STRATEGY MEETS ACTION

a ReSourcePro company

DYNAMIC PRODUCT ACTUALIZATION FOR P&C

Leveraging a Single Platform for Rating, Pricing, UBI, and Product Personalization

Featuring as an Example:

Earnix

An SMA Perspective

Author: Mark Breading, SMA Partner

Karen Furtado, SMA Partner

Published Date: February 2022

This perspective is based on SMA's ongoing research on analytics and modeling for mission critical P&C use cases. Earnix has purchased distribution rights.

© 2022 Strategy Meets Action All Rights Reserved | www.strategymeetsaction.com

TABLE OF CONTENTS

The Analytics-Driven Insurer 3

Business Capabilities Required 3

Technology Capabilities Required 6

Insurance Innovation Example 8

Earnix Solutions 9

Company Overview

Breadth and Functionality

Strategy Meets Action Commentary 10

About Strategy Meets Action 11

© 2022 Strategy Meets Action All Rights Reserved

THE ANALYTICS-DRIVEN INSURER

The current property/casualty insurance environment is highly competitive, and the momentous changes created by the pandemic have resulted in new dynamics that increase the challenges for insurers even further. Traditionally, insurance has been a very stable industry characterized by a gradual evolution in products, pricing, and servicing. Now, the events of 2020 and 2021 have resulted in new and different behavior patterns that have affected risk and claims in dramatic ways. For example, driving miles dropped spectacularly when the world went into lockdown and employees moved to work-from-home mode. The variability of business volumes and payrolls markedly increased. New risks emerged due to COVID illnesses. Repairs for damaged properties and vehicles took longer and, with the supply chain challenges, the cost of repairs and claims increased. Many businesses failed and shutdown. Even as the world prepares to close the books on 2021, the uncertainly wrought by the pandemic remains.

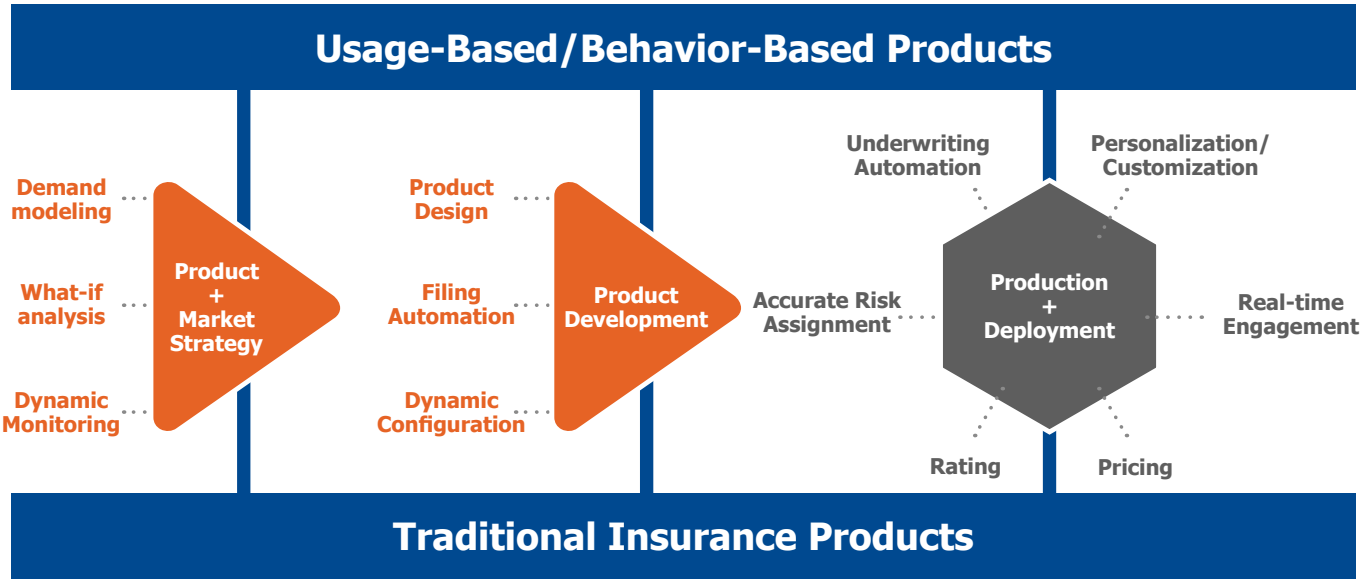
Even before the pandemic, P&C insurers recognized the power of analytics and models. Point solutions for various parts of the business were expanding, and many insurers capitalized on models to gain new insights and an edge over their competitors. It has now become abundantly clear that broad-based, leading-edge analytics and AI capabilities are the key to navigating the rapidly changing environment and driving profitable growth in the future. In short, the analytics-driven insurers will be the winners.

