



How to Win in a Competitive Environment

AMIS Insurance Conference

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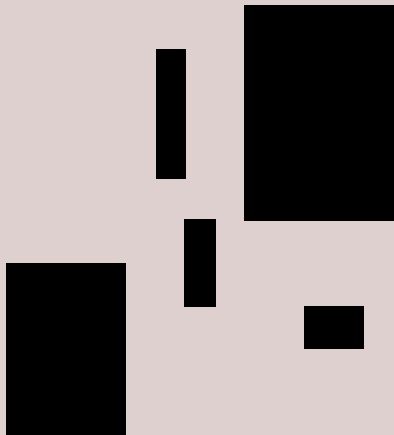
May 2018

What's this presentation about?

How to survive and even thrive in a competitive insurance market

- Setting the stage: what does it mean to win
- Getting back to the basics: getting people to shop
- Introducing sophistication: analytics in the context of effective and efficient pricing
- The prize: growing profitably

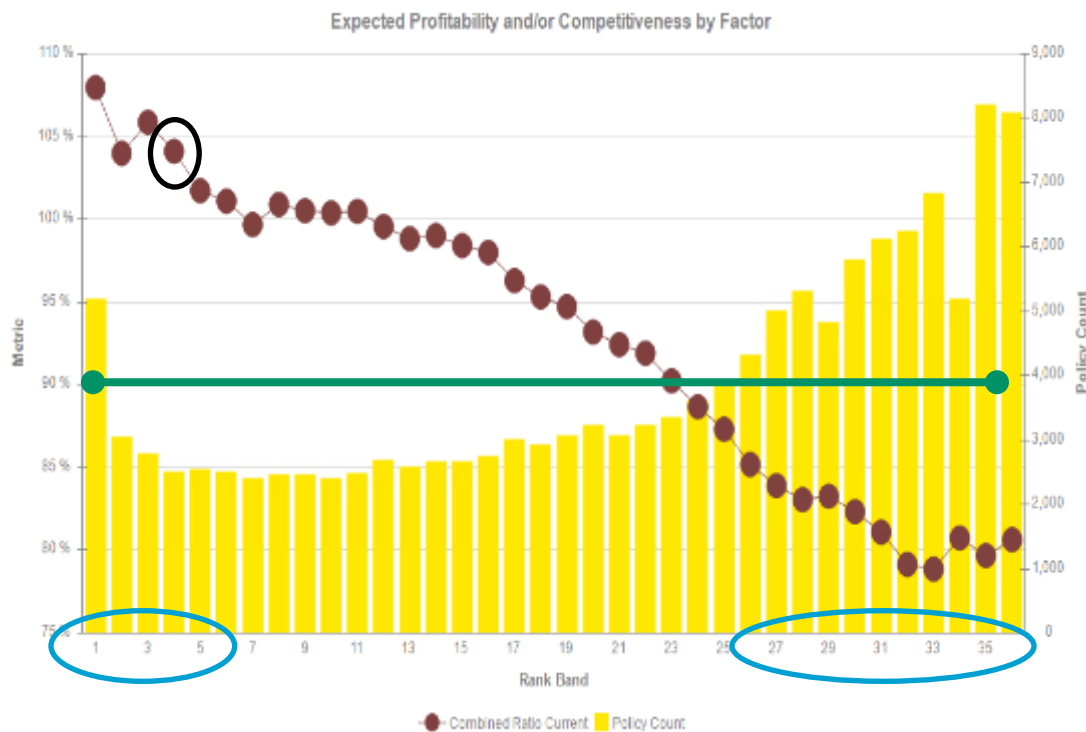
Setting the Stage



Competitive position vs. combined ratio

How would you grow your book

- The following shows the combined ratio by market ranking – illustrating that the insurer is least profitable when they are most competitive

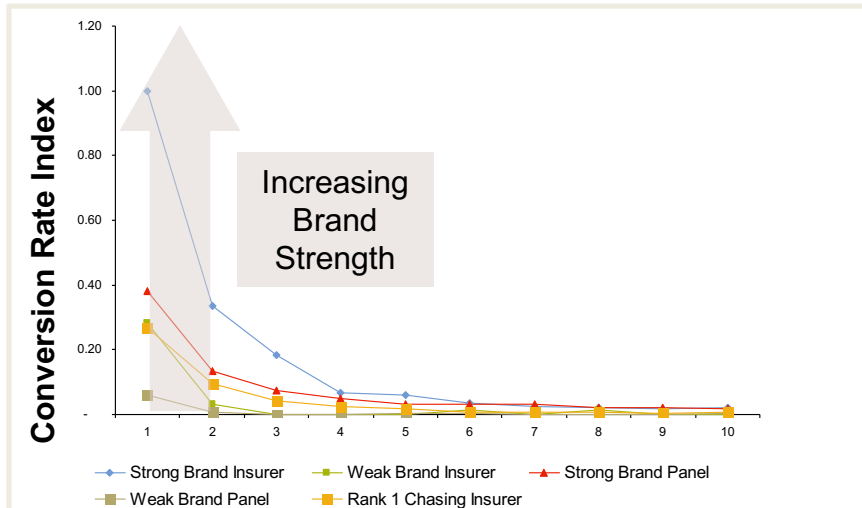
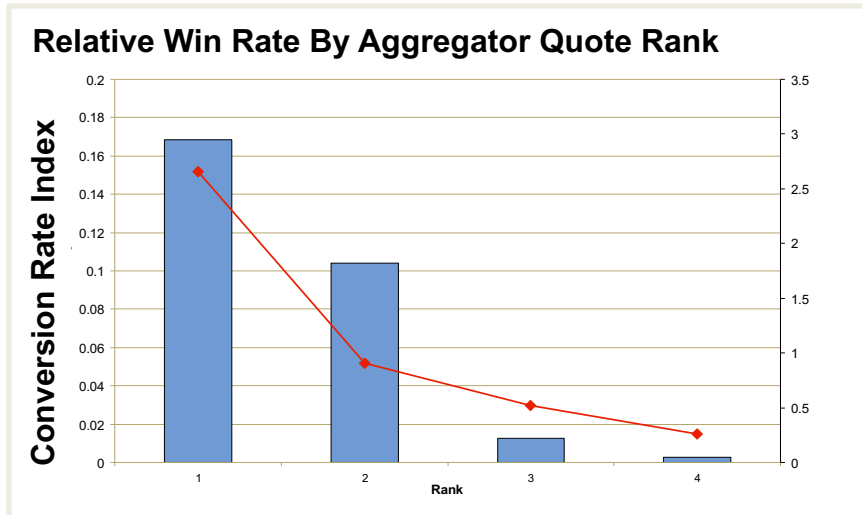


