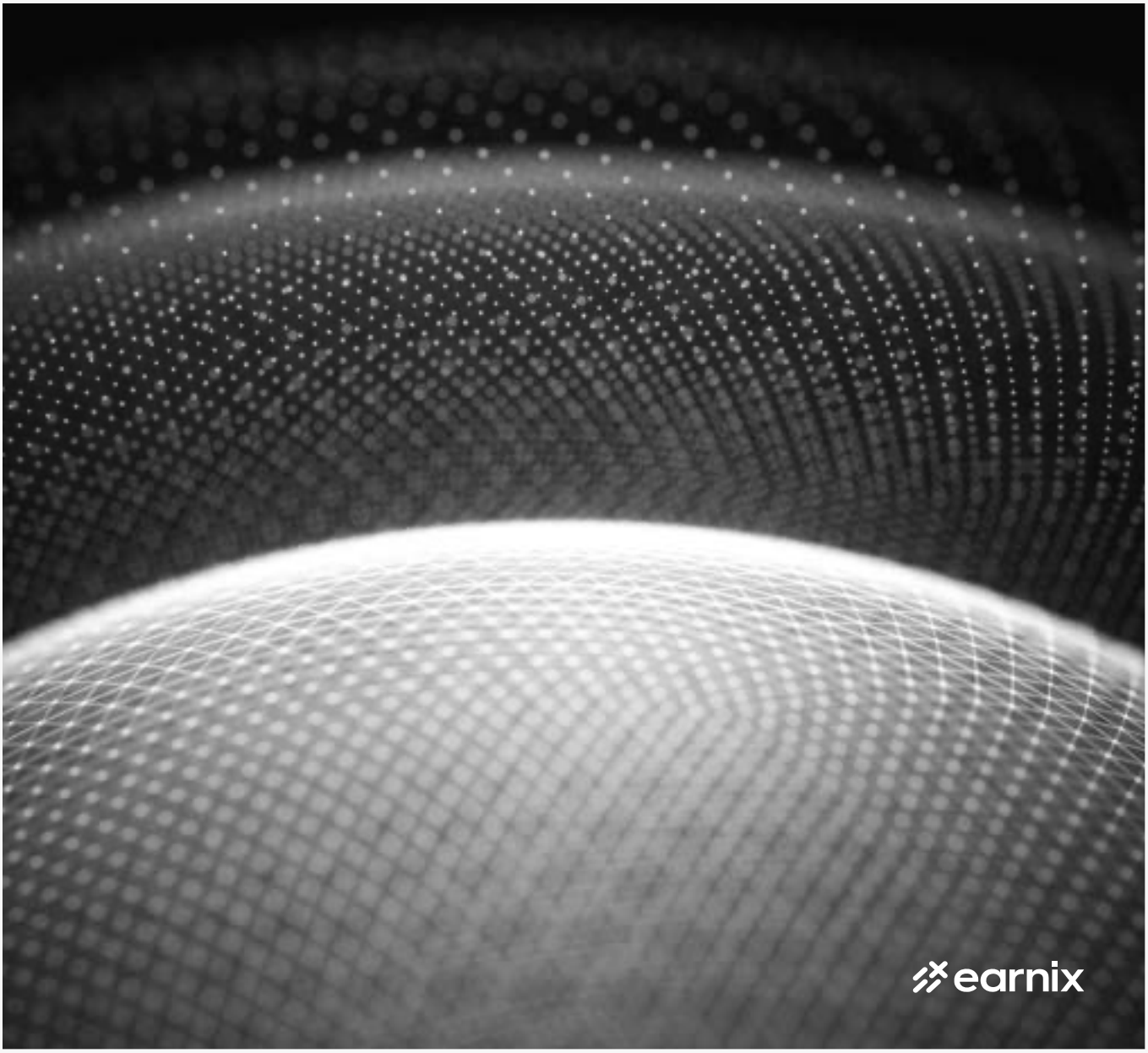
Insurance Pricing & Rating Whitepaper

Pricing Agility: Is Mastering the Operationalized Side of Pricing Now Key to Survival?



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Introduction

Inflation, increasingly stringent pricing regulations, pandemic-related claims patterns and accelerating digital disruption are pushing us more than ever to adapt with agility to the changing world and offer products at the right price to maximize value. Improving profits is key to survival for most insurers.

