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Product Portfolio Optimization

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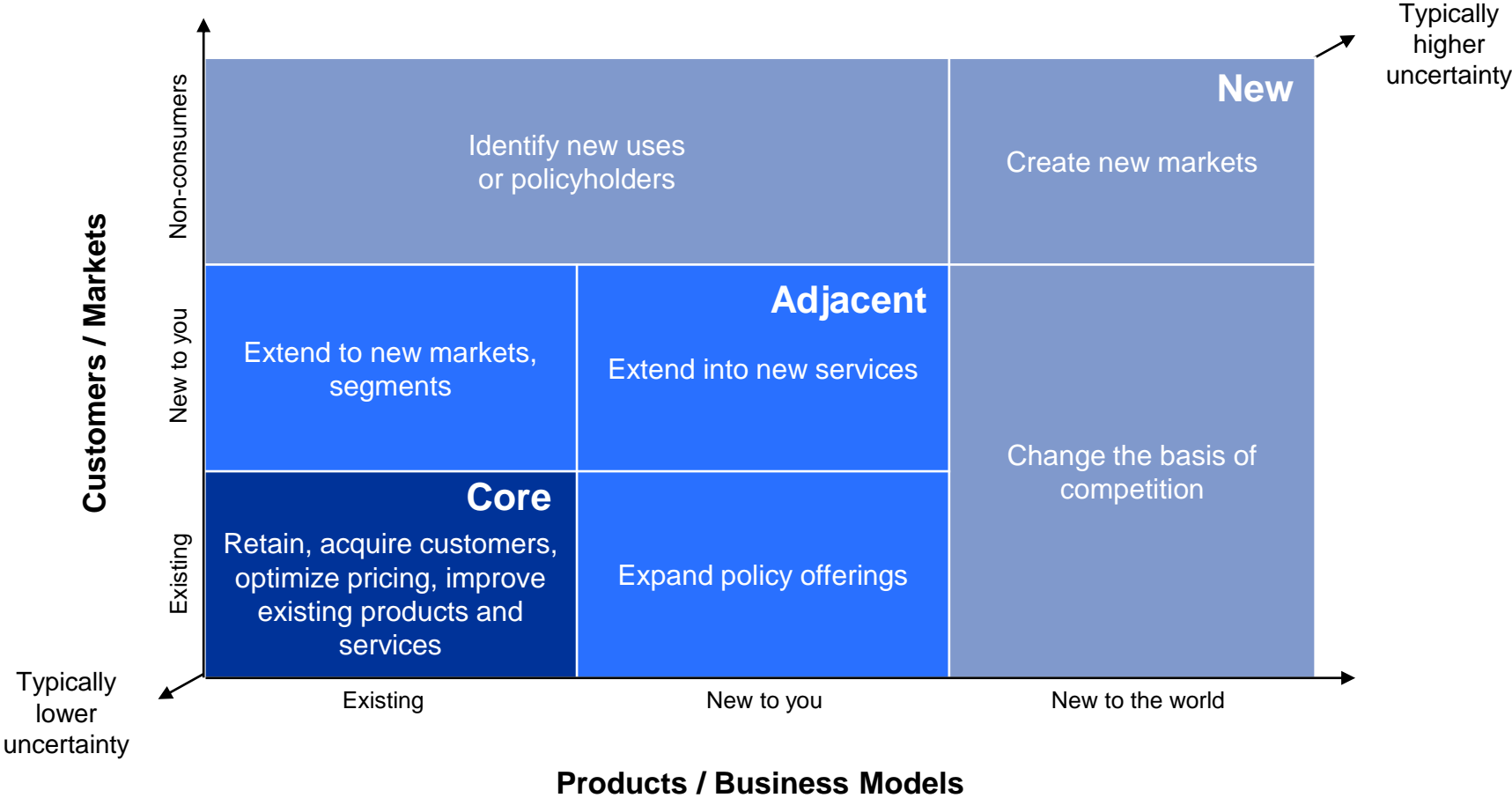
April 1, 2014



