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# UNDERWRITING UPDATE



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## Moving Ahead With Analytics In P&C Insurance

**Over the past decade, the property and casualty insurance industry — most notably personal auto insurance — has fundamentally changed as a few carriers have developed superior risk estimating skills. Consequently, these players manage pricing at a more granular level and with much more specificity than less sophisticated carriers.**

Insurers that fail to improve their pricing skills face adverse selection as the more sophisticated carriers ‘cherry-pick’ their best customers. This is an increasing and widespread market phenomenon. Recent experience shows carriers with less

sophisticated pricing skills suffer continuous (and potentially accelerating) margin erosion, at times with devastating effects on their financial performance. It is therefore no surprise that most companies are investing in pricing segmentation to improve underwriting profits. Nonetheless, there is still an enormous gap between the pricing capabilities of carriers in the top tier and those that are not.

While the need to improve pricing capabilities is critical, even sophisticated carriers will face declining marginal returns as they use the same methods as the market in general to try to get even more precise in predicting risk and loss costs. Faced with these diminishing marginal returns, leaders in the pricing sophistication game are leveraging additional analytical approaches and sources of data in search of any incremental pricing edge. They broaden the scope of analysis and even try to find ways to modify customer behaviour.

Carriers must add the same precision and analysis that they have used in estimating risk to other parts of the insurance business — ultimately enabling what might be labelled “value-based” analytics, rather than solely price-based analytics. While more precise and even optimized product pricing (including estimates of customer price elasticity) have significant

potential to improve performance, carriers need to evaluate a broader range of opportunities for segmentation.

In order to align pricing intelligence with sales, marketing, and distribution strategies, insurers need to add more analytics to other parts of their business. One critical gap concerns those with primary responsibility for sales and servicing — the frontline. Leading carriers are focused on engaging the frontline in a two-way dialogue, by both delivering critical information related to micro-market opportunities to their sales force and also listening to frontline feedback on customers and incorporating such data into their analytical processes.

As a result of making the use of sophisticated segmentation tools by the frontline easy and straightforward — leading insurers have found that the sales force can become powerful advocates for continuing investments in customer analytics and general market intelligence.

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