Ultimately, insurers want to design and deploy customized, personalized products to reach the right market segments quickly and profitably. This requires the usage of advanced rating calculations combined with the learning models that can deliver the precision to designate a personalized rate to a risk. This paper will explore the business and technical capabilities that are needed to achieve this degree of pricing precision.

BUSINESS CAPABILITIES REQUIRED

The business capabilities required by P&C insurers for specific business areas are depicted in Figure 1. These are capabilities that support product and market strategy, product development and deployment, and risk selection. These capabilities must increasingly support usage/behavior-based insurance products in addition to the traditional range of insurance products.

Figure 1. Business Capabilities Required by P&C Insurers for Product Actualization



© 2022 Strategy Meets Action All Rights Reserved

For each space, the goal is always to find new and better ways to move the needle on insurance metrics such that business growth and profitability goals are positively affected. For example, premium volumes for designated products increase, loss ratios decrease, and speed to market for new products accelerates. Speed and flexibility in developing, delivering, and dynamically altering products and prices in the market are also essential for competitiveness.

Insurers are seeking precision analytics for every dimension of their business – a capability that must be embedded in every aspect of the diagram below. This means that the models driving decisions for product development, rating, pricing, and other areas need to dynamically support analytics for individual products, geographic segments, customer segments, different business units, and various combinations of the above. Precision analytics can be applied to micro-segments or even individualized products with measurable financial results (improved loss ratios, increased profitability). But in order to achieve the central goals, insurers must be confident that the data being ingested into the models is accurate and that there is transparency and governance in the process. Insights and automated decisioning must be explainable for the insurer and, in some cases, to the regulators.

Figure 1 illustrates the major business capabilities insurers are seeking to dynamically plan for, develop, and manage products in the market … capabilities that enable true product actualization. Specific business capabilities required for each of the three main business areas are illustrated in Figure 1 and identified around each area.

Product and Market Strategy

In the product and market strategy realm, demand modeling and what-if scenario analysis are vital in driving decisions that will enable insurers to find profitable market segments. The ability to dynamically monitor products in-market is part of a feedback loop for new product strategies.

Product Development

In the area of product development, analytics and models support product design, dynamic product configuration, and automation of the product filing process. These capabilities allow insurers to get new products or product revisions into the market faster. Equally important is fitting the products to the market segments in a manner that produces profitable results.

Production and Deployment

As demand is generated and submissions flow into underwriting, the analytics-driven decisioning for rating, risk selection, and pricing are where the rubber meets the road (and the keys to increasing both market share and profitability). In addition, carriers are looking for differentiating capabilities to engender real-time engagement and dynamic customization and personalization.

© 2022 Strategy Meets Action All Rights Reserved

The callout box below demonstrates a successful use of the end-to-end platform for leveraging these business capabilities.

A prominent North American mutual insurer offering both personal and commercial lines was seeking to decrease the time it took to deploy new rating and pricing models and provide flexibility to increase product personalization. Prior to deploying the new solution, the manual handoffs and dependence on IT meant that even simple pricing changes took at least 6 weeks to deploy. Other more complex pricing changes could take 4-6 months from conception to deployment.

The company implemented Earnix Price-It, an end-to-end platform that supports the full range of modeling, ratings deployment, and pricing. It includes sophisticated simulations, data and model management, and governance capabilities. Modeling changes are now being deployed in four days or less. In addition, the speed and flexibility have enabled the insurer to personalize offerings. This new platform enables fast, dynamic pricing and personalization that the company considers to be a competitive game changer.