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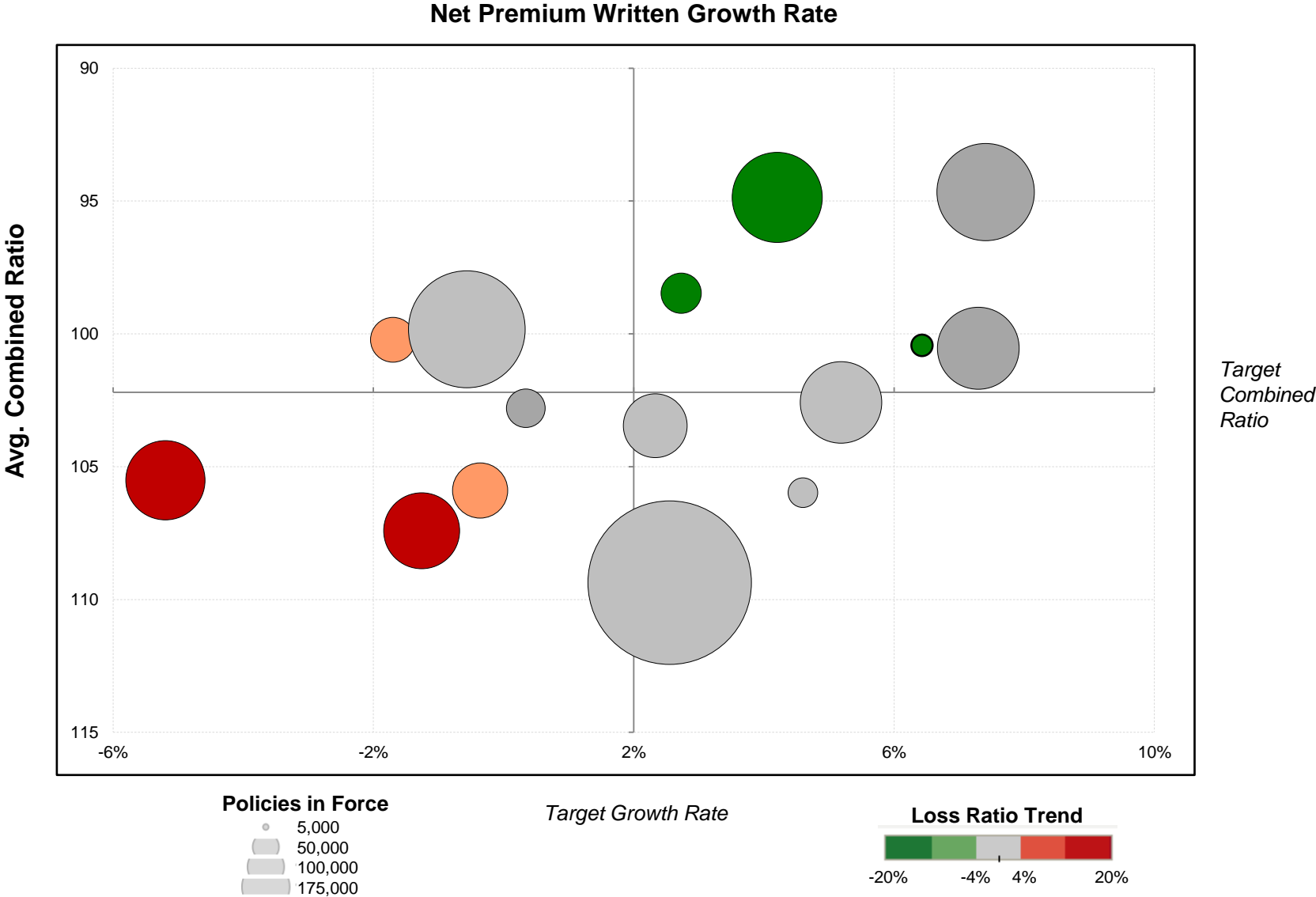
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Strategic product objectives focus on top-line growth and profitability