Notes

- Overall current combined ratio is 89.9%
- Where the current prices are the 4th cheapest, the combined ratio is 104.1%
- Current prices are among the 5 cheapest in the market for 16.1K policies and are among the 10 most expensive for 66.0K policies

- Becoming more competitive will result in growing unprofitably

Pricing – The ‘winners curse’ and adverse selection

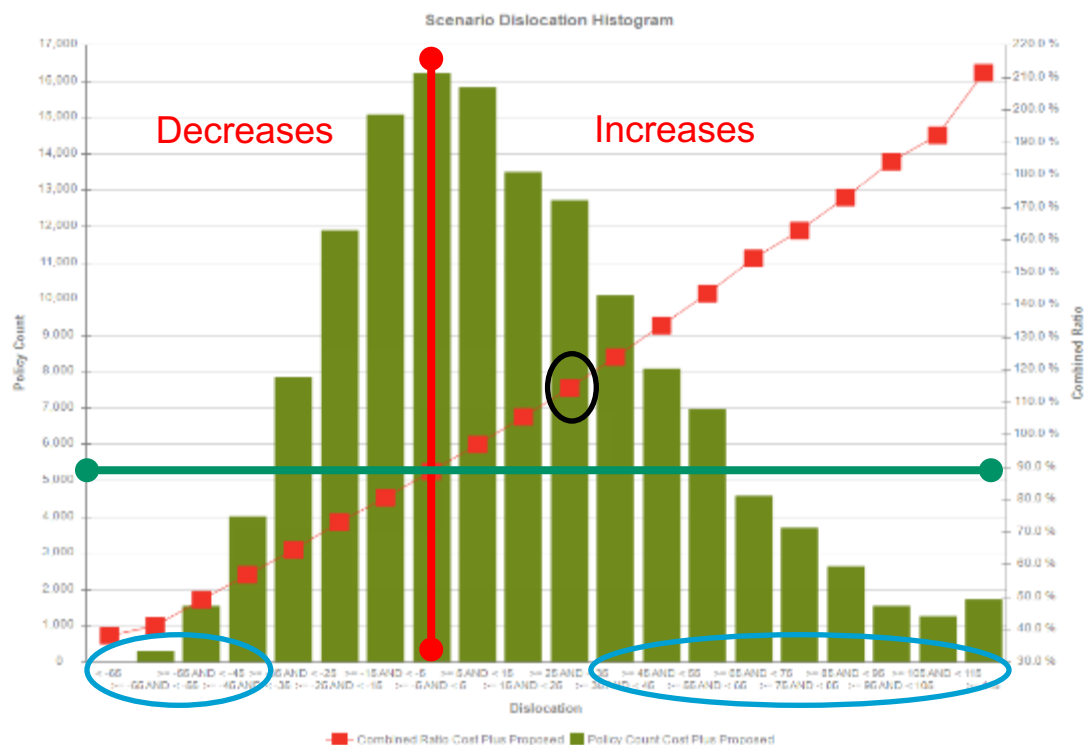


- The aggregator channel enables almost perfect competition between providers
- The key proposition of ‘finding the cheapest provider’ encourages customers to focus on price
- This results in an extremely price elastic environment, with price elasticities which can be well into double-digits
- Quote win rates depend heavily on rank, falling away quickly
- These are relatively impervious to brand effects but weak brands need rank 1 position more desperately
- **The consequence of this intense competition is that sales are made at higher loss ratios, with higher churn and lower expected lifetimes**

Actuarially Sound Rates

If we just relied on the actuarial rate...

- The following compares the current to the proposed rates where the proposed rates are derived from the cost and expense models



Notes

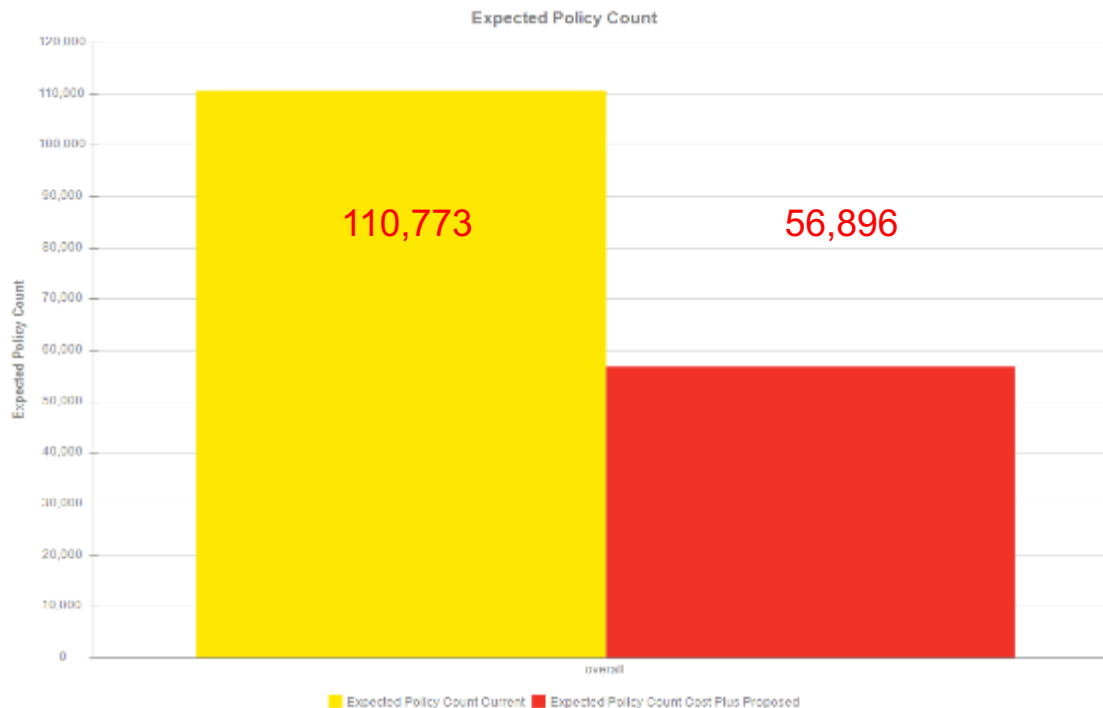
- Overall current combined ratio is 89.9%
- Proposal suggest rates should be increased by 30% for the 12.7K policies that have a current combined ratio of 114.4%
- 40.7K policies will see a rate increase of 35% or more and 5.9K policies will see a rate decrease of 35% or less

- The increases and decreases are perfectly correlated with the combined ratio

Actuarial Sound Rates

Resulting disruption in a competitive market

- Based on the demand model in a competitive market if the company moves to the cost based rate the retention is expected to drop from 79.3% to 40.8%



