

# Why do Demographics Matter?

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## **Casualty Actuarial Society – Spring 2009 Meeting**

Brian M. Stoll, FCAS, ARM

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## Why do demographics matter?

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- ❖ **What demographics are shifting?**
- ❖ **Do demographic shifts matter?**
- ❖ **Range of implications of key demographic shifts**
- ❖ **Why do demographics matter more for insurance now?**

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# Demographics are shifting across multiple dimensions – the only constant is change

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- Generations of consumers/workers/customers
  - Silent generation (1925-1945)
    - “Depression babies”/soldiers/hardworking/opportunistic/dutiful conformists
  - Baby boomers (1946-1964)
    - Redefinition of traditional values/globally connected/less tied to formal religion/goal oriented/socially conscious
  - Generation X (1965-1979)
    - “Me Generation”/culturally astute/highly educated/independent/work-life balance
  - Generation Y (1980-2000)
    - “Trophy Kids”/“First digitals”/family-centric/attention-craving/achievement and team oriented
  - Generation Z (2001-Present)
    - “Digital natives”/structured/active consumers/strong social conscience/work ethic

*Source - Wikipedia*

# Demographics are shifting across multiple dimensions – change is constant

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- Territory/geography
  - Shift to coastal population
  - Urban/suburban/rural mix shifts
- Business mix
  - Shift to service economy
  - Global economy
  - Redefinition of the small business/entrepreneurs
- Personal lines implications
  - Shift in age and type of vehicles
  - Your home is your castle
- Socioeconomic shifts
  - Education
  - Ethnicity
  - Religion/family values
  - Importance of community service

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## Rating plan/exposure impacts

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- Personal Lines auto and home
  - Age, sex, marital status, territory, MY and symbol
- Workers' Compensation
  - Payroll, class, hazard code/state and territory
- Standard Commercial Lines
  - Business mix, class, territory, MY and symbol, etc.
- Specialty Commercial Lines
  - Market cap, assets, revenues, number of employees, part timers, business mix
- Reinsurance

## Competitive impacts – How does who react?

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- Market leaders and followers
  - Pricing sophistication
  - Product sophistication
  - Service delivery
  - Expense management
- Ongoing market trends
  - Consolidation
  - Niche players
  - Global players
  - Shifting perspective on investments/financial crisis



## Buyer behavior – Prize optimization

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- Distribution selection
  - Deeper/variable impact with different age/other demographics
  - Agent and direct buyers
- Shopping behavior
- Coverage/product sensitivity
- Price sensitivity
- Limit/retention mix
- Marketing/sales
  - New business/retention/cross sell/up sell
- Marketing messages – how should they vary?
  - Importance of target audience
  - How do you reach them?
  - What resonates with them?

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## Aging population/generations

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- Rating plan/pricing implications
- Claims/loss cost perspective
- Competitive environment
- Buyer behavior
  - Who do they buy from?
  - What drives the purchase decision?
  - How many products will they buy?
  - What motivates them to stay or shop?
  - Which customers are more profitable and why?

## Territory/geography

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## Business mix – Shift to service

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- Competitive environment
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  - Who do they buy from?
  - What drives the purchase decision?
  - How many products will they buy?
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## Model year and symbol/type of vehicle

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- Claims/loss cost perspective
- Competitive environment
- Buyer behavior
  - Who do they buy from?
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## Socio-economic shifts

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- Claims/loss cost perspective
- Competitive environment
- Buyer behavior
  - Who do they buy from?
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# Who do demographic shifts matter more for insurance now?

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- Age of information/technology
- Boom in predictive modeling
- Shrinking profit margins/financial stresses
- More sophistication insurance buyers
- Smarter competitors
  - What are key points of differentiation?
  - What competitive advantages are sustainable?
- Industry moving – inaction is falling behind