



Institute of Actuaries of Australia

Delivering Transparency & Flexibility in Pricing

The Buzz Insurance

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Abstract

The Buzz Insurance was launched in May 2009 and has been recognised for its innovation in product design, marketing and co-creation with customers. The brand was built heavily on consumer research drawn from insight sessions conducted nationally within target market segments and through a website called www.myinsuranceideas.com.au.

Product design and business operations were built around these customer insights and testing with consumers. The overwhelming theme from the customers was the desire to have a clearer understanding of what they were purchasing and choices in options and importantly a transparency around what they are paying for. The customers showed they were financially aware of trade-offs of low price, low cover and high excess.

This paper provides an insight into how The Buzz delivered true transparency and flexibility in pricing for consumers. Some of the things we will discuss within the paper are the process used to complete the Product design for the Car and Home products, the development of pricing models by cover component, flexibility in IT, and the culture for the new business.

Keywords: The Buzz, transparency, pricing, co-creation, culture, rating, customer

Background

In September 2008 the IAG board approved a business case for the launch of a new Internet based brand into the marketplace. This new brand would not simply be about taking a traditional insurance business model or product and pricing position but would work with customers to identify what would be expected of a full on line insurance company.

It was recognised that to deliver on this it was important not to distract existing businesses and also to develop a culture that would align with the unique branding and proposition. At that stage “e-ventures” comprised a team of only 3 staff, but with a time frame to launch the business of only 6 months.

The Buzz Insurance was launched in May 2009 as Australia’s first online insurance provider that’s genuinely been shaped by the community, insuring across all Australian states and territories. In June 2010 The Buzz launched an innovative national Home Insurance product that comprises three cover levels: Base, Central and Elite. In addition Landlords was also launched at this time.

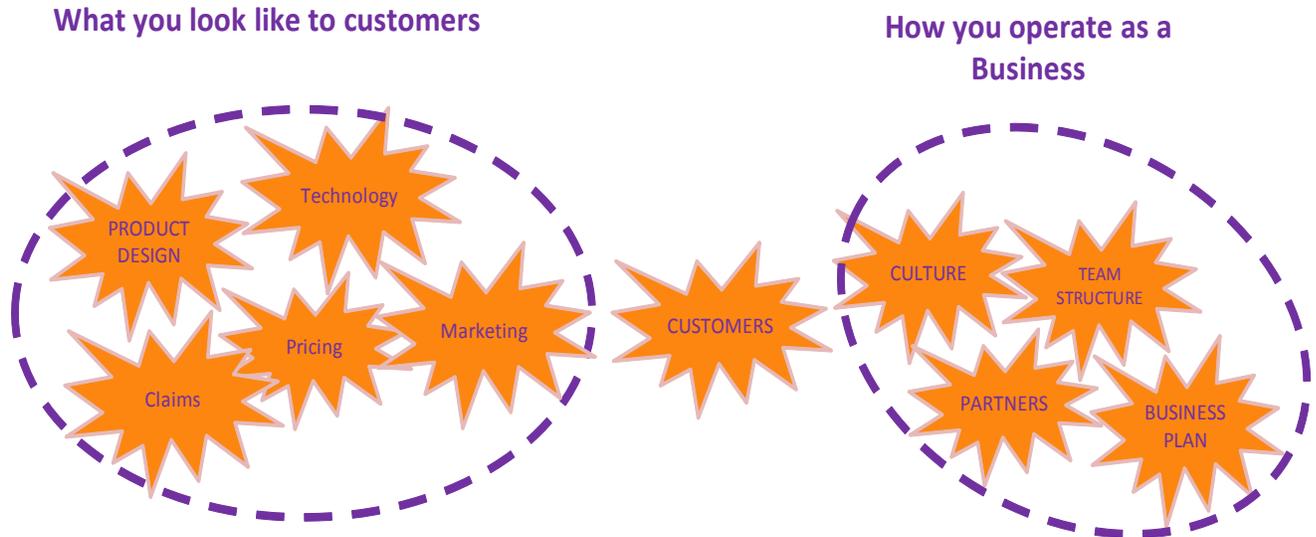
The critical areas for success

The criteria for building a successful online start-up business are not necessarily the same as those for running a traditional and established multi-channel insurer.