■ Notes

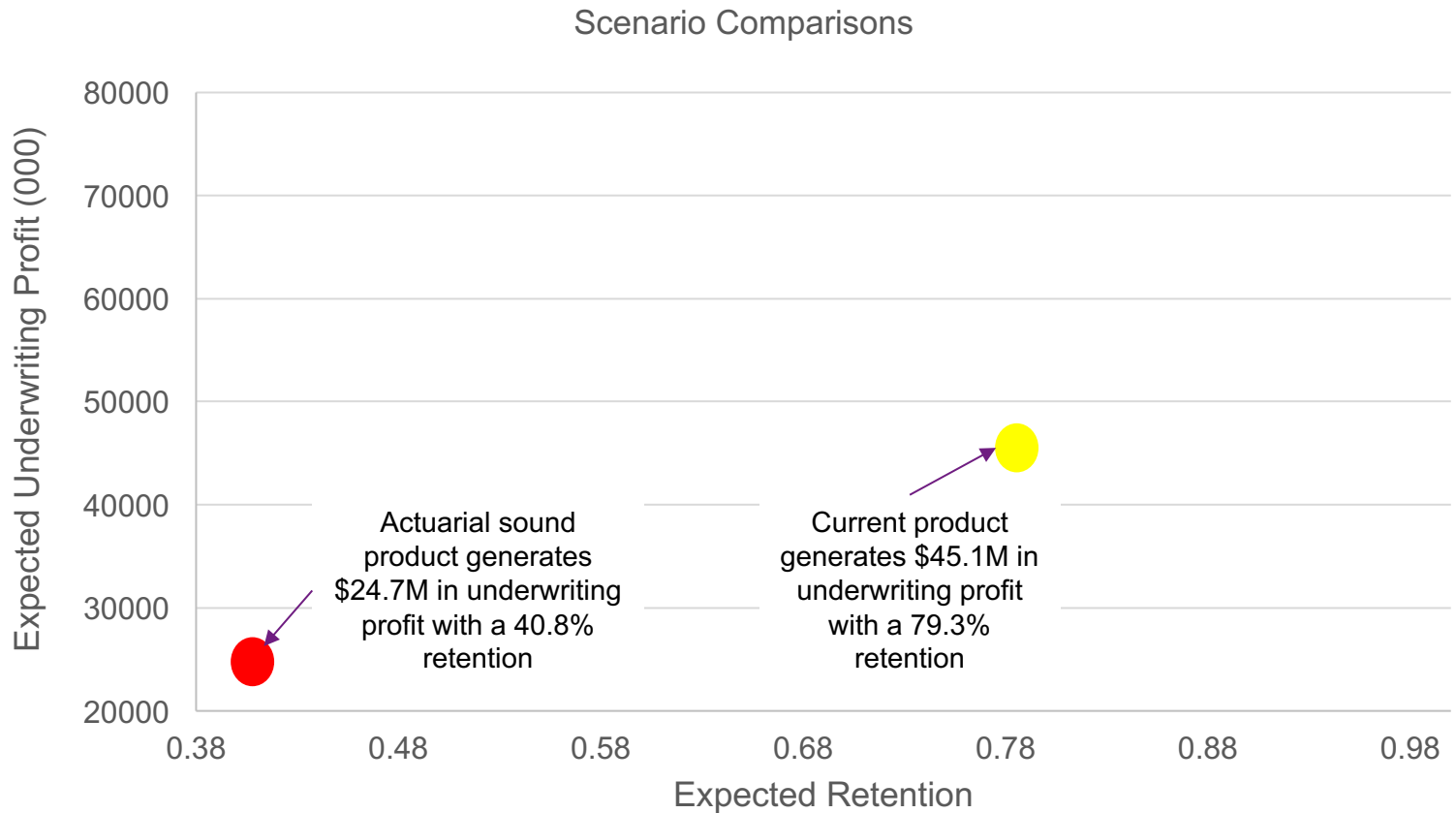
- Currently there are 139.6K policies
- Doing nothing will result in retaining 110.8K policies
- Moving to cost based rates will result in retaining 56.9K policies

- The actuarial sound rates will result in shrinking profitably.

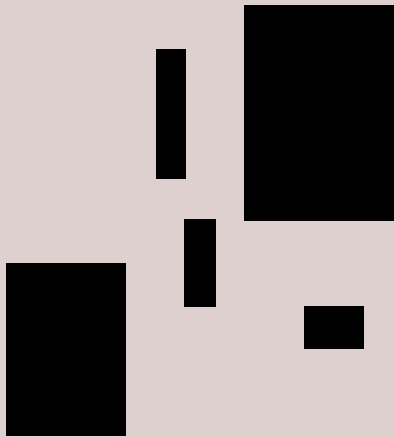
Comparing different scenarios

How do we grow profitably?

