



Pricing & Underwriting

Using data, scale, skill and insight
to deliver value to customers

Gus Park

Managing Director
of Motor, Pricing
& Underwriting

Pricing and underwriting

Key messages

1

We have long-standing scale and deep technical expertise

2

We have delivered good and stable results within limitations of legacy systems

3

Our new pricing engine will bring greater speed and sophistication to help us improve our margins and give value to customers

Our long standing scale gives us unique data assets and has helped us to deliver stable results

We have unique data assets...

34 years experience in the UK Motor market

20 million vehicle years of data

3 million recent claims data points

Market leading brands

Active across **all major channels**

Customer level **elasticity** and **retention** models

...and strong controls

Vertically integrated claims model

Benefits of Claims Transformation:

- Strong MI, early visibility of claims trends
- Proactive claims management

Conservative reserving

Tight loop between **pricing, claims** and **reserving**

We operate a risk plus pricing model and automatically calculate risk price for claims inflation

Margin layer

- Deliver return on capital
- Deliver target premium, loss ratio and contribution
- Cover expenses
- Ability to increase or discount

Risk layer

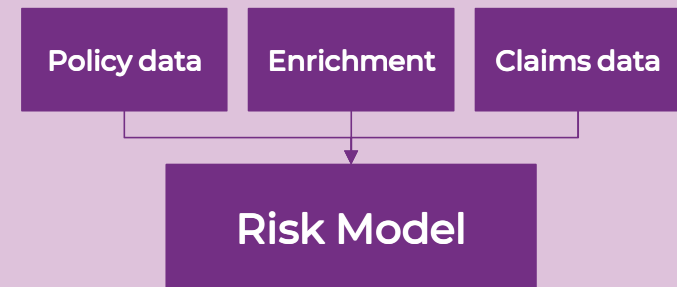
	Frequency	Severity	Burn Cost
Accidental Damage	%	£	£
Windscreen	%	£	£
Fire & Theft	%	£	£
Third Party Damage	%	£	£
Bodily Injury (small)	%	£	£
Bodily Injury (large)	%	£	£
TOTAL			£

- Calibrated to underlying claims performance (under constant review)
- Inflation added automatically

Portfolio pricing

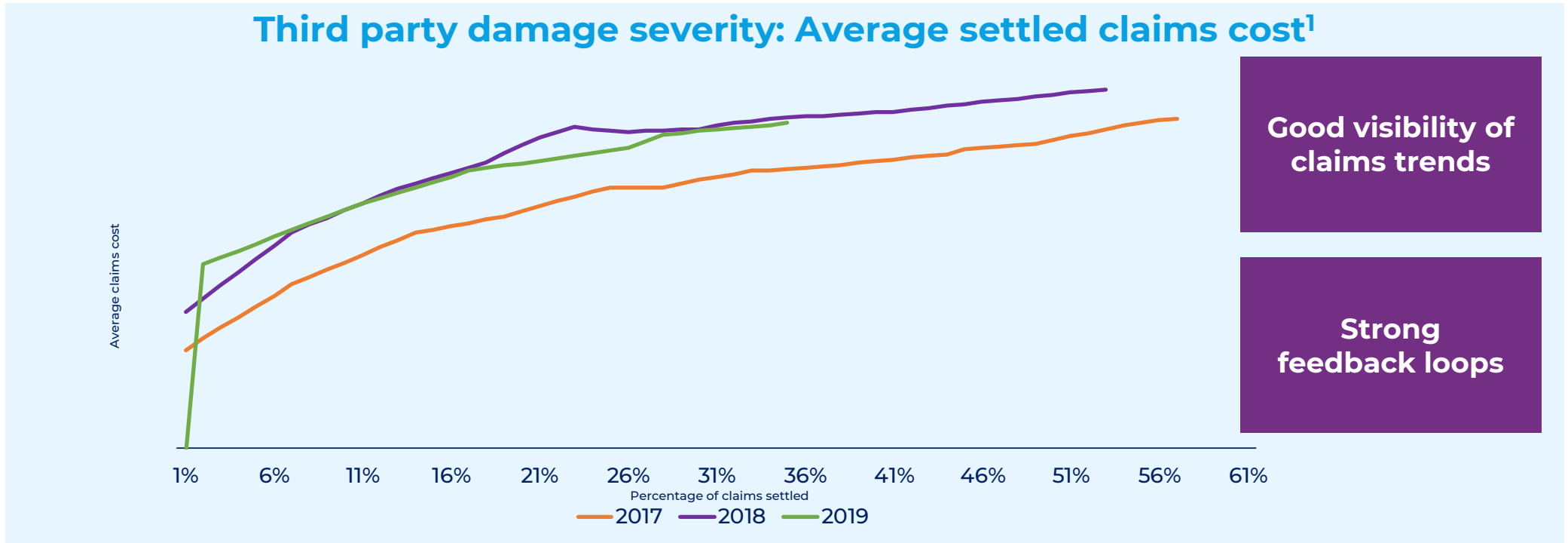
Customer level

- Margin optimisation (maximising trade-off between value and volume)
- Models to predict conversion, lifetime value, retention etc.



