



Institute
and Faculty
of Actuaries

IFoA GIRO Conference 2024

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Art, science and process – creating the right blend to drive excellence in pricing

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IFoA GIRO Conference 2024

Introductions

Steve

- PhD in Applied Maths and Stats
- Qualified as an Actuary at CIS
- Head of Pricing then P&UW and then bits of product and marketing and Life at L&G
- Responsible for analytics across Swinton Group
- 5+ years at WTW working with firms specialising in PPCU for PL

James

- Maths & Philosophy
- (Also) qualified at CIS
- Various actuarial and general management roles at Co-op
- 5 years at KPMG in actuarial consulting practice
- Now CUO at Allianz Personal

What we are here for

Our thesis in a nutshell:

We need to do the right things, in the right way with curiosity and self-challenge (and we're not doing enough to embed these ways of working in our teams)

To succeed, pricing professionals need to:

- Understand end-to-end processes
- Think about the relationship of own responsibilities with wider business
- Understand (properly) underlying risk
- Drive continuous improvement – make next time better than last time
- Challenge each other to thrive
- Play to our strengths
- Have fun

The “good old days”

- Tallest office block in Europe when built
- Free lunch, ‘officials’ dining room’
- Get promoted to be allowed arms on chair, waste bin, office, art on wall
- Submit code by 2pm to run overnight and then get printed log
- A top 10 insurer
- A combined actuarial function – involved in pricing, reserving (year-end), nascent thinking on risk and capital, forecasting and strategy, reinsurance, ‘trading’, analysis for underwriting and claims



Clock in and out 6.92 hours a day to allow time to wash hands



FLEX-TIME READY RECKONER Page 1 of 1

FLEX-TIME READY RECKONER

	WEEK 1	WEEK 2	WEEK 3	WEEK 4
Monday	6.82	41.52	76.12	110.72
Tuesday	13.64	83.04	151.24	185.84
Wednesday	20.46	124.56	227.36	271.68
Thursday	27.28	166.08	303.48	347.80
Friday	34.10	207.60	389.58	435.80

MINUTES EXPRESSED AS 1/100TH OF AN HOUR

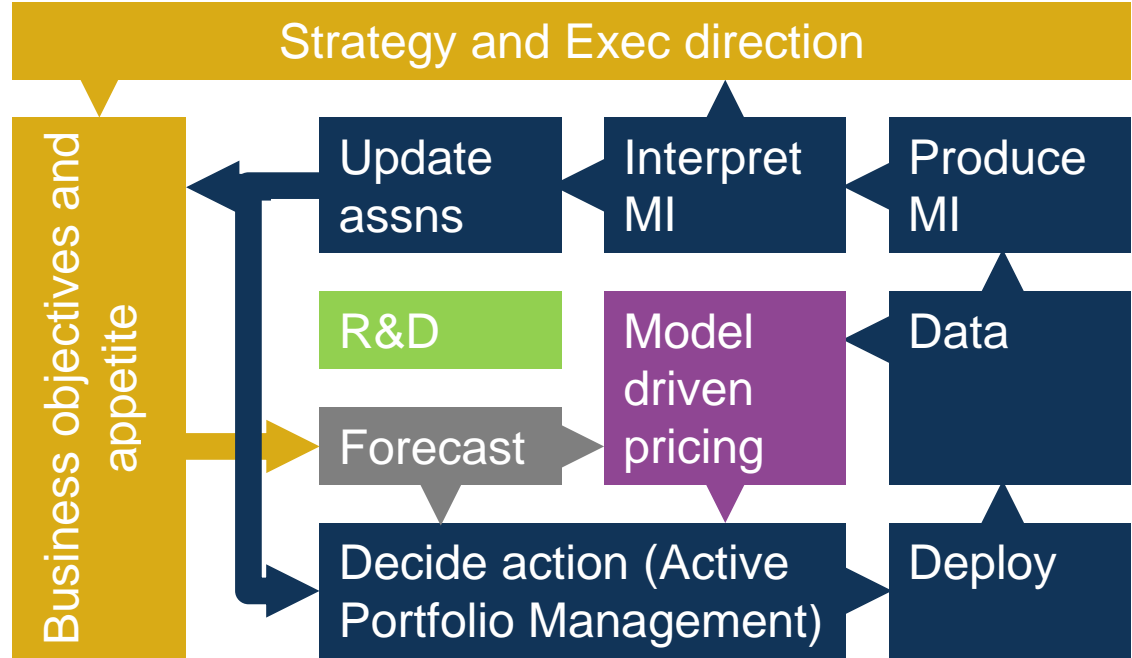
Minutes	1/100	Minutes	1/100	Minutes	1/100
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20	20	40	40	60	60



