8. (2.25 points)

Given the following information:

| | |
|---|---|
| \$500 | Current average premium |
| \$600 | Indicated average premium |
| \$510 | All competitors' average premium |

a. (0.5 point)

List two likely consequences of the company implementing the indicated rate.

b. (0.5 point)

Briefly describe two factors that affect an insured's propensity to renew.

c. (0.75 point)

The company has decided to not implement the indicated rate. List three non-pricing solutions the company could implement to ensure profitability does not deteriorate.

d. (0.5 point)

Identify an issue with comparing one company's premium to another and briefly propose a solution to this issue.

CONTINUED ON NEXT PAGE

| **QUESTION 8** | |
|---|---|
| **TOTAL POINT VALUE: 2.25** | **LEARNING OBJECTIVE(S): A6, A9** |
| **SAMPLE ANSWERS** | |

**Part a:** 0.5 point

- Policyholders will not renew, will switch to competitors
- Retention rate will go down
- Company starts to lose market share as new insureds will also choose competitor
- The company may be subject to filing objections from the regulators
- The competitor might also raise their rates
- Close/hit/conversion rate will go down
- Loss ratio will improve/decrease
- Profitability of the company should increase
- Profit per risk will increase

**Part b:** 0.5 point

- Price: if other factors are the same, insureds will choose an insurance policy with lower premium
- Level of service/customer satisfaction: insureds prefer insurance companies with better services
- Brand Loyalty: Loyal insureds/Insureds that have been with the company longer will more likely renew with the company than new customers
- Overall price of product: if the product is expensive in general, customers tend to shop around more
- Competitor Price: customers might choose to non-renew if they can find a cheaper policy from competitors
- Rate Change: A big rate increase will trigger customers to shop around
- Renewal rates offered by current insurer: If the renewal rates offered are relatively similar to previous rates, client is likely to stay
- Younger insureds tend to shop around more than older insureds
- Claim handling service quality, if the policyholder has filed a claim
- The need for the coverage: if the coverage is not mandatory, clients may not renew if the coverage is no longer needed (e.g. sell property)

**Part c:** 0.75 point

- Reduce expenses by laying off staff/ reducing marketing expenses
- Reduce fixed expenses/variable expenses/commissions
- Modify underwriting rules to write less risky policies/ to target more profitable risks
- Decrease benefits by rising deductibles/ lowering limits
- Target favorable risks to market to
- Non-renew high risk exposures
- Hire experienced claim adjusters to control claims paid/ avoid claim leakage
- Change mix of business by tightening UW guidelines to write better risks
- Introduce loss mitigating programs to insureds to help reduce claims

**Part d:** 0.5 point

*Sample Responses for identifying an issue*

- Companies do not always have the same types of policyholders, so a lower rate could mean a company only writes low risk policies and a different company writes high risk but are both profitable.
- Companies can have different mix of business/ underwriting guidelines/ growth strategies/ targeted markets/ coverage levels/ products

*Sample Responses for proposing a solution*

- Instead, company should compare premium by segment
- We should find a competitor with similar mix of business to compare
- We can pick risks that share the same coverage level to compare
- Company can choose a risk profile and get a quote for it from competitor to compare
- Can re-rate our book of business using information found in competitor's rate manuals and filings and then compare
- We can compare average premiums of a segment and relativities of the segment

**EXAMINER'S REPORT**

Candidates were expected to understand the impact of rate changes and elements contributing to customer renewal decisions. They were also expected to know non-pricing solutions to increase profitability.

**Part a**

Candidates were expected to provide two different consequences to the given scenario (both positive and negative consequences were accepted).

Common mistakes include:

- Company is subject to adverse selection
- Company's LR will deteriorate
- Company should not implement the indicated premium (not a consequence)

**Part b**

Candidates were expected to briefly describe two factors affecting the insureds' propensity to renew.

Common mistakes include:

- Listing "Price" without any description as to why this affects renewal
- Other listed items without description

**Part c**

Candidates were expected to list three non-pricing solutions to maintain profitability.

Common mistakes include:

- Better segment risks by changing relativities but don't change overall rate

- Change mix of business (need more verbiage as to shifting to a better performing mix)
- Change coverage (a direction needs to be given)
- Increase investment income
- Purchase reinsurance

**Part d**

Candidates were expected to show understanding of conditions required for a fair premium comparison between companies.

Some candidates did not answer this part in conjunction with the information provided in the questions, or provided solutions to another issue rather than the one identified.

Common mistakes for issues include:

- Premiums are not comparable due to different expense assumptions
- Premiums are not comparable due to different profit provisions

Common mistakes for solutions include:

- We can look at pure premium instead
- Adjust for bias and then compare (too vague)