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# **Product Development Workshop Part 7: Product Monitoring/Risk Management**

**2013 CAS Ratemaking and Product Management Seminar**

**March 11, 2013**

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## Product Development Workshop Part 7: Product Monitoring/Risk Management

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### Outline

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### Subjective Metrics

- Good predictor of success – do you have buy-in from the staff?
  - Sales
  - Service
  - Marketing
  - Other Functional Areas - all need to be considered in product design
  - *New product usually means new processes , especially if a modification to an existing product – need everyone on board*
- External Buy-In – key customers
  - Once again, need to consider in product design
- Both Internal and External – important to capture feedback immediately after product launch – what happens after the theoretical is translated into reality
- More soft and fuzzy than hard numbers, but still critical to gauge

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### Objective Metrics

- Early Predictors –
  - 1. Win Rate on Quotes – early indicator of competitiveness and rate adequacy
  - 2. Portfolio Analysis (Profile of Business)
    - Distribution of business by key variables –
      - Geography
      - Limits
      - Customer Age
      - Credit Score
    - Important - customer characteristics drive loss and revenue exposures
    - Retention – important component if existing book is being converted to new product – compare portfolio analysis of existing book post-conversion vs. pre-conversion – good measure of impact on adverse selection
- Losses
  - Analyze reported losses as early as possible – first indicator of experience
  - Compare with expected losses – need to consider timeframe – e.g. calendar year, accident year, report year, etc.
  - Claim approval/denial rates – measure impact of new processes

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### Objective Metrics (continued)

- Revenue – impacts expense ratio – compare average premium to plan
- Expenses
  - Underwriting
    - Time spent on new processes – verification of new rating variables
    - Manual Re-Rating due to errors
  - Marketing
  - Sales – talk time will increase if more information is needed to rate product
  - Service – talk time
    - Time spent re-issuing policies due to errors
  - Finance – need to properly account for new product
  - IT
  - Actuarial
    - Time spent on verification of rate accuracy
    - Opportunity Cost – how many rate filings are not made due to time spent on rate checking – quantifiable
- Group Discussion
  - Above Items
  - Others?

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### Case Study

- Background – Small Personal Auto Insurer
  - Replaced Traditional 3-Tier Product with 15-Tier Product
  - Implemented on Platform developed by outside vendor – replaced Legacy system
  - Rolled out an initial state and then a few states/month
- Results
  - Subjective Metrics
    - Internal – all areas participated in product design
      - Process Design – internal areas made desires known -  
not all were implemented - give and take  
Made decision to go live when estimated that  
80% of items in manual were working- wtd avg  
Shortfall– didn't give as much weight to operational  
impact as we should have
    - External – did not conduct focus group surveys

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### Case Study (continued)

- Results
  - Objective Metrics
    - Profile of New Business – similar to expected
    - Losses – very well-managed – loss ratios dropped
    - Premium Volume – suffered –
      - Retention was very low – more a matter of the *new processes* than of the new product – many errors in premiums that were sent to customers
    - Expense Ratio climbed as premium dropped
    - Opportunity Cost – entire actuarial department spent 6 months checking rates – lost revenue
  - Comments?
- Other Experiences?

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