



Season 2 Episode 2: Generating more business and at the right price: supporting insurance agents and brokers with valuable information

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SPEAKER 1: You're listening to (Re)thinking Insurance, a podcast series from Willis Towers Watson where we discuss the issues facing P&C, life, and composite insurers around the globe, as well as exploring the latest tools, techniques, and innovations that will help you to rethink insurance.

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VITTORIO MAGATTI: Hello and welcome to (Re)thinking Insurance. I'm your host, Vittorio Magatti, and today I'm delighted to be joined by my guest Gero Niessen, senior director in Germany, very experienced in pricing and underwriting in the local market and for sure in the continental Europe. Welcome, Gero.

GERO NIESSSEN: Hi Vittorio. Nice to be here.

VITTORIO MAGATTI: So in today's episode, we are going to explore an interesting topic. We define these supporting insurance agent brokers with valuable information. But first let's find out a little bit more about our guest. So Gero, googling you or trying to ask you some additional information related to your experience, it looks like you are also a church player, starting at 13 years old. Wow. Big comments on this?

GERO NIESSSEN: Yeah, that's right. I started when I was 13 years old to play the organ in our church. And I did this I think until I became 32 years old when my children were too old to do all these jobs in parallel. And I actually have also a digital church organ in my basement. And I am also a trained church musician, including the conduction of the chorus. So that's my hobby apart from the actuary and underwriting bit that I do.

VITTORIO MAGATTI: Really, really exciting. Thanks for sharing this. So Gero, typically today, how do agents decide on the pricing and discount that they offer on insurance product? And what are the potential problem with this approach? From your perspective as well, what are currently the main challenges in the face-to-face sales process of insurance product?

GERO NIESSEN: I think we really should focus here on the face to face sales force, because this is completely different compared to something like selling insurance through the aggregator channels. So if an agent or a broker or a tight agent or whatsoever but someone who sits in front of the client wants to sell the product, you usually receive a quote information. So the rate book information from your insurer. And this say something like, well, this specific client has to pay 400 euros for this coverage.

And then in the usual face to face sales force, the way looks like that. The client asks, well, 400 euros, that's a bit expensive. Can we reduce by, say, 10%? And then the agent thinks about, well, what's my authority? Am I allowed to give 10%? And of course, a 10% of 400 is a 40 euros. And a 10% of 800 would be 80 euros. So it is a question whether the 10% makes sense at all.

But usually in many continental European markets, the discount authority of the agents is much higher than 10%. So what we see when we evaluate the discount structure, it's typically something like a multitude of five percentage points. So it's 5%, 15%, 20%. Because nobody really wants to think about 9.78%, which would be from a sales perspective sometimes much better. So the rate book is discounted using a kind of an arbitrary discount but without the knowledge from the agent of what really the production cost of the product insurance for this specific client may be

And what we see in many markets is something like let's take the example of a young driver for the motor insurance. Young drivers should usually receive a surcharge which is much higher than the one which is inherited in the rate book. The reason is that if you put in the surcharge that they really would need, you would never sell anything there. So if the surcharge would be something like 350% on top of a base risk, usually rate book sees something between 150% and 200%. And so the young driver is underpriced anyway.

And if the young driver asks for a discount and the agent says yes at 10%, then you can imagine what happens. So this is really the challenge that I see in the moment in the sales process from a profitability perspective. And of course, several of these information are available or could be made available to the agent.

VITTORIO MAGATTI: Many thanks. Really, really interesting. So discussing about the face to face, what I have seen, what I have understood is that for sure there is a different way to sales or to make a sales for a policy and for sure there are some discrete way to manage the discounts or multiple offers. Very interesting topic. Now, trying to go more in deeply, how do you think the situation could be improved?

GERO NIESSEN: So the situation can be improved if we use the knowledge that is usually existent in the actuarial or analytics department. So some clients call it analytic departments, other actuarial department. They usually know for each individual client the prediction of the future claims cost. So they do know by their predictive modeling use what the production costs are. And if you are able to transfer this information for this individual client to the point of sale, then your agent is also able to understand what is the profit margin which I can use to reduce my price without underprice the risk. And this information is really valuable.

So decoupling of the knowledge is currently what we see. If we enable by some clever techniques the agent to know the individual claims behavior of the client sitting in front of the agent, then we have much more chance, a much better chance, to really give a proper discount. And in addition, you can deliver other relevant information to the point of sale, which may also be based on predictive models.

For example, the conversion probability. It may be that the conversion probability for the client that I mentioned before, like 400 euros, for 400 euros, the conversion probability is 60%. And if you decrease the price by 30 euros, it may be something like 90%. And this is, of course, a very valuable information that you can give to the point of sale, as well as something like what is the customer lifetime value of this client if it is not a completely new client for your organization but has already something like a life and a health insurance and the buildings insurance? So these are the things which we could use to improve the behavior and also to

support the agents.