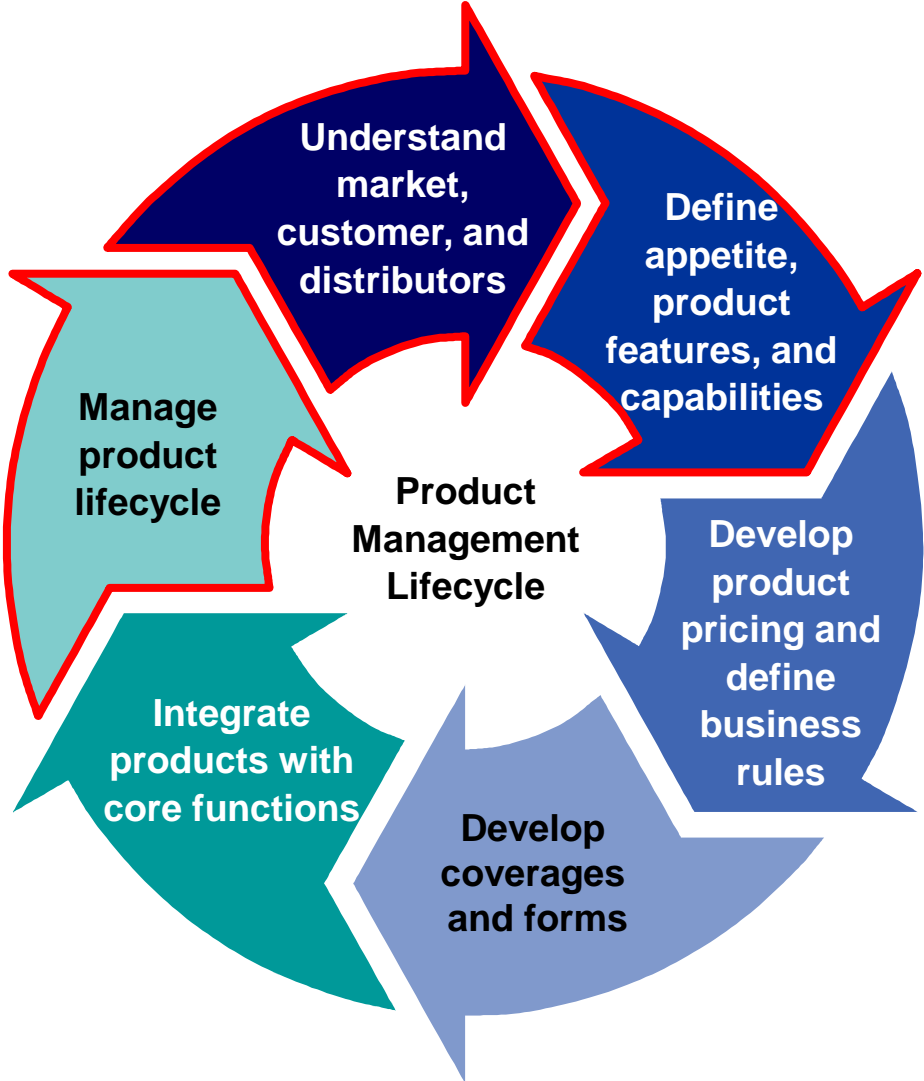


Insurers are reengineering and innovating rather than circling the wagons and defending the status quo

Product managers are caught in the middle of a balancing act



Product managers can increase focus on neglected lifecycle areas



Product portfolio optimization starts with a solid foundation

Inputs

- Clear vision and strategy
- Financial goals
- Market and customer intelligence

Portfolio View

- Stakeholder alignment
- Consistency across operating units and geographies
- Ability to analyze current position and trends



Outcomes

- Better fact base for decisions
- Understanding of exposure to risk
- More efficient use of capital and resources
- More nimble in the market

FOUNDATION

Reporting Capability



Execution Capability

A business case facilitates a disciplined evaluation of products



- Evaluate that an idea fits the product strategy and overall corporate business objectives
- Leverage the insights provided by all key stakeholders, including operations and systems, during the development of the business case
- Provide a framework for monitoring business outcomes against expectations and targets

Owner

Resource

Common challenges with performance management

“It takes too long to answer simple questions”



“We suffer from analysis paralysis”

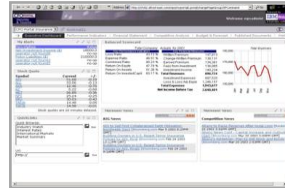
Distinct reporting needs vary depending on role in the organization

Reporting Types

Executives

...use summarized information to make strategic decisions for the company

Strategic



Scorecards and Executive Dashboards

- Comprehensive, summary reports with drill-down
- Key Performance Indicators, strategic trends, alerts
- Consolidated reporting

Management

...use management and financial reports to effectively manage business operations and decision-making capabilities

Analytical



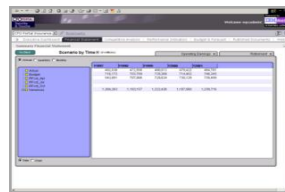
Management Dashboards and Metrics

- Drill down analysis
- Trend analysis
- Variance analysis
- Segment level reporting

Operations

... use detailed information for validation, tracking, and audit trails with minimum user interaction, including generation of monthly reporting packages and transactional data

