

General Insurance:

Why does price optimisation need to be so complicated?



General Insurance:

Why does price optimisation need to be so complicated?



Colin Robertson
Founding Partner
HAL Consulting



Anyone who has ever been involved in General Insurance Pricing knows that the value created by price optimisation or 'market pricing' was generated largely by treating renewals and new business differently. Yet, when the rules were changed to outlaw this, many of these same people decided that rather than admit the game was up, the answer was to double down on complexity.

Similarly, anyone who has been around a few years knows that the benefits of new business price optimisation, if any, are dwarfed by the losses caused by underestimating inflation or assuming a one-off reduction in frequency will continue.

Yet, if you read the commentary from any one of a number of insurers, you will see that- for all their investment in data, machine learning and AI- they got caught out by the entirely predictable impact of inflation increases due to Brexit, supply chain issues, post pandemic effects and a war in Ukraine.

The fact remains the primary job of insurance pricing people is not to come up with fancy 'behavioural economics' algorithms but to predict what the cost of the claims is going to be, and to deploy that in a way that is in line with the rules.



Anything which makes this more opaque and unable to be challenged or reviewed is ultimately going to lead to losses. Losses from miscalling the meta trends which dominate tactical pricing changes. Losses from regulators' fines due to accidentally not following the rules, or even just not being able to prove they were followed.

Price optimisation of course does have its place, same goes for investment in data, ML and AI as you need great data,

models and responsive processes. In a post GIPP world however, the value of price optimisation is much smaller, plus the value can be unlocked via simpler means, thus allowing valuable pricing resource to focus on building great models. Additionally, when the regulator does finally work out such complexity is unlikely to deliver good customer outcomes, firms will be exposing themselves to fines and expensive remediation.





At HAL Consulting you get pricing expertise focused on solving problems, creating competitive advantage, and moving you from complexity to clarity.

We accelerate competitive advantage by increasing the speed to market of new rates that are better for customers, commercials and compliance. The insurance pricing landscape is changing in terms of skills, technology and processes required to be market leading.

CONTACT US

+44 7890 654874
colin@halconsultingltd.com
www.halconsultingllp.com

:Office

Suite 1, 7th Floor,
50 Broadway,
London,
SW1H 0BL, UK