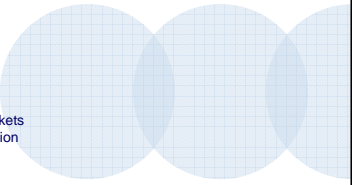


Ratemaking and Product Management

Joel Appelbaum
Zurich Financial Services
Programs and Direct Markets
Underwriting Transformation
February 2010



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Agenda

- About Zurich
- Industry Trends
- Objective vs. Subjective Underwriting Criteria
- Model Feedback
- Lessons Learned
- Example of Decision Scorecard and Rules

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Zurich

- Global footprint
 - Five continents
 - 170+ countries
- 3rd largest commercial insurer
- 27 straight Quarters of profitability



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4

Where is the Industry Going?

"Leading companies are now **building their competitive strategies around data-driven insights that are, in turn, generating impressive business results**. Their secret weapon? Analytics: quantitative, statistical analysis and predictive modeling supported by data-savvy senior leaders and powerful information technology."

From Thomas H. Davenport and Jeanne G. Harris: [*Competing on Analytics: The New Science of Winning*](#)

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5

What is the Value Proposition related to Predictive Analytics?

The challenge associated with optimizing the acceptance and integration of these new modeling techniques into a sound underwriting process is creating a consistent decision-making framework.

Value Drivers:

Implementation Methods:

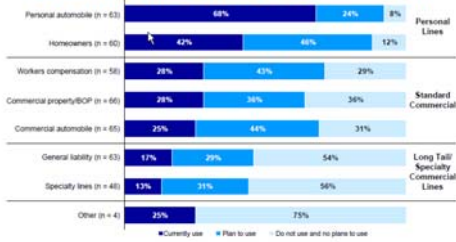
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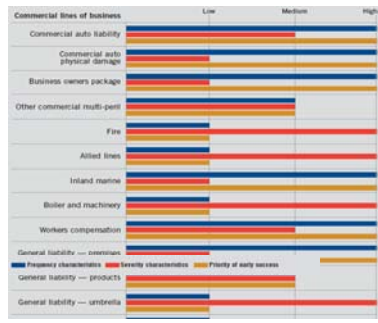
Predictive Modeling—Why Now?

The use of Predictive Modeling is becoming widespread in the Insurance Industry. Failure to act will result in adverse selection!

Do you currently use or plan to use predictive modeling in rating or underwriting for the following lines of business?

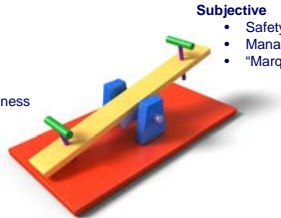


Commercial Insurance – Frequency vs. Severity



Objective vs. Subjective Criteria

- Objective**
- Credit Score
 - Years in Business
 - Loss History



- Subjective**
- Safety Culture
 - Management Style
 - "Marquee" Customer

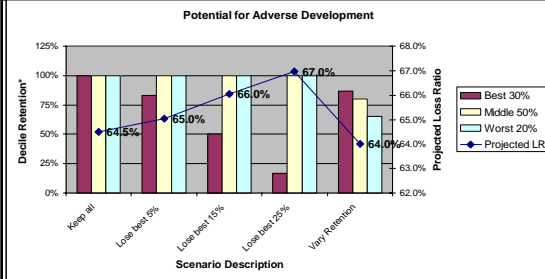
Commercial Insurance Market Cycles



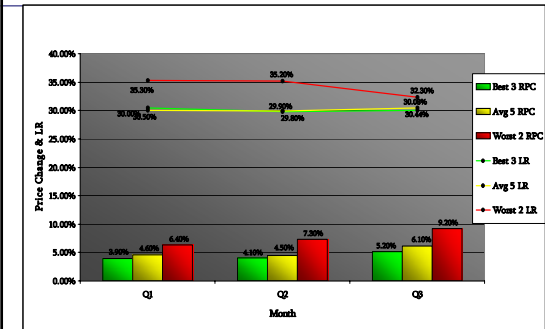
Typical Duration of Rate Response = 21+ Months
(17%-35% of the market cycle)

- *Rate Response Triggers**
1) ISO Rate changes and/or 2) Annual pricing projections

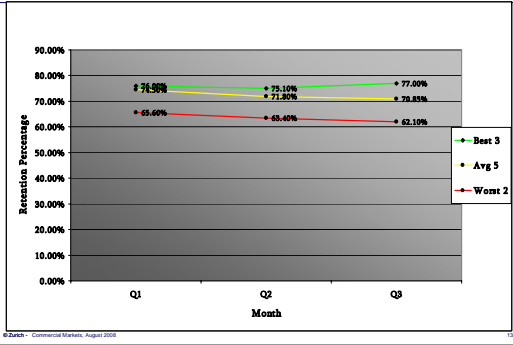
Commercial Insurance - Avoiding Adverse Selection



Line of Business Countrywide—Pricing & Loss Ratio by Decile Bands



Line of Business Countrywide— Retention Results by Decile Bands



Data



Data

- Cleansing / reconciling bad data elements is time consuming
- Multiple data sources required
- Commercial lines
 - Regulation
 - Legacy systems
- Data Stewardship – savvy leadership on what the data *means*

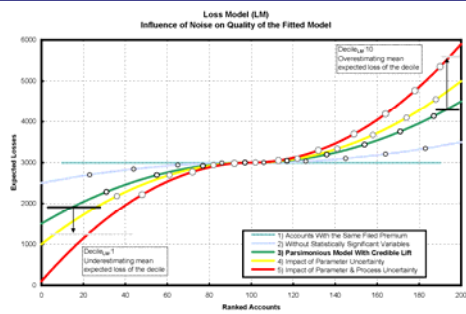


IT Impact

Predictive tools often bump into legacy systems which can be costly



Keep it Simple! Reducing the “Noise”



The Last Mile

“...the most important activity for the leadership team is to keep analytical initiatives on track and to monitor outcomes to ensure that anticipated benefits are achieved.”

Competing on Analytics, Thomas Davenport, Harvard School of Business, 2007.