



CASE STUDY Personal Lines Insurer



Personal Lines Insurer using Earnix Insurance

Case Summary

Industry: Insurance

LoB: Personal Lines Insurance

Project Focus: Pricing Analytics

Challenges

Aggressive competition. Pricing errors can be extremely detrimental. Limited actuarial resources.

Business Results

Profit improved by over 3.5% of premium written; retention increased. The Earnix Insurance Suite achieved over 90% accuracy in predicting influence of price change. Solution integrated into overall pricing process for renewals and new business.

Background

The company is a leading personal lines insurer in its national market and a subsidiary of a leading international insurer. The client's national market and regulatory environment impose several constraints on motor insurance business activity: all motor insurance policy renewals are performed on one particular day once a year; insurers can issue new business prices which are usually lower compared to renewal prices; normal business practice is to adjust renewal premium according to only 3 factors and any other premium adjustment must be conveyed to customers by mail prior to renewal date.

Challenges and Goals

> Aggressive competition

A rapidly softening market and the aggressive pricing strategies of competitors caused market prices to drop by 10% during the previous year alone. Furthermore, extensive media coverage of "price wars" encouraging customers to shop around caused a sharp increase in customer churn. These factors put the client company's margins and retention rates under extreme pressure.

> Highly reliable solution

In a market where all motor insurance policy renewals are performed once a year, pricing errors can be detrimental. Thus, the client required a highly reliable solution which allows extensive scenario planning and assessment of various pricing strategies in view of potential competitor actions.

> Ease of use

The client had limited actuarial resources and required a solution that would be easy to use. In addition, it required a supplier that could provide quality ad-hoc support on a continuous basis, especially during pre-renewal periods.



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The Earnix Insurance Suite improved profits by over 3.5% of premium written while achieving slightly higher retention levels than the incumbent strategy.

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www.earnix.com

Earnix Solution

Earnix business consultants working together with client team members conducted a three month implementation process, including:

› **Business scenario development**

A preliminary study was conducted to understand data availability, prepare data for modeling and build statistical models. Several alternative scenarios were built to consider various trade-offs between profit, retention and customer lifetime value. A single scenario was selected for testing.

› **Scenario testing**

The selected pricing scenario was applied on 30% of the book while the client's existing pricing strategy remained in force regarding the remaining 70%. Results from both parts were compared to form the business case for adopting the Earnix Insurance Suite. Customer response was monitored for use in the next pricing cycle.

› **Comprehensive modeling**

Using the Earnix Insurance Suite and its flexibility, three separate statistical models were built and evaluated in order to fully reflect the typical main pricing situations in the market, namely renewal demand, probability of switching to new business and probability of switching to a new cover. The Earnix methodology and software were integrated into the client's new pricing process.

Results

› **Profit Improved by over 3.5% of premium written**

In the first year of implementation, the Earnix Insurance Suite was applied to 30% of the renewal book. Compared to the existing pricing strategy applied to the remaining 70%, Earnix Insurance improved profits by over 3.5% of premium written while achieving slightly higher retention levels than the incumbent strategy.

› **90% accuracy of prediction**

The Earnix Insurance Suite predicted with over 90% accuracy the influence of price changes on revenue and profit in all segments.

› **Successful application to other business lines and segments**

The Earnix Insurance Suite was used to evaluate several pricing strategies of different products for different customer segments (e.g. basic coverage for young drivers), and helped structure potential pricing campaigns for those segments.

› **Earnix Insurance fully integrated**

The client has fully integrated the Earnix Insurance Solutions into its pricing process and is using the software to optimize the entire renewal book and all relevant parts of the new business pricing process.