



Institute of Actuaries of Australia

XVth GENERAL INSURANCE SEMINAR

Evolution of the Industry

“Cows, Tigers, Foxes & Hedgehogs”

Targeting Future Best Practice

Colin Brigstock, Finity Consulting



“Best Practice”

- **A comparative measure, against:**
 - world’s best
 - direct competitors
 - own capacity and needs





Benchmarking current practice, identifying strengths and weaknesses

PRICING PROCESS	Poor	OK	Good	Leading	Best
Data Management				☹️ →	→
Technical Pricing			☹️ →		→
Portfolio Optimisation		☹️ →			→
Decision Support			☹️ →		→
Pricing Engine		☹️ →			→



Setting aspirational goals, establishing priorities

PRICING PROCESS	Poor	OK	Good	Leading	Best
Data Management				☹️ → 😊	😊 R
Technical Pricing			☹️ → 😊		R
Portfolio Optimisation		☹️ 😊			R
Decision Support			☹️ 😊		R
Pricing Engine		☹️ → 😊			R



Institute of Actuaries of Australia

Is “current best” good enough?



“Middle of pack” performer - maybe

PRICING PROCESS	Poor	OK	Good	Leading	Best
Data Management			☹️	➡️	🔴
Technical Pricing			☹️	➡️	🔴
Portfolio Optimisation		☹️	➡️		🔴
Decision Support			☹️	➡️	🔴
Pricing Engine		☹️	➡️		🔴



“Market leader” - probably not

PRICING PROCESS	Poor	OK	Good	Leading	Best
Data Management				☹️ →	☹️
Technical Pricing				☹️ →	☹️
Portfolio Optimisation			☹️ →		☹️
Decision Support			☹️ →		☹️
Pricing Engine					☹️



Pricing: Best Practice in 1980s

Data	Limited extracts of policy exposure and claims data Batch reporting via mainframe
Technical Pricing	Single and multidimensional tabulation of underwriting results by existing rating factors Ability to re-cast results using latest premium table Graphs done by hand!
Portfolio Optimisation	Deriving distribution of premium movements for proposed rating changes (in points) Policy of gradual change in rates (elasticity by
Decision Support	Monthly monitoring at portfolio level Quarterly results at rating factor level Portfolio level 2 year financial projection
Rating Engine	Points rating, no interactions Needed to support manual rate calculation

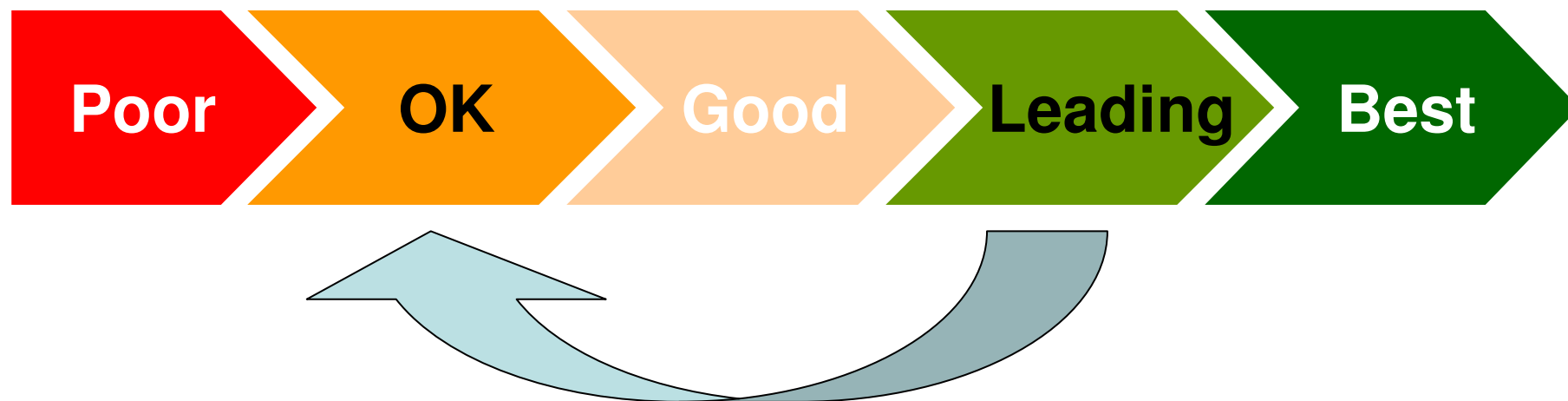
Barely rate as acceptable practice today



Best Practice is a moving target

Today's leading practice...

... may only be OK tomorrow





Institute of Actuaries of Australia

Cows and Tigers

**Looking beyond today's best
practice**



Institute of Actuaries of Australia





Institute of Actuaries of Australia





“Purple Cows”

- **Something remarkable**
 - Worth talking about
 - Worth noticing
 - Exceptional. New. Interesting.
- **Opposite of remarkable is not “bad”**
 - Indeed it may be “very good”
 - But just not good enough to be remarkable



Progressive Insurance

- **Competitor price comparisons**

Rate Ticker*


State Farm	\$1,678
Range of rates	\$419
hopper W.S. in California	
OLKSWAGEN JETTA GL	
0/11, 2:41 AM ET	
Progressive Direct	\$986
State Farm	\$1,207
FICO(A)	\$1,232

[Explore TickerPlus](#)

Learn about our accurate rate comparisons.



Norwich Union: Pay as You Drive




an AVIVA company

Quick Links Search

[Home](#) [Info](#) [Apply](#) [Contact](#) [Legal](#)

[Background](#) [Features & Benefits](#)



APPLY HERE

Why "Pay As You Drive"™ Insurance?