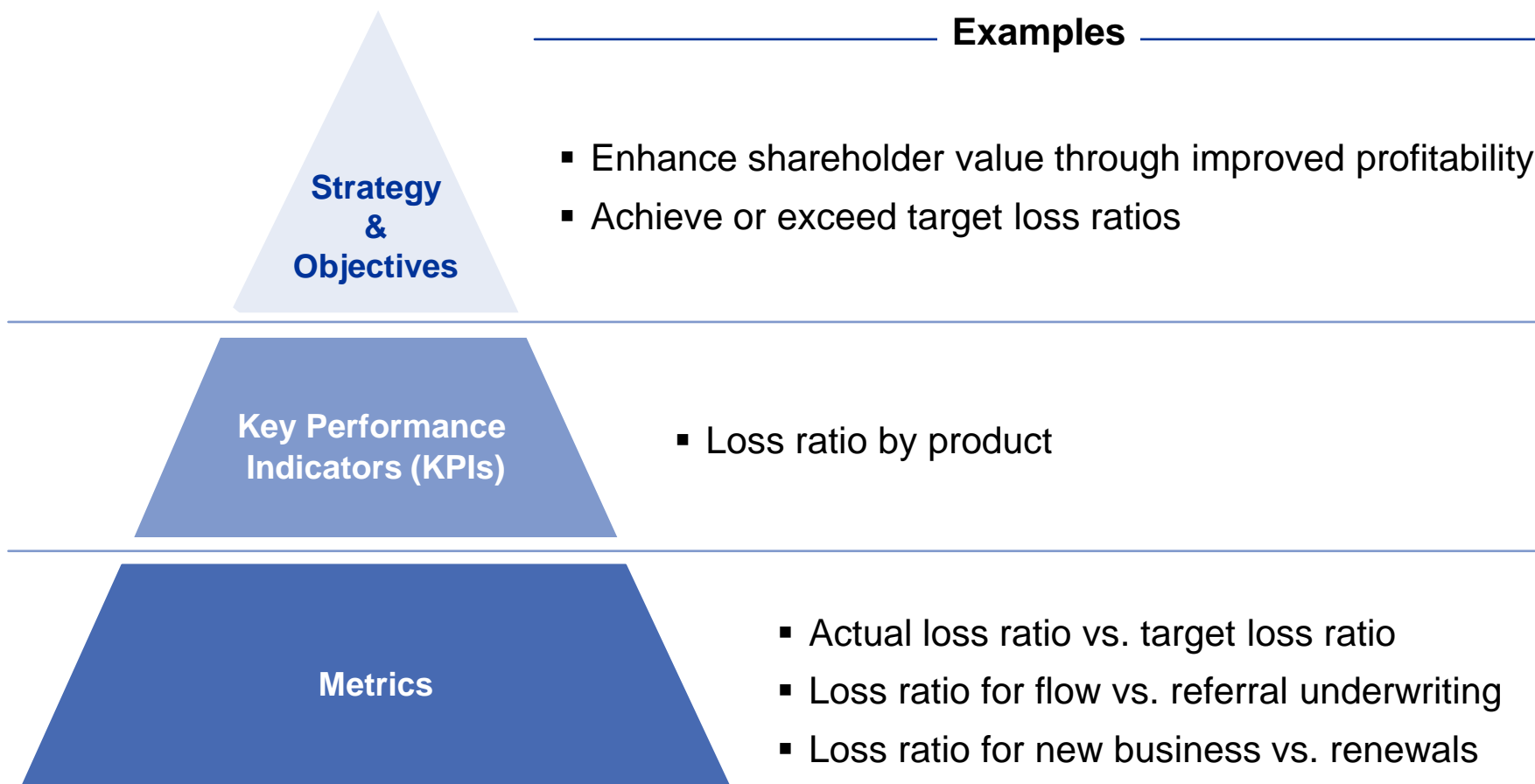
Transactional



Operational and Transactional Results

- Simple lists
- Journal reports
- Summary reports
- Static requests

Well-defined performance management links strategy to outcomes



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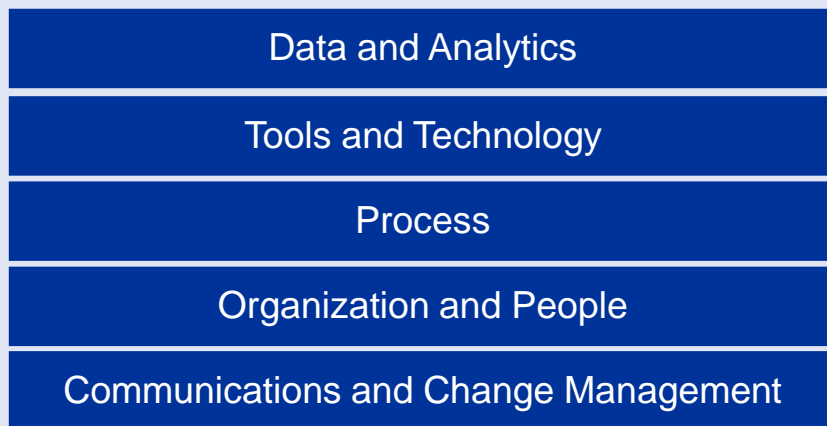


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FOUNDATION

Reporting Capability



Execution Capability

What the future state could look like

- Integrated view of portfolio performance
 - Granular product view with loss drivers tied to specific coverages
 - Line of Business view
 - Business Unit view
 - Within each of these views for Commercial, all views would have industry subsets
 - Executive dashboards that summarize performance

- Deep understanding of capital allocation
 - Capital requirements at the product level
 - Dashboard that provides visuals on product volatility and impact on capital

- On-going rationalization of the product portfolio

- Product Steering Committee in place to review product performance
 - Review outcomes from rationalization updates
 - Make and manage product Invest, Maintain or Decommission decisions

Product Portfolio Optimization

Insurance Pricing Considerations

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April 1, 2014



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Agenda

Product Development Process

Three Levels of Pricing Sophistication

Pricing Framework

Case Study: Components of Pricing Framework

Product Development Process

An outline of the product development cycle



- Identify market place needs
 - Define target market
 - Estimate market potential
 - Identify distribution channels
-

- Define underwriting appetite, product and service features
 - Develop reinsurance program
 - Set distribution approach and eligibility requirements
 - Define eligibility rules
-

