eBook: 5 Key Takeaways for Pricing Actuaries

Five Key Focus Areas for Insurance Pricing Actuaries in 2023

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Executive Summary

As we sit here in early 2023, the only certainty in the macro environment continues to be uncertainty. At Earnix, we see five key trends and resulting measures that insurance pricing actuaries need to consider today, and then monitor and adjust throughout the year:

01

Inflation appears to have peaked, but shows no signs of returning to predictability. At a time of intense competition for new business, this places actuaries in the unenviable position of trying to guard against underpricing and its profitability impacts and overpricing that could result in lost business and reduced market share.

02

At the same time, **customer retention** requires keeping an eye on inflation and pricing, but also demands a level of personalization and segmentation that many current carrier technologies do not provide.

03

In this environment, **pricing and underwriting** must be tied more closely together than ever. This marriage of two key functions needs to be organizational, crossing boundaries and breaking down silos, and in the form of complementary technology solutions.

04

"Minding the store" in these uncertain times requires vigilance and action to **keep pricing models up to date**. Models can become inaccurate and potentially harmful to the business in short order when conditions are changing rapidly. Modern technology and a commitment to constant updating are absolute necessities.

Even if there isn't time or budget available today for technology investments, actuaries must **monitor changes in the market**, identify the need for innovation, and act accordingly. Opportunities will arise that are so compelling as to require both the attention and the resources to solve a critical problem. Furthermore, as marketing and economic conditions continue to shift, actuaries will be ready to launch additional innovations quickly, and to make quantum gains in business results.

05

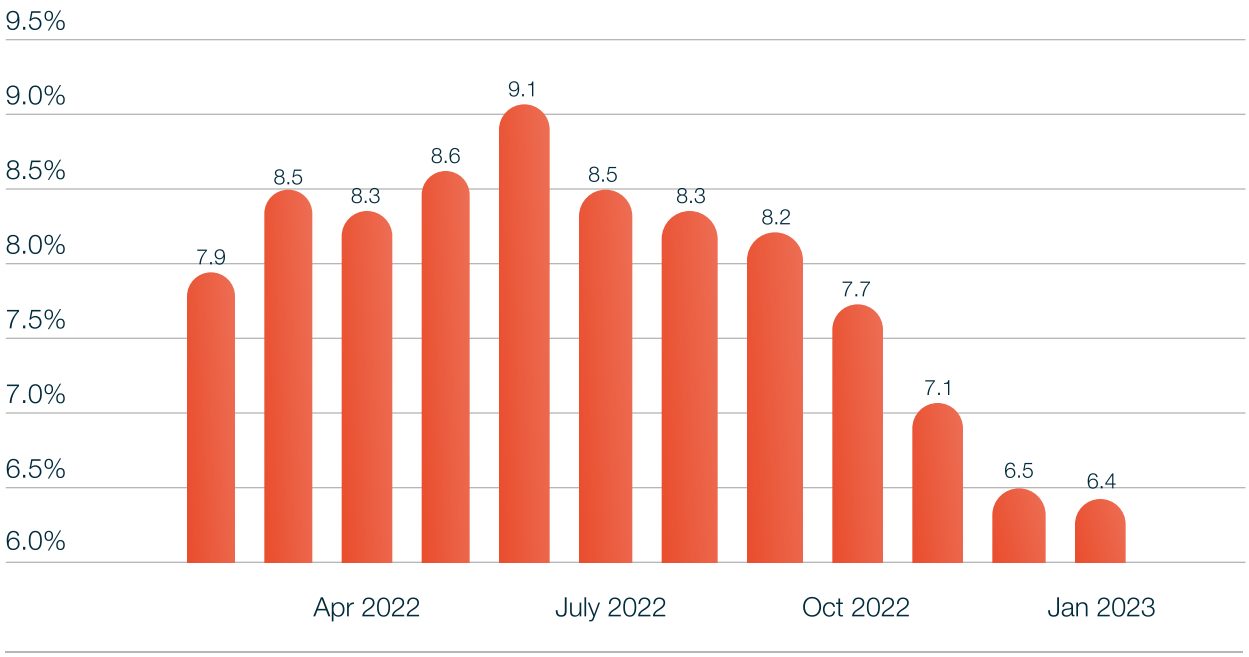
This eBook examines each of these topics, and makes recommendations for practical and timely upgrades that carriers can make to their technology infrastructure and software applications to improve the accuracy and effectiveness of actuaries' work, and to maximize their contributions to the insurer's bottom-line performance.

Pricing - Uncertainty is Still the Watchword

As we move further away from the start of the COVID-19 pandemic, uncertainty on the health front has abated, but the aftershocks have produced a plethora of other sources of uncertainty, effects that greatly complicate the work of insurance pricing actuaries.

Key among these sources of uncertainty is inflation. Underpricing policies today can fail to protect against future claims costs, crippling carrier profitability down the road. Overpricing to cover a wide range of inflation scenarios runs the risk of pricing the carrier out of the market. It's a delicate balancing act.