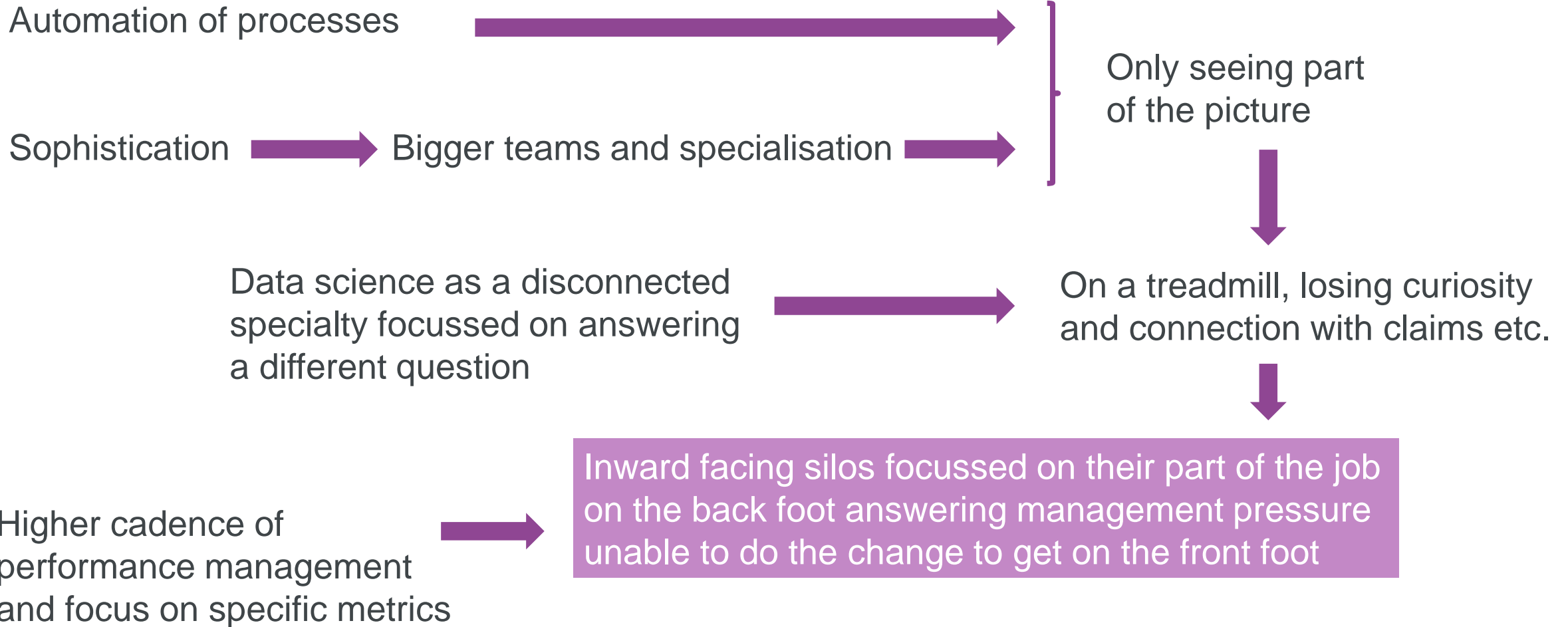
Memos sent round building by a little ‘train’ rather than *N* emails a day

The “good old days”

- The best thing was that we did everything – generally not as detailed as today but all the components were there
 - Modelling, TCR, (R/r)eserving
 - Claims (Stephen Roberts) – horizon scanning, insight, operational
 - Underwriting (Derek Wood)
 - Journey / Product (Gideon Ingham)
 - Expenses – ABC
 - RI – accumulation, purchase, projection, allocation
 - Planning, forecasting and strategy
- For smaller classes trainees got to do it all end-to-end twice in a week!