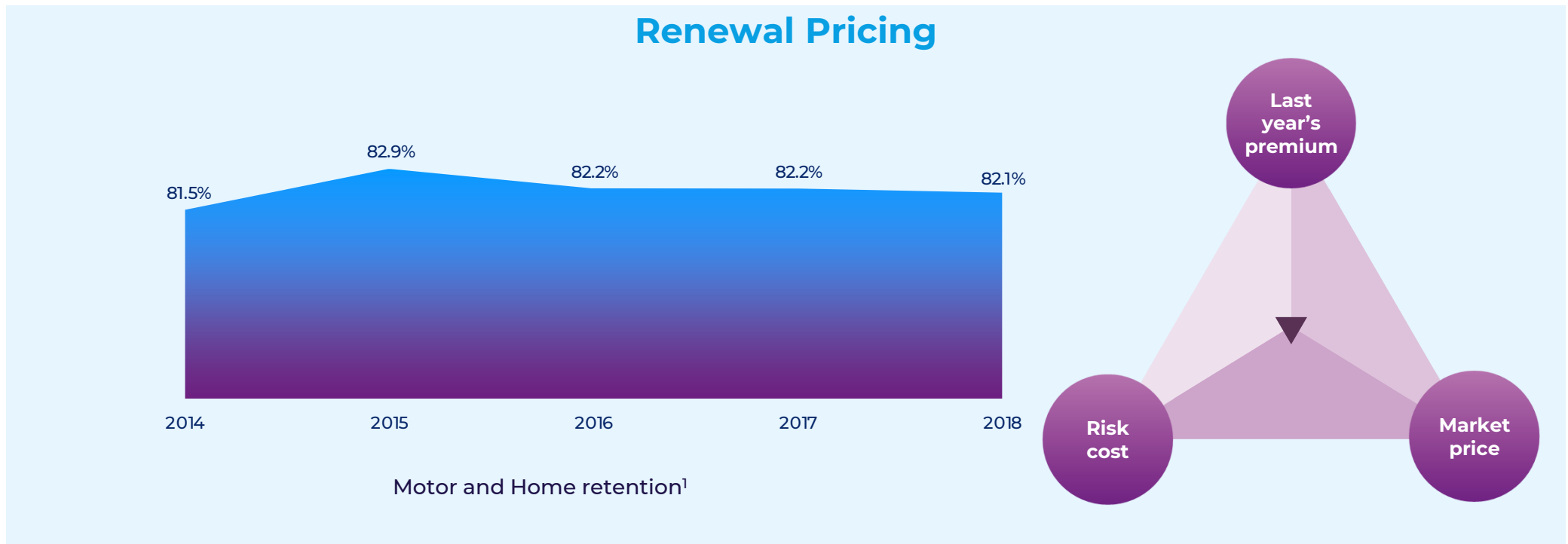
- Generates modelled burn cost at a customer level
- Traditionally using Generalised Linear Models (GLM)

