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# IFoA GIRO Conference 2024

18–20 November, ICC, Birmingham



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# State of The Market

Update from the Pricing Research Group

James Anderson, Zvi Ebert, Mohammad Khan, Ed Plowman, James Rakow

**IFoA GIRO Conference 2024**

# Agenda

1. Price Adequacy, Drivers, and Trends
  - a) UK Domestic
  - b) Global P&C, Reinsurance
2. The PRG & the Issues Register
3. The Pricing Function in 2025 & Beyond





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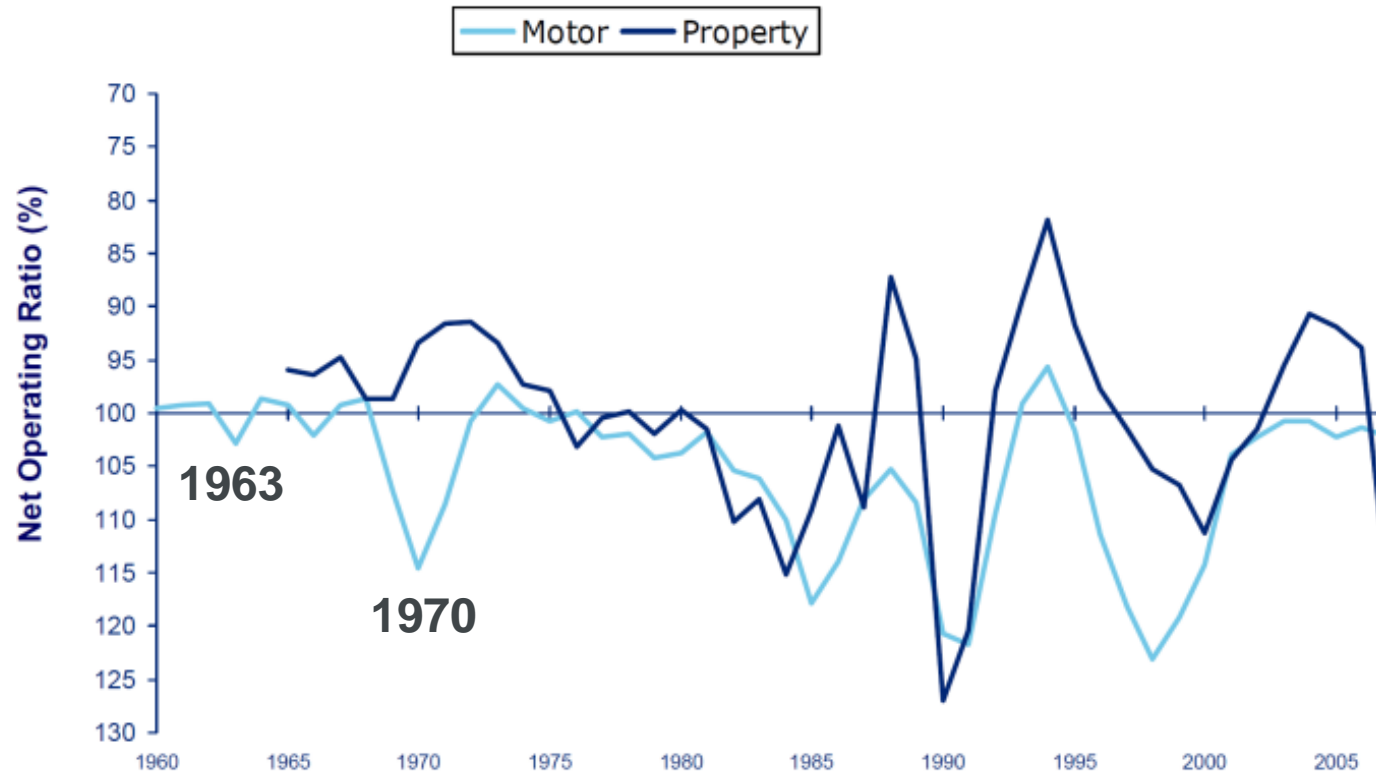
# 1a – UK Personal Lines

James Rakow & Mohammad Khan

**IFoA GIRO Conference 2024**

# UK Personal Lines – The long-term view 1960 to 2007

## Motor & Property Performance



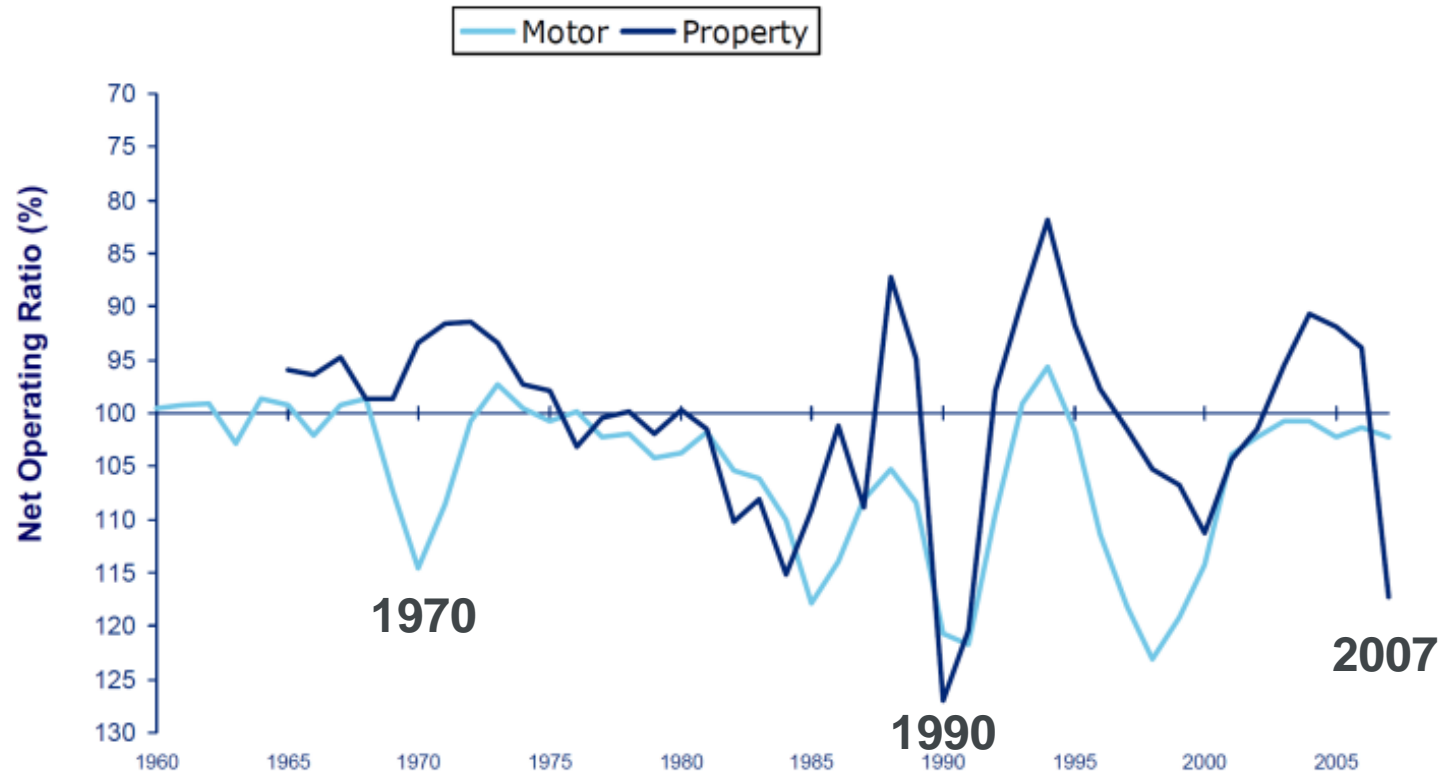
Source: Deloitte Analytics based on ABI data, Deloitte Home Insurance Seminar 2008

# UK Personal Lines — The long-term view 1960 to 2007



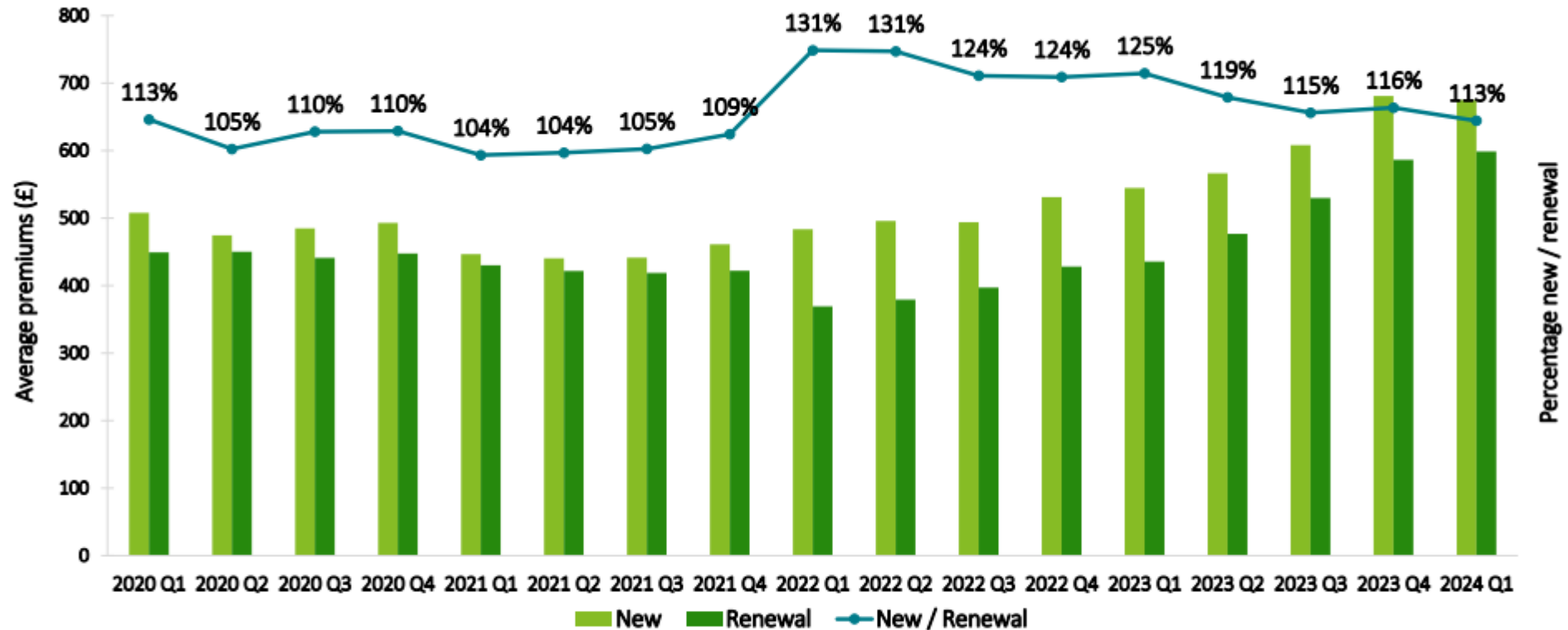
# UK Personal Lines – The long-term view 1960 to 2007

## Motor & Property Performance



Source: Deloitte Analytics based on ABI data, Deloitte Home Insurance Seminar 2008