Inflation uncertainty has many faces, none of them attractive for insurers. A snapshot of the growth in consumer prices (CPI) in the US over the last 12 months looks like this:

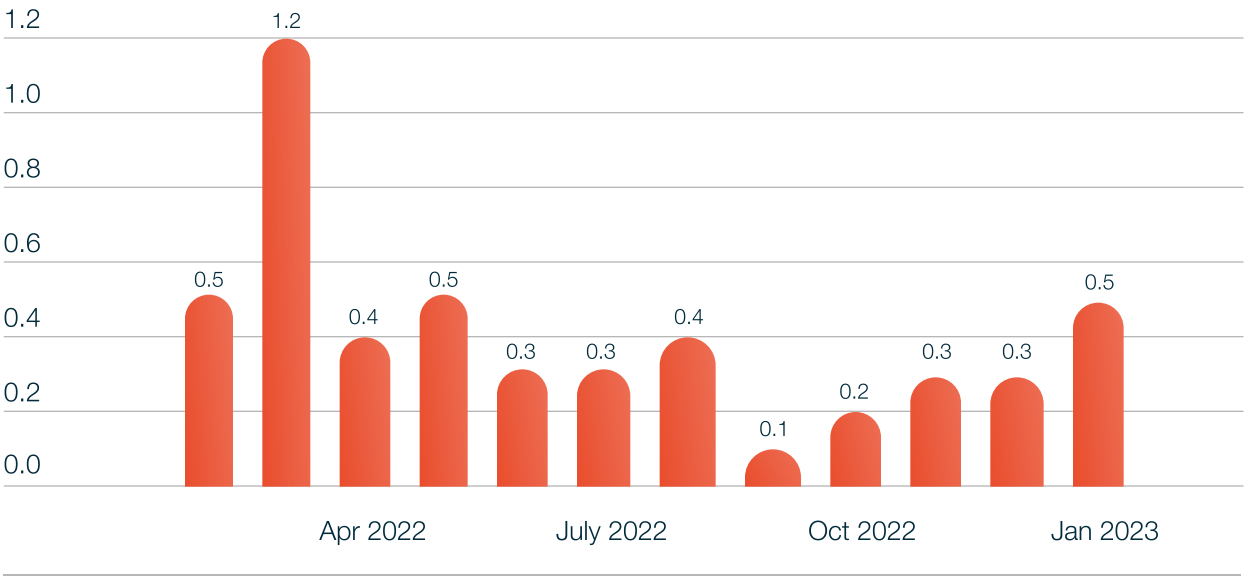


tradingeconomics.com | US Bureau of Labor Statistics



While it appears that CPI growth has peaked and is in decline, in large part due to aggressive tightening by the Federal Reserve, the reduction in the rate of inflation in January was unexpected and a clear pattern that would give actuaries hope that predictability is in the offing has yet to emerge.

Core producer prices, which affect claims-related materials such as building products and automotive parts, have shown even more unpredictability, and are stubbornly refusing to show any clear, long-term trend, at least when one looks at a trailing 12 month cycle:



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In this environment, those failing to adapt pricing quickly enough as market conditions change risk falling behind more nimble competitors, especially if those competitors have adopted superior technology in areas such as rating and pricing.

Underpricing and overpricing, or gyrating between those extremes, are highly likely if carriers are too slow to recognize changing trends and to improve their accuracy and confidence.

The key is to build in agility throughout insurers' operations:

- ✓ From an organizational standpoint, to **encourage collaboration** across functions, so that everyone can contribute to common goals and is tracked by a shared set of key performance indicators (KPIs)
- ✓ To **break down silos**, encouraging higher-level performance and to speed implementation of new pricing models
- ✓ To **eliminate unnecessary handoffs** across functional teams, which raise the probability of errors and re-work, and cost precious time in reacting to market and competitive changes

The hope is that a return to cost inflation predictability is in the future, making actuaries' lives easier. However, as the saying goes, "hope is not a strategy." Now is the time to change pricing practices and upgrade technology to guard against uncertainty and to smooth operations, with benefits now and when "normal" makes its return (or until a "new normal" becomes established).

Customer Retention Priorities



While the competition for new business is fierce and requires actuaries' constant attention, customer retention cannot take a back seat. In the crush of daily business, there may be a temptation to simply move base rates as the quickest way to guard against inflation and to ward off drops in profitability.

In today's environment, in which customers expect high levels of personalization and individual attention, this approach may be expedient, but invites increased churn.

This churn often results in the loss of the insurers' best-performing segments first, as they may be the most savvy and price-sensitive. Sweeping, across-the-board rate changes risk losing competitive position and shrinking customer bases.

Instead, insurers need to adopt tools that allow for targeted, individual- and segment-level analysis, "what-if" simulations, and the ability to implement focused rate changes in real time, without sacrificing oversight or regulatory rigor.

Not only do the technologies require this analysis at the level of individual customers and well-defined customer segments, the tools also need to simulate and execute rate changes across the portfolio, modeling and monitoring effects to company-wide and business line KPIs.

Increased Coordination with Underwriting

As outlined above, collaboration with pricing's adjacent functions is key to dealing with uncertainty. That collaboration and "silo-busting" also reaps benefits in competitiveness, profitability, customer retention, and customer experience (CX).

