



CASE STUDY Large Motor Insurer



Large Motor Insurer using Earnix Insurance

Case Summary

Industry: Insurance

LoB: Motor insurance

Project Focus: Pricing analytics

Challenges

Comply with stringent regulatory limitations on pricing considerations which are non-risk related. Optimize prices when a choice of two products is offered upon renewal. Optimize caps on renewal prices.

Business Results

Profit improved by 2.8% of gross premium. Compliance with strict regulatory requirements.

Background

The client is a European national subsidiary of a large global insurer, managing a motor insurance portfolio of a million policies, and operating through over 200 large agencies. The regulatory environment imposes strict limitations both on premium composition and renewal pricing practices. Premiums are set by multiplying a base rate by a set of individual risk factors. A customer's renewal premium cannot be based in any way on last year's premium. All renewal price increases are capped to a certain percent of last year's premium.

Challenges and Goals

In view of compliance requirements, the client wished to examine the possibility of optimizing its motor book premiums considering such critical factors as retention, profitability and life-time customer value.

> Implement Demand Based Pricing

The customer wished to improve its motor originations and renewal book premiums in a way to improve profit while maintaining existing business volumes.



Understand consumer demand

Having no prior experience in using analytical tools to understand consumer need for its motor insurance products, the client wanted to see a segment by segment view of the consumer requirement for its products.



Comply with regulatory requirements

For regulatory reasons, the client needed to maintain equality between origination and add as well as renewal prices remain as close as possible to the commercial tariff already approved by the regulator. Except for some commercial discounts, the regulator only approves tariff changes resulting from risk cost fluctuations.



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These scenario yielded a profit improvement of over 2.8% of premium written while maintaining existing retention levels.

› **Alternative products offers**

In certain cases the client offers its customers the choice of alternative motor insurance packages upon renewal. The client required that the analytical process consider these situation where two price alternatives are being offered at the same time.

› **Renewal price capping**

Another business constraint involved the client's practice of limiting premium increases for renewals relative to the previous year to a certain percentage cap, depending on region, for policies with no claims. The client wished to optimize these capping levels to improve financial performance.

Earnix Solution

Earnix professional consultants together with top leading insurance experts, conducted an eight month implementation process, including:

› **Emulating the client's existing pricing approach**

To obtain a valid basis for optimization, the Earnix Auto Insurance Solution was used to emulate the client's premium calculation process.

› **Creating optimization scenarios**

The Earnix solution produced two scenarios, each with its associated pricing scheme: The first scenario, so called "conservative", called for preserving the same tariff structure, and only updating the renewal capping. The second scenario, so called "advanced", added factors to the tariff and imposed a limitation of premium decreases for renewals.

› **Reverse engineering**

Demand based pricing schemes were reverse-engineered using only those risk factors permitted by the regulator for the conservative scenario. For the advanced scenario, factors which were not included in the commercial tariff were also used.

› **Cap and alternative optimization**

Implementing the reverse engineering approach described above, the Earnix Auto Insurance Solution was used to improve alternative offer prices as well as renewal caps.

Results

› **Profit Improved by 2.8% of Premium Written**

The "advanced" optimization scenario yielded a profit improvement of over 2.8% of premium written while maintaining existing retention levels.

› **Compliance with Strict Regulatory Provisions**

Thanks to the Earnix Auto Insurance Solution modeling capabilities, all benefits were obtained in strict adherence to regulatory requirements.

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