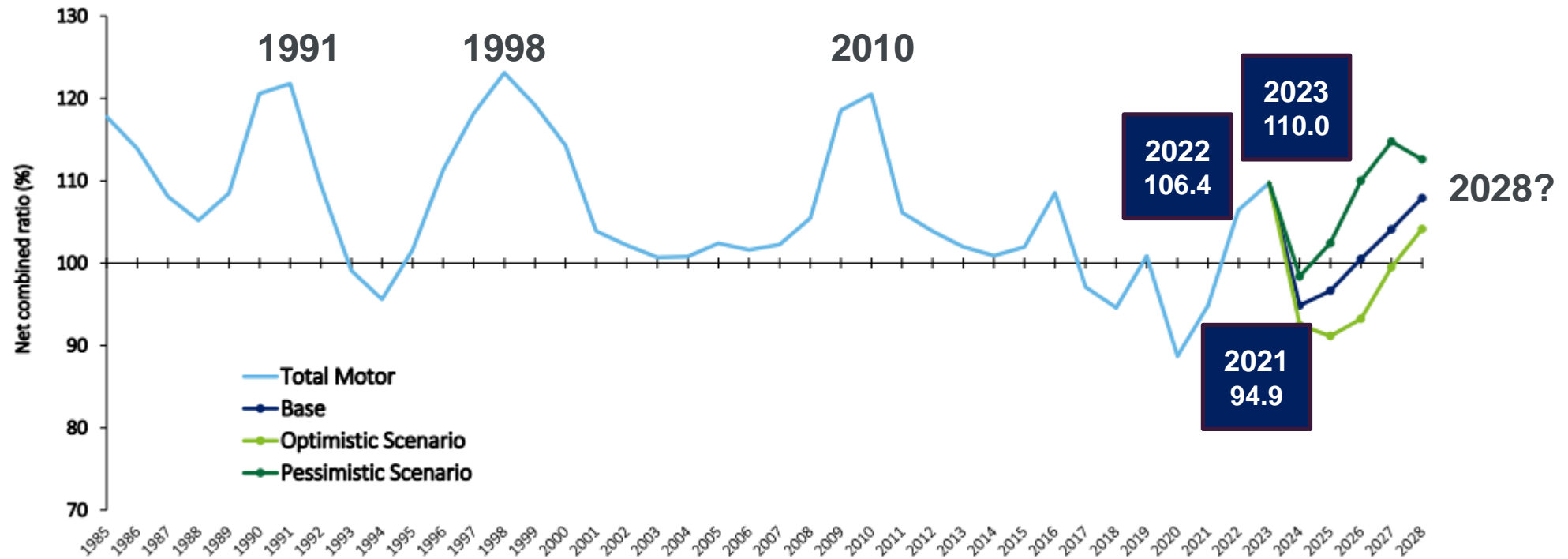
# Future Performance – UK Motor (New and Renewal Premiums post-GIPP)



Source: Deloitte Analytics based on ABI Premium data



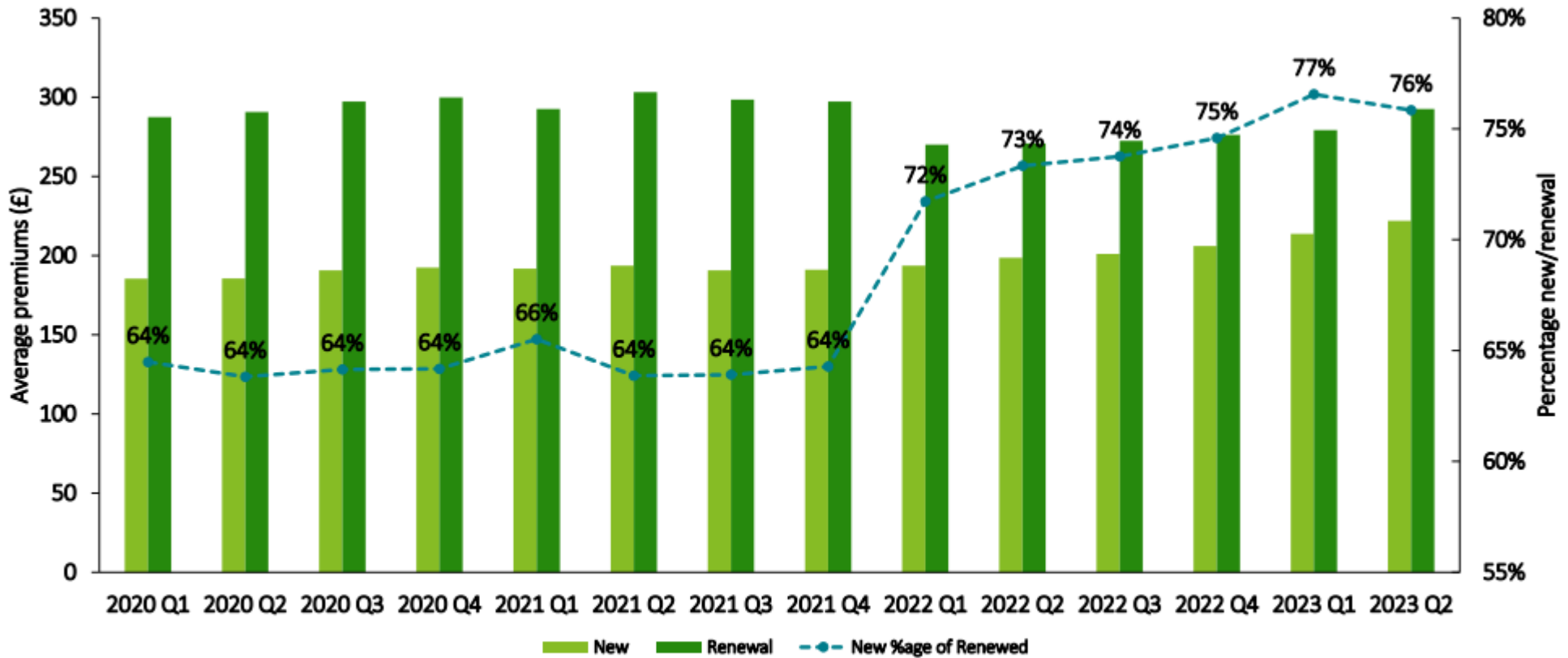
# Future Performance – UK Motor (Net Combined Ratio Scenarios)



Source: Deloitte Analytics based on AM Best data and SFCRs



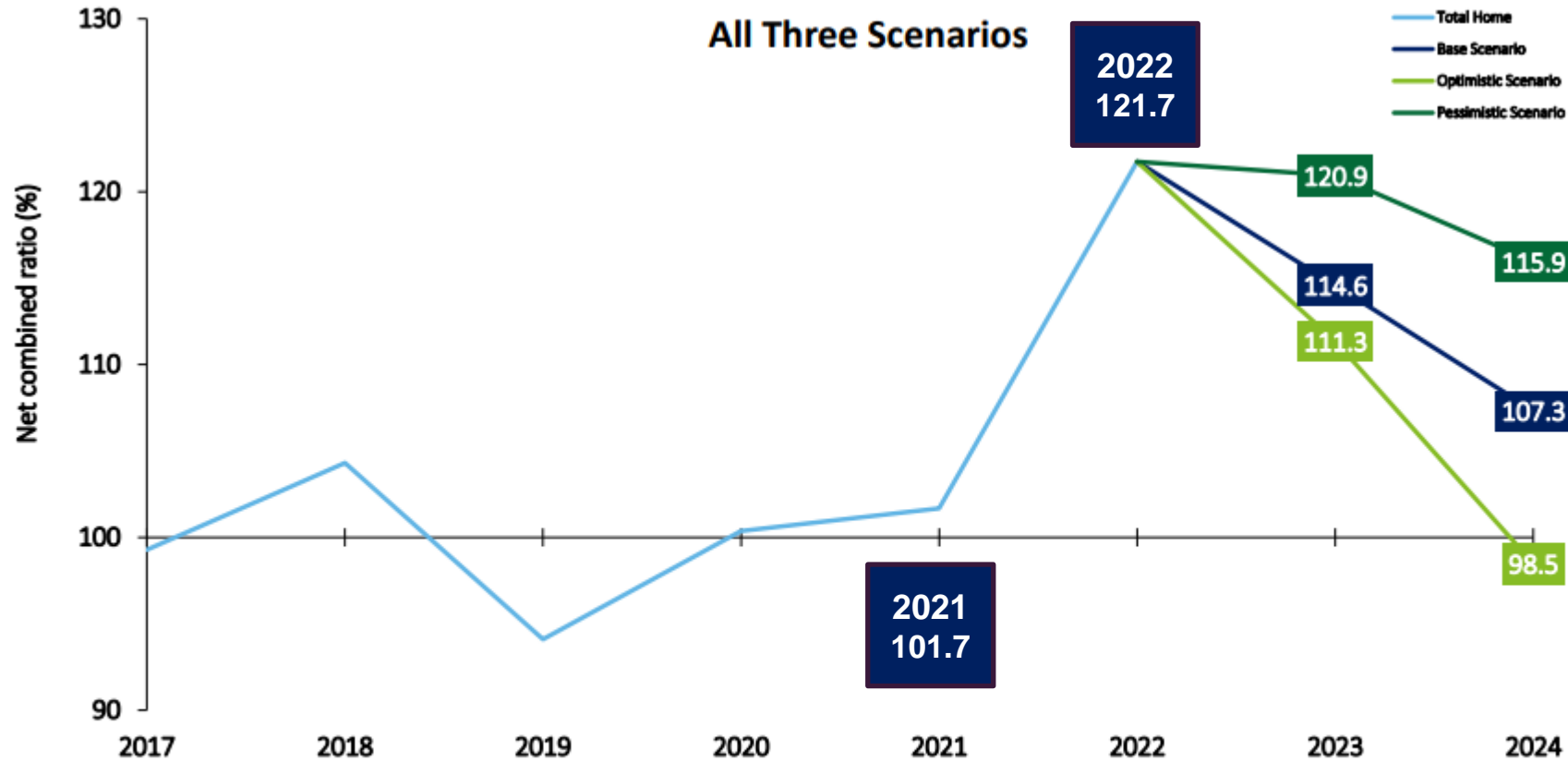
# Future Performance – UK Home (New and Renewal Premiums post-GIPP)



Source: Deloitte Analytics based on ABI Premium data



# Future Performance – UK Home (Net Combined Ratio Scenarios)



Source: Deloitte Analytics based on ABI data

# Top Current Issues

## UK Home



Source: 2023 Deloitte Home Insurance Seminar Survey

## UK Motor



Source: 2024 Deloitte Motor Insurance Seminar Survey

# Next Big Change

## UK Home

Technology Weather  
Consolidation  
Climate change  
Increased premiums  
Digitalisation Regulation  
AI Competition Inflation

Source: 2023 Deloitte Home Insurance Seminar Survey

## UK Motor

EV Regulation  
Product Changes  
AI Competition  
Pricing  
Consumer Behaviour  
Premium Finance  
Cybersecurity Ogden  
Inflation  
Telematics  
Bent Metal  
Discount Rate  
M&A  
Vehicle Technology  
Automated Vehicles

Source: 2024 Deloitte Motor Insurance Seminar Survey

# UK Trends

## 19.5%

- **Average increase of motor insurance premiums from 2022 to 2023**
- Driven by several elements with the lead catalyst being a sharp increase in claims inflation