Nowhere is this truer than in the relationship between pricing and underwriting. These two functions, and the results they can bring about together, are the two most effective levers insurers have in "moving the needle" of business performance.

Underwriting has trailed many of the more customer-facing functions such as sales, marketing, pricing, rating, and account servicing, in terms of the technology and innovation available to the function.

That's changing rapidly. A new generation of underwriting tools promises to automate and make underwriting more efficient, but also to increase the effectiveness, accuracy, and speed of underwriting decisions, and to tie underwriting more closely to pricing and rating.

This ability to keep underwriting guidelines and rules in sync with pricing and pricing changes is particularly important. Sharing components with pricing software integrates underwriting fully into the workflows of making customer offers compelling, timely, and personalized, and allows underwriting and pricing to work in a single, coordinated, and collaborative process.



Models Never Sleep

Loss cost and behavior models that are based on historical data quickly become untenable in a time of increased uncertainty and a recent past that doesn't correlate with long-term averages. Without constant attention, there is no way to combat the uncertainty and volatility we're experiencing today.

Further, without modern technology, the model updating process is cumbersome and time-consuming. In today's environment, models can be out of date as soon as they're put into operation. All insurers should be making investments in machine learning (ML) and artificial intelligence (AI) tools to maximize the effectiveness of their pricing teams.

In the meantime, even if actuaries are fighting a "rear-guard" action wielding yesterday's technology, constant attention must be paid to keep models up to date, however inefficient current processes and technology may be.



Keeping Tabs on Innovation

In hectic times, it can be difficult to set aside time to remain current with ongoing innovation, even when one acknowledges that innovation never stops, and that there may be innovations that could dramatically improve the pricing actuary's effectiveness.

In times of uncertain profitability, it's important to always be well-positioned to make a compelling case for new innovation through investments in mission critical technology.

Pricing actuaries owe it to themselves and their employers to keep a finger on the pulse of innovation. The old saw that "necessity is the mother of invention" can be even more true during difficult and uncertain times. Furthermore, when business improves, you'll be ready.

In the meantime, that compelling business case will arise, making pricing and underwriting innovation an absolute necessity in solving a critical business problem. In that happy circumstance, preparation will pay off even more quickly.

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Your Partner in Innovation

For pricing actuaries and their leadership, 2023 can either be a time of reacting to changes and constantly fighting uncertainty, or proactively changing the way they do business, reacting with agility, and reaping the rewards, regardless of what the macro environment throws at them.

Earnix leads the way to a world of Intelligent InsurOps, delivering the leading-edge combination of infrastructure and software products that meets the demands of insurers and their customers.

The Earnix suite of intelligent insurance solutions allows carriers to implement new technology in a modular and logical progression to address each of the mission-critical functions of the modern insurer.

The Earnix Enterprise Rating Engine

The Earnix Enterprise Rating Engine allows insurers to unlock more value from every customer engagement, and to do it faster. It delivers automation and industry-leading analytics to all aspects of the pricing and personalization process. Having clear visibility into both real-time and overall performance, insurers can generate impactful offerings that meet changing customer demands, capitalizing on every revenue opportunity.

Pricing

Earnix Price-It™ offers dynamic pricing backed by robust data science, analytical modeling, and AI. Actuaries gain the power to create more informed, competitive pricing strategies by leveraging robust customer data and predictive modeling, and to monitor and measure those pricing strategies in real time against customer demand and revenue goals.

Personalization

Earnix's personalization capabilities give insurers the ability to deploy new personalized insurance products faster, leading to an increase in cross-selling, upselling, and overall revenue. Highly-targeted personalization can also improve customer engagement and loyalty, and overcome the challenge of low agent promotion of add-ons, as they can more readily deliver the most appropriate insurance package to end-customers.

Telematics

Earnix allows carriers to make the most of IoT and telematics data in identifying customer need and risk. This improves the ability to determine demand and profitability, and to realize new ways to increase lifetime value, customer engagement, and retention.

Underwriting

Underwrite-It™ liberates underwriters from the complex and antiquated rules-based decision-making they've been saddled with for decades. It delivers them from the slow and tedious processes that require months to implement changes, and replaces outdated rules-based approaches with the power of modern analytics.

Earnix insurance solutions allow carriers to deliver personalized offers in context and across digital channels, to increase conversion rates, drive revenue, and to optimize product and channel performance.

Earnix solutions also deliver the benefits of a non-siloed approach, unifying and empowering teams responsible for critical business operations within insurance organizations, such as pricing and underwriting.

The technology exists to bring-world class capabilities to your business operations.

To start taking full advantage of what modern insurance technology has to offer, contact Earnix today.

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Earnix is the premier provider of composable intelligent solutions designed to transform how global insurers and banks are run. Earnix solutions unlock value across all facets of the business, connecting with customers, and breaking away from the status quo imposed by legacy monolithic, single systems. Earnix's solutions offer systemized, enterprise-wide value with ultra-fast ROI. It has been innovating for Insurers and Banks since 2001 with offices in the Americas, Europe, Asia Pacific, and Israel. For more information visit: earnix.com.