



Society of Actuaries in Ireland

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# **Life insurance pricing: the next frontier of innovation**

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21 April 2021

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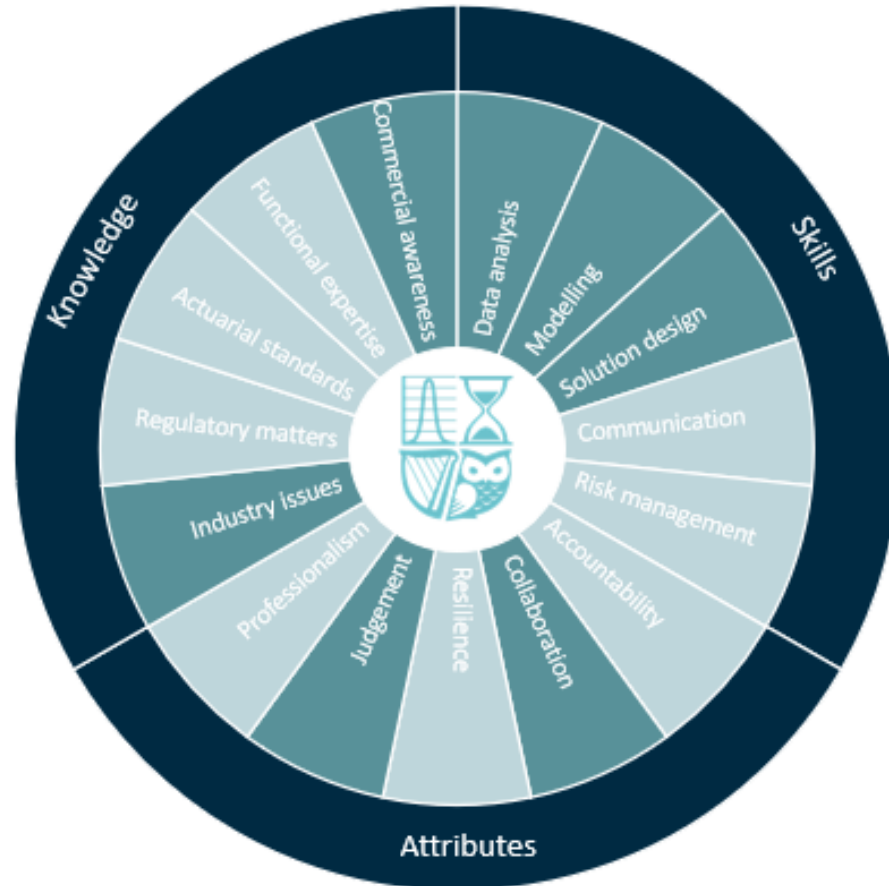
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# Disclaimer

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# SAI Competency Framework Wheel



# Life insurance pricing: the next frontier of innovation



# Today's conversation

- Why price matters and why its a complex puzzle
- How life insurance pricing has evolved
- Future possibilities
- Pitfalls and challenges
- Best practice
- Q & A

**Price is one of the few levers to  
drive growth and value**

# However pricing is not an easy puzzle to solve....



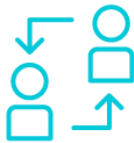
Highly competitive and  
responsive market



Sales v margin  
trade-off



Customer preferences  
and behaviour



Distribution effects



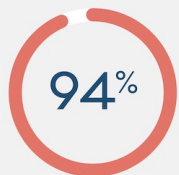
Product and  
underwriting innovation



Infinite permutations

# Until recent years there was relatively little focus on pricing innovation

- Emphasis on understanding and costing risk
- Margin determined through risk vs commercial negotiation
- One-size-fits-all approach to risk + margin
- Did not systematically account for customer and adviser behaviour
- Process reliant on intuition and organisational beliefs
- Relatively infrequent
- Powered by Excel



of respondents rely on Excel for key steps of the pricing process - most often pricing analysis

1 in 3

participants are repricing no more than annually



# Life insurance pricing has seen significant innovation in the past few years with more on the horizon

Horizon 3 - Dynamic Lifetime Pricing

Horizon 2 - Dynamic, Point-of-Sale Pricing

Horizon 1 - Data Driven Pricing

Ground Zero

Where the  
market is

# The first wave of innovation has been about pricing speed and greater use of data

- Improved use of data
- More granular analysis & more granular rate books
- Speeding-up the pricing cycle
- Advanced analytics and optimisation
- Underwriting innovation
- Improved rate deployment