We know price is a key factor in consumer insurance buying decisions and is itself a key driver of demand. Most companies we talk to believe they have sufficient processes in place for making pricing decisions, yet, when we dig deeper, we hear about:

- ✓ Excel downloads, uploads, pivot tables and manual checking
- ✓ Pricing teams referring to “projects” instead of “products”
- ✓ Paths of least resistance rather than incremental evolution
- ✓ IT being synonymous with bottlenecks

> ***“Testing a price is one of the biggest pain points as you need to understand the risks of making a change. You need the right expertise & checks in place.”***
>
> – SENIOR MANAGER, A BIG 4 CONSULTANCY

Whilst the above does not reflect an agile approach, there are insurance businesses that can optimize rates based on real-time data and implement price changes quickly through efficient internal processes and seamless technology. They enjoy a host of competitive advantages, including:

- ✓ Improve margins by ensuring pricing accurately reflects market and risk dynamics
- ✓ Respond to market trends with rapid rate adjustment and product personalization
- ✓ Be a first mover and bring new products to market quickly
- ✓ Win new business and retain customers with responsive, tactical pricing
- ✓ Test pricing and make quick adjustments based on market reaction
- ✓ Build multiple new products in quick succession using repeatable processes
- ✓ Gain greater control and cost-efficiency in the pricing process

However, data and resource limitations, combined with legacy IT systems, tools and processes are holding many firms back. Often, it can take many months to bring price changes to market.

But why do so many insurers find it difficult to implement price changes quickly? How can a data-driven approach transform a company's responsiveness and competitiveness?

A Broad Spectrum of Pricing Capabilities

Currently, there is a huge disparity in the pricing speed and agility of competing insurers.

Market leaders can bring simple price changes to market within a day. However, for many insurers, even simple price adjustments can take several months to implement. For new products or more complex price changes involving adjustments to rating models, it can take some insurers six months to a year to bring a price to market.

A 2022 Market Strategy Group (MSG) survey found it typically takes three to six months to implement a rate change. According to MSG, only **7%** of firms make price changes frequently based on automated intelligent monitoring. Most (**52%**) monitor rate changes at the next rate review. Some (**18%**) implement changes at scheduled intervals, such as following monthly or semi-annual reviews. And around a quarter (**23%**) make ad hoc changes only when it has a significant impact on profitability.

MSG also identified regional differences in pricing agility, with implementation periods of longer than six months more common among North American players than Europeans. This could be influenced by a range of factors, from differences in pricing regulation to the prevalence of digital distribution ecosystems and API connectivity in certain jurisdictions.

> ***"Insurers don't compete only on price – we also compete on the timing and risk of our price position."***
>
> – VINCENT LIBETON, MANAGER, SALES & COMMERCIAL ANALYTICS & DATA SCIENCE, AEGON

So Why Does it Take So Long to Implement a Price Change?

Implementing a price change is a multi-stage process. For many insurers, this is often inefficient with cumbersome approval processes, the involvement of multiple departments and the manual relaying of information at various steps.

Common steps needed to implement a price change are outlined below.

DATA PREPARATION

Insurers monitor a range of variables that feed into pricing decisions, including:

- ✓ Internal data including retention rates, uptake rates, underwriting profit & claims
- ✓ Market data including competitor data & buying trends
- ✓ Economic data including inflation, interest rates & exchange rates
- ✓ Larger insurers may have teams dedicated to analyzing certain datasets, while smaller companies' resources may be limited
- ✓ Data needs to be structured & in digestible formats for the actuaries

BUILDING THE RATING ALGORITHM

- ✓ Gain consensus on strategic goals
- ✓ Assumptions are agreed for modeling
- ✓ Models are developed for customer demand & multiple distribution channels
- ✓ The pricing algorithm is developed - This step typically takes up to 8 weeks
- ✓ The rating formula is audited & tested
- ✓ The length & complexity of this stage in the process can vary significantly depending on how simple or complex the change (eg. a low value change to the base rate versus an adjustment of the underlying rating algorithm)

TESTING

- ✓ Scenarios testing against demand & distribution models
- ✓ Commercial optimization based on competitor quote data
- ✓ Adjust variables & re-run the process until optimized
- ✓ Retest as pricing algorithms move from modeling platform to production

IMPLEMENTATION

- ✓ Approval by pricing committee
- ✓ Regulatory & legal approval of the rates
- ✓ Price change aligned with marketing & distribution teams
- ✓ Pricing algorithm & product characteristics implemented into policy administration system (PAS) – for many insurers, this step is completed from scratch by the IT team, taking weeks
- ✓ Price implemented in the market
- ✓ Post-live checks

Understanding Pricing Pain Points

Without efficient workflows, governance structures and technology in place, the price change process can drag on for months. MSG's survey identified the inability of IT infrastructure to efficiently process high volumes of data as the top delaying factor for rate change implementations. This was followed by planning and sending communications to customers, lack of alignment across functions, and manual effort to implement changes.