We have very good visibility and understanding of claims trends

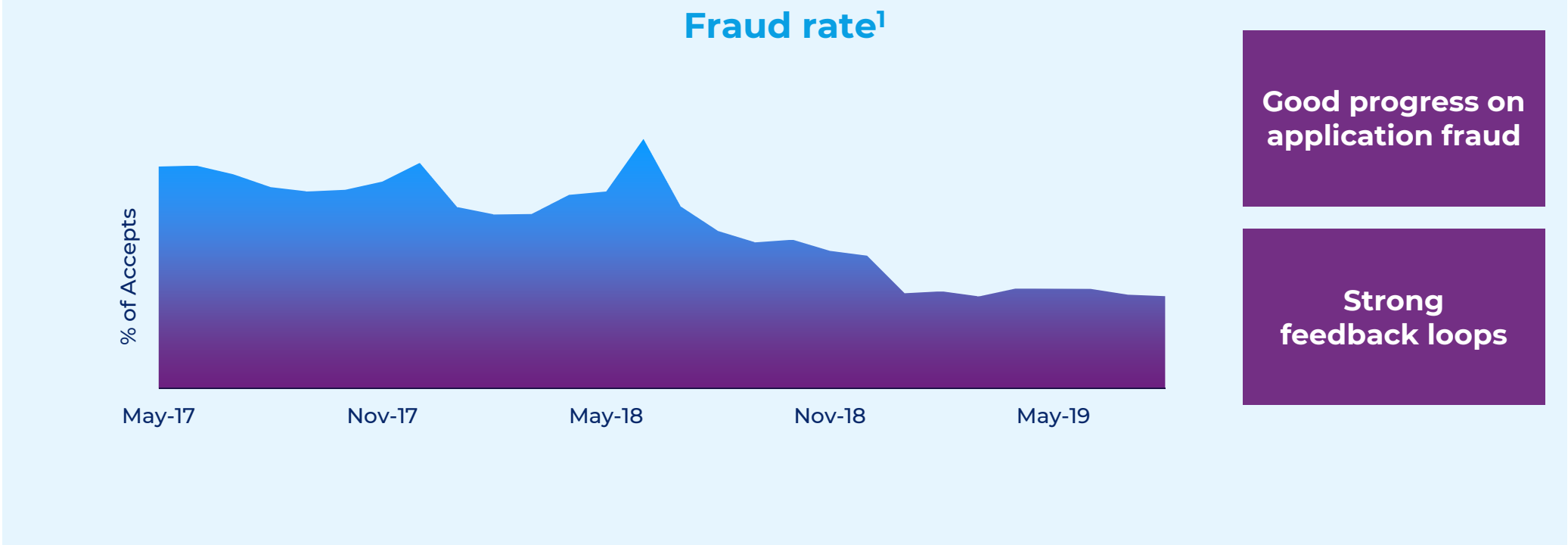


1. Adjusted for speed of settlement

Strong retention rates driven by our customer focus and renewal pricing expertise



We've made significant progress in our fraud prevention capabilities



1. The proportion of policies accepted that, at the point the chart was produced, had been detected as fraudulent following investigation by our Counter Fraud function

We are rolling out new systems designed to add greater speed, accuracy and sophistication

Radar Live is a key element of our multi year systems upgrade for Motor and Home

Data Centres

Radar Live

A pricing engine providing quotes, policy, renewals capability

GUIDEWIRE



Radar Live will bring a number of benefits

Increase the speed and accuracy at margin model build stage

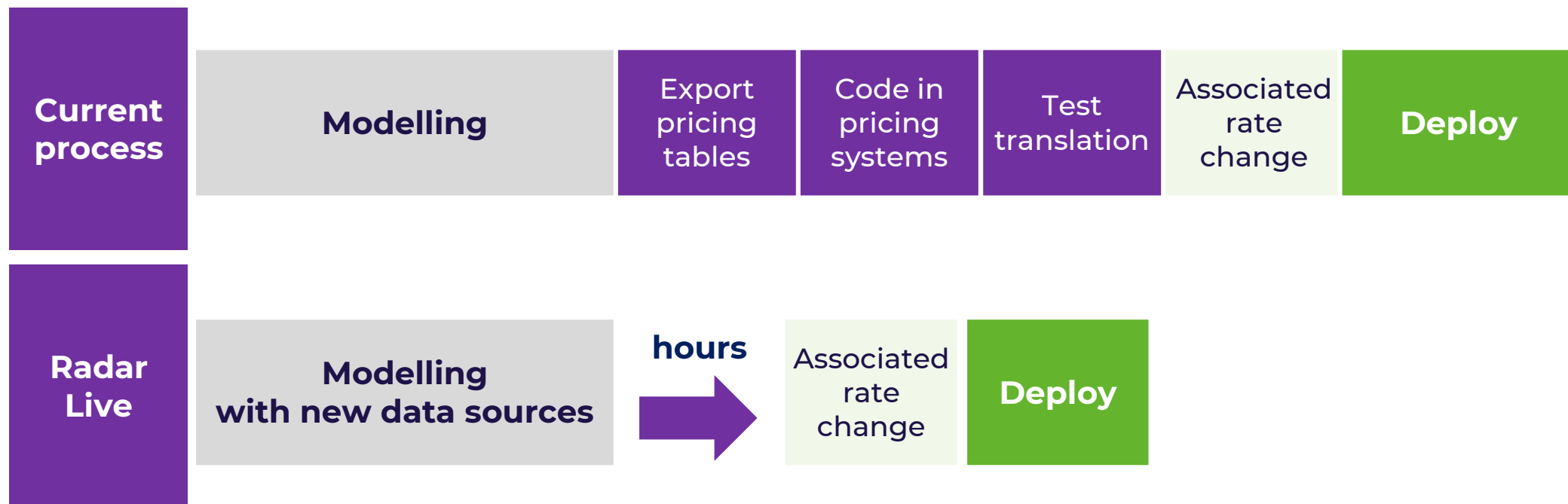
Greater potential for more sophisticated pricing interactions