- Define coverages, key features (e.g. deductibles, limits, etc.) and exclusions
 - Draft forms, contracts, and endorsements
 - Define coverage rules
 - Define form rules
-

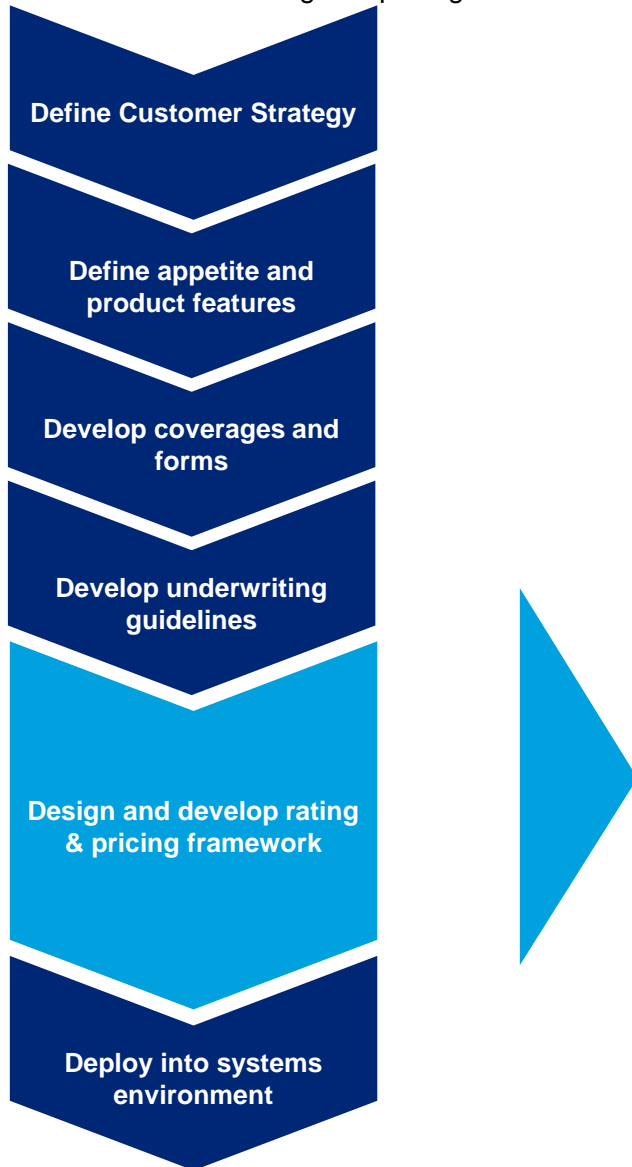
- Define the risk attributes/characteristics consistent with the product /segmentation strategy
 - Document the risk assessment rules
 - Document the rules for services (e.g. loss control, premium audit, etc.)
 - Document the rules for reinsurance
-

- Define key inputs and data capture
 - Design (or leverage existing) rating algorithms for each base and optional coverage
 - Develop the rating rules, rates, and factors
 - Prepare and submit filing, if required
 - Define the key variables that will be included in the discretionary pricing
 - Determine source of key variables (application, 3rd party, other)
 - Determine variables that will be incorporated in a model and drive the “score”
 - Develop rules for the model
-

- Determine necessary documentation
 - Determine policy issuance process
 - Determine customer communication plan
 - Develop cancellation and renewal policies
-