- Summarizing the discussion illustrates the challenge in a competitive market



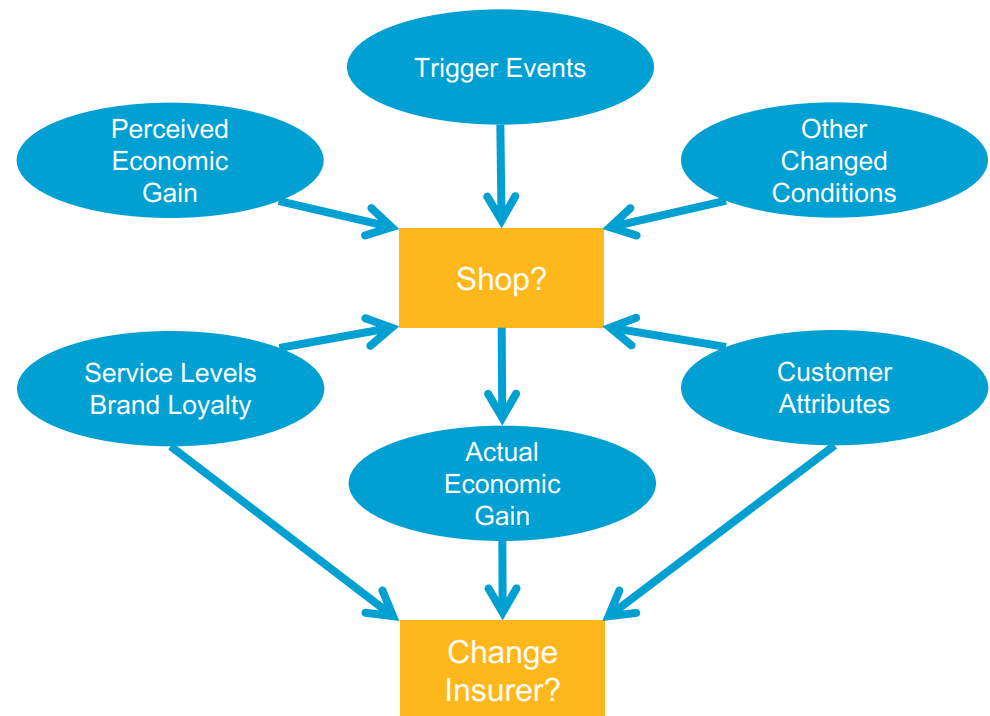
Back to the Basics



Firstly we need to get people to shop

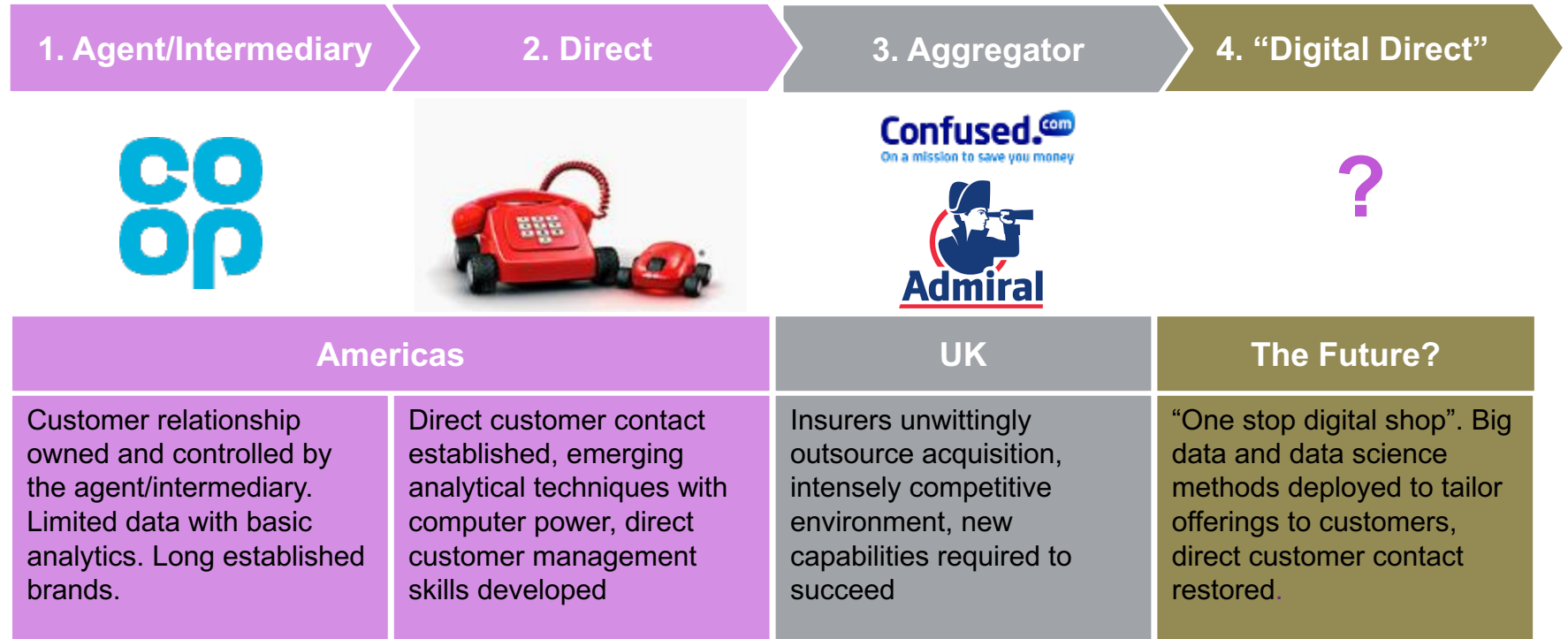
Understanding the human decision making process

- There are many elements that drive consumers to shop which are influenced by distribution and brand
- Trigger events
 - Compliance?
 - Have I heard of you?
- Perceived Economic Gain
 - Competitiveness
 - Is it easy to do business with you?
- Other conditions
 - Co habitation
 - Life events



The four types of personal lines distribution

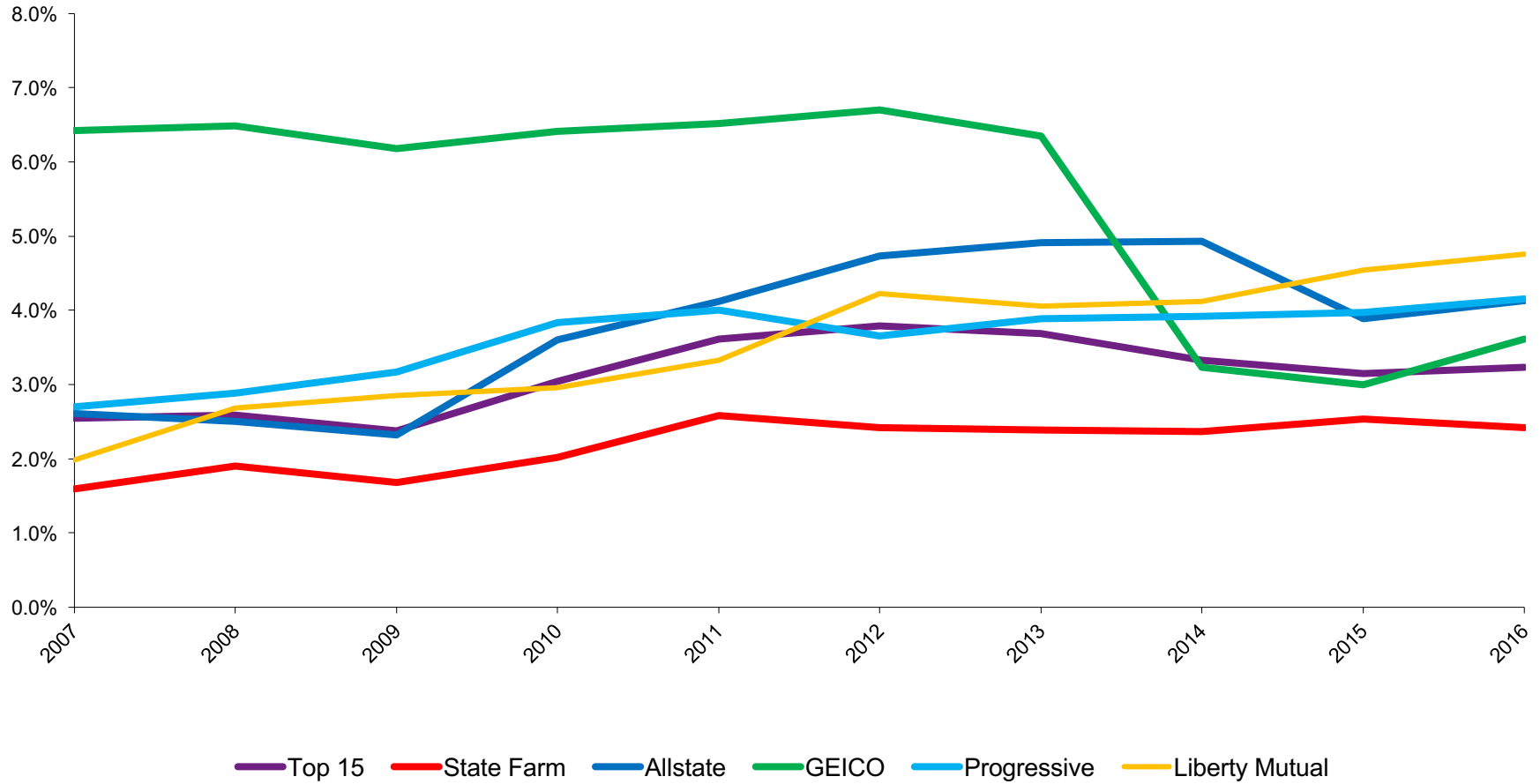
Distribution is key in connecting with the human decision making process



