aged 21-24
- They are single, have held their license between 1-7 years, and have 1-4 years NCD
- They are early learner drivers
- They like to test more than one branded aggregator, and more likely to have tested 4+
- This group of people plan ahead and have lead times in excess of 30 days
- This group are less likely to convert than average

- Average premium around £1,000
- More likely to convert at low rank
- Less likely to purchase add-ons
- Does like to pay some form of voluntary excess, and to test different excess levels
- Likely to have IOD driving restriction
- Have owned their car for less than 2 years
- Keep car in a locked/secure environment overnight
- Less likely to have a car valued at >£15,000
- Biased towards convertible/cabriolet body type, Peugeot, Mini, MG, Seat, etc. makes
Behavioural analysis and customer profiling

- ... and that factors based on customer shopping behaviours can significantly enhance price elasticity models

Graphic removed
Optimisation in an aggregator world - summary

- In the aggregator environment, getting your prices wrong can be costly, owing to high elasticities
- It can be difficult for insurers to make money on the core insurance cover, as the aggregator market is near-perfect:
  - risk premium models need to be very good
  - a strong brand helps
- Sale of policy add-ons represent a key profit opportunity:
  - include add-ons within optimisation based on good propensity models
- Panel intermediaries seem more geared-up to exploit this environment:
  - adverse risk selection not an issue
  - willing to write core cover at zero or negative commissions
Optimisation in an aggregator world - summary

- The general principles of optimisation remain unchanged
- With good elasticity models, perhaps containing behavioural variables, high elasticities afford material volume upside
- Deploying an appropriate competitiveness measure predictively is a challenge:
  - “reliably attainable” uplift can fall well short of theoretical maximum
Questions and comments