Product Development Process

Dimensions of the rating and pricing models

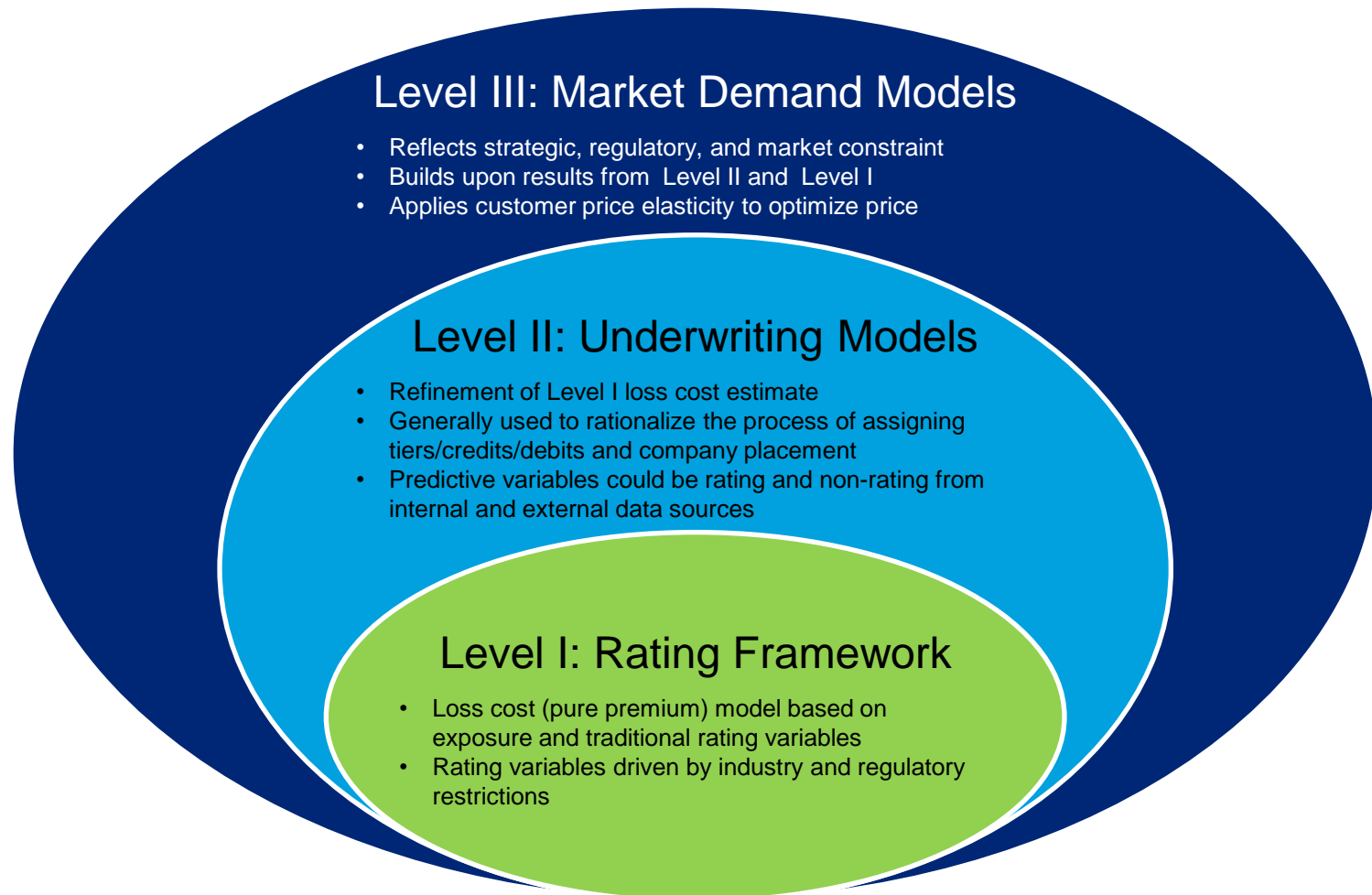


Considerations for Rating and Pricing	
Geographies	<ul style="list-style-type: none"> • States • Countries • Regulatory Environment • Territories
Coverages	<ul style="list-style-type: none"> • Deductibles/Limits • Retention • Property (primary structure and detached structures) and Content • Liability (public, employees, etc.) • Other optional coverages • Rules differ by country and vs. the US
Rating Components	<ul style="list-style-type: none"> • Base rates • Rating dimensions and factors
Underwriting Components	<ul style="list-style-type: none"> • Discretionary Pricing • Eligibility • Risk Assessment
Extended Capabilities	<ul style="list-style-type: none"> • Data capture for management information • Management Reporting • Controls

Three Levels of Pricing Sophistication

Insurance pricing can be classified in three levels of sophistication:

Rating Framework, Underwriting Models, and Market Demand Models



A Solid Pricing Framework is important for

Consistency & Governance

- Aids in controlling model proliferation over time
- Simplifies policy admin systems and pricing framework consolidation in merger and acquisition situations
- Provides a decision framework for setting and modifying assumptions

Ease of Implementation and Efficiency

- Enables a more efficient process for hand-offs and communications between Business and IT
- Results in less work effort to maintain existing pricing frameworks
- Facilitates implementation of new products through re-use of existing pricing frameworks

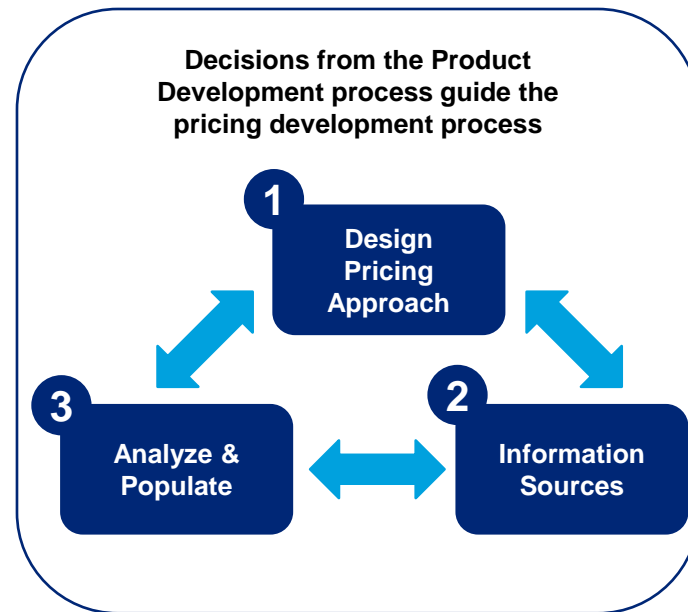
Better Business Intelligence

- Provides the ability to identify and articulate data requirements for improved management reporting
- Allows actuaries and pricing experts to spend more time analyzing trends rather than aggregating and reconciling data

Key Elements of the pricing development process

The pricing framework consists of three dimensions that are dependent upon each other and are informed by decisions made in the product development process. As the framework is developed, there are also a number of design considerations to determine how functional you want the solution to be.