Common pain points fall into three broad categories:

> ***"Without the ability to analyse & deploy prices quickly, every week that goes by you are potentially missing out as your competitors makes that change."***
>
> – SENIOR MANAGER, A BIG 4 CONSULTANCY

DATA MANAGEMENT

- ✓ Data preparation and analysis can be time-consuming depending on resources available and the ability to automate certain processes
- ✓ Data may also need to be input into systems that are not joined up, such as analytics, pricing, and PAS, creating layers of unnecessary or duplicated work
- ✓ Unstructured underwriting data, rules and conditions may further complicate implementation of updated pricing algorithms into administration systems

IMPLEMENTATION WORKFLOW

- ✓ Multiple approvals and hand-offs between multiple teams can cause roadblocks and delays. For example, pricing actuaries will often develop pricing algorithms then hand over to IT to develop code to implement the change within the PAS or other systems. If an IT team with finite resources has multiple projects to complete at any one time, this can stall the process
- ✓ There may also be conflict or confusion over who is responsible and controls certain parts of the process – highlighting the need for a clear and efficient governance framework

LEGACY INFRASTRUCTURE

- ✓ The continued reliance on legacy IT systems exacerbates many of these pain points. For example, poor integration between systems creates additional steps in the implementation workflow
- ✓ Some insurers still rely heavily on excel spreadsheets within their pricing process, which require algorithms and models to be manually entered, extracted, and re-entered between excel and IT systems, creating multiple risks and inefficiencies
- ✓ Legacy systems may hold insurers back from incorporating powerful AI and machine learning capabilities into the pricing process
- ✓ Simple rating systems may also lack sophistication in their scenario testing environment – but the ability to test and adjust prices quickly, accurately, and flexibly in a range of scenarios is a crucial step in the pricing process

MSG's survey found that **88%** of North American insurers and **82%** of European insurers need automation and efficiency gains in their pricing analytics process. Within this, the most pressing need was to improve simulation capabilities.

What Does Good Look Like When it Comes to Pricing?

With the right approach and infrastructure in place, insurers can make rate optimization adjustments on the fly in response to market and loss data. They can also implement price changes within hours or days rather than weeks or months.

This kind of speed is only possible with an efficient and well-defined governance framework in place:

- ✓ Every department should know its role, responsibilities, and boundaries
- ✓ The approval process should be simplified to minimize the number of hand-offs between functions and to minimize delays
- ✓ Processes should be standardized to ensuring no time is wasted building models or repeating processes that have been done before

> ***"The pricing function sits at the center of portfolio management, working closely with underwriting, commercial & marketing. You can only be effective if you are dynamic & can change quickly."***
>
> – SENIOR MANAGER, A BIG 4 CONSULTANCY

These processes need to be supported by agile, intelligent pricing technology that enables insurers to design, test and implement changes with speed and efficiency:

- ✓ Automation should be deployed where appropriate, such as to validate and prepare data, identify outliers, and key trend metrics, and to enforce checks and controls on underwriting rules and limits
- ✓ Automation should also enable simple, transparent auditing and reporting
- ✓ Management information should be generated, captured, and automatically fed back into the beginning of the pricing process in a continuous loop
- ✓ The pricing system should be easily integrated with third-party data, analytics, models, and machine learning tools, as well as other systems within the organization
- ✓ It should also understand programming languages such as Python to keep up with evolving actuarial and development skillsets
- ✓ It should be intuitive enough to enable people with limited technical skills to use it

> ***"With some other vendors in the market, you'll buy one package to build out your technical model & then you have to buy another module in order to deploy to the market. It's all in-house & in one place with Earnix, which is beautiful as it gives us one scalable package that we can deploy to market really quickly."***
>
> – MICHAEL WILLIAMS, HEAD OF MGA PRICING, DATA & ANALYTICS AT SIMPLY BUSINESS

A Future-Proof Approach to Pricing Agility

Our clients are proof that if you take the right steps toward pricing agility today, your efforts will be rewarded in an environment in which technology is rapidly advancing and volatility is the new normal.

Speed and efficiency along the pricing value chain is key to achieving agility. If your time-to-quote is 10 working days and your competition can do it in three hours, you have a problem.

Today's market leaders are capturing and analyzing market and claims data and adjusting prices frequently. For the insurer of the future, this will be business as usual, while firms that persist with rigid legacy systems and approaches will only be left further behind.

> ***"The goal is to have an end-to-end pricing solution at your fingertips which allows you to react before today's prices becomes obsolete."***
>
> – AARON WRIGHT, DIRECT OF STRATEGY AT EARNIX.

Talk to us to learn more about future-proofing your pricing agility.

Reimagine pricing →

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