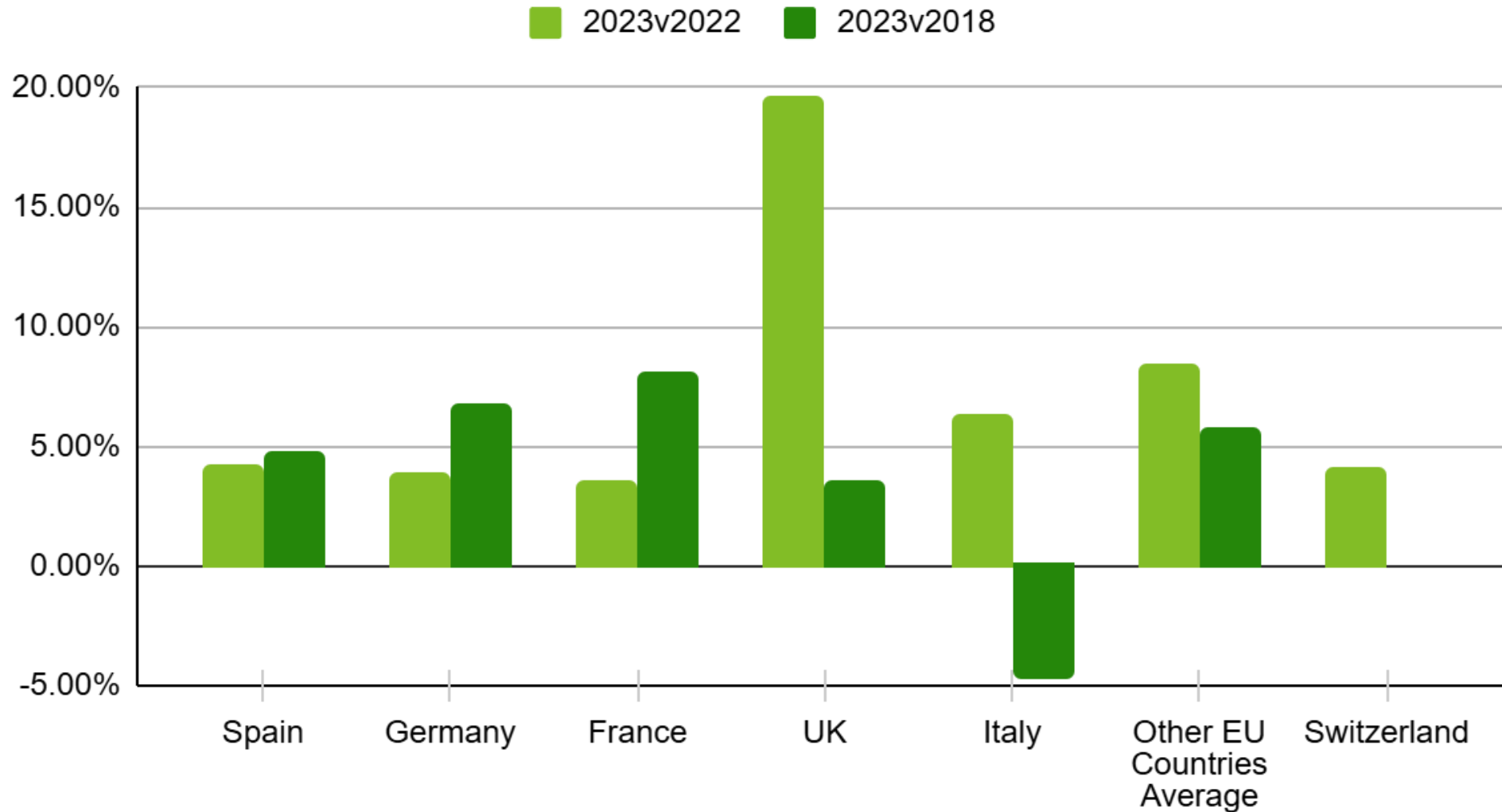
## 3.5%

- **Long-term increase in motor insurance premiums from 2018 to 2023**
- Premiums jumped with the drastic change in Ogden rates in 2017 before falling again during the Covid 19 pandemic

## >100%

- **Expected Combined Operating Ratio of motor insurers at YE24**
- Increased premiums are not expected to translate into increased profits.

# Europe versus UK Premium Trends



Source: 2024 PwC Pricing Market View

Country

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# Key Drivers of Premium Increases in the UK

## Claims Inflation

### Labour Shortages and Costs

- Shortages of skilled workers (mechanics)
- Difficulties importing talent (minimum wage regulations)

### Supply Chain Issues

- COVID-19 pandemic disruptions; repair parts shortages from Europe
- Increased transport costs due to increased gas prices

### Medical Costs

- UK trends indicate higher bodily injury claims compared with big European nations
- Higher medical inflation

### Electric Vehicles

- Elevated repair costs

Source: 2024 PwC Pricing Market View

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# Broader P&C Market Issues

## Catastrophe and Weather Loadings

- **Increased Market Focus:** The industry is increasingly concentrating on discussions around catastrophe and weather-related loadings.
- **Enhanced Sophistication:** There is a strong drive to enhance the sophistication in pricing and managing these risks and loadings.

## Private Equity Preferences

- **Preference for Managing General Agents (MGAs):** Private equity firms favour Managing General Agents (MGAs) due to operational efficiency and lower capital requirements.
- **Capital Efficiency and Regulatory Flexibility:** Appeal of MGAs lies in ability to operate with reduced capital drag and less stringent regulatory oversight.
- **Shift in Market Entrants:** Trends indicate that new entrants are more likely to be traditional carriers rather than MGAs

## Home Insurance Trends

- **Home Insurance Pricing:**  
Still increasing with impact of weather events still not being priced for sufficiently

## Fair Value Pricing

- **Financial Conduct Authority (FCA)** has expressed concerns that certain insurance products may not be delivering fair value to customers.
- Insurers are adjusting their pricing to align with the regulator's standards, focusing majorly on high commission payouts.



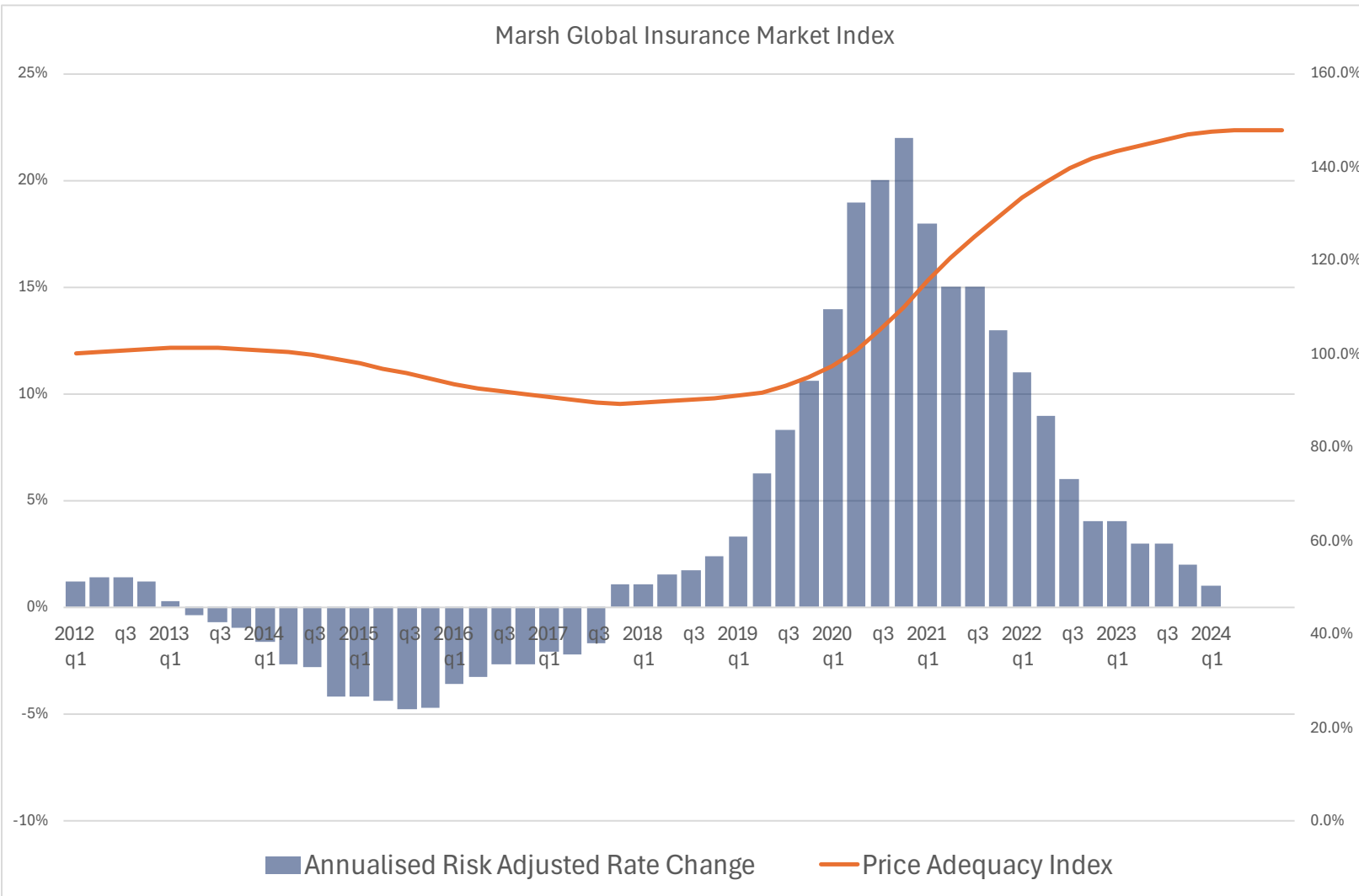
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# 1b – Global P&C & Reinsurance

James Anderson + Ed Plowman

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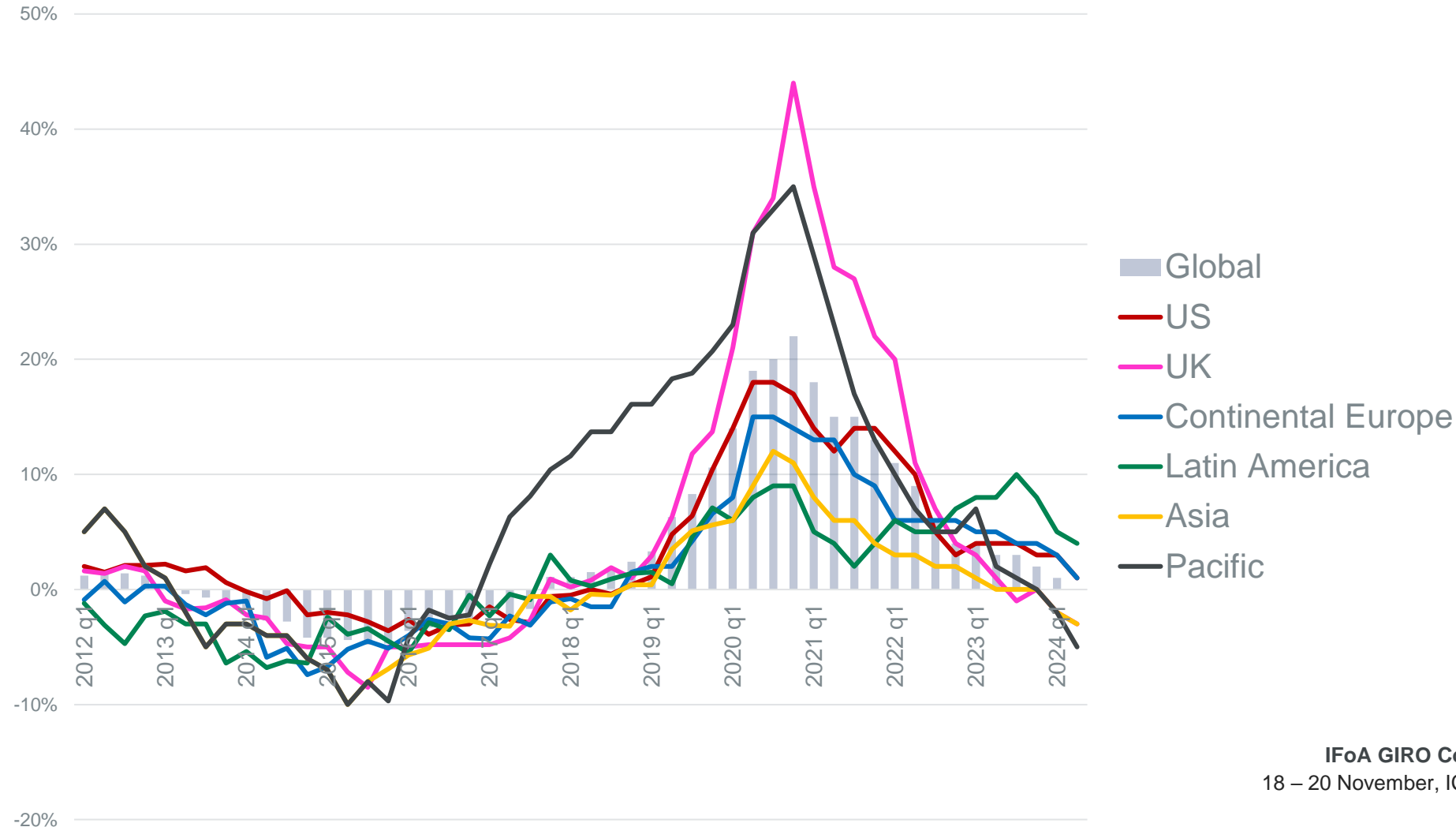
# Global P&C – All downhill from here?