Advertising in the Americas

GEICO has invested heavily in creating brand awareness

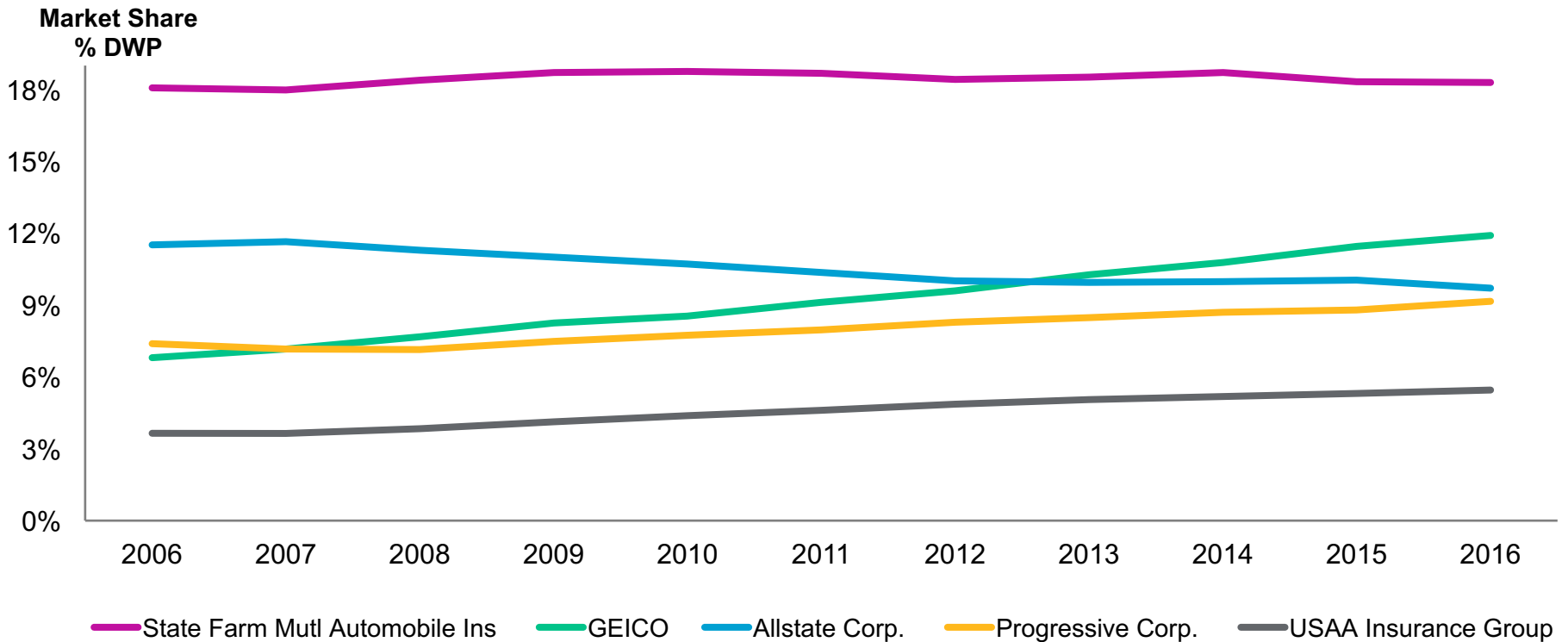
Advertising Expenses (%DWP)



Advertising in the Americas

Getting consumers to shop via brand awareness and competitive pricing

GEICO has steadily grown its market share and recently overtook Allstate as the 2nd largest PPA insurer. The company continues to grow while other companies remain flat.



Have the aggregators experienced success?

In the UK they are **90%** of new **auto** sales, and now **~50%** of **home**



YES!

- In the sense of their market share **of new business**.
- In **permeating popular culture** with high-profile advertising campaigns – meerkats, robots, opera singers – and so in developing brand awareness
- In the sense that they've **defeated the insurers** initial attempts not to play or to resist them.
- They've convinced insurers to accept them as a valid component of a **multi-channel distribution strategy**
- They've helped to propel some formerly modest motor **insurers/intermediaries to the top**
- They've now found ways to branch out from personal lines into **SME and Life** business
- In the sense that they're now generating **material revenue streams** from data products



NO!

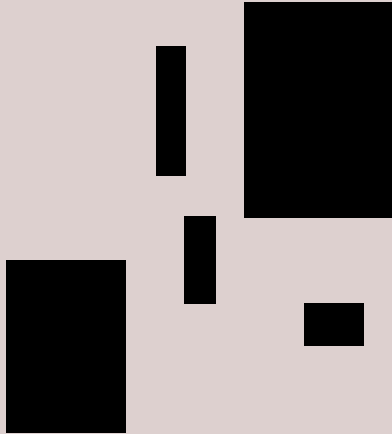
- **Financial results** for such dominant market entities are not material – they spend the vast majority of their revenues on TV advertising and search
- No, if you're a small aggregator, in that the **barriers to entry and success** are huge.
- In the sense that aggregators **don't own the customer**



MAYBE?

- Maybe, in the eyes of the competition authorities, who recognise their benefits in enabling a **competitive and transparent market**

Introducing Sophistication



What does it take to succeed as a risk carrier (1/2)?

- This list is illustrative of the types of developments likely to contribute to success in an aggregator environment (but not exhaustive!)
- Insurer internal capabilities:
 - A step-change in **pricing sophistication** (technical and retail), fuelled by external **data enrichment** (DE), and leading inevitably to micro-segmentation, in order to combat the ‘winner’s curse’
 - Underlying this change, considerable **improvements to internal data, analytics** and **price delivery** mechanisms
 - A step-change in **underwriting counter-fraud** capabilities, again fuelled by external DE
 - Increased **operational agility** (e.g. in pricing implementation) in order to mirror the dynamic nature of the aggregator market, modern systems, and greater empowerment of staff
 - A ‘**test-and-learn**’, not ‘predict and measure’ culture to pricing and to other aspects of the proposition – **rapid feedback loop** enabling an “experimental” mentality

What does it take to succeed as a risk carrier (2/2)?