There are a number of broad areas that we will cover, and we will provide what we will hope are some useful “tips” to building a successful business in each of these areas.

In broad terms there are two main areas that are key to a successful innovative internet business:

- How we operate as a business, what we look like, our structure, our culture and the people we have in and around our business.
- What we look like to our customers, the products we offer, how we deliver them to the market, and what they cost (Pricing).



Culture

Tip 1: Culture is critical – get the people right (and the right mix).

In a small business like an insurance start-up, the people you invite to join the business, and the culture they work within will be one of the most important decisions you will make.

It will be unlikely that you will find a team that has experience across every function. You will typically appoint someone that has a high degree of capability in one or two components and a lesser level of knowledge in others.

Allowing someone to perform in a role like this requires strong and supportive leadership from the top and a supportive culture from the leadership team as a whole. No business should strive to fail, but there needs to be acceptance that mistakes will be made in some elements of the business development process to deliver real innovation, the important part is that we can recover from those mistakes.

In a small business like The Buzz, there’s nowhere to hide and no place for someone who is unwilling to use their judgment and to stick by it. These people will typically exist in your organisation, but you also need to be willing to also look outside for fresh blood.

Go hard: rapid decision making but be willing to recover if things miss the mark.

Structure and Management

Tip 2: Small team, flat structure

The Buzz insurance is a small start-up business with a flat structure comprising staff across 6 key functions. The main advantage of a small team is the ability to make decisions quickly, and if the wrong decisions are made to recover quickly.



One important feature of The Buzz is that leaders across each of these functions have a key role in all of the functions, not just the one that they lead. These roles are clearly articulated and accepted by the team.

For example whilst the pricing function is managed by the *Product and Pricing Leader*, there are roles defined for every other Leader in that function. So both the IT lead and the Marketing lead have an active role in the underwriting and pricing function – in some cases just input, but in others a recommend role or even a veto role.

Partners

Tip 3: Build partnerships, eliminate vendors.

We're a small business, so external resources are critical – either external to the business but still within IAG or external to IAG completely.

A vendor mentality is not conducive to a successful business. “Vendors” expect and promote isolation from your goals and commitments to contain their risk. A partner understands when a decision or proposal may not be in the best interests of your business and is committed for the long term relationship based on mutual trust. Vendors will show themselves as such when there is mis-alignment between their proposals and the business outcome.

You need to be willing to replace “suppliers” that do not act in your best interests and add value to your business. Sometimes it may be just one person that needs to be replaced, not the vendor. That person may be excellent individually but not suited to the culture you are promoting. For every vendor out there you must find a value-adding partner. Our partners cut across functions such as Actuarial, IT, Marketing and Claims and their selection is one of the most important decisions we have made in building our business.

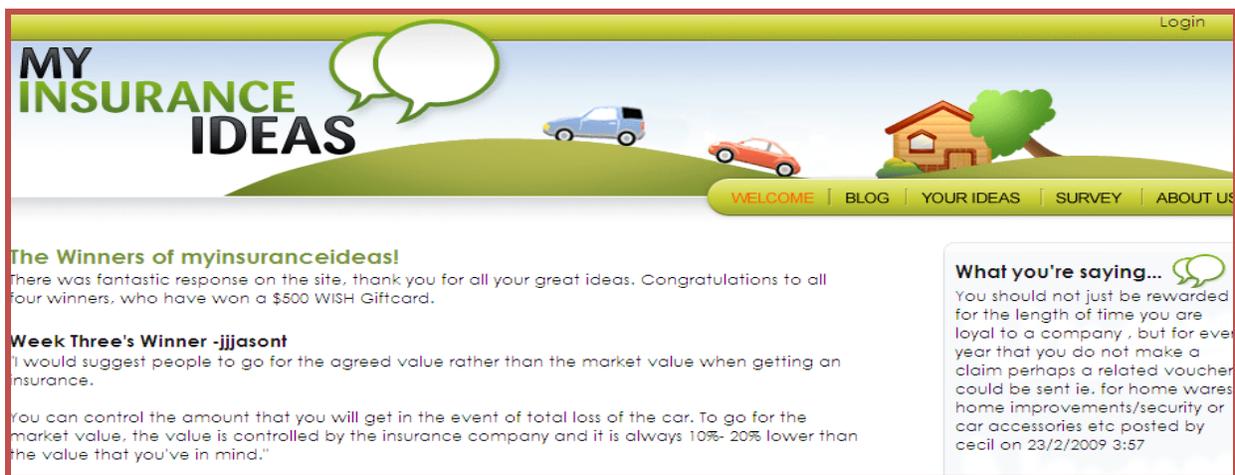
In the pricing area our partners include:

- IAG Corporate Office Natural Hazards Team (within Reinsurance)
- IAG Industry Research Crash Test centre (within Direct Insurance)
- IAG Enterprise IT (for rating engine support)
- IAG Group Actuarial
- Quantium
- SAS
- Glasses

Meeting the needs of our Customers

Tip 4: Take the opportunity to listen to the people who will buy your product.

Our business was built heavily on consumer research drawn from insight sessions conducted nationally within target market segments. For the first time the internet was used to draw together ideas from consumers through a website called www.myinsuranceideas.com.au. The primary objective of My Insurance Ideas was to create an engaging forum where consumers could share their ideas across all facets of car insurance and online service: from brand and product development, claims, service preferences, online functionality and content.



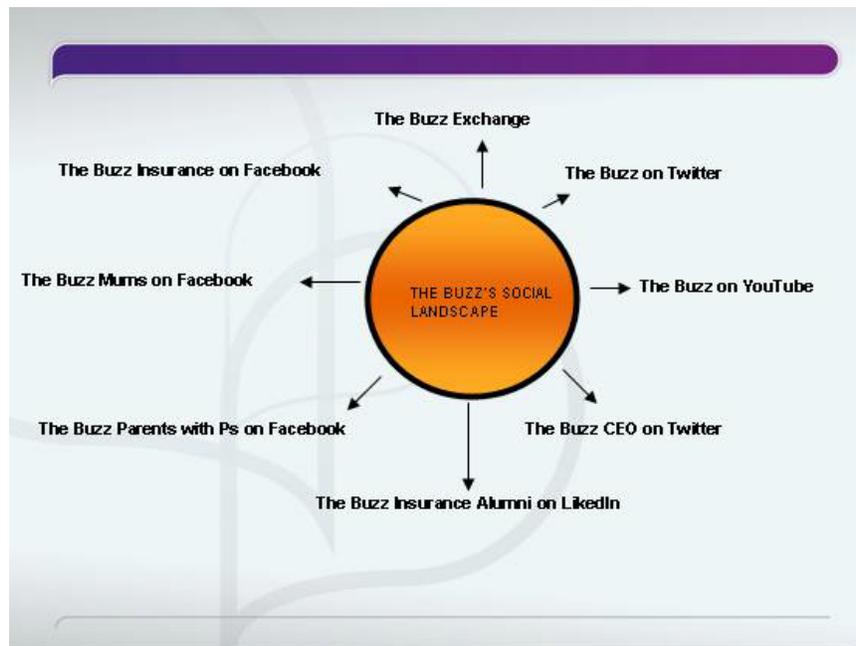
My Insurance Ideas attracted more than 3,000 registrations in its first 4 months, representing consumers from around Australia. More than 1,000 ideas were generated during the co-creation process. These ideas formed the basis of four insights that defined what customers want from insurance and, in doing so, defined the brand and proposition of The Buzz. The company, brand, service propositions and product resulted from an intensive 12-month consumer insight process. It featured three initiatives aimed at identifying key elements of insurance that would delight people who want to buy, claim and manage general insurance online.

Examples of things that customers said:

- I have an older car. All I can buy is either TPPD or full cover. There doesn't seem to be a range options available.
- I need information readily available, & if I need to speak to a real person who knows the product that should be available as well.
- Policy documents are too hard to understand - too much fine print and you have to be a lawyer to understand what you are covered for.

Launching a new brand is not enough - ongoing innovation and continuing to deliver to consumers is an ever greater challenge for a low-cost insurer and requires a unique culture within the business. A team that is genuinely committed to co creating with the consumer and has the courage to take risks is a key success factor in a start-up business.

