



BEYOND PRICE WALKING

Achieve fairer pricing and
prepare for the era of
customer-centric insurance.





PRICING UNDER THE SPOTLIGHT

In recent years, the UK insurance industry and its regulators have been making concerted efforts to become more customer centric.

From the perspective of the FCA, a key motivation is to improve outcomes for customers—especially the most vulnerable—by pushing insurers to make their pricing processes fairer and more transparent.

The move towards customer-centricity isn't just a question of regulatory compliance: there are benefits for insurers too. If they use fairer pricing to build stronger, more trusted relationships with their customers, they can win renewals via better customer service, not just because they offer the lowest quote. This could help break the industry out of a destructive cycle of commoditisation and prevent a race to the bottom.

In this eBook, we'll show how addressing price walking can be a starting point for a broader transformation. Getting ahead of regulatory requirements with a more proactive approach to customer-centric pricing can create competitive advantage—shifting customers' primary decision-making criteria away from cost and towards quality of service, relevancy of products and level of cover.



"Fairer pricing is not just a matter of regulatory compliance—it's part of a fundamental shift in the way insurers think about customer relationships and lifetime value."

Dean Lawson, Insurance Solutions Consultant, SAS Institute



MEETING TODAY'S INDUSTRY IMPERATIVES

This is a pivotal moment for the insurance industry and pricing is just one part of the overall challenge insurers are facing. To regain consumer trust, businesses must put the Financial Conduct Authority (FCA)'s proposals around fair value into action quickly. The abolition of "price walking"—the practice whereby existing customers are charged higher premiums than new customers, even if they have identical risk profiles—is imminent, and insurers will have to move fast to meet the [FCA's new reporting requirements](#).

While technology cannot solve all the issues, it can play a crucial role in helping insurers weather the storm and come out stronger. First, insurers will need to unpack the concept of fair value at the heart of the price-walking regulation and identify the areas where technology can help address the new imperatives.

For example, technology can help insurers by reducing friction in the customer journey, enabling them to provide seamless services that delight the customer.

Technology solutions can also be extremely valuable in creating analyses and models that allow insurers to identify which components of their product mix are contributing to fair value, and to demonstrate compliance to the regulator.

Delivering these capabilities quickly, cost-effectively, and without tying up top talent in hours of repetitive, manual work will be key to success in the new era of customer-centric insurance. Businesses that can use technology to help solve these challenges will have a significant competitive advantage.

To empower insurers to meet the new requirements, SAS® offers a fully governed, end-to-end platform that co-exists with your existing IT systems and processes, and that can even ingest open-source models with ease.

The SAS® approach brings a single, central control layer that enables full audit control, delivering explainability that will meet the demands of internal and external auditors in no time at all.

Best of all, SAS® can help you achieve compliance success—and build future-facing customer-centric capabilities—in just a matter of months.

WHAT'S WRONG WITH TODAY'S PRICING PRACTICES?

Today, the UK general insurance market is one of the most competitive in the world. When price comparison sites first came into the market, consumers gained access to multiple quotes from a growing range of insurers, giving them the freedom to shop around and creating a new dynamic. This empowered consumers and created increased competition in the market—but since then, the industry has lost its way.

Price comparison sites led to a marketplace that has become obsessed with looking for the lowest price, which has resulted in constant customer churn.

Competition between insurers has focused on finding new ways to win customers at an ever-decreasing price point, instead of innovating around the customer and creating products can satisfy each customer's ever-changing needs.

In the immediate term, the FCA has called time on some of the worst practices that have resulted, such as penalising customers for loyalty or inertia through price walking. The regulator has asked insurers to go back to basics, to deliver and demonstrate fair value, and to focus on the customer. The industry must deliver on these new requirements or face regulatory penalties.

In the bigger picture, if we don't address the lack of transparency around pricing, it's going to hurt the insurance industry over the longer term. If firms are unable to join the dots between different parts of their business and understand the rationale behind the pricing decisions that they are making, the result will be governance failures, exposure to conduct risk, and an inability to meet future requirements as regulatory scrutiny on customer fairness increases.



"Insurers now have to innovate around the customer, searching for and delivering on the principles of fair value."


David Ferguson, Principal Consultant, Financial Services and Insurance, SAS Institute




TAKING ACTION ON PRICING AT BOARD LEVEL


To win consumer trust and nurture loyalty in the long term, insurers will need to go beyond the letter of the law and demonstrate a truly customer-centric approach. This begins with stronger senior management oversight of outcomes from pricing—and firms need a clear action plan that covers the following aspects:


 **Develop a clear pricing strategy that articulates how customers are offered value for money.** This strategy needs robust board oversight and must consider the business model implications of alternative approaches. Defining the value of the strategy is a must, and businesses should create a risk appetite framework that allows them to monitor the level of insight into customer value across all product lines.