- Brand and product:
 - **Product slimming**, and **tiered product** forms to support targeted up-sell after click-through
 - A **coherent multi-channel distribution** strategy and supporting processes and systems, or distinct brands tied to distinct channels having different propositions to different customer segments

Insurer Internal Capabilities

Changes in function and process in product development

- Controlled, restricted
- Theoretical correctness
- Long review cycle and MI
- Predict and measure
- Monthly/weekly change slots
- Reliant on IT support
- Manual processes
- Actuaries
- Empowered, encouraged
- Commercial focus
- Rapid review cycle and MI
- Test and learn
- Intra-day changes
- Direct systems access
- Increased automation
- Analysts, data scientists

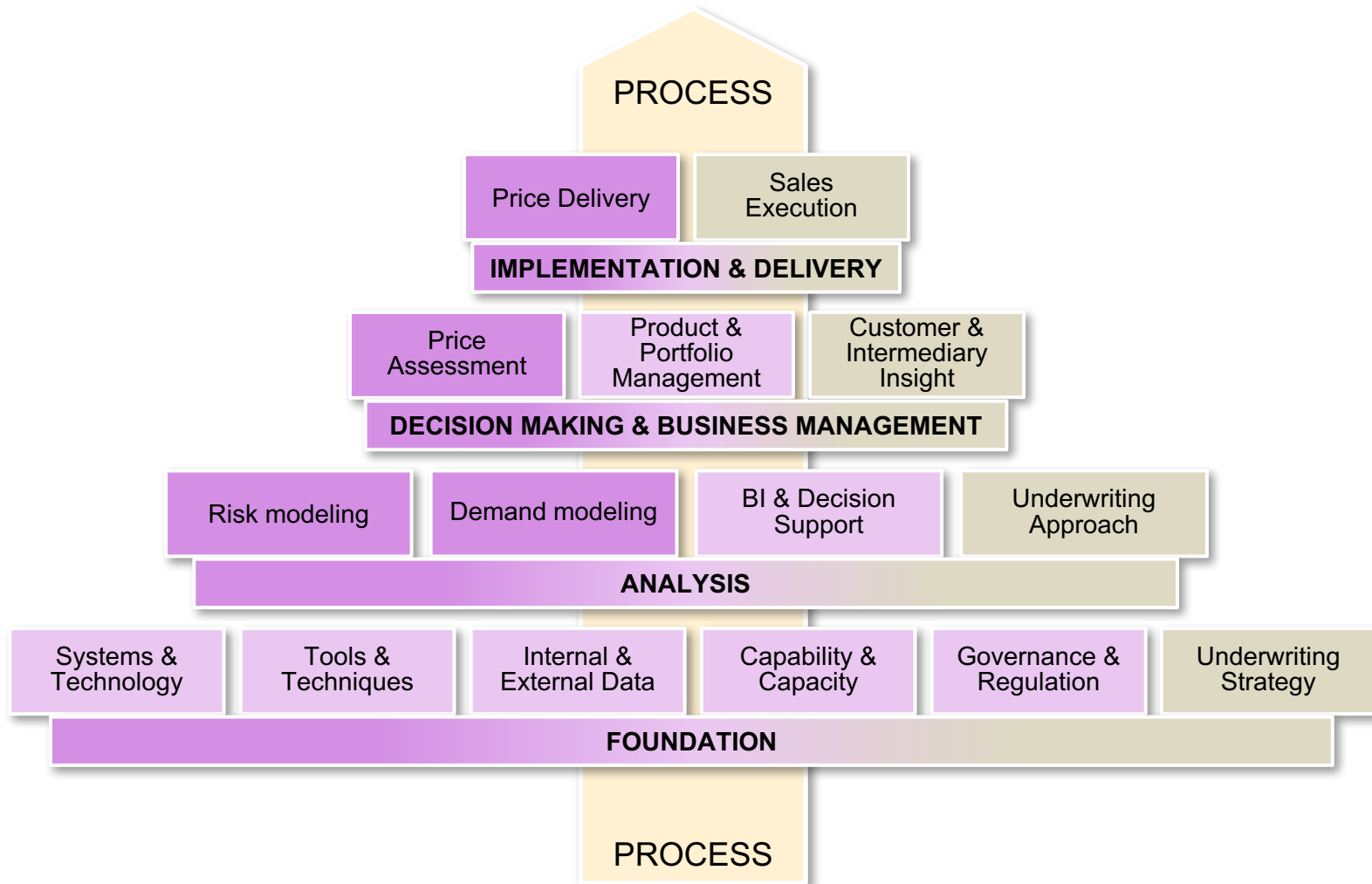


Traditional

Future

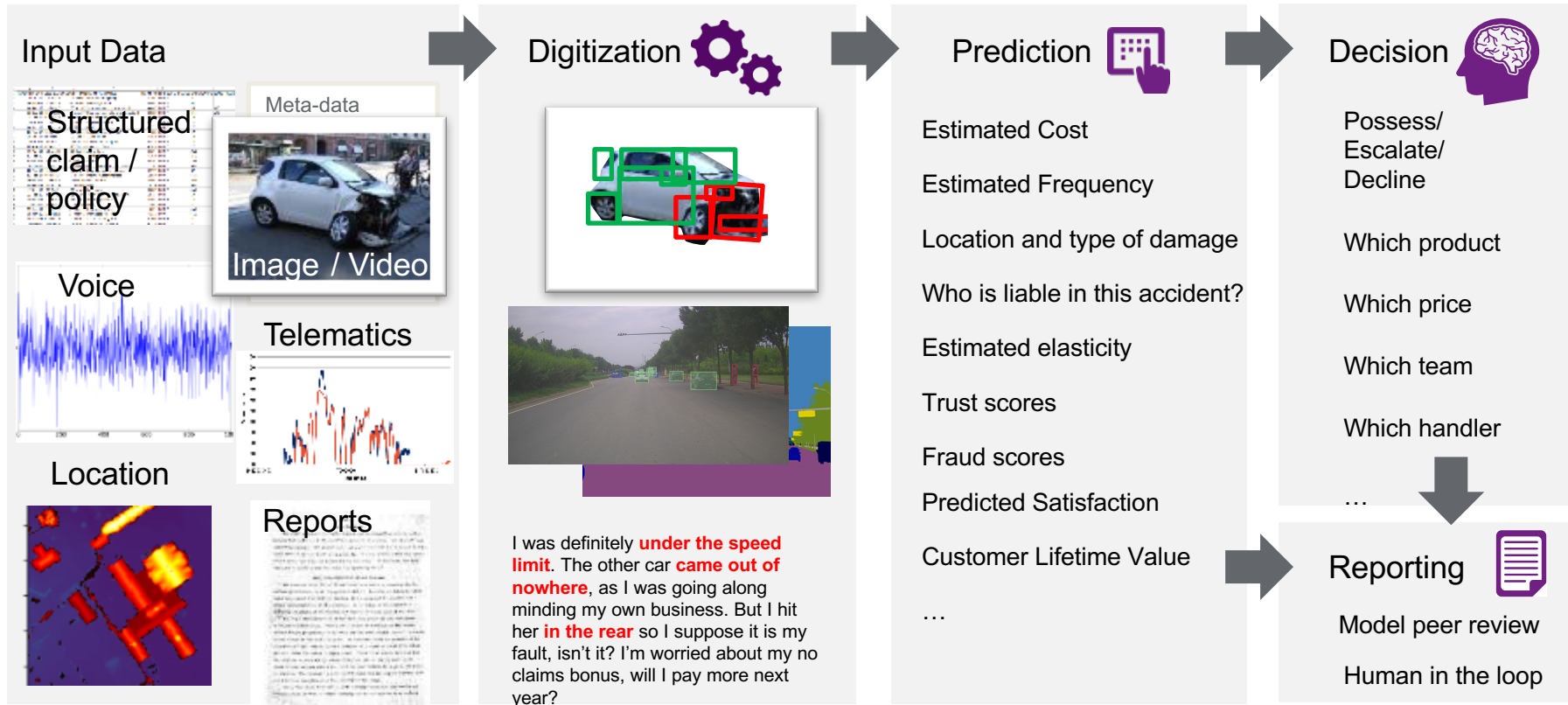
Insurer Internal Capabilities

A framework for the future



Insurer Internal Capabilities

How do we integrate analytics to improve results



Insurer Internal Capabilities

Underwriting – application and fraud mitigation

- **Underwriting rules became more numerous and more complex**, aligned with more granular and sophisticated pricing
- Underwriting fraud has become a **very significant issue**, with an estimated 5% to 10% more premium on aggregator channel lost to application fraud compared with phone channel