1 Design Pricing Framework	
Structure	<ul style="list-style-type: none"> • Exposure Base • Experience Base • Credibility
Coverages	<ul style="list-style-type: none"> • Base Coverages • Endorsements • Miscellaneous
Segmentation	<ul style="list-style-type: none"> • Limits/Deductibles • Geographies • Rating Dimensions
Adjustments	<ul style="list-style-type: none"> • Objective risk specific characteristics • Terms and Conditions
Expenses/Fees	<ul style="list-style-type: none"> • Expense Loads • Policy Fees • Reinsurance Load
Discretionary Pricing	<ul style="list-style-type: none"> • Schedule Mod • Risk Adjustments (subjective) • Market Price

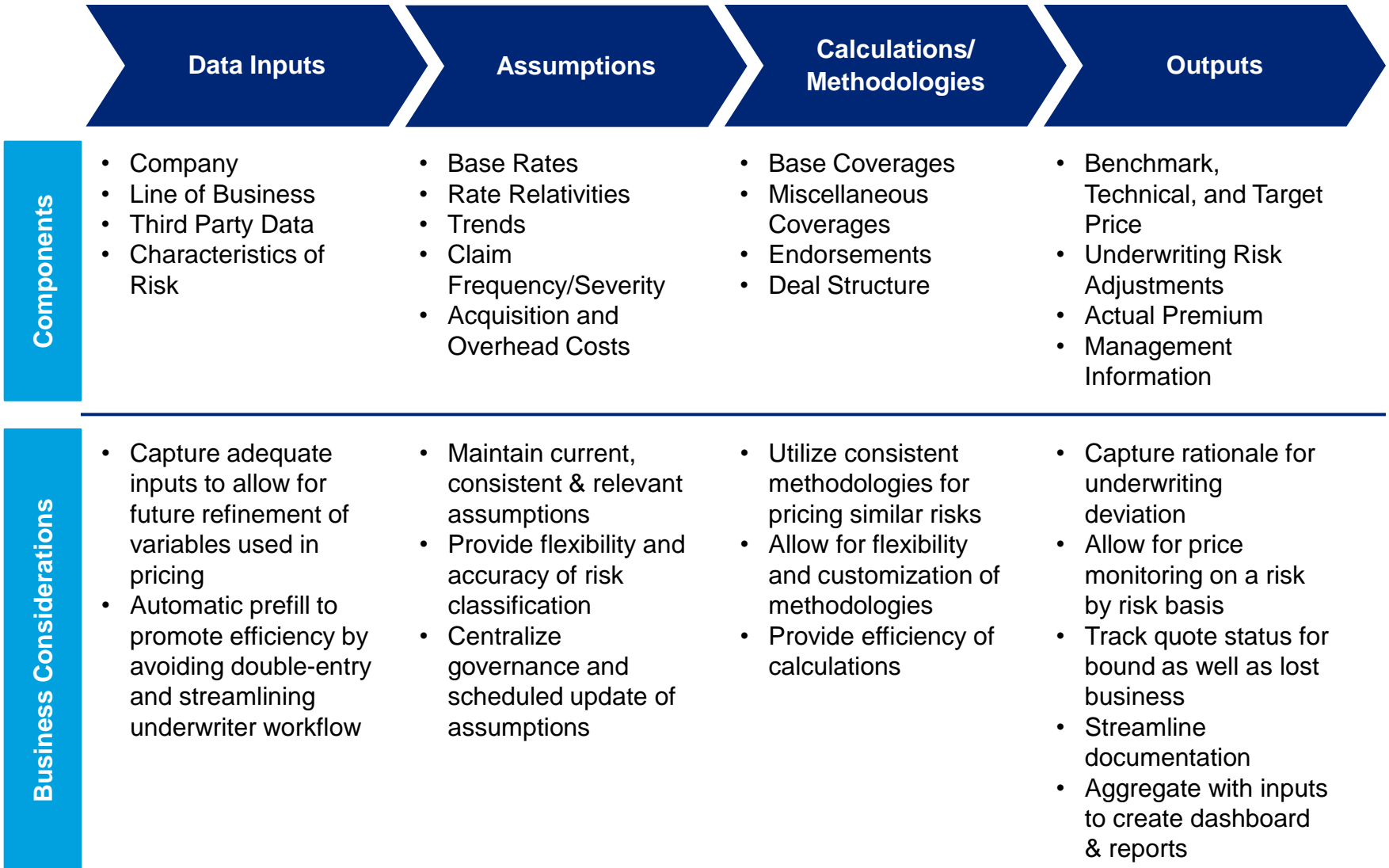


2 Information Sources
<ul style="list-style-type: none"> • Historical • Competitor • Market/Industry • Third Party

3 Analyze & Populate