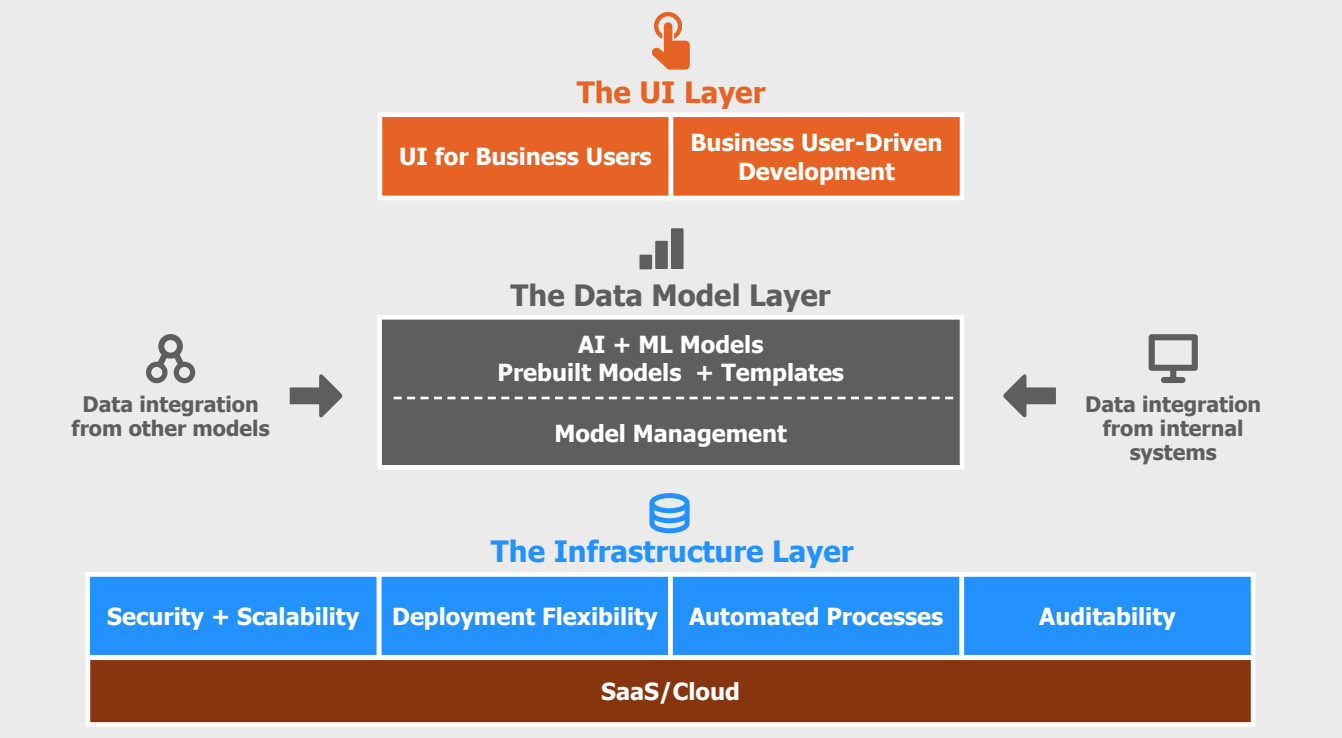
All of these business capabilities also demand technology solutions that are based on advanced technology capabilities and deep knowledge and expertise in the P&C insurance domain.

© 2022 Strategy Meets Action All Rights Reserved

TECHNOLOGY CAPABILITIES REQUIRED

There are specific technology capabilities required to support the business capabilities needed for cutting-edge analytics in today's highly competitive insurance market. They are shown in Figure 2.

Figure 2. Technology Capabilities Required by P&C Insurers for Product Actualization



The diagram depicts three layers of the technology: the infrastructure layer at the bottom, the data/model layer in the middle, and the UI layer at the top:

The Infrastructure Layer

The following infrastructure capabilities are built upon the foundation of the SaaS/Cloud environment:

- **Security** is at the top of every CIO's mind as breaches increase and perpetrator sophistication expands. World-class security is demanded by insurers as they integrate new software solutions into their enterprise.
- **Scalability** is especially important. Carriers want to be assured that a successful pilot for one state/one product, or for a small sample of customers, can be extended to millions of interactions with the same response times.
- **Deployment** is table stakes today as insurers look to leverage on-premises, cloud, and hybrid models in various combinations to suit a particular product and program.
- **Automated processes** are required to enable the speed to market needed in today's competitive environment. In addition, automated workflows and decisioning for low level tasks free up insurance professionals to apply their expertise to more complex risks.
- **Auditability** is required for internal reviews as well as for demonstrating compliance to regulators. It is critical that audit trails can be traced, especially considering the dynamic changes to products and prices and the reality of multiple versions of products in the market.