- Global rates flat in Q2 2024
- Q3 global index has turned negative (-1%) for the first time in 27 quarters *(full report not available at time of writing for slides)*
- Risk and trend adjusted rate movements (maybe?)

# Rate Movement by Region

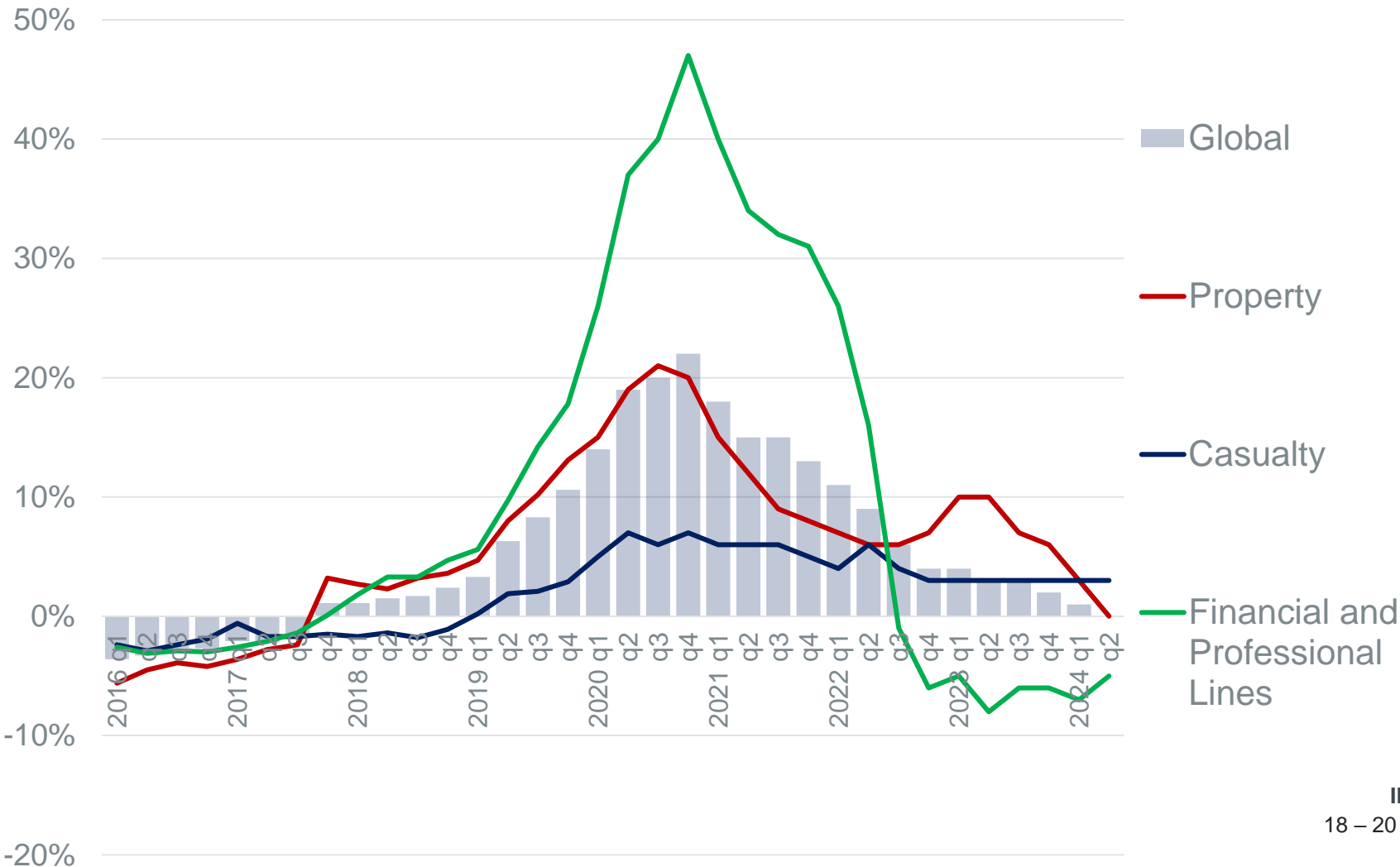
Marsh Global Insurance Market Index



- UK market has seen the most extreme swings, along with Australia
- These markets also leading the charge downwards in 2024
- 2024 an inflection point across all regions; only Lat Am lagging the index

# By Line of Business

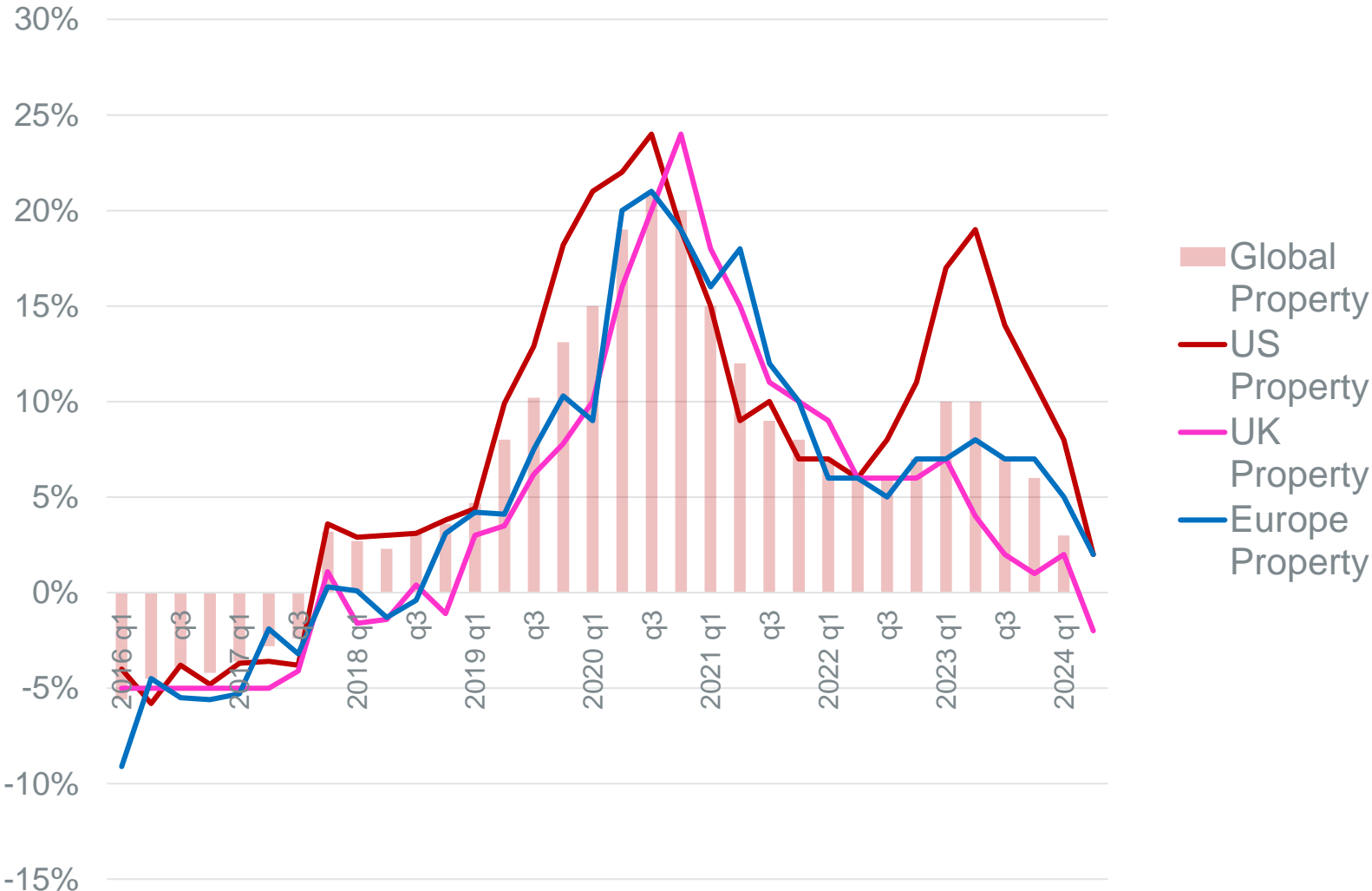
Marsh Global Insurance Market Index



- Financial & Professional lines had an intense peak but have been declining for 2 years
  - Commercial D&O in particular
- In Property, 2017 and 18 were high cat loss years (Harvey / Irma / Maria) after a benign period since KRW in 2005
  - 2011 did have the Tohoku EQ in Japan and Hurricane Irene
- But the reaction was initially muted
- Casualty seems strangely flat by comparison – changing expectations of loss trends?

# Property

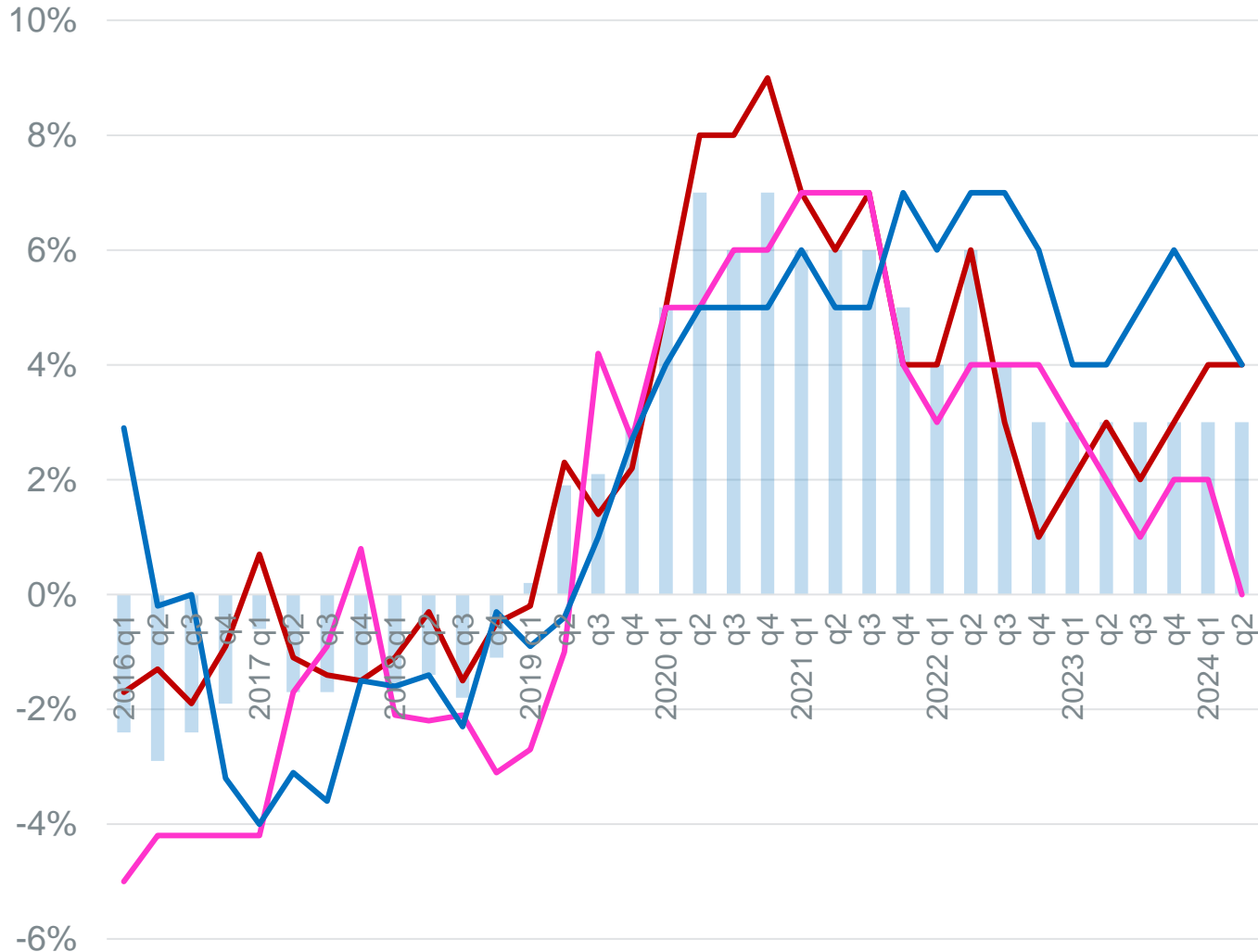
Marsh Global Insurance Market Index



- 2022 was a moderately bad Atlantic hurricane season (mainly Hurricane Ian) and secondary perils were prevalent; this pushed up US pricing
- Otherwise, similar rate movement tracks for all three regions

