

Account Proposals: A Team Effort

2010 CAS Ratemaking and Product Management Seminar

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Account Proposals: A Team Effort

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Introduction

- Setting – any corporate board room
- Question – “Why aren't we making money?”
- No shortage of opinions -
 - CEO - “The actuaries don't know how to rate the business!”
 - Actuary - “The underwriters have opened the floodgates!”
 - Underwriter - “You should see the kind of business we write!”
 - Marketing - “The CEO told us to grow!”
- Does the circular blame game sound familiar?
- Doesn't have to be this way

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Background

- Small personal lines carrier that writes through affinity relationships
 - Example – individual would buy personal auto insurance via payroll deduction
 - Other examples include associations and other groups
- Company has to sell at two levels
 - Corporate Account
 - Individual
- Topic appropriate for both commercial and personal lines – both levels are discussed in today's presentation

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Process Description

- Marketing Department reaches out to prospective accounts
 - Direct to account
 - Broker (usually large employers use for benefits administration) – often the broker initiates the process
- If there is an interested prospect -
 - U/W receives submission and makes decision – consider phase of U/W Cycle
 - Reject
 - Accept
 - Accept w/conditions
 - Waiting period
 - Portion of the group
 - Lower group discount

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Process Description

- What would happen if rejection rate was high
 - U/W – "We're just doing our jobs"
 - Marketing - frustration
- Internal Marketing Reps – got on-board with type of accounts to target
 - W/o mentioning specific industries, commonly held notions of "good" and "bad" accounts not always true – judgment based on experience
- Brokers – had upper hand in relationship based on size
 - Still have to maintain U/W discipline – have to say "no" some times
 - Balancing act

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Process Description

- If U/W acceptance, complete Request for Proposal (RFP) – submit information in the following areas –
 - Background Info on Company History and Results
 - Billing capabilities
 - On-site visits and campaign roll-outs
 - On-line service for sales, customer service, payment, and claims
 - % of Quotes Accepted
 - Performance Metrics – Claims, Service, Sales
 - Experience Level of Management and Customer-Facing Associates
 - RATES!!!!!!!!!!!!!!!!!!!!
- How to determine rate competitiveness?

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Process Evolution

- Initially – broker or account would send dec pages from key individuals – our Telesales reps would input the information into system and generate premiums
- Implemented a check – Actuarial would verify that system input matched dec page detail
- Less than ideal
 - Dec Pages typically don't contain information on all rating variables
 - Sales associates are used to taking information verbally but not in writing
 - Make decision based on small sample size
- Needed a better solution

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Process Evolution

- Each weakness addressed
 - Lack of information on dec page
 - Typically no more than 75% of rating variables are known with information that appears on a dec page – could be much lower
 - Other 25% - have to make assumptions
 - Make assumptions to our benefit but be reasonable –
 - Don't apply homeowner discount if address listed as apartment
 - Don't apply multi-policy discount if competitor known to offer such but discount not included in list of discounts on dec page
 - Otherwise we lose credibility with the account
 - ALWAYS STATE ASSUMPTIONS!!!!!!!
 - Sales associates not used to taking in information in writing
 - Actuarial took responsibility of generating premium – still had premiums reviewed by another individual in Actuarial – maintain credibility internally and externally –
 - Example – early in process we compared 6-mo premiums with competitor 12-mo

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Process Evolution

- Each weakness addressed (continued)
 - Decision based on small sample size
 - Developed multi-policy comparison that was representative of book
 - Large brokers already had in place but had to be reviewed for reasonableness –
 - Example – one of five policies had an uncommon luxury car – research showed that a key competitor had an unusually low rating factor assigned to this make/model
 - Broker did agree it was unreasonable and changed to a more common vehicle
 - Broader context of competitive analysis – became familiar with products offered by key competitors in marketing niche – goes back to competing at two levels – corporate and individual
 - Moved from playing defense to playing offense
 - Developed a multi-policy comparison that was more favorable to us, given our knowledge of our competitors – once again, need to be reasonable to maintain credibility
 - Example – don't apply college graduate discount to all when only 25% of pop. has degree
 - At individual level - developed marketing tool – see next page