© 2022 Strategy Meets Action All Rights Reserved

The Data/Model Layer

These foundational technology capabilities enable the building, leveraging, and management of machine learning models and templates. These pre-built models and templates based on real-world experience are quite useful in helping insurers gain benefits more quickly. As models proliferate and extend their enterprise value, it is also very important to have the technical capability to track and manage models, their versions, and their performance. Also, the ability to ingest data from other models and core systems is one capability that dramatically increases the utility of platforms such as this.

The UI Layer

Finally, in the orange layer, enabling business users to drive the development and directly and easily use an analytics/modeling system (instead of relying on IT) is a critical success factor. It is important to note that both business and technical expertise are mandatory in assisting to develop, deploy, and manage the successful analytics models applied for P&C-specific use cases. These are important parts of the technology requirements that insurers are seeking for their capabilities in this space.

These capabilities are required to support dynamic personalization and configuration changes for real-time product deployment. An example of an insurer that leveraged these capabilities is demonstrated below.

A prominent European insurer had a strategic initiative to optimize and personalize product bundles with favorable time to market, aimed at increasing sales without reducing conversion ratios. This insurer, founded in the 1960s, wanted to focus on increasing P&C personal lines products sold through agents/brokers, aggregators, and web channels. Legacy core systems were limiting their ability to respond dynamically to marketplace opportunities, especially for distribution partners to offer an optimal set of add-ons.

Leveraging Earnix's Personalize-It solution, the insurer was able to address these challenges and compete in the dynamic auto insurance market. Within 1 month of launch, the company was able to increase add-on sales by 28% and GWP by 2%, while conversion ratios actually increased. This has given the insurer more control of their product strategy and more market flexibility.

© 2022 Strategy Meets Action All Rights Reserved

INSURANCE INNOVATION EXAMPLE

P&C insurers recognize the potential to introduce innovative new products based on the collection of real-time data. Usage-based insurance products that leverage telematics data are proliferating in the market, with penetration expected to rise rapidly over the next few years. Products based on smart-home/smart-property sensors are in their infancy but show great promise. These will provide opportunities for insurance coverages that are calibrated to the true usage and real-time risk. They will also create new opportunities to influence behavior to reduce risk and produce win-win scenarios for the policyholder and the insurer. The callout box below shows one example of an insurer that has benefited from a UBI solution.

The new model for usage-based insurance extends significantly beyond traditional programs that are characterized by premium discounts based on miles driven or analysis of a limited number of data points about driving behavior collected during a trial period. Telematics programs that are truly usage- and behavior-based require an end-to-end solution to automate and offer tailored UBI programs, align driving behavior and risk for profitable pricing, operationalize real-time pricing and billing, and proactively engage customers for real-time advice and offers during the term.

The Earnix UBI solution provides these capabilities as well as the data/model management, governance, real-time deployment, and reporting features to support dynamic UBI programs.

© 2022 Strategy Meets Action All Rights Reserved

EARNIX SOLUTIONS

Company Overview

Earnix is a leading provider of high-value analytics solutions to insurers and banks around the world. Over 90 insurance and financial services companies have Earnix solutions across more than 30 countries. All lines of insurance are supported with many implementations in the market. The company is on an accelerated growth path as its platform delivers industry-specific solutions for rating, pricing, and product personalization to their customers. The recent acquisition of Driveway Software significantly expands their usage/behavior-based solutions for the property/casualty insurance industry.

Breadth and Functionality

The Earnix platform has four business applications that are supported by their foundational real-time analytics engine and their industry expertise and consulting. The business applications are Price-It, Personalize-It, Time-It, and Drive-It.