# Casualty

Marsh Global Insurance Market Index

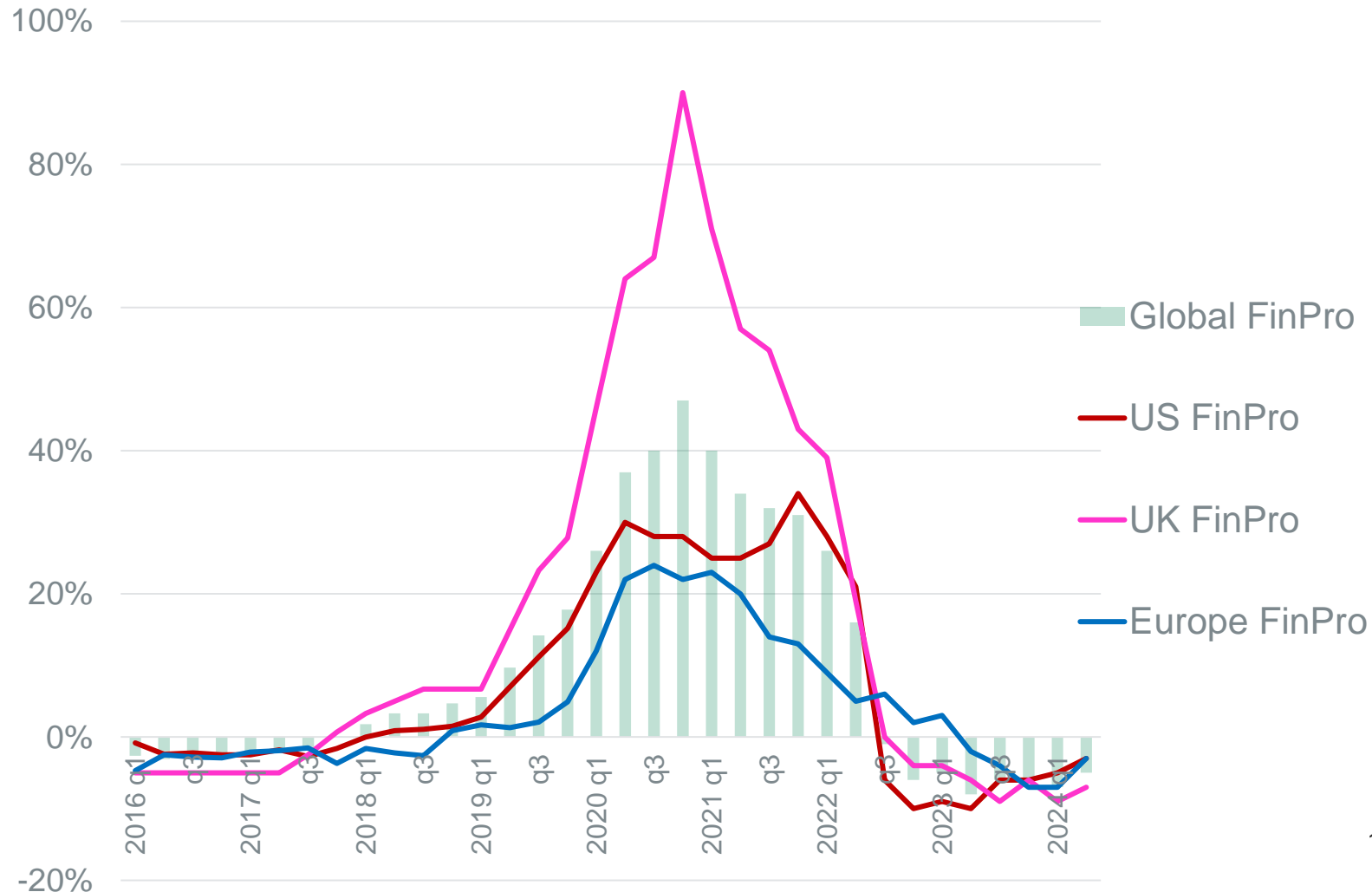


- Global Casualty
- US Casualty
- UK Casualty
- Europe Casualty

- Increases in US Casualty surprisingly muted, given concerns around social inflation, litigation funding etc. in the US
- There is loss trend built into the index, though, and rates are still rising
- Some lines (e.g. workers comp) included herein were profitable in 2016-2019 and these may dampen the overall pricing effect
- COVID effects may have impacted development patterns so picture not yet clear

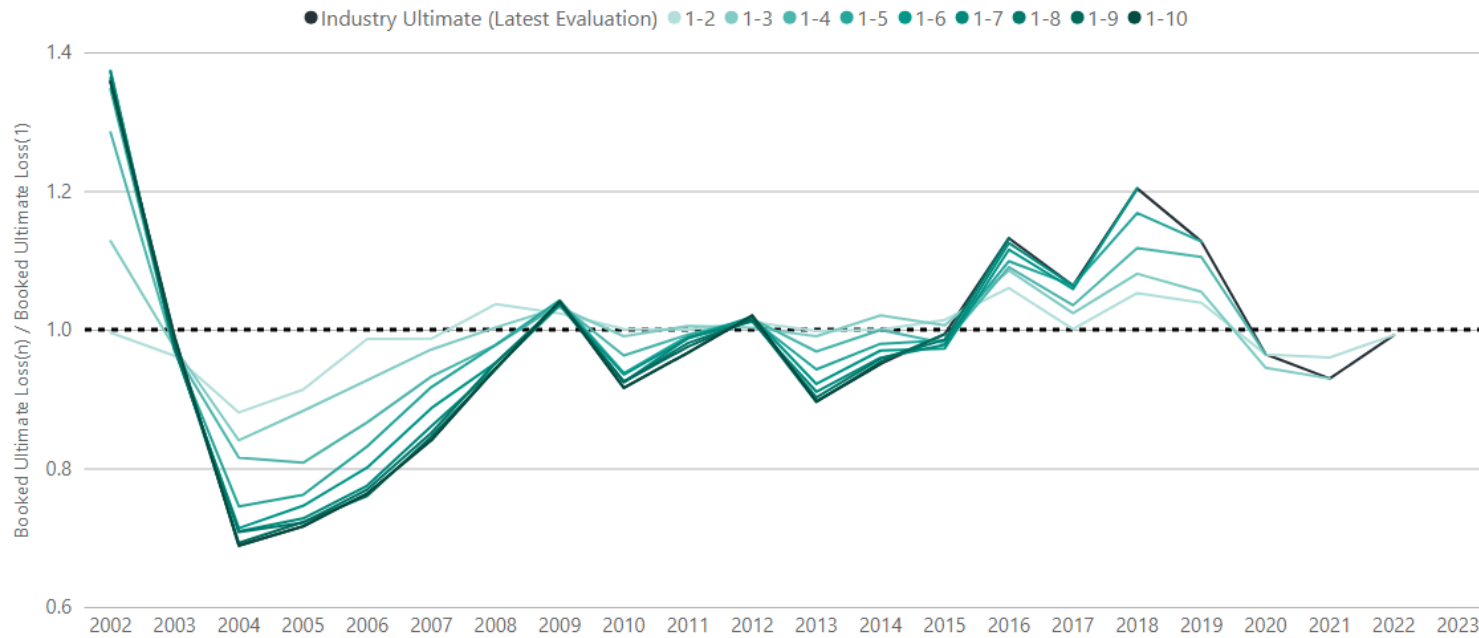
# Financial and Professional Lines

Marsh Global Insurance Market Index



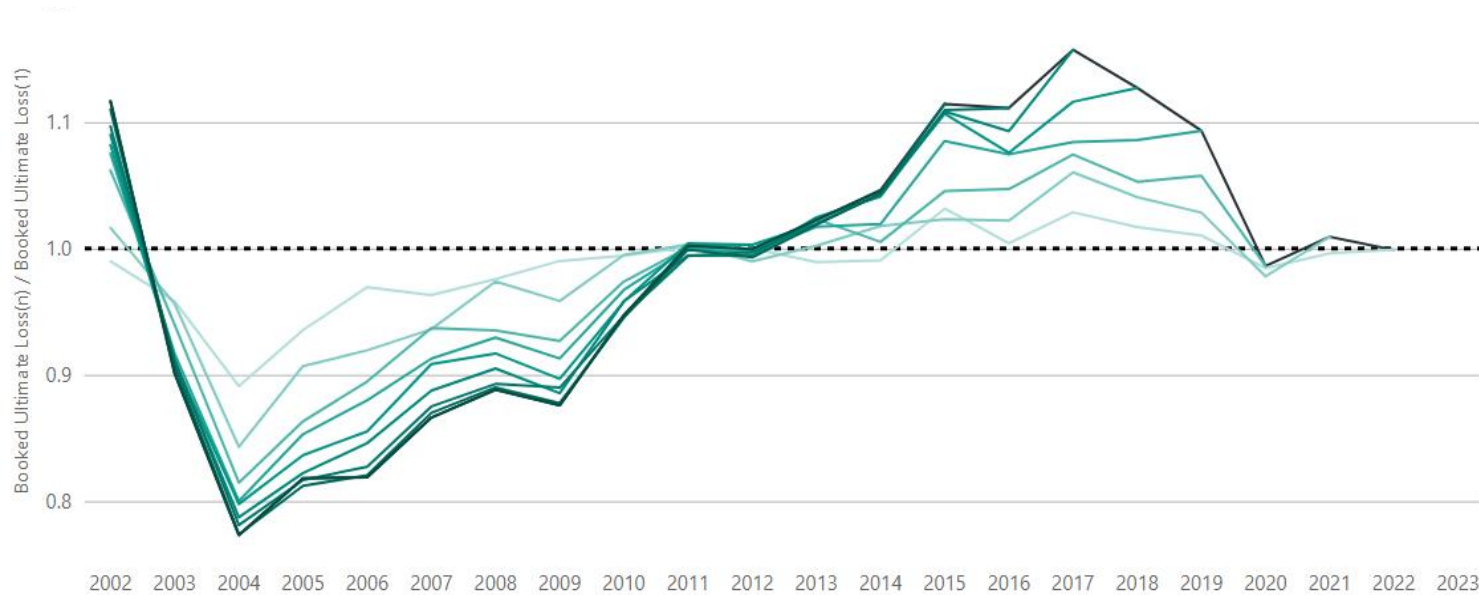
- US D&O was one of the lines that was most clearly underpriced at the tail end of the soft market
- Several withdrawals from the market, notably in Lloyd's sparked by Decile 10 initiative
- Increases in Securities Class Actions and concerns around risks such as ESG, Cyber, COVID exacerbated general inflationary pressures
- Rate increases were fierce but now in reverse – although still very much higher than 2016-19





# Reserving Cycle

Other Liability – Claims Occurrence  
(US Schedule P data, whole industry)



Other Liability – Claims Made  
(US Schedule P data, whole industry)

# Property Cat XL Rates



## ROL Increases Continued at 1 January 2024

### Driven By

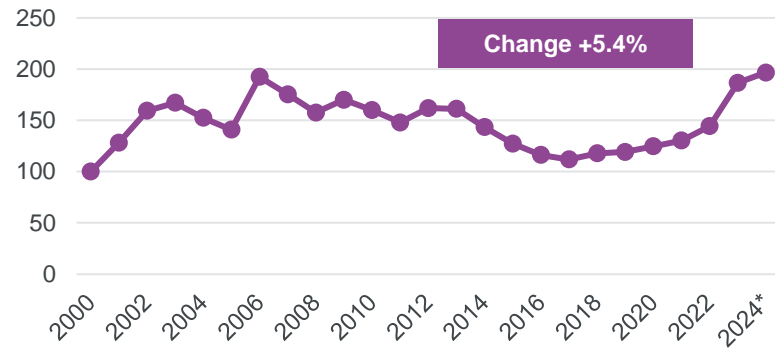
- Loss-impacted programs
- Continued pricing adjustments
- Inflationary impacts
- Structure adjustments and ongoing retention trends on lower attaching layers

