

Personal Lines Pricing Strategies

CAS Ratemaking & Predictive Modeling Seminar

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Ground Rules

- This session will be a panel discussion
- Audience participation is highly encouraged
- Slides are intended to stimulate and guide conversation
- Topics include but not limited to:
 - Historical discussion, how did we get here?
 - Pricing and economic strategies for Personal Lines
 - Next Big Thing in Personal Lines

Evolution of Personal Lines Pricing

Univariate

- Actuarial rate relativites
- Heuristics based in “Common Knowledge”
- Reactionary to environmental changes

Multivariate

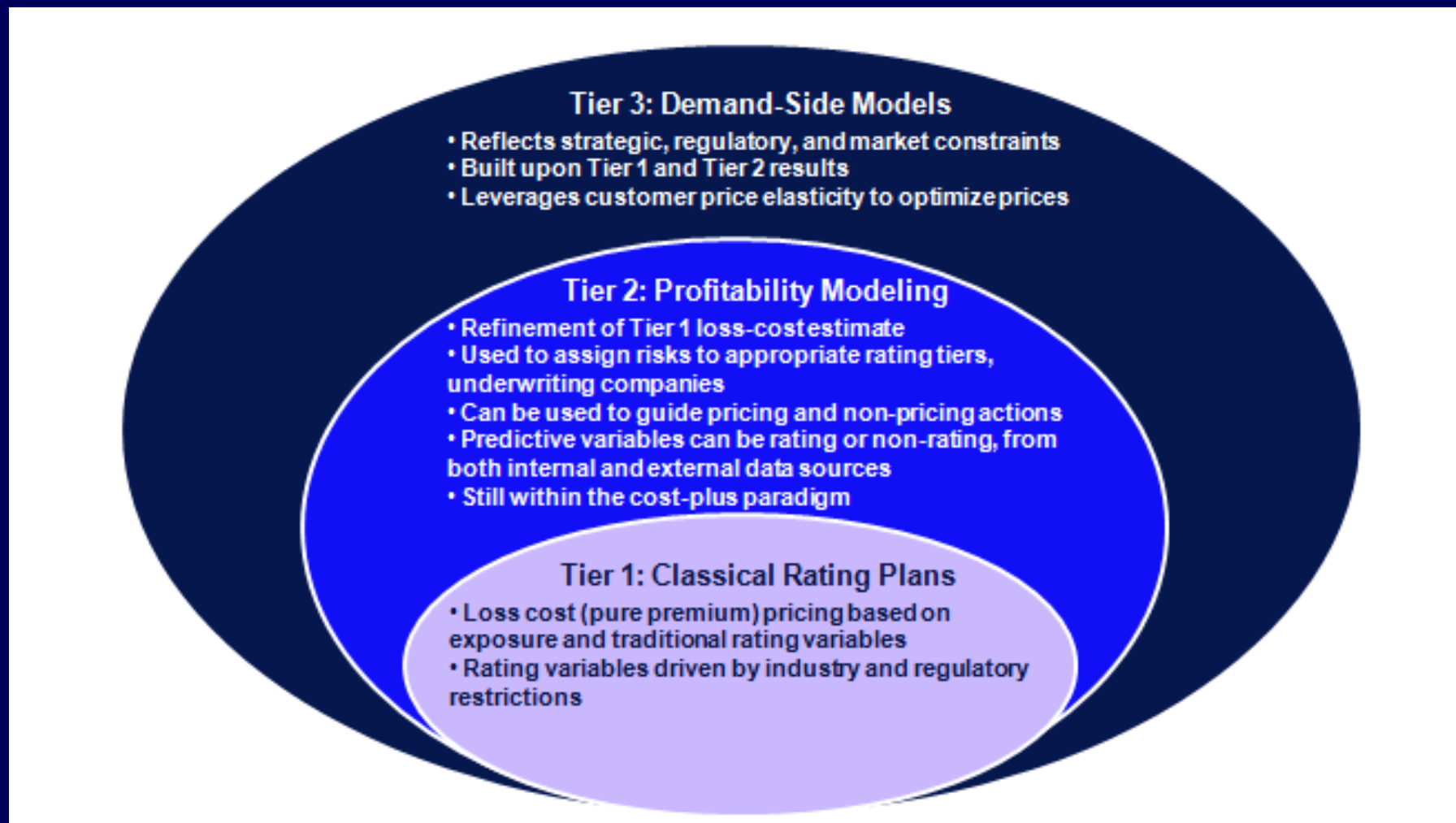
- Integration of minimum bias/GLM methods
- Predictive Modeling
- Linear and non-linear concepts
- Introduction of “new” variables

Advanced

- Beyond GLM techniques
- Quantification of demand
- Use of portfolio optimization methodologies
- Sequenced models combining non-parametric methods with more traditional methods

The Three Levels of Pricing Excellence

The evolution of personal lines pricing may be viewed as three tiers of development. Much of the pricing work falls within one of these categories.