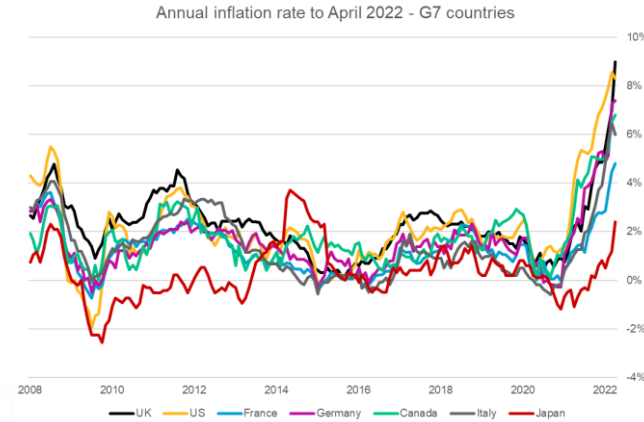


How it all went wrong (generally)



Some recent examples

- With the recent inflation boom, firms waited for proof and it was into 2022 before large scale reserving or pricing action was taken
- Even when it was in the popular press in summer 2021
- Colleagues knew but no-one acted – why?
- Most firms have put in place inflation committees or equivalent to get claims, actuaries, pricing and underwriting talking – ok for the large scale but what about smaller or more granular events?



Why the banger on your drive is suddenly worth a lot more

14 July 2021 · Comments

economy unloc

Second-hand car prices surge amid new car shortage

14 July 2021 · Comments

Second-hand car prices rose between May and recent years, they have fallen between these n

22 October 2021 · Comments

Some buyers were reported to have turned to the used car market as a result of delays in the supply of new cars caused by the shortage of semiconductor chips used in their production.

Some recent examples

Data science has brought lots of positives

- Challenging ways of doing things
- Automation
- Separation of duties
- Non-insurance insights

But

- Not always answering the 'right' question
- So overfitting to past and lack of stability
- Increased silos
- Reduction in use of underwriting nous

We've seen a reaction where:

- Bringing back closer to business functions and expertise
- Thinking about question to ask
- And impact of the answer on real outcomes

The start of addressing some of the issues we're talking about

Some recent examples

- Uncertainty in the claims environment – headline of falling frequency – why?
 - ADAS, EVs, new technology, 20mph limits, LTNs, speed limit compliance, lower density traffic conditions
 - The best teams know why
- Speed of claims settlement changing, which has implications for Credit Hire costs
- Changes in claim size distribution, e.g. household wet perils, which may provide insight into changing nature and inflation

- The best teams speak across the organisation to know why, manage the residual uncertainty and move beyond the headlines to capture granular differences that are actionable in pricing:

WTW's claims benchmarking shows wide ranges of claims inflation at regional and vehicle levels. For example, Vehicle Theft Inflation Southwest 8.9% vs London -9.5%, or BMW 11.8% vs Land Rover -9.5%

An Allianz perspective... our lessons from recent history

- **Multiple pressures** impacting Allianz UK's Personal Lines business **exposing challenges in pricing and underwriting** capabilities
 - **Market-wide** factors: Post-Covid “normalisation”, supply-chain disruption, inflation, shifting customer behaviour, Pricing Practices reform, NatCat losses
 - Exacerbated by **Allianz UK specific** factors: competing priorities, reduced emphasis on technical pricing; disconnected pricing & underwriting processes; MI & data challenges
- UK Personal **Operating Profit** falling from £160m in 2021 to £(60)m in 2023
 - Combined Operating Ratio for major portfolios all > 100%

An Allianz perspective... what did we do?

Established two main streams of activity – **near-term** portfolio remediation; **long-term** transformation of Pricing & Underwriting

In the near-term...