 **Assess the impact of pricing on different customer segments, especially long-standing and vulnerable customers.** Customer outcomes must be incorporated into pricing decision-making, and there must be adequate board visibility of these outcomes in conduct risk reporting.

 **Implement appropriate governance, control and reporting to ensure that the agreed pricing strategy is implemented in practice.** This framework should consider senior managers and the certification regime, ensuring adequate challenge from the second-line decision-makers and the board.

 **Review operational considerations relating to pricing.** This includes how pricing messages are presented to customers in marketing material or other customer communications, and how complaints are handled.

 **Document pricing processes and identify potential risks to customers.** Where technical pricing and retail pricing is separated, and where price optimisation is used, businesses should ensure measures are in place to ensure that value-for-money checks are met.

 **Review the use of data in the pricing process.** Insurers must understand which internal and external data sources are being used in the pricing process, and ensure that they are appropriately governed. The business must also ensure that the use of this data is reasonable and will not give risk to unfair outcomes, such as indirect discrimination.



WHAT DO INSURERS NEED?








As the new price walking restrictions come into force, insurers will need to put new processes in place to analyse current and historical pricing and report any violations to the regulator. To explain and justify their pricing decisions, firms will need insight into pricing, tenure, and risk profiles on an individual customer level—something that most insurers will struggle to achieve with their existing pricing infrastructure.

The problem is that most insurers find themselves relying on a fragmented landscape of departmental systems and silos of data. Over time, they have accumulated a complex network of legacy systems, new cloud services and open-source tools, each of which is managed by a different team and used to support a different aspect of the pricing process.

The result is multiple brands within the business offering different pricing based on direct or comparison-site-only channels to market. While each business unit can do its job, nobody has a view of everything that is going on across the business. And as new opportunities arise—such as integrating data from telematics or aggregators into the pricing process—it's increasingly difficult to extend the existing landscape without introducing yet another silo.

Insurers need a way to master this complexity and gain a 360-degree view of their pricing decisions and respond to changes in auto-renewal processes. And they need to do it fast, because the FCA expects to see an initial implementation for price walking within months.

PRICING TEAMS NEED TO ADDRESS

-  How quickly can you modify processes to respond with the right price and time?
-  How long does it take to integrate a new data source into your pricing landscape?
-  How many teams and tools are involved in developing and deploying pricing models?
-  How long does it take to build, test and deploy a new pricing model?
-  What percentage of pricing models never make it into production?
-  When a pricing model's performance starts to degrade, how quickly can you respond?
-  How well can you explain pricing to regulators, senior leaders and customers?

SOLVING THE PRICING CHALLENGE


The opacity of today's pricing decisions results from the complexity of pricing strategies. The underlying systems and processes will make it difficult to maintain the much-needed governance, traceability and auditability under the new regulations.


One approach to solving this problem would be to reduce complexity by ripping out the existing pricing systems and replacing them with a more standardised and centralised solution. However, this would be an extremely disruptive, expensive, and high-risk option for most insurers, and delivering such a large-scale transformation project would be practically impossible within the timeframes set by the regulator.


A rip-and-replace strategy risks throwing the baby out with the bathwater. In many cases, the existing systems are best-of-breed and pricing teams want to continue using the best tools for the job, instead of moving to a general-purpose platform that may lack the features they need.


A better option is to connect the existing systems to a new governance layer that can provide visibility across all pricing data, decisions, and documentation. This offers a low-risk, non-disruptive approach that can be deployed much more quickly and extended more easily.

KEY FAIRER PRICING CAPABILITIES

 **Transparency.** The solution should monitor and capture all data and activity on pricing, make it visible to authorised users in a secure, auditable way and enable fast, accurate, reliable reporting on pricing for regulators, management and customers.

 **Customer intelligence.** The solution must link real-time customer data to pricing, to gain deeper insight of customer needs and behaviour. It should make it easier to offer the right product at the right price to the right customer via the right channel.

 **Product management.** The solution should enable fine-grained customer segmentation to identify customer groups and fit products to their needs. It should also enable insurers to monitor product adoption and understand how pricing and other product features drive customer decisions and loyalty.

 **Customer engagement.** The solution should enable an increased emphasis on customer engagement, especially in the period leading up to renewal. As policyholders begin to judge their insurers on value-add services, price will no longer be the major factor in churn.



WHY SAS?