Mid-year movements have been broadly flat

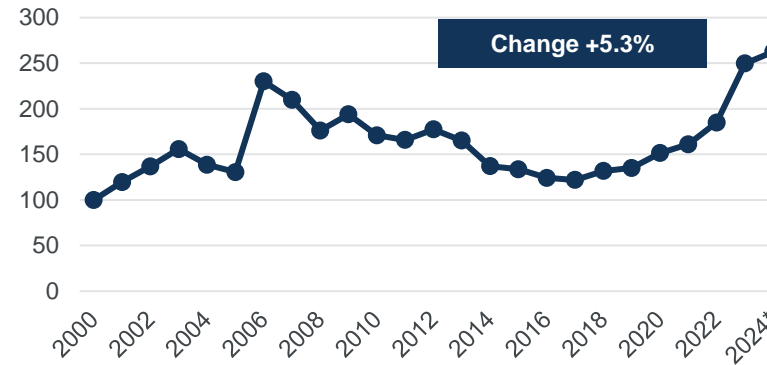
1 January 2025:

- Reductions had been expected before Hurricanes Helene and Milton

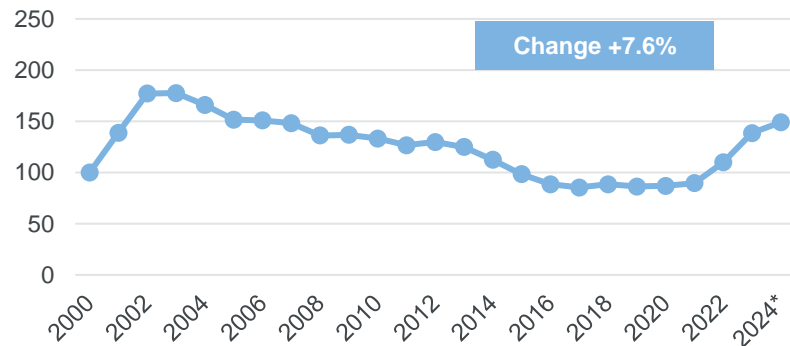
GC Property Cat RoL Index – Global



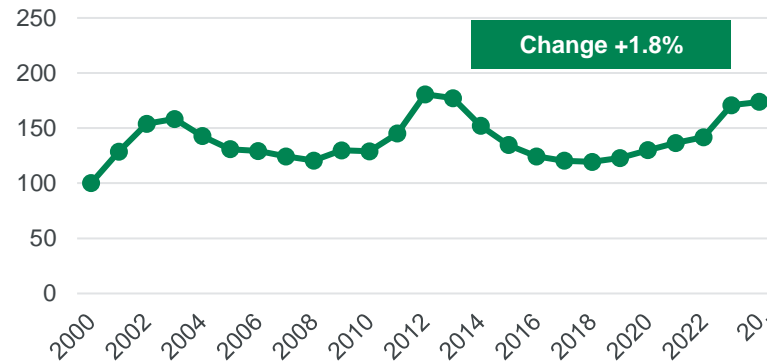
GC Property Cat RoL Index – US



GC Property Cat RoL Index – Europe



GC Property Cat RoL Index – APAC



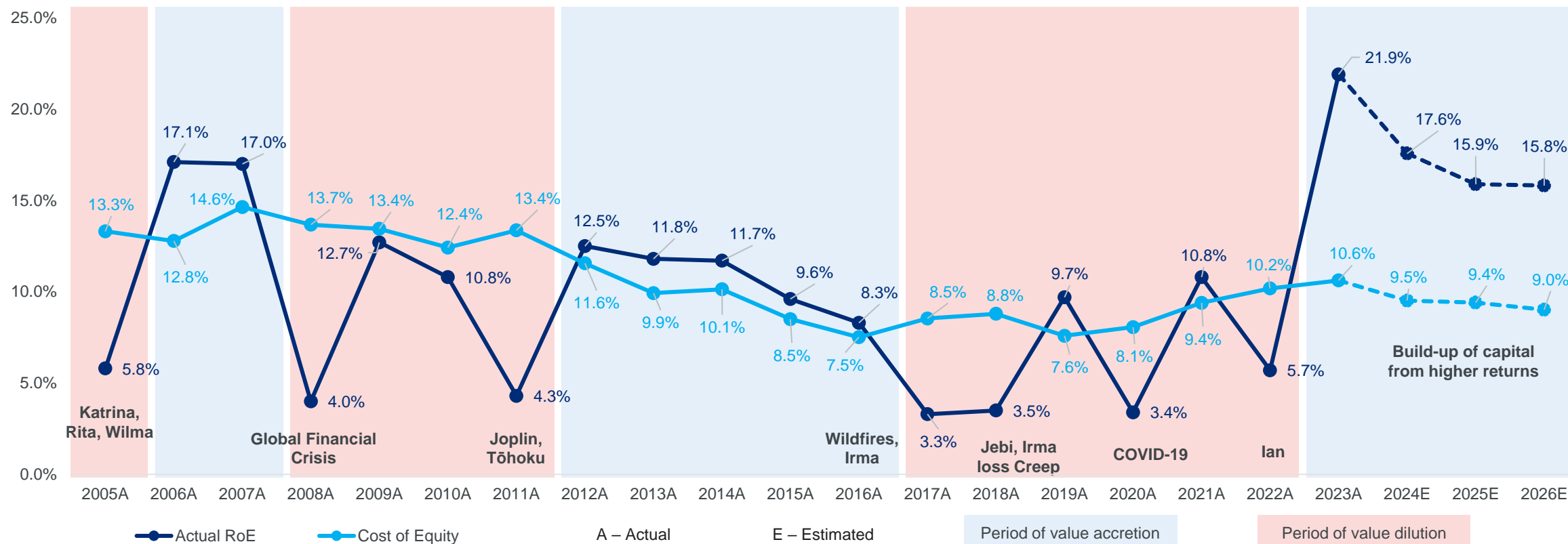
Source: Guy Carpenter

Note: \*Preliminary January analysis, subject to updates; 1. The Guy Carpenter ROL Index is a measure of the change in dollars paid for coverage year-on-year on consistent program base. The index reflects the pricing impact of a growing (or shrinking) exposure base, evolving methods of measuring risks and changes in buying habits, as well as changes in market conditions.



# Reinsurers Achieve Their Best Return Since 2006

Return on Equity vs Cost of Equity



*Hardening rates and tighter terms and conditions have contributed to the market's improved profitability.*

Source: S&P Global, Visible Alpha, Guy Carpenter calculations. 2022A RoE restated from 4.2% to 5.7% reflecting IFRS 17 companies' restatements and the addition of Hamilton and Fidelis to the constituents of the GC reinsurance composite. Note: All calculations are based on the GC Reinsurance Composite; 2024-2026E estimates @ 27 August 2024 and subject to change. The forward-looking estimates of Cost of Equity for 2024-2026E are adjusted to their implied end-2024 values.

# Past hard markets

- Previous view: 5 to 10-year “market cycle”
- **1984-1987 hard market**
- 1992 (post-Andrew “hard market” but focused on Property Cat)
- **2001-2005 hard market**
- KRW in 2005 may have extended hard pricing conditions. 2008 GFC affected some lines but not universal. Otherwise longest “soft market” in observable history.
- **2019-2024 hard market**
- **2025 & Beyond:**
  - *what will this look like*
  - *how should we construct the pricing and portfolio management function to manage the transition?*



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# 2 – The PRG and the Issues Register

Ed Plowman + Zvi Ebert

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# The IFoA GI Pricing Research Group (PRG)

- Established in 2021
- Discussion forum for GI pricing topics
  - Advocacy for the pricing actuarial community and function with the GI Board, the IFoA, the industry, regulators, and other stakeholders
  - Co-ordinate research efforts in the GI pricing space (e.g. establish new WPs)
  - Horizon scanning and monitoring of trends
  - Promote best practice and the skills and capabilities of pricing actuaries as data scientists
  - Produce webinars / articles / education opportunities on topics discussed
- Not a working party, informal membership

# Activities to Address Issues

- Webinars
  - What is the new GLM?
  - Fair's Fair – the Future of Pricing
  - Articles in The Actuary
- New working parties
  - AI / ML for GI Pricing
  - Electric Vehicles
  - (Climate change in pricing?)
- Fairness in pricing
  - Working with IFoA to hopefully engage with DfT Task Force
  - GIRO roundtable session
- Regulation
  - Engaged with FRC on TAS 100/200 and AI regulations



## Political

New Government:

- Manifesto pledge to reduce car insurance costs
- DoT Taskforce

Geopolitical uncertainty:

- Social unrest
- War
- Polarization
- Deglobalization

## Economic

High inflation (and interest rates) and uncertain future course

- Cost of Living Crisis
- Long-tail pricing

Entering a softening market – how to manage the downturn

Market volatility

Risk of recession

## Societal

Fairness in pricing

- Poverty premium
- Ethnicity penalty

Post-COVID societal impacts

Cyber threats – ransomware, war

Customer expectations of service and personalization

## Technological

Use of AI/ML for pricing

- New techniques
- Automation
- Algorithmic U/W
- Big data

Pricing transformation projects

Vehicle technology

- EVs & repair costs
- Self-driving vehicles

Telematics and IoT

## Legal

Social inflation and nuclear verdicts

Litigation funds

Civil Liability Act, Ogden Rate

Confusing signals from past claims development in post-COVID environment

## Environmental

Rise of the secondary peril

Climate litigation and D&O/E&O risk

Green underwriting



# Inflation & Cost

**Fairness &  
Cost of Living  
Crisis**

# Emerging Risk

# Regulation

- Impacts of Price Walking
  - Consumer Duty
  - Future Regulation?
- Cost Control Measures
  - Poverty Premium

# Technology

# Market Cycle

# Inflation & Cost

# Regulation

# Market Cycle



- Climate Change
- Cyber, Digital Assets
  - Intangible Value
- Motor: EV, AV, Telematics
  - IoT
- Prevention and Mitigation

# Emerging Risk

# Technology

# Inflation & Cost

# Regulation

# Market Cycle



AI / Tech  
Impacts on  
Pricing

- What is the new GLM?
- Big Data / IoT / Telematics
- AI / ML actuarial regulation
- AI Regulation and role of pricing actuaries in “policing” models
  - Algorithmic Underwriting
    - Parametric

# Emerging Risk

# Technology

# Inflation & Cost

# Regulation

# Market Cycle



**Future  
Pricing  
Function**

- Skills & Talent Strategy
  - Organisation Design
- UW / Pricing Transformations
  - Integration with Business
    - Embedding Fairness
  - First Line / Second Line
    - Actuarial Regulation
- PFM in a Cycle Transition

# Emerging Risk

# Technology



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# 3 – The Pricing Function: 2025 & Beyond

