Objectives

- Discuss brand effect in pricing
- Business perspective, NOT actuarial (no formulas / techniques)
- Challenges – embedding / influencing commercial outcomes
Winners Curse paper (2009)

- GIRO Working party
- Assumption – ‘customers always chooses cheapest price – no brand effect’ (p. 53)
- Personal Lines is an ultra-competitive “lowest-price wins” auction (p. 70)
- Certainty of price – superior pricing models – better outcomes

Pricing analysis – risk costs

Market Price
Capital
Expenses (incl. Brand spend)
Risk Price
But . . . Some recognition of brand

- Impact of brand:
  - Win if within 5% cheapest price
  - Lower loss ratio
  - Greater market share

- Caveat . . . Brand strength (p. 59):
  - Subjective
  - Varies over time
  - Dependent on layout of results screen
  - ‘Circumstantial evidence of influence’

- But, Implications for Insurers:
  - “Insurers can build a proposition not solely based on price – [by] building a strong brand” (p. 74)
Price-volume

Theoretical

Actual

Ranking place

Customer Lifetime Value

Commission
Expenses
Brand spend

Add-on income
U/w income

n
n+1

Persistency
Brand influences

- Market Price
- Elasticity - Conversion
- Loss Ratio (claims behaviour?)
- Add-on's / ancillaries
- Persistency / shopping behaviour
- Expenses

*Brand is driver of economic value.*

Marketing analytics

![Graph showing LTV1 and LTV2 over Volumes]
Pricing insight

- Customer insight – behaviours
- Channel dynamics – price discovery, comparisons
- Data
- Modelling
- Experimentation – trials
- Influence – commercial colleagues, marketing
- Drive commercial benefits

Summary

- Clear brands are important – key economic levers
- Commercial benefits, not theoretical
- Pricing / analytical roles critical
- Influencing commercial decisions