SAS is one of very few solution providers with the breadth of technology and expertise to deliver a solution for price walking within the FCA's deadlines. The SAS® platform takes the pragmatic approach outlined here, acting as a governance layer that integrates with your existing pricing systems and data sources—whether legacy systems, proprietary applications, cloud services, or open-source tools.

The SAS® governance layer bridges the gaps between these systems, controlling and monitoring the flow of information to ensure good governance, end-to-end traceability and comprehensive auditing of pricing decisions. With a single point of access to all data and decisions relating to pricing, it is faster and easier to meet regulatory reporting requirements, highlight anomalies and fix problems quickly.


At the same time, the SAS® solution can help to automate the pricing process—feeding the output of one tool into the input of the next and building a seamless API-connected ecosystem without

manual hand-offs between teams. This not only accelerates the delivery of pricing decisions; it also reduces the risk of human error and liberates IT and data science teams from hours of routine low-level tasks.

The SAS® approach is also highly extensible, which means you can roll it out quickly to meet immediate requirements such as price walking, and then expand it to create a more fully featured pricing governance solution by connecting additional data sources and tools over time. SAS® offers cloud options that allow you to get started in a few weeks, which is a major advantage when facing tight regulatory deadlines.

Finally, the simplicity of integrating new types of data encourages a more innovative approach—for example, your data scientists could experiment with adding telemetry data to their pricing models, test the results, and if there is an improvement, deploy the new models to production within days, not months.

TRANSFORMING PRICING

-  Improve decision management by conducting pricing decisions, applying validation and tracing lineage over systems.
-  Increase collaboration by sharing model data across teams and allowing users to work with whichever open-source or best-of-breed tools they prefer.
-  Strengthen governance by tracking model changes and business rules, providing a full audit trail for pricing-related decisions.
-  Accelerate model development with visual data exploration and model-building workflows that don't require coding.
-  Enhance model effectiveness by adopting machine learning algorithms, deploying models rapidly, and monitoring them in real time to maintain accuracy.



CASE STUDY: MAJOR UK INSURER

CHALLENGE

The insurer identified shortcomings in its existing pricing systems and processes:

- Integrating new data was difficult and slow.
- Trialling new models was almost impossible.
- Deploying new pricing models took too long.
- Pricing decisions were hard to explain or audit.

SOLUTION

Working with SAS, the insurer ran a PoC to explore the value of adopting a modern approach to pricing, built around:

- High-performance in-memory analytics.
- Advanced analytics and machine learning.
- Decision management and governance.

RESULTS

The PoC demonstrated how these technologies would help the insurer:

- Enhance data governance.
- Simplify compliance.
- Enable a customer-centric approach to pricing.
- Increase pricing flexibility and agility.
- Accelerate decision-making.
- Reduce time-to-quote.

BENEFITS

After the successful delivery of the proof of concept, the insurer was delighted to discover that the SAS® solution was approximately twice as effective as it originally expected.

The company estimated that adopting these technologies on an enterprise-wide basis would result in:

- 1% reduction in combined operating ratio.
- £15 million in financial benefits over 3 years.



“Today, it can take insurers months to update their pricing models. As the pace of change in the market increases, the firms with the most agile pricing will have the greatest competitive advantage.”

Dean Lawson, Insurance Solutions Consultant, SAS Institute



AGILE PRICING IN A DYNAMIC MARKET

The introduction of the new price walking regulations is likely to be one of the biggest disruptions to insurance pricing in decades and may create unpredictable effects in the market. Depending on how you design your new pricing models, you may suddenly find that your premiums are either much higher or much lower than your competitors. If you can't respond quickly and adjust your models to the new market conditions, your firm may lose market share or see its profit margins erode.

Price walking is unlikely to be a one-off event. As the industry and the regulator shift towards a more customer-centric model, these disruptive market changes are likely to become more frequent. The longer you depend on antiquated pricing processes, the less likely you are to come through these trials successfully.

By starting to modernise your pricing practices today, you can take a step-by-step approach to digital transformation—making the investment in agility in your own time, on your own terms, and for your own benefit, instead of constantly struggling to stay ahead of the regulator.

Embracing agility means that you can treat pricing as a means to drive innovation—experimenting with new business models such as pay-as-you-go insurance, for example, without compromising your core business or increasing the complexity of your pricing landscape.

In the long term, smarter pricing will be a keystone as insurers build more customer-centric business models, encouraging customers to rethink their perception of insurance as a commodity product and choose their provider based on product features, relevant coverage, and customer service—not just price.



Learn more about how SAS® can help insurers transform pricing to meet immediate regulatory requirements and the emerging challenges of today's dynamic market:

sas.com/uki/insurance

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