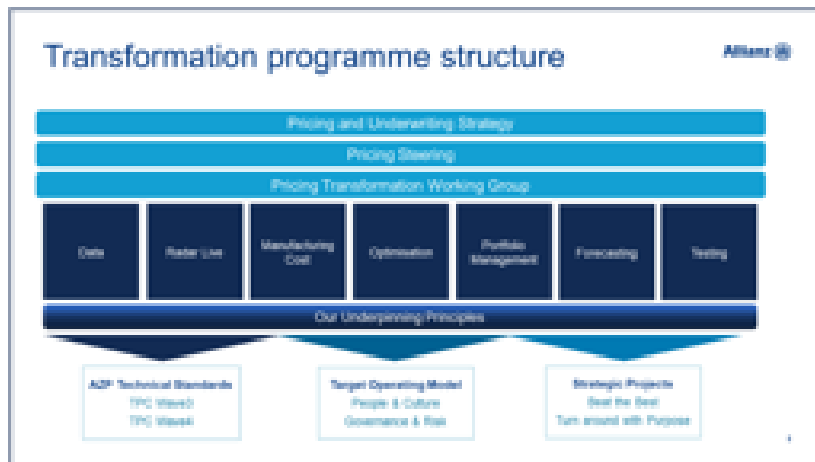
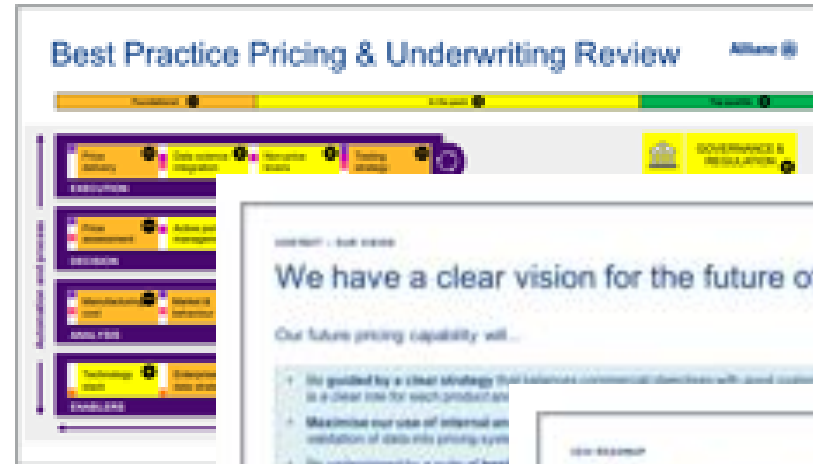
- Material **action on rate** and data-driven **underwriting action**
- Strengthening **technical pricing** and **portfolio management** key to execution
- New **risk models**, improved **price optimisation**, improved **MI and controls**
- > 600 Pricing & Underwriting changes in 9 months

Getting ready for the long-term...

- Review of end-to-end pricing & underwriting process
- Development of **vision for the future** – “how do we do things around here”
- **Priority areas identified** based on impact and gap to best practice
- Establish roadmap; regular drum-beat of delivery

An Allianz perspective... organising ourselves for success

- Priority workstreams focused on
 - Manufacturing cost
 - Portfolio management
 - Optimisation
 - Technology
 - Supporting our people



An Allianz perspective... delivering successfully

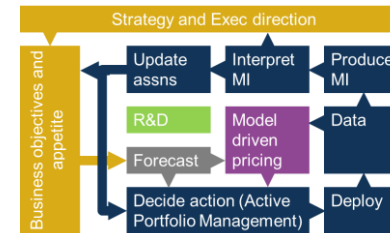
- We're driving our transformation with a clear focus on our **end to end processes** to avoid building in silos
 - Prioritising “how” things are done, not just “what” things are done – addressing **ways of working** is a specific workstream
 - Engaging more broadly than “just” pricing & underwriting also key
- Maintaining **colleague engagement** is vital ... and can be difficult when addressing historical weaknesses
- Dealing with **competing priorities** is difficult! Keep focus on the things that have the biggest impact and **be prepared to make unpopular decisions**
- Key challenge in **resourcing transformation** whilst delivering “the day job” ... we've made the deliberate decision to not ring-fence resource which creates risk
- **Demonstrating pace**, whilst taking the time to “get it right”. Having a regular “drumbeat” of delivery is key

Suggested approach – have cake and eat cake

- Start with a vision, that can be expressed on a page or in a quick conversation, that all know – to build a shared endeavour
- Share clear responsibilities for each team with defined inputs and outputs
- Balance specialism and breadth – segmentation of teams helps, but be flexible and standardise approaches to enable movement
- Create ‘champions’
- Invest in knowledge of underlying risk and business – underwriters, claims experts, call listening, reading policy wording
- Run cross-function engagement sessions at all levels with colleague rotation for relationships as well as own knowledge
- Colocation to extent possible nowadays
- Play to strengths! Allocate people where they operate to their best and invest in personal development to support needs
- Recruit well for curiosity, passion, mix of people

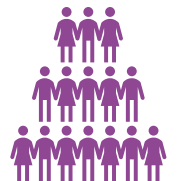
Over to you...

- Hopefully you agree with our hypothesis on the market problem ...
- ... and that there is a lot of value in addressing the challenges we've outlined
- You've heard (one way) of tackling the issues
- And we hope you all think unlocking the value creates a more fun place to work, delivers more opportunities to develop, and gives the platform for the next generation of pricing professionals
- Tell us what you think!



A focus on **manufacturing cost insight** and the **APM cycle**

With the diverse range of skills working together effectively as a 'combined technical function'



Having fun!

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.