# Leaders in pricing are now starting to push towards the next horizon - dynamic, point of sale pricing

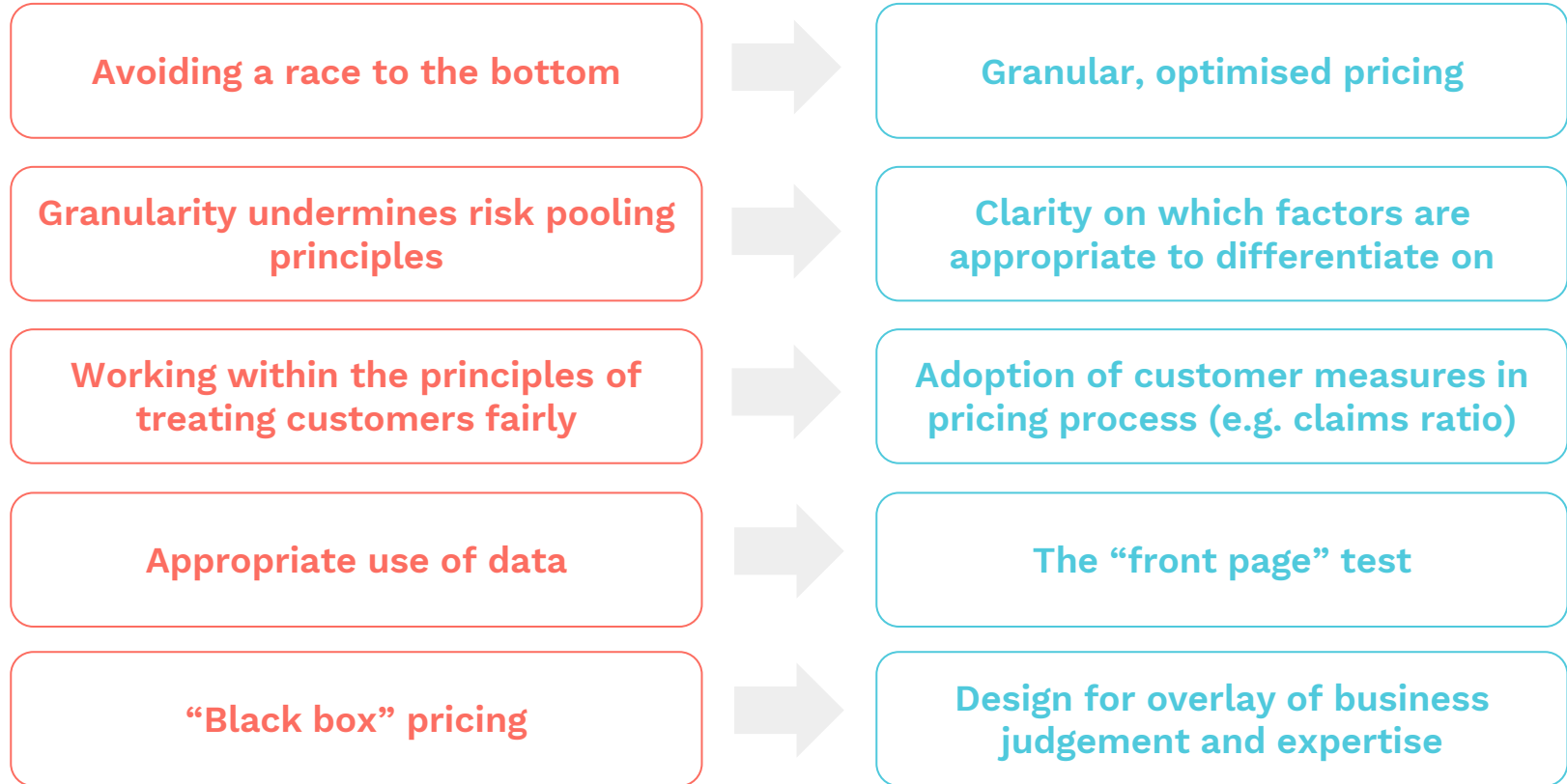
## Horizon 2 - Dynamic, Point-of-Sale Pricing

- Near real-time market and portfolio insights inform pricing decisions
- Significant pricing logic deployed at point of sale supporting fast and granular pricing
- Advanced analytics support granular insights into customer & advisor behaviour and pricing impact
- Advanced, frictionless underwriting supporting a granular view of risk