Zvi Ebert

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# Data & Capability

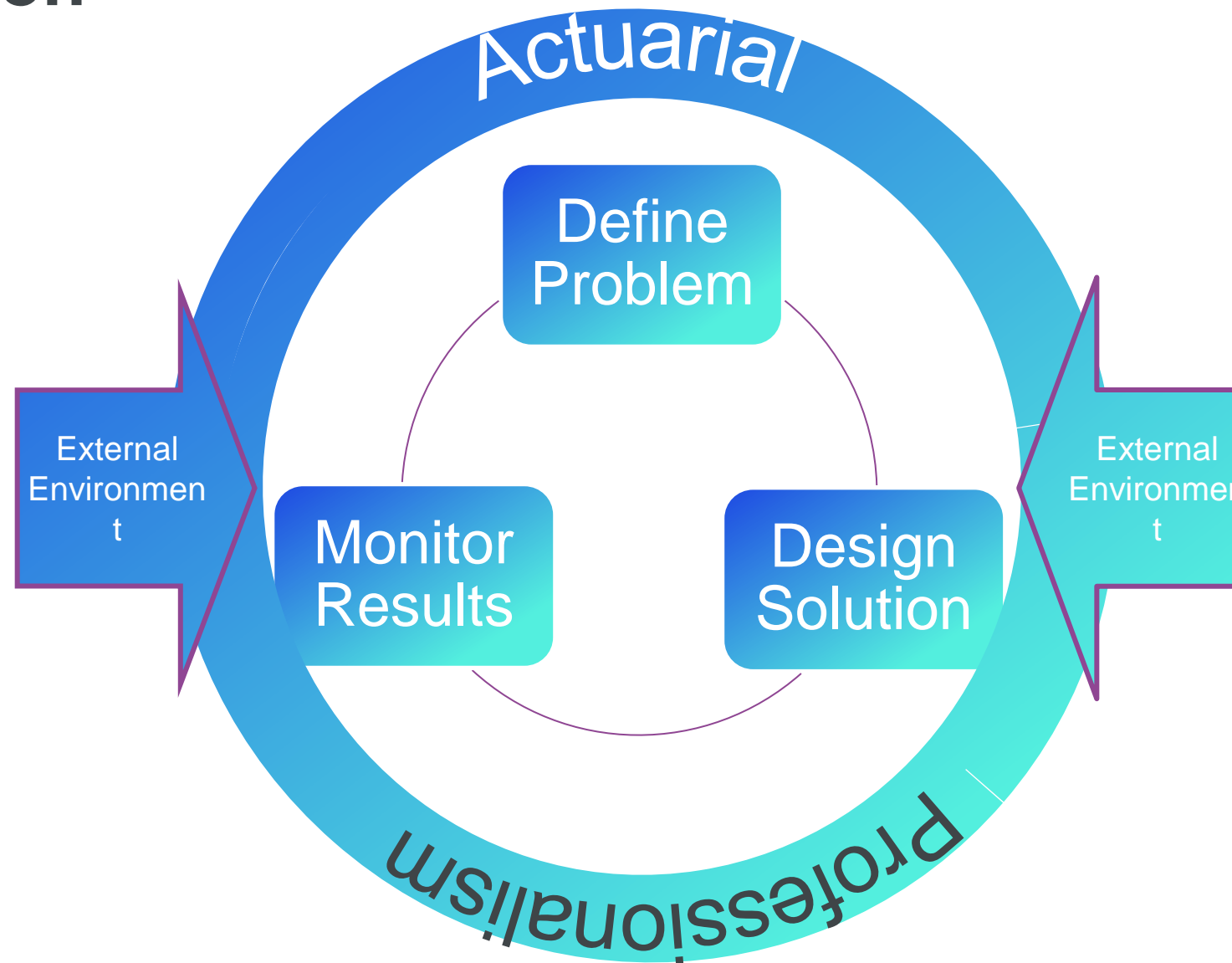
- **Data - Black Gold**
  - Internal
  - Partner
  - External
  - Granularity
  - IoT – Device & Telematics
- **Capability – Engine**
  - On Prem/ Off Prem
  - CPU
  - Machine Power
  - Visualisation

# Changing Customer

- **Retail**
  - Consumer knowledge
  - Consumer journeys
  - Embedded Products
  - Telematics/IoT
  - Claims expectations
- **Commercial**
  - Customer journey/expectation
  - Flexible Risk Appetite
  - Ways of working
  - New needs

# Traditional pricing function

- Previously problems could be contextualised using a typical actuarial control cycle
- Many pricing teams are set up to resolve, implement and monitor the risk (and sometimes street/GTM) premiums.

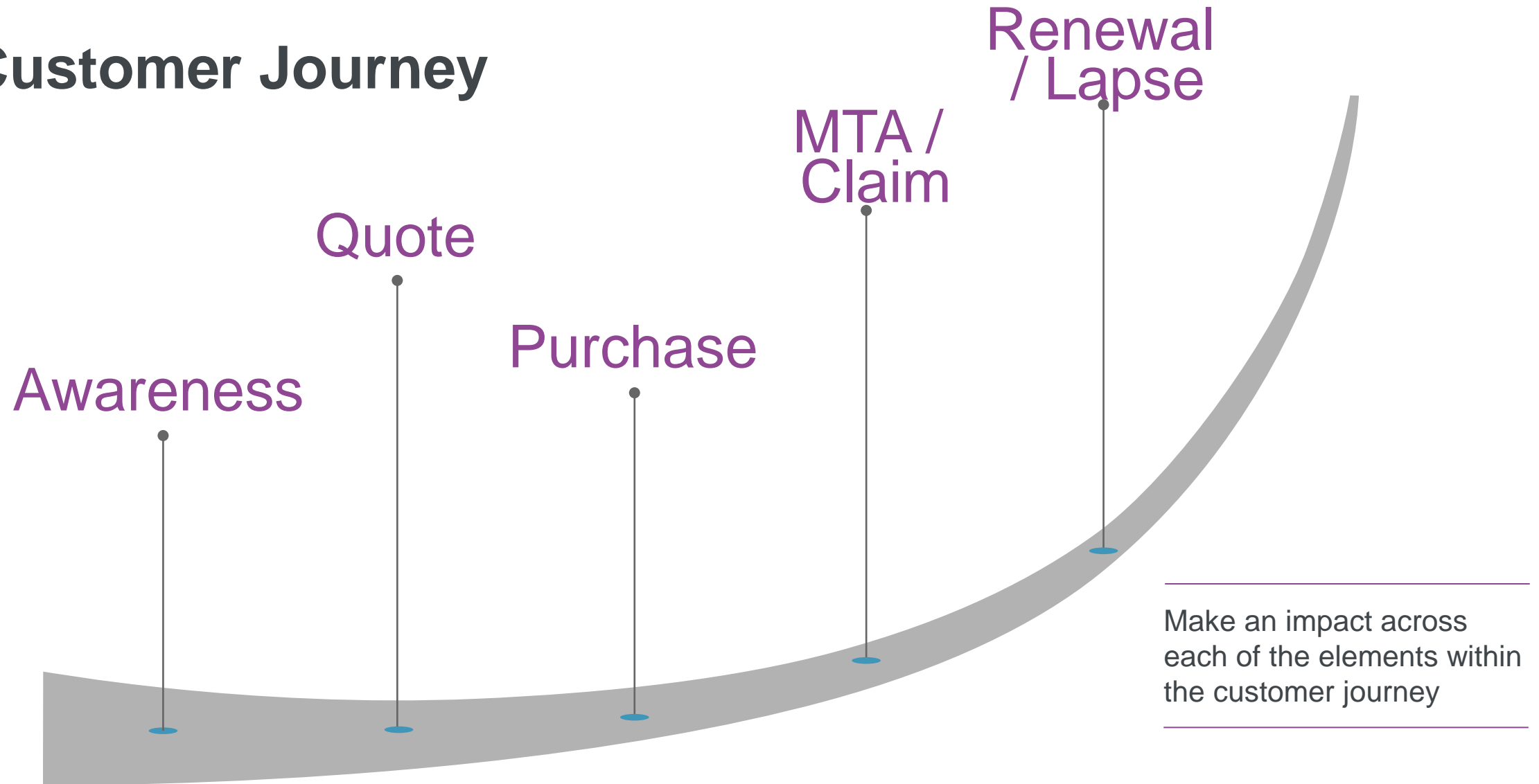


# The integrated pricing function

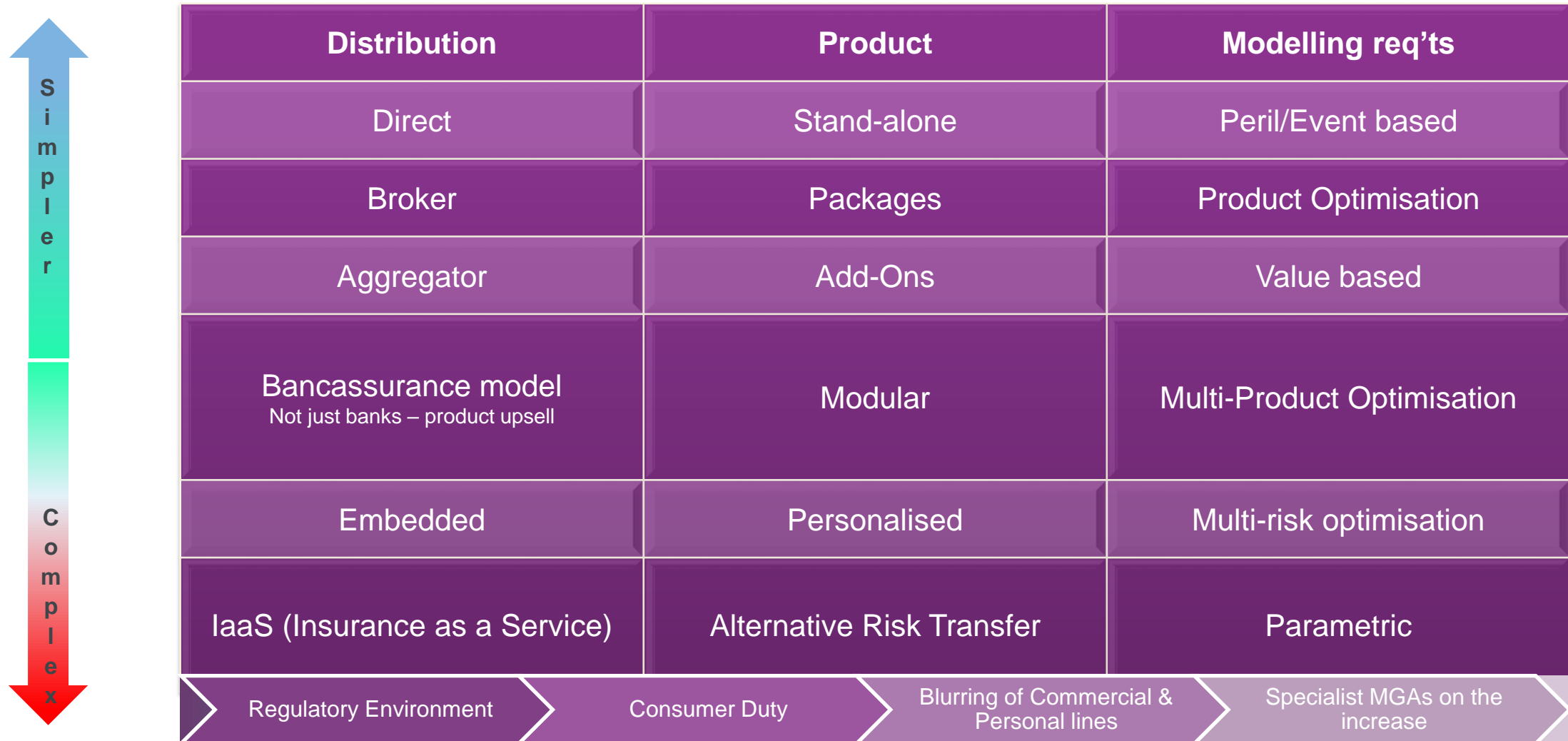
- Today's pricing team is looking at a problem statement which encompasses the complete insurance processing journey
- The pricing cycle of information
- Internal data sources, KPIs and dependencies
- Capability & Support Environment