- As a response to the application fraud risk, **underwriting became focused on data-enriched counter-fraud**, with increased verification



Brand and Product

Slimming, proliferating and ancillary up-sell

- Aggregator sales rates are extremely price sensitive, but **less sensitive to product features**
- Where reducing coverage enables reduced prices, the volume gain might typically outweigh the reduced customer appeal
- So, as U.K. personal lines went onto aggregators, **products ‘slimmed-down’** with:
 - **increases** in compulsory and ‘suggested’ voluntary **excesses**
 - **removal** into optional add-ons of **cover elements not valued by *all* customers**

Want to edit your details? Just click on a head!

Back Save+Close

Complete - 78 Results Your vehicle: Bmw 116i 5e 2006 1596cc Five Door Hatchback Manual Petrol

	Annual Premium	Total Excess	Monthly Premium	Courtesy Car	Theft	Fire	Windscreen	Extras	
THORNTON	£794.09	£150.00	£66.17	✓	✗	✗	✓		More
Hastings essential	£824.26	£395.00	£68.69	✓	✗	✗	✓		More
ChoiceQuote	£861.1	£300.00	£71.71	✓	✗	✗	✓		More
TESCO value	£882.00	£575.00	£73.50	✗	✗	✗	✗		More
Qube	£884.72	£300.00	£73.73	✓	✗	✗	✗		More
WIPAC	£902.1	£300.00	£75.18	✓	✗	✗	✓		More
MOORE	£909.35	£150.00	£75.78	✓	✗	✗	✓		More
Hastings	£915.48	£250.00	£76.29	✓	✗	✗	✓		More
Likewise	£938.90	£350.00	£78.24	✓	✗	✗	✓		More
WIPAC	£955.20	£400.00	£79.60	✓	✗	✗	✓		More
WIPAC	£966.37	£350.00	£80.53	✗	✗	✗	✗		More