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Process Evolution

- New Marketing Tool
 - Used a Rating Software Vendor to get current rates for market share leaders
 - Entered our standard policy set into vendor system to get competitors' rates
 - Generated our rates from internal system –
 - more efficient
 - cheaper pricing from vendor w/o our rates
 - avoided having to send updated rates to vendor and check vendor's accurate computation of our rates
 - maintained relative anonymity
 - Produced spreadsheet that contained a 2-dimensional matrix with competitor and risks
 - Key in a zip code and push Enter –
 - Within seconds the matrix was populated
 - Very powerful, aggressive marketing tool – reps loved it and used it to write new accounts!!

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Process Evolution

- Another area of aggressiveness inspired by the Account Proposal process -
 - Rate Filings
 - Depending on several factors, we would use rates lower than those filed in proposal quotes
 - Phase of UW Cycle
 - Account – size, type
 - States where account members lived –
 - » Existing business volume
 - » DOI
 - » Overall competitiveness
 - General Points –
 - Imperative to state assumptions!
 - Team Effort – proposed to Chief Actuary, who took to CEO and Chief Underwriting Officer

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Impact on Operation

- Clearly the Rate Filing process was impacted by the Account Proposal Process
- Not just a simple base rate decrease
 - Discounts
 - Actuarially sound – match rate with risk
 - Only apply to certain % of in-force business – “more bang for buck”
 - Critical at the corporate account level
 - Would compare list of discounts – existence of discount some times more important than the amount of the discount
 - In some cases the number of discounts was more important than the bottom-line premium!
 - Team Effort to Offer Discount

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Impact on Operation

- Discount Implementation
 - Marketing – input on which discounts were **more** valuable
 - Sales - input on how to position the discount for the customer
 - UW – input on how to verify qualification for the discount
 - Systems – input on how to program the discount
- Discounts implemented – set stage for next phase – new rating plan

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Impact on Operation

- New Rating Plan
 - Background – previous private passenger auto rating plan was traditional 3-tier (preferred, standard, and non-standard) structure using traditional tiering variables (insurance history, driving record, etc.)
 - New Plan – 15-tier rating plan using wider array of tiering variables and discounts in addition to those filed in earlier phase
 - Similar approach to Discount implementation –
 - Studied Competitors (both in marketing niche and market share leaders) and picked the “best of the best” rating variables – each person in Actuarial responsible for researching one company and presenting to a multi-department team
 - Each department gave input as before
 - Impact
 - More pricing points – better match rate with risk
 - Wider range of rating factors – enabled writing of broader range of risks at account and individual levels

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Impact on Operation

- Continued Evolution – from Rate Review process to State Review process
 - Rate Review – traditional approach – driven by Actuarial
 - rate level indications (limited credibility in most states due to small size)
 - competitive position vs. one market share leader –
 - territorial relativities
 - increased limits factors
 - deductible relativity factors
 - class plan factors
 - State Review = Rate Review + Additional Items from multiple areas:

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Impact on Operation

- Additional Items from multiple areas:
 - Actuarial – analyzed corporate account experience
 - loss ratio
 - distribution of business by key variable (territory, increased limit, etc.)
 - competitiveness
 - closure rate
 - penetration
 - Marketing – discussion of prospects and their locations
 - Sales – closure rates
 - Compliance – regulatory environment
 - U/W – any restrictions on non-renewals and cancellations
- Led to broad, free-flowing discussions on overall strategy rather than narrow focus on rate levels and relativities

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Observations

- Still healthy conflict between Marketing and Underwriting – otherwise someone's not doing their job right –
 - If no rejections – either Marketing isn't aggressive enough or Underwriting isn't tough enough
- Team Effort – Actuarial led, but all other areas were heavily involved
 - New whole was greater than the sum of the parts
 - New ground was plowed – no old ground was dug up – lack of "turf wars"
- Made ourselves relevant – remember this quote –
"Actuaries are pursuing greater precision in areas of decreasing relevance" – CAS Report of the CEO Advisory Task Force – 11/1/1999
