Regulation around Pricing

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Regulation – A Personal Lines Perspective

Wendy Seago – Aviva
Threats abound to established players
Consumers are seeking value and convenience
Colour palette for PowerPoint presentations

- Dark blue: R17, G52, B88
- Gold: R217, G171, B22
- Mid blue: R64, G150, B184

Secondary colours:
- Light grey: R220, G221, B217
- Pea green: R121, G163, B42
- Forest green: R0, G132, B82
- Bottle green: R17, G179, B162
- Cyan: R0, G156, B200
- Light blue: R124, G179, B225
- Violet: R128, G118, B207
- Purple: R143, G70, B147
- Fuscia: R233, G69, B140
- Red: R200, G30, B69
- Orange: R238, G116, B29

Dark grey: R63, G69, B72
How do we appear to consumers?

- A grudge purchase
- Hard to do business with
- Not trusted
  - only 36% of UK consumers state they have trust in financial services firms
  - We have a reputational issue

Financial services and banks are the second least trusted industries, only just ahead of media.
Media stories do not help our cause

Shame of insurance giants: How loyal customers are ripped off by up to £1,000 a year - to fund cut-price deals for new homeowners and drivers

Insurance scandal: Up to three million shoppers could get compensation over 'rip-off' warranties

Insurers that charge the sick 60 TIMES too much for travel cover: Cancer sufferer quoted £1,551 for a two week holiday in Spain

Telegraph investigation: Drivers overcharged for motor insurance as firms use secret deals to inflate repair costs by up to 100pc

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Unfortunately, a sizeable proportion of our customers think….

• We may rely on small print to avoid paying claims

• We do not reward loyalty

…. and that leaves us at real risk of disruption
What role can pricing play in addressing the trust issue?
We need to tackle NB v renewal pricing differentials

• Do our pricing models accurately predict the threat of disruption? Do they factor in the long term consequences of current practices?

• Are our pricing models too focused on short term revenue considerations?

• Can any insurer afford to “go it alone” and break the mould?

• Competition law is a barrier to creating an industry wide solution

• Maybe we need a regulatory intervention, despite the further short term reputational damage
Current Actuarial Pricing Regulation

- TAS 100, TAS 200, APS X2
- Actuaries Code

• Not here to lecture on these
• But how should we comply with these without negative impact on our work and companies
Common Sense Approach

• Balancing timely and efficient delivery with increasing requirements for communication and documentation

• However not ‘reserved work’

• Less public interest than Personal Lines

• Pricing actuary can do variety non-actuarial work

• Underwriter or senior management involvement

• Without TAS’s, Actuaries Code etc. we’d still be a responsible profession, that follows the majority of this anyway.

• Do we sometimes ‘gold plate’ the regulation ourselves?

• Then end up over-caveating, over-documenting
Key Thoughts/Points – Common Sense (continued)

• Overriding Reliability Objective – user can rely on our work but we communicate uncertainty
• Models - fit for purpose. Communication – clear. Documentation
• Always proportionate
• Communication (obviously) done at time of delivery
• Not so full of detail that material information is obscured
• Documentation can be afterwards.
• Spreadsheet can be a document
## Communication/Documentation Framework

- **Proportionate**

<table>
<thead>
<tr>
<th>Level of Work</th>
<th>Communication / Documentation</th>
<th>Checks</th>
</tr>
</thead>
</table>
| **High**      | - Detailed document produced so user understands the recommendation and uncertainties/limitations at time of decision  
- Short document produced so user understands the recommendation and uncertainties/limitations at time of decision (if the work follows on from other work for which detailed documentation is available, eg annual capital reports or annual reserving reports)  
- Clear, logical spreadsheets available at time of decision  
- TAS Checklist completed (for detailed documentation) | - Tech checks of calculations  
- Review by senior independent actuary  
- Sense check by appropriate user of work product |
| **Medium**    | - Short document produced so user understands the recommendation and uncertainties/limitations at time of decision  
- Clear, logical spreadsheets available at time of decision | - Tech checks of calculations  
- Sense check by appropriate user of work product |
| **Low**       | - User understands the recommendation and uncertainties/limitations at time of decision  
- Clear, logical spreadsheets (available post decision)  
- Annual sample review to check quality of spreadsheets | - Initial Review/Checks & Quarterly or Annual sample Review |
## Example Work (Pricing)

<table>
<thead>
<tr>
<th>Level of Work</th>
<th>Example Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Large (&gt;$1m premium) account/lineslip/binder pricing - pre-bind, in which actuarial pricing analysis is key to underwriting decision. Rate review and pricing model development – if rates used directly in quoting/pricing without underwriter discretion - &gt;$1m annual premium; otherwise, &gt;$10m</td>
</tr>
<tr>
<td>Medium</td>
<td>Medium-sized ($100k-$1m premium) account pricing strongly influencing underwriting decision. Actuary-led review and amendments to pricing model expected to affect/change underwriting decisions on &gt;10% of a line of business</td>
</tr>
<tr>
<td>Low</td>
<td>Individual account or outwards RI treaty pricing exercise undertaken to support (but not key to) underwriter/management decision. Technical review of sub-section of pricing model (e.g. individual credit/debit) with minor effect on overall pricing and underwriting decisions.</td>
</tr>
<tr>
<td>Out of Scope (where not presented as Actuarial work)</td>
<td>Basic loss cost calculations or catastrophe modelling work that could otherwise have been performed by reasonably technical analyst or underwriter. Pricing Model development work to implement underwriter-led changes and/or improve efficiency Routine Management Information production</td>
</tr>
</tbody>
</table>
Nothing in TAS 100 should be interpreted as requiring work to be performed that is not proportionate to the nature, scale and complexity of the decision or assignment to which the work relates and the benefit that users would be expected to obtain from the work.

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