Compare Now

Find your Best Fit

One show prices with

Courtesy Car

Excess cover

Change Your Quote

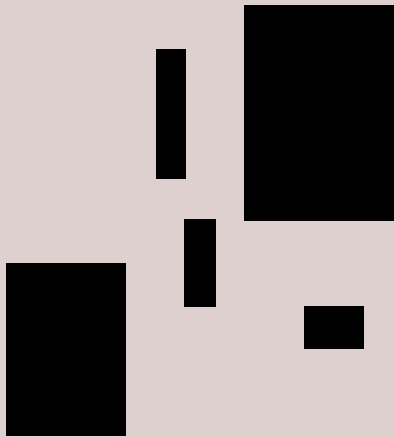
£ 200

Change your Cover

Comprehensive

Recalculate price

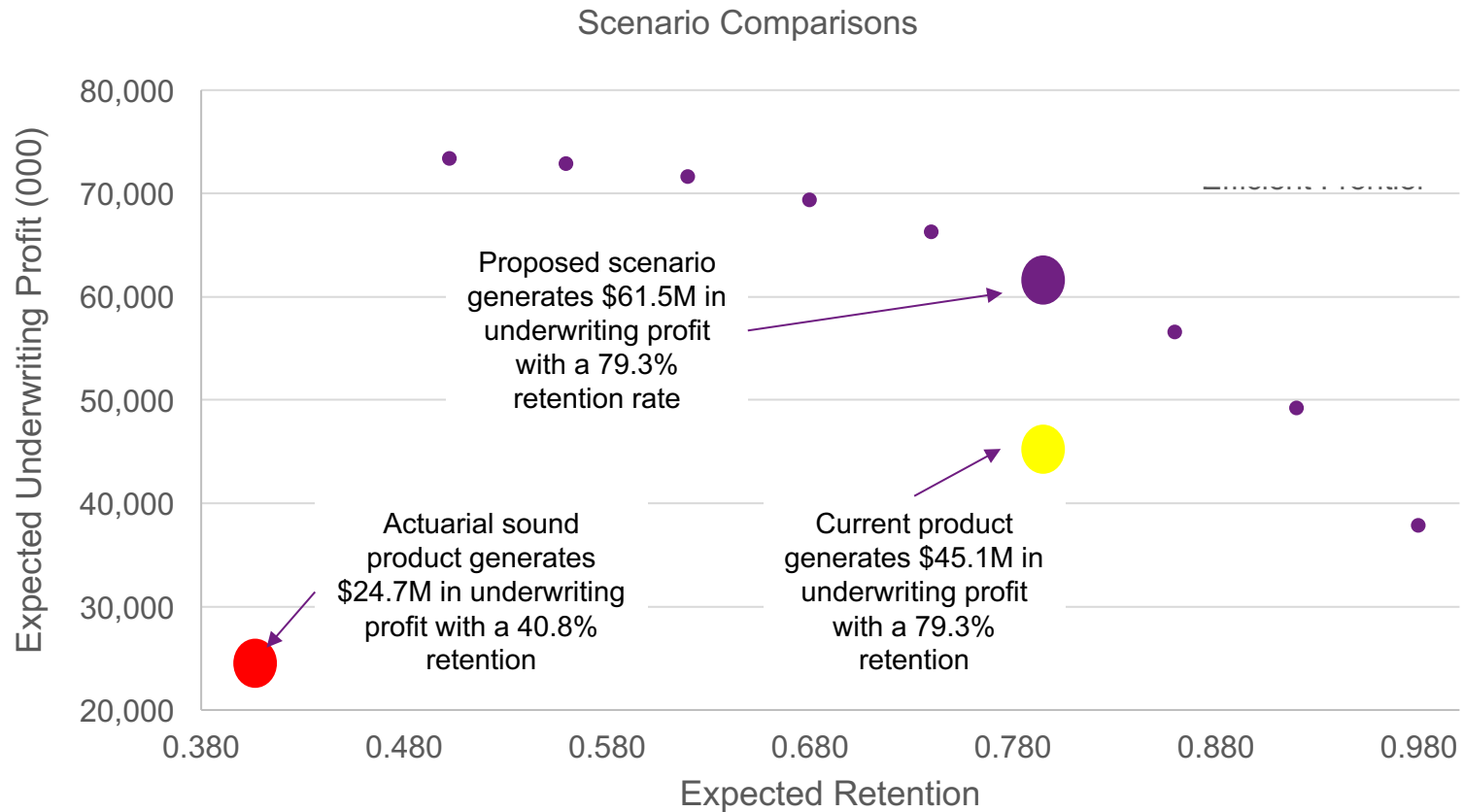
The Prize



Winning in a competitive environment

Product designed for you to grow profitably

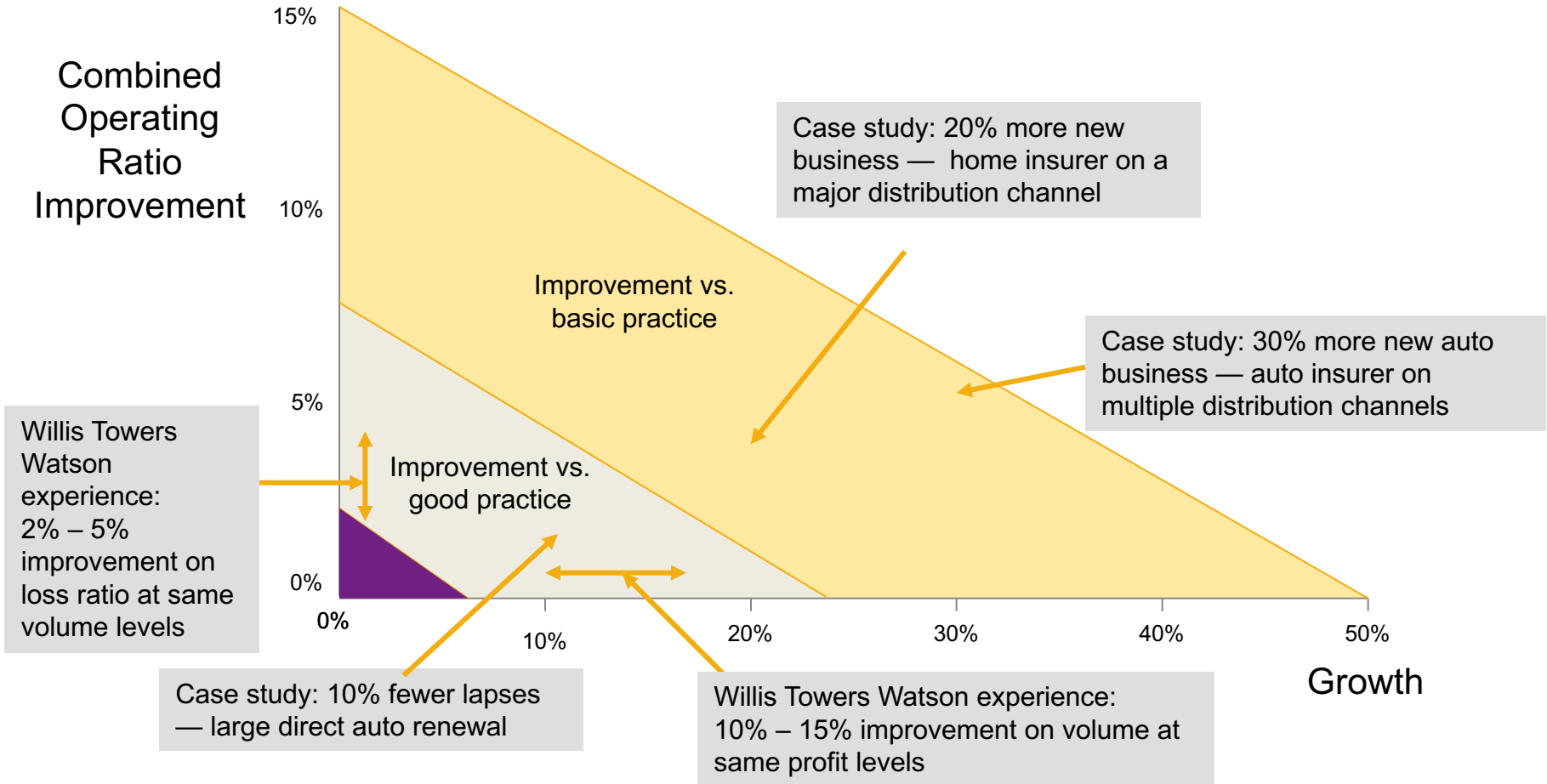
- Knowledge of the customer and further sophistication pays off



The Impact of Good Pricing on Performance

Willis Towers Watson case studies

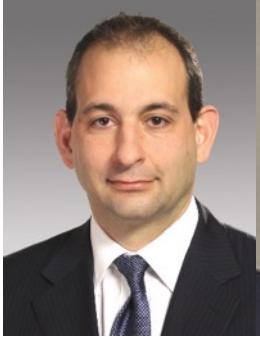
Growing profitably



Summary

- Traditionally insurers approach toward product design limited the ability to grow profitably
- Advertising and aggregator channels are among the many ways of creating brand recognition and raising awareness
- Increasing brand presence requires greater sophistication to succeed in a competitive market
- Growing profitably generates a substantial prize for the organization

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