Of course, this needs a proper technique in the back end. And what we see in the market that many companies are thinking about dynamic pricing. This is mainly due to the fact that they think about dynamic pricing in terms of selling insurance products in a direct way. For example, through the aggregators. However, all the techniques that they can implement or that they need to implement to use dynamic pricing can be also used to better equip your sales force with relevant information.

For example, if you have something like a rating engine, and sorry for advertising here something like Radar Live from our company, but many clients use this for that. So if you have a rating engine which enables you to flexibly use arbitrary predictive models at the point of sale for the rate making process, you can easily use also the same engine to deliver something like the production cost, the conversion probability, the next best action, the customer lifetime value with a click of a button to the sales force. So there are enormous possibilities using these techniques to support your sales force with relevant information that you would otherwise have only available in your actuarial department.

VITTORIO MAGATTI: Yeah, so dynamic pricing, customer lifetime value, conversion, costs of production. So all of these additional information could be really helpful in this kind of new way or different way to make a transparent and synergic relationship between insurers and distributors. Nice. What are the benefits that the insurers and agents can see from this approach?

GERO NIESSSEN: I see the benefits of the insurers to really reach the target that they always claim about profitable growth. So on the one hand side, of course you can grow without profitability or you can become profitable but that may cause that your portfolio reduces quite significantly. But using these techniques really bring all the information to the point of sale that supports your sales force to underwrite the risks that you really want at the right price, enables you to grow in a profitable manner.

Moreover, I think using proper techniques like Radar Live, you effectively reduce your costs. Because in many other circumstances, IT departments need to re-implement rate books which have been implemented already by the actuarial department because they perform their impact analysis on these anyway. So you omit all the re-implementing and retesting of these rate books. And of course, you gain much in speed and flexibility. And having said that, why is this also important for the agents? Of course, if the agent sells more, they will have earned also more, because they will gain more commission.

And a last point to this answer is my experience is that many insurance companies do not think that positive about their tied agents or that positive about their technical background in terms of pricing and underwriting. And if you discuss with insurance companies something like why don't you let them know what the production costs are or what their maximum discount for this specific client is? And some insurers say, well, they won't understand. But I think that's wrong. These techniques, using them properly enables you also to gain a much better transparency between your sales force and the insurer. And educating the agents in this way will help them to decide much better on the risk that they shall underwrite.

VITTORIO MAGATTI: Thank you. So profitabilities versus volumes. This kind of approach could really try to influence both or try to match the target of the insurers but also including the distributors in. Or let me say, embedding the distributors inside this kind of strategy. So very, very interesting again. Last question for you, Gero. If you are an insurer not providing this sort of sophisticated data to your agents, what should you take away from this podcast?

GERO NIESSSEN: Good question. I think you should think about why do you not provide this sort of data to your agents and why is your organization not able to do that? And you should think a step further like what is the consequence for your organization? I think your organization will fall behind those players in the market who can provide this sort of sophistication, at least in the medium term. So in the opposite of those players who can do that and who work with these techniques, you will see a smaller portfolio with less profitability.

And in the end, that means you will also have an unhappy sales force. So this is not the best prediction for the future outcome for those companies. But I think it is like it will become a kind of a hygiene factor in the market to really be able to support your sales force with the relevant information and not to just give them the rate book price and an arbitrary discount authority. And I think that we will see a significant separation between companies who are able and properly implement something like additional information at the point of sale and those who are not.

And of course, the implementation to give this additional information to the point of sale will strongly be connected with the culture of the insurance company and the tied agent sales force. So it will look different for player x than for player y. And there is not a one size fits all. It's something which you really need to think of how do my agents want to see the additional information and how can I present it to them in a proper way? And of course, this will also have effects on actuary departments or analytical departments in the way that they will communicate with the sales force.

But sorry, that was a bit apart from your question. I think those companies who cannot implement these things, they should lay the foundation to think about how could we do this in two to three years' time. What do we need now and what do we have to implement now in order to be able in two to three years' time to implement them properly?

VITTORIO MAGATTI: That's clear. So why and how probably are the two main question for insurers. I really would like to thank you for this podcast, Gero, and to join as a guest.

GERO NIESSEN: Yeah, you're welcome. It was a pleasure to speak with you, Vittorio.

VITTORIO MAGATTI: Thanks for listening.

SPEAKER 1: Thank you for joining us for this Willis Towers Watson podcast. For more information, visit the Insights section of willistowerswatson.com.

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