Statistics show us that people aged 18-21 are more likely to have accidents between 11pm-6am- with a greater risk of serious injury or fatality. At the same time, fewer accidents happen during the day between the hours of 6am-11pm. Until now, no distinction has been made between these times and as a result, car insurance premiums have remained high for all young drivers between 18-21 years.

By using the latest GPS (Global Positioning Satellite) technology Norwich Union has developed a smart box that will fit discreetly into your car to record the number of miles you drive and when.


By recording how many miles you do and what time of day you drive, Norwich Union have developed an insurance premium based on you alone. You'll benefit from off-peak rates, with the cost of driving between 6am-11pm much cheaper than driving between 11pm-6am.

There will even be a monthly bill so you'll be able to control just how much you spend and you will also benefit from every month **100 off-peak miles** being free.

"Pay As You Drive"™ might be for you if:

- You prefer to spread your bills monthly
- You do not drive regularly at night
- You wish to have comprehensive insurance
- You have a bank/building society account in your name

Win a fantastic new Peugeot 206 Sport!





TIO: Crocodile attack insurance



- **If you're killed by a croc while traveling in the Northern Territory, for \$10 the Territory Insurance Office will pay your estate \$50,000**



Seeking your “purple cow”

- **Understand your current capabilities**
 - Similarly for your competitors
- **Look around the fringes to find opportunities to create something...**
 - New, interesting, Remarkable
- **Opposite of remarkable is not “bad”**
 - Indeed it may be “very good”
 - But just not good enough to be remarkable



Institute of Actuaries of Australia





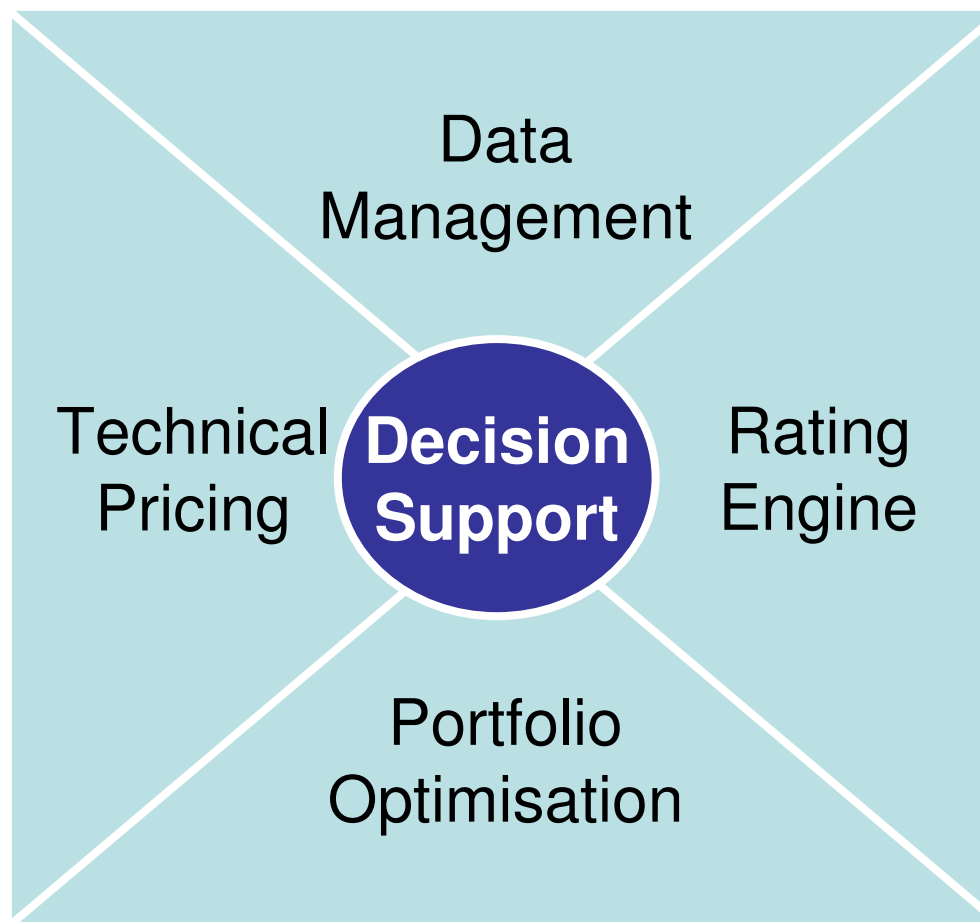
Theoretical Best Practice

- **Imagining what might be possible**
 - Describe perfection
 - What is needed to get there?
 - Start the journey





Theoretical Best Practice: Pricing





**The FOX knows
many things...**

**... but the HEDGEHOG
knows one big thing**



Archilochus (7th century BC)



The Hedgehog Concept

- **Is NOT**
 - A goal to be the best
 - A strategy to be the best
 - An intention to be the best
 - A plan to be the best
- **IT IS**
 - An UNDERSTANDING of what you CAN be the best at
 - Being FOCUSED on those things



Future best practice as a planning aid

- **Benchmarking against current best practice**
 - Provides good insight, but can be limiting
- **Look for the remarkable (purple cows)**
- **Test your Imagination (tigers)**
- **Focus on what you be best at (hedgehog)**



Further Reading

- **Seth Godin**
 - Purple Cow: Transform Your Business by Being Remarkable
 - www.sethgodin.com
- **Jim Collins**
 - Good To Great
 - www.jimcollins.com
- **Donald Mitchell et al**
 - The 2000 Percent Solution
 - www.2000percentsolution.com