## Horizon 3 - Dynamic Lifetime Pricing

- Digital engagement and embedded wellness services encourage customers to lead healthier lifestyles
- Responsive, lifetime repricing based on health data and incentives
- Real-time market and portfolio insights inform pricing algorithms
- Optimal pricing across new business and in-force portfolios
- Embedded ML and AI continuously refine pricing algorithms

# Pitfalls and challenges



**So what are the market leaders doing that others aren't (in addition to winning market share)?**

# Transformation of pricing function

Strategic vs operational function

Broader than pricing -  
encompasses customer and  
distribution analytics

Multi-disciplinary



# Speed to market

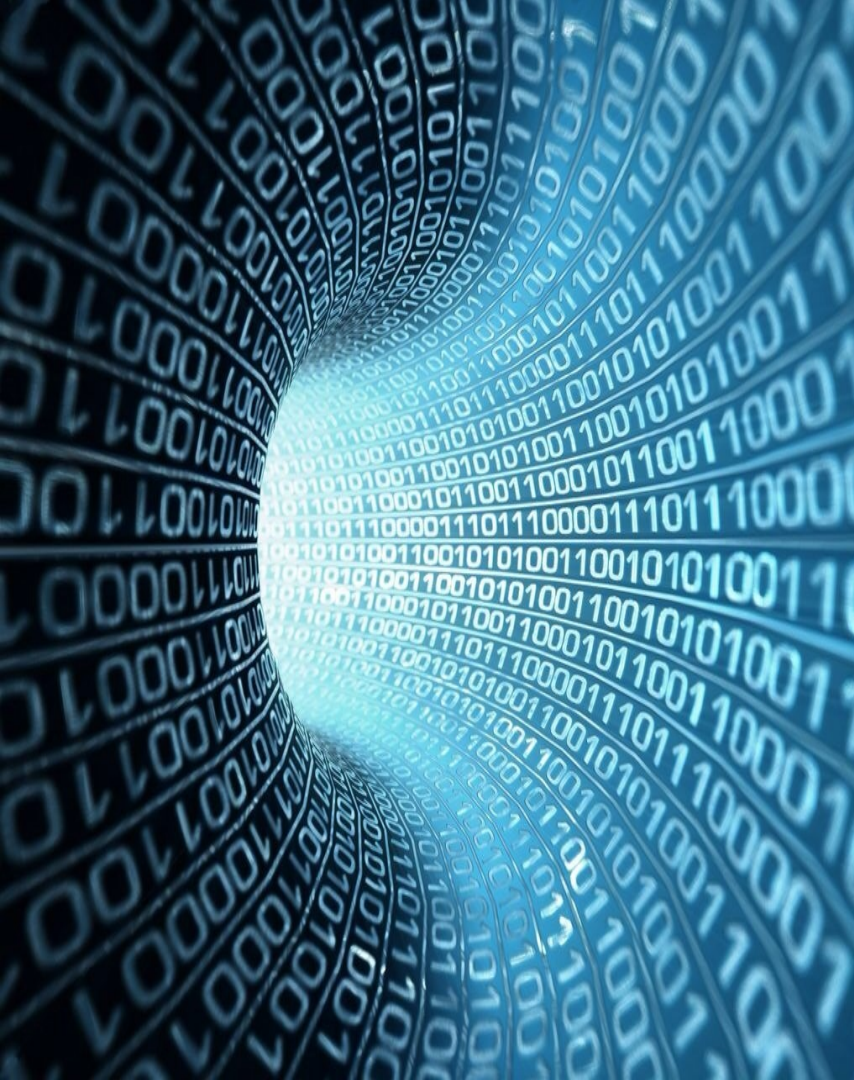
**Platform flexibility**

**Process automation**

**Real time monitoring**

*In terms of pricing speed, the most agile life insurers can reprice within a week compared to the slowest which are only able to reprice annually*





# Superior customer & market intelligence

Not letting perfection get in the way of the good

Leveraging internal and third party data

Advanced data science / analytics capability

Willingness to experiment and innovate





# Technology provides a tailwind

Build for the future

Core platform modernisation

Take advantage of data and analytics technologies

Cloud computing overcomes historical technology constraints (e.g. access, availability, agility)



**MIND THE GAP**

**These capabilities are the result of a clear strategy and deliberate, ongoing investment**

**Many providers are focussed on closing the gap.....**

**But they need to move quickly as the leaders are not standing still**

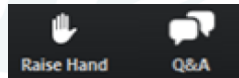
# Questions

Please click on the 'Raise Hand' icon  
to ask a question  
and

wait to be unmuted

or

Use the Q&A function





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