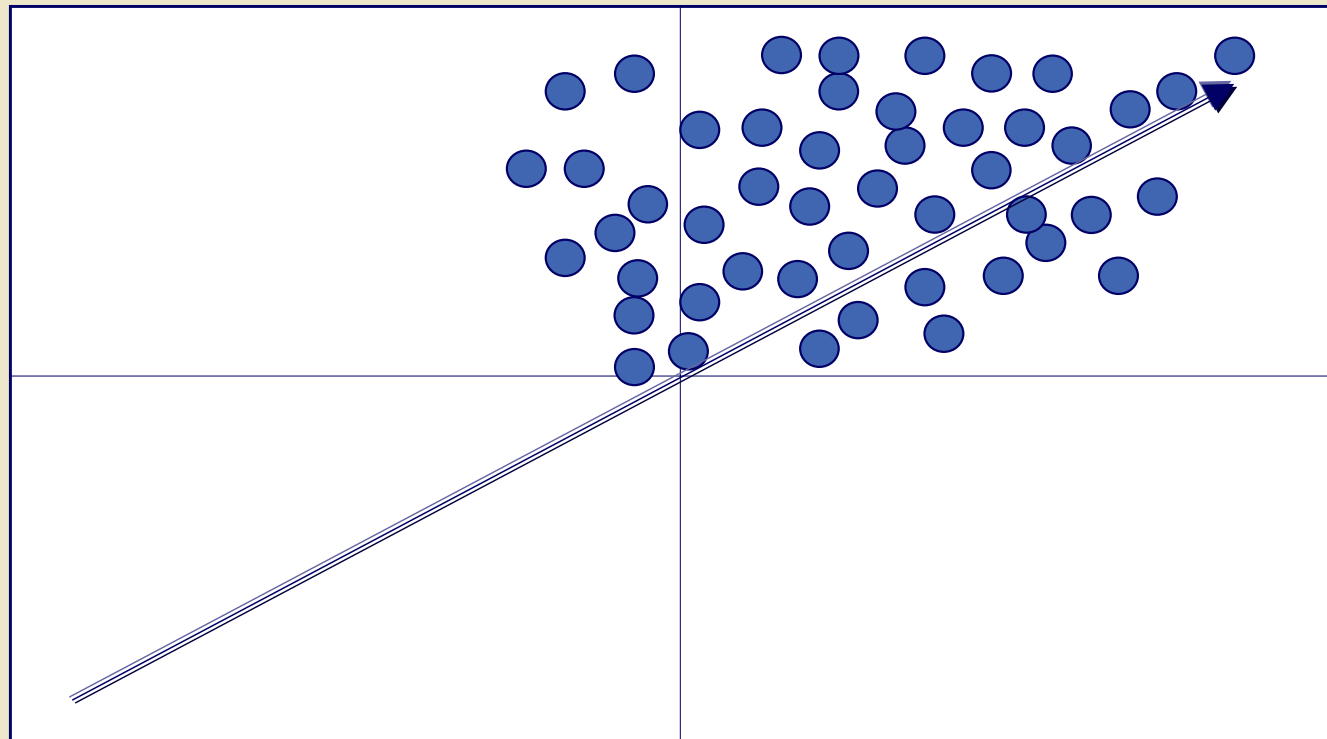


Predictive Modeling Market Penetration

The use of multivariate analysis for personal line business underwriting is no longer a competitive advantage but has become table stakes to achieve profitability, contain expenses and maintain competitive positioning.

Companies with Predictive Modeling Underwriting Initiatives

Personal insurance financial benefits being achieved through implementation



Low: single line,
few variables and
data sources

Model deployment

High: multiple lines,
new and renew,
many variables and
data sources

Personal Auto versus Homeowners

Different lines of business applying statistical techniques in different ways

Auto

- Heavily commoditized / modeled
- Credit well embedded, still lingering issues
- What is the next big thing?

Home

- Less predictive modeling
- Overall results under higher pressure
- Geographically isolated issues (i.e., Florida)

“Next Big Thing”

Non-Credit Responsibility

- ISO RAPA
- Non-FCRA regulated information
- Marketing / behavioral data

Geographic Information

- Don't write “the house at the bottom of the hill”
- Better/refined understanding of territory, elevation
- Computationally intensive

Pay As You Go

- Will it get beyond pilot programs?
- Public/Private partnerships?
- Opportunities with Small Commercial?
- Premium Poaching?

Consumer Behavior

- Behavioral models for price sensitivity (e.g., retention)
- Cross selling opportunities
- Gen X, Gen Y, Gen ‘We’
- Alternative Channels

Changes the Channel?

- What will happen to the independent agency channel?
- Can the internet finally deliver on the promise of easy quoting?
- Will younger customers demand online quoting and pricing?
- How will competitive rating software adapt to a more online world?

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