
Product Development Workshop Part 7: Product Monitoring/Risk Management

2011 CAS Ratemaking and Product Management Seminar

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Kelly McKeethan, FCAS, MAAA, CPCU



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Product Development Workshop Part 7: Product Monitoring/Risk Management

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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
 - Manual Re-Rating due to errors
 - Marketing
 - Sales – talk time
 - 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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