- **Price-It:** The Earnix Enterprise Rating Engine is at the heart of the platform and enables insurers to develop and implement new rates and prices rapidly. The solution supports the planning (simulations, what-if), deployment (operationalizing rates and prices, dynamic changes), and monitoring (ongoing assessments of pricing performance vs. business objectives).
- **Personalize-It:** Real-time personalization of the products and the price provides insurers with distinct competitive advantages. The Personalize-It product enables product configuration changes and, in conjunction with prices from the Price-It solution, can deliver them to the market dynamically and in real-time.
- **Time-It:** The Time-It solution enables real-time, proactive customer engagement. In collaboration with the Personalize-It solution, this solution leverages life/business event triggers to create the right offer at the right price and the right time for the customer.
- **Drive-It**: This solution supports the development and implementation of usage-based insurance offerings that leverage vehicle telematics. This entails the offering of personalized packages for each customer and support for usage-based pricing and claims.

The foundational analytics engine that enables the business applications includes components in two areas as follows:

- **Business user modeling and deployment support**, which includes business simulation and deployment, real-time deployment, and monitoring and reporting capabilities.
- **Management and administration of the data and platform**, which includes data and model management, governance, automation, and self-learning capabilities.

In addition to the software platform and business applications, Earnix provides consulting and implementation support based on deep insurance industry knowledge. Insurers building, deploying, and managing models for specific insurance use cases can benefit from the experience and insights of Earnix professionals.

© 2022 Strategy Meets Action All Rights Reserved

STRATEGY MEETS ACTION COMMENTARY

P&C insurers have extensive and valuable data about customers and risks, which are at the heart of their business, plus an expanding array of external data from which to draw. Leveraging an analytics platform for mission-critical capabilities such as rating, pricing, product personalization, and UBI is already becoming mandatory. Those that can harness deep new insights from their data and operationalize those insights quickly will be the most successful companies in the future. SMA recommends that insurers consider the following actions:

- **Start with an assessment of your key business goals.** Identify the key levers of growth and profitability and where new solutions are required to gain advantage.
- **Conduct an assessment of your existing data assets.** Models and analytics rely on well organized, accurate data. Ensure that your master data management plan is producing the data environment needed to support an analytics-driven insurance company.
- **Identify the current state of analytics and models and their contributions to key business goals.** It is likely that you have some analytics capabilities and models already in place. Inventory those, evaluate their effectiveness, and identify where improvement is needed.
- **Consider implementing a broad-based analytical engine platform** to optimize end-to-end product development, rating, and pricing, for both traditional and usage-based insurance products.

P&C insurers looking to capitalize on their data and risks insights for an advantage in the market should consider the Earnix solutions suite to support their journey toward being an analytics-driven insurer.

SMA
STRATEGY MEETS ACTION
a ReSourcePro company

© 2022 Strategy Meets Action All Rights Reserved

ABOUT STRATEGY MEETS ACTION

At Strategy Meets Action, our clients advance their strategic initiatives and accelerate their transformational journeys by leveraging our forward-thinking insights, deep vendor knowledge, and vast industry expertise.

The business benefits from an engagement with SMA are:

- **Clarity on Strategy:** Gain an outside-in perspective on trends relevant to your strategies and plans.
- **Transformational Focus:** View your strategic initiatives and investments through a transformational lens.
- **Informed Decisions:** Obtain business and technology insights aligned to your strategies, focus, and investments.

Strategy Meets Action, a ReSource Pro Company, is an advisory firm that works exclusively with insurers and vendors in the P&C market, offering advisory retainers and project-based consulting services.

Click here for www.strategymeetsaction.com.

About the Authors

Mark Breading, Partner

Mark can be reached at 1.614.562.8310 or via e-mail at **mbreading@strategymeetsaction.com**.

Follow Mark at **markbreading** on LinkedIn and **@BreadingSMA** on Twitter.

Karen Furtado, Partner

Karen can be reached at 1.978.239.2741 or via e-mail at **kfurtado@strategymeetsaction.com**.

Follow Karen at **karen-furtado-sma** on LinkedIn and at **@karenmfurtado** on Twitter.

© 2022 Strategy Meets Action All Rights Reserved