<ul style="list-style-type: none"> • Univariate • Multivariate • Competitor • Rating Bureau

Pricing Framework

Components essential to the creation of a valuable pricing framework

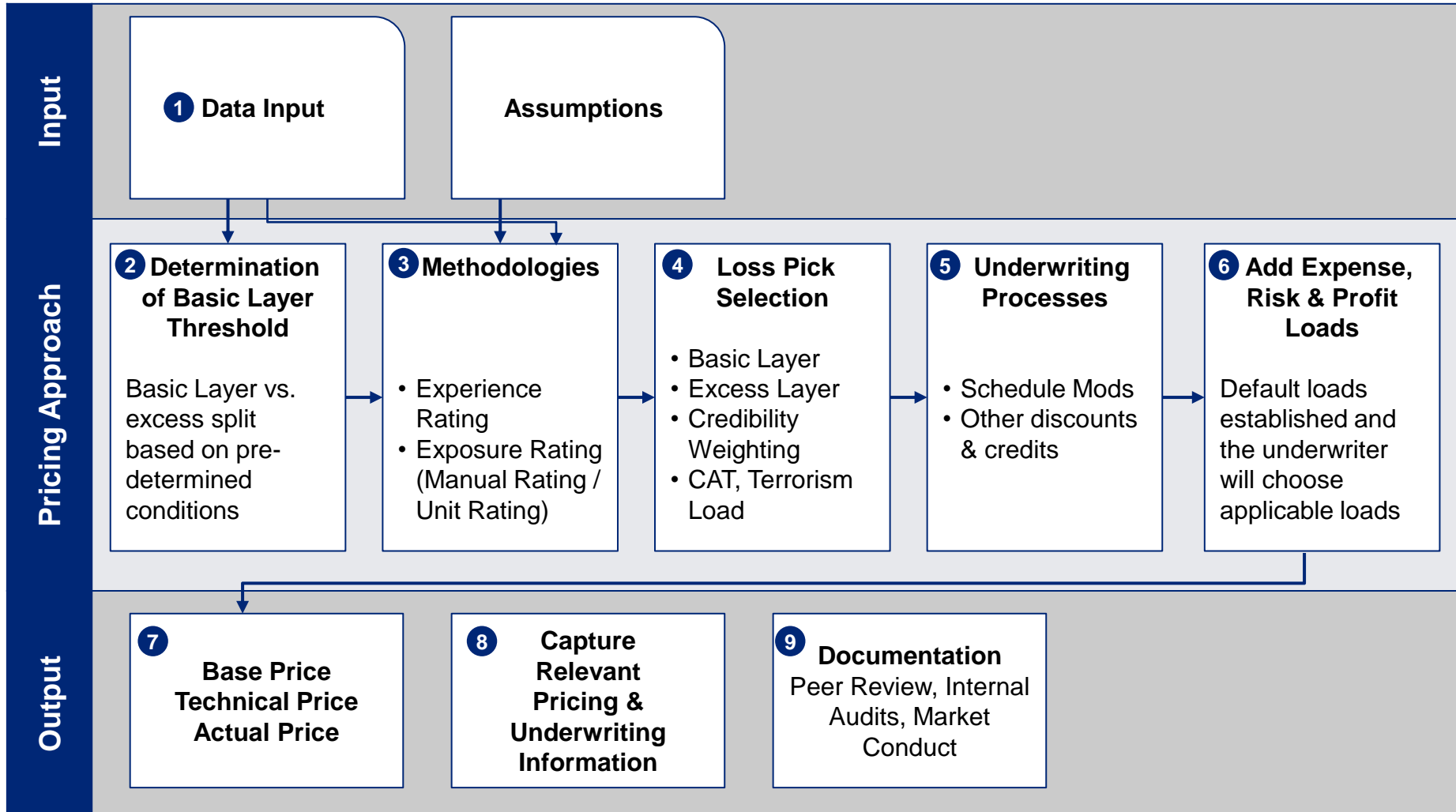


Pricing Framework Success Factors

- Design Considerations
- Stakeholder Alignment
- Technology Considerations
- Consistency & Governance
- Documentation
- Profitability Management

Case Study: Components of Pricing Framework

The diagram below displays the structured processes to develop base, technical, and actual prices for products, involving input and feedback from underwriting groups and other stakeholders.



Additional Considerations by Segment

- Commercial Insurance vs. Personal Insurance
- Property Lines vs. Casualty Lines vs. Specialty Lines
- Large accounts vs. Mid-Market or Small Business Segments

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