# Customer Journey

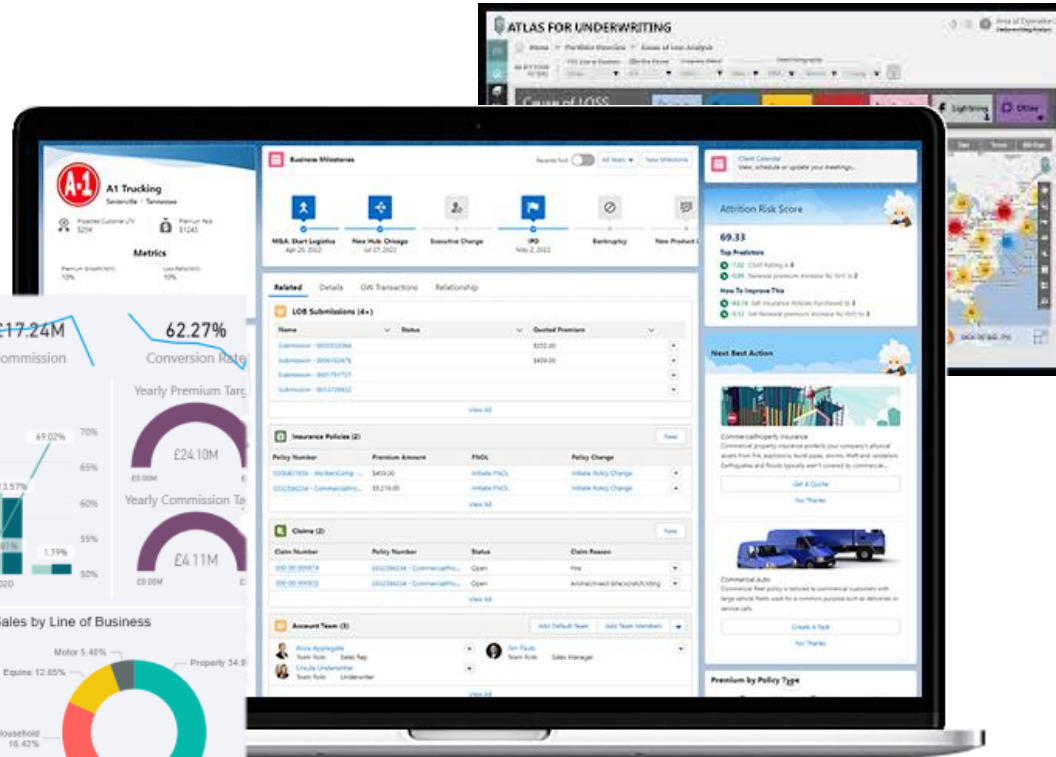


# Price Modelling requirements



# Direct Actionable Insight

Actuarial input is now more than just pricing and reserving



Trading Platforms

Portfolio Strategy

U/W Workbench

Personal Lines

SME

Commercial

Lines

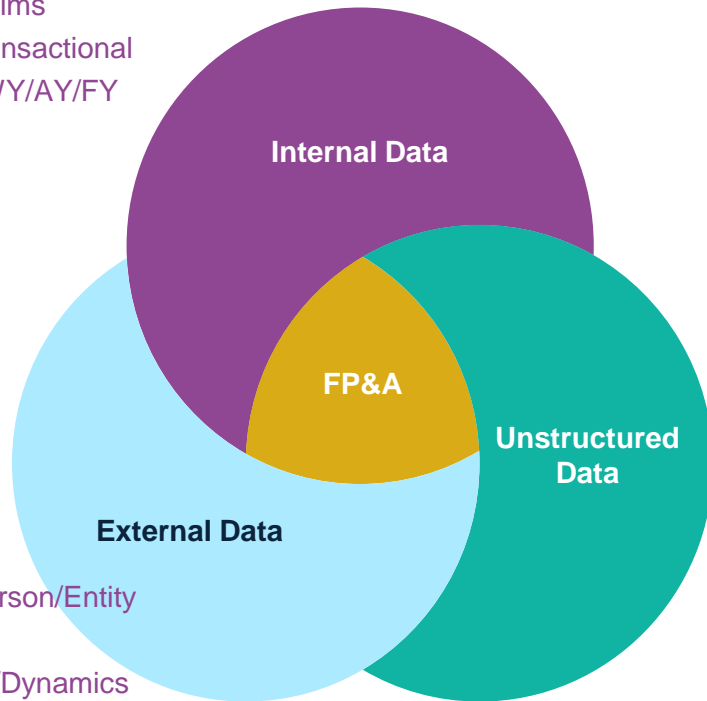
Large Corp

London Market



# Winning the argument on data

- Policy & Characteristics
- Claims
- Transactional
- UWY/AY/FY

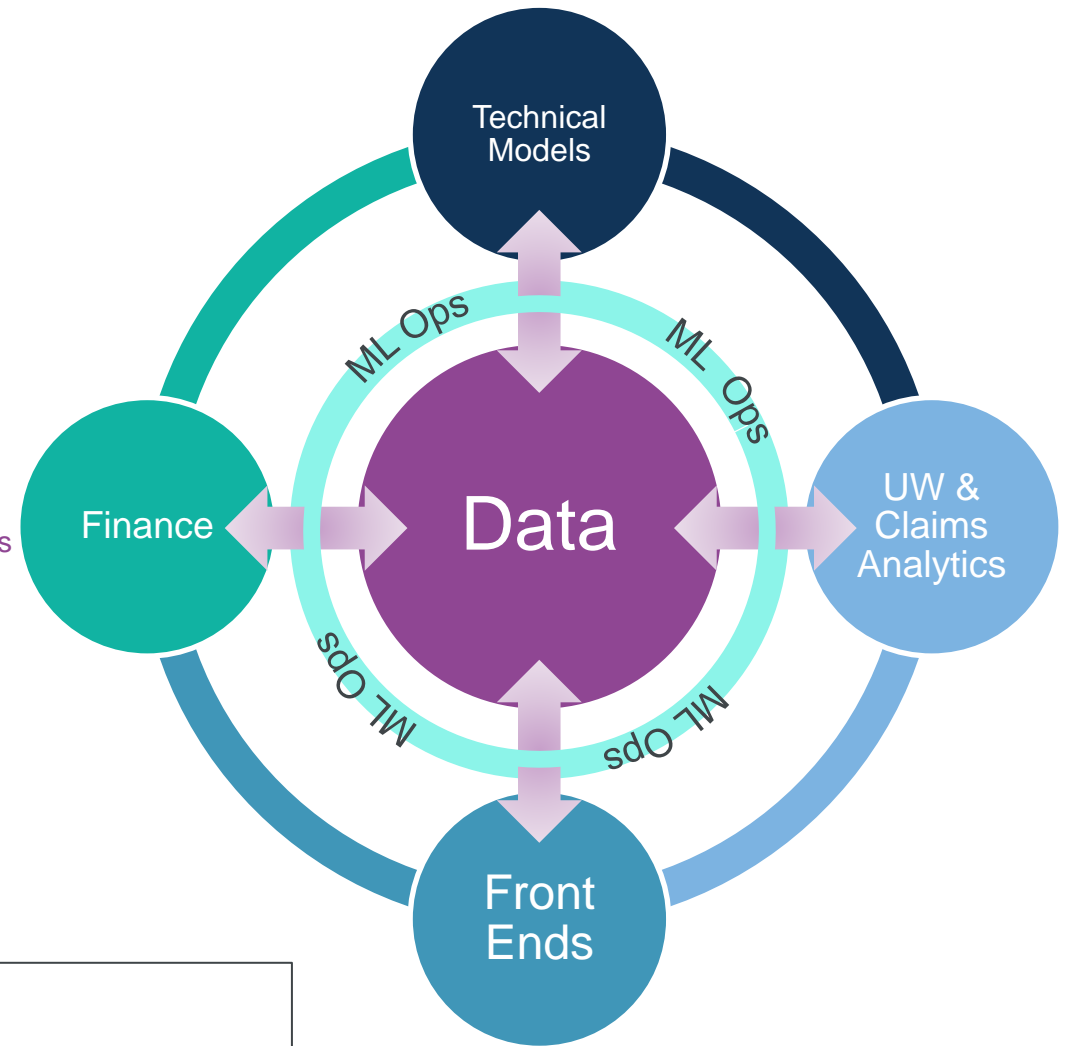


- Policy wordings
- Claims details
- Customer calls and comms

- Company/Person/Entity
- Financial
- Market Price/Dynamics

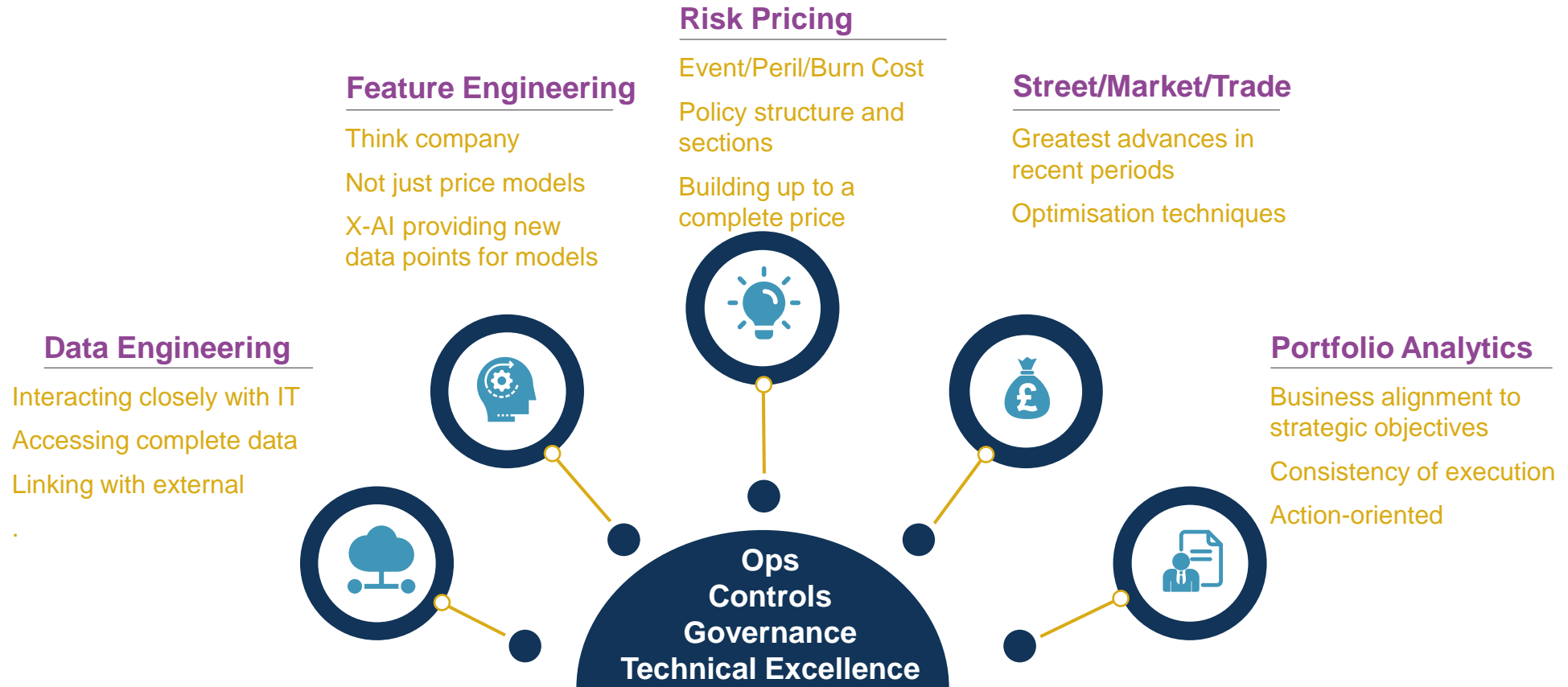
## Business Case

- 'Always on' policies – **customer centric?**
- Integrated data with modelling capability - **efficient**
- Data centric decision making – **empower employees through Self Service functionality**
- Not cheaper but **better**
- **Versatile** and resistant to future
- **Product innovation** and new insurance solutions – no problem!
- Continuous modelling infrastructure without huge processing **requirements – faster**
- Increased **oversight** and **control**
- **KPIs**
  - **increase GWP**
  - **decrease LR**
  - **upsell/cross-sell**
  - **increase conversion**
  - **decrease capex**



# Roles & Responsibilities

Setting up a pricing team for success in the modern world





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# 4 – Wrap Up / Questions

James Anderson, Zvi Ebert, Mohammad Khan, Ed Plowman, James Rakow

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“Interesting Times”

Sunlit Uplands

Tremendous Opportunity

Significant Threats

Dystopian Hellscape