Ability to integrate new data sources more easily

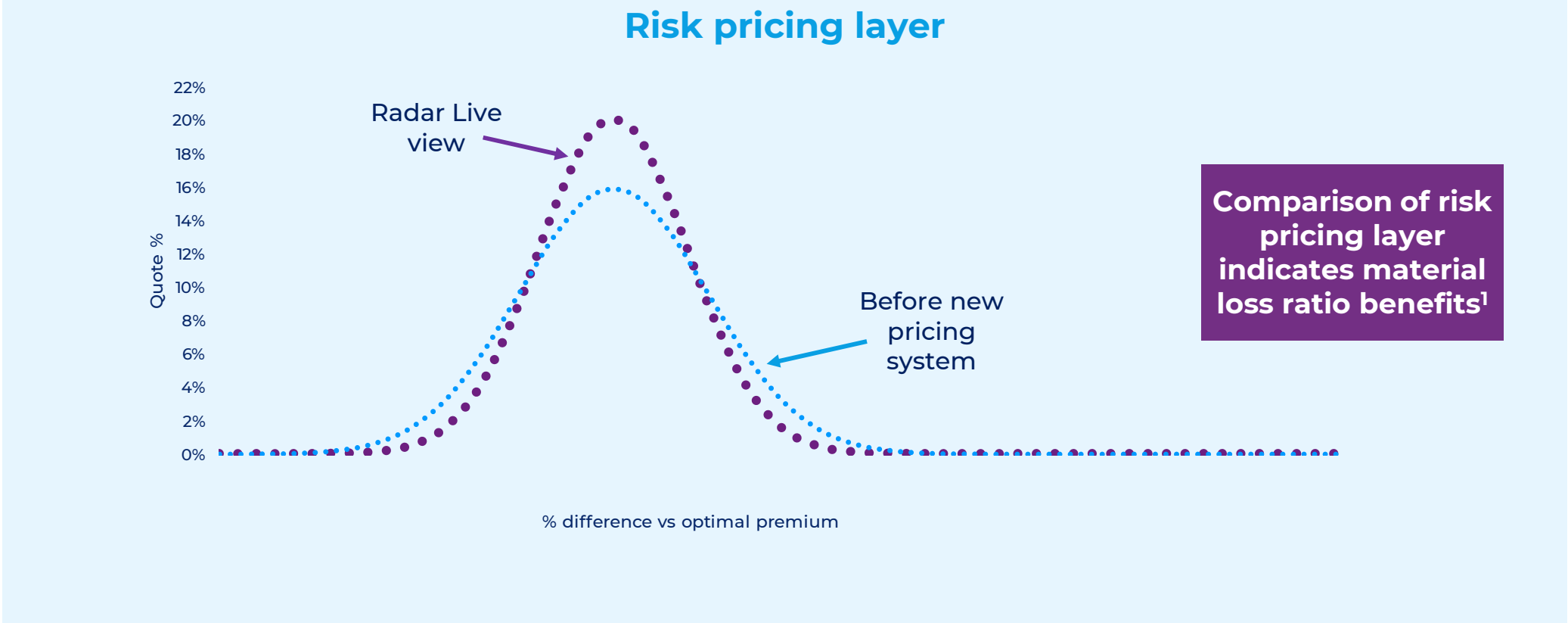
Increase speed of deployment

New systems enable us to model and deploy changes much faster, improving our pricing competitiveness

Full risk model refresh



We see material loss ratio benefits from greater accuracy and sophistication in our pricing



1. Radar view is illustrative, based on management estimates

New systems give us the potential to significantly improve our modelling techniques



More sources of data

Ability to integrate new data sources more easily



New modelling techniques

Darwin.[®]



More complex models

Greater granularity of data will enable us to build more models and more complex interactions

Enabling us to respond to ever changing customer needs

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