Shaping insurance Together is the core value of The Buzz. With Buzz Exchange (Buzz's online community) and social media platforms like Facebook, LinkedIn and Twitter, customers continue to co-create with The Buzz and drive consumer led product innovation.



Moving from monologue to dialogues

The Buzz Exchange- The Buzz forum for co-creating with community

Buzz Mums on Facebook- All about kids' safety in home and cars

Parents with Ps on Facebook- Helping Parents with teens new to driving
<http://www.facebook.com/buzzparentswithps>

The Buzz Alumni on LinkedIn- Staying connected with The Buzz past and present team members

Twitter- Telling the world what's The Buzz up to?

YouTube channel- Broadcasting The Buzz visuals, safety videos

Articulate your business plan and strategy

Tip 5: Articulate the key drivers of your business and where you want to be

In any start-up business all stakeholders: internal staff and external partners need to understand where the business is heading and what factors are likely to drive success. In the case of The Buzz, product design was built around customer insights and testing with consumers.

Key Focus Areas

Access to help and support 24/7

"I don't know how to get my questions answered."

Claims, purchasing, payments and renewal - simplicity

"Purchasing process is too complex and inflexible."

Simple, flexible, transparent products and pricing

"No customisation of products for my needs."

Value me and reward my loyalty

"You don't recognise me or reward my loyalty."

We found that translating the qualitative feedback into a quantitative approach and then using this to define a handful of concise KRA's that we could articulate to our partners and that could be used to drive our decision making was of enormous benefit.

Product design

Tip 6: Be brave, innovate and challenge the norm.

With car Insurance consumers asked us to challenge the traditional bundling of products: TPPD, TPFT and Comp. Despite the inherent risks, in order to deliver on customer insight, we needed to un-bundle the traditional comprehensive cover into separate components which led to some challenging issues. The customers saw this as true transparency and providing them with choice and control.

One of the ways in which we manifested this in our offering to the consumer is pricing of the separate components of cover so that instead of the consumer buying an inflexible product they select the specific covers that they want but providing information so they make an informed choice.

INCLUDED	<input checked="" type="checkbox"/> YES	<input checked="" type="checkbox"/> YES	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO	<input type="checkbox"/> NO
\$373.17	\$383.57	\$74.61	\$132.67	\$85.27	\$62.96
Third Party Property Damage	Collision	Fire & Theft	Storm & Water Damage	Excess Free Windscreen Option	Hire Car Option

With Home Insurance we found that consumers still wanted many of the things that they asked for in Car – choice, flexibility, transparency – but we needed to deliver using a very different solution.

In the case of home, choice is delivered through the bundling of covers into three packs: Base, Central and Elite.

Base Pack	Central Pack	Buzz Plus
\$289.83	\$449.44	\$519.93
		
A basic level of cover for a lower premium and limited 'events' cover (no cover for flood, theft, civil commotion, vandalism). With Base you're you can't buy any optional extras.	Central covers you for a greater level of events. You can also add optional extras like KidsAway *.	Comprehensive cover with higher payout amounts. You're also eligible to add optional extras cover like KidsAway . Buzz Plus comes with the special RebuildPlus feature.
Choose this cover <input type="checkbox"/>	Cover chosen <input checked="" type="checkbox"/>	Choose this cover <input type="checkbox"/>

We also listened to consumers and added an optional cover called “Kids Away” that allows customers to protect their assets that their kids have taken with them.

Developing a pricing strategy

Tip7: Pricing strategy: start with a clean slate

There are a number of standard techniques, approaches and beliefs that we have in General Insurance when it comes to pricing products. We would recommend that you put every one of those aside and re-validate them with a fresh set of eyes.

At the end of the day you'll re-adopt almost all of them, but the destination you end up with might be very different.

In our case we found that some of our internal partners struggled with aspects of this. Why as new business would The Buzz want to move away from the way in which the existing businesses have used our services? Our view was that we wanted to reach a different destination, so why would we take the same route. Consumers wanted a differentiated approach. These well educated consumer groups referred to the world of actuarial science a “black art”. Again there is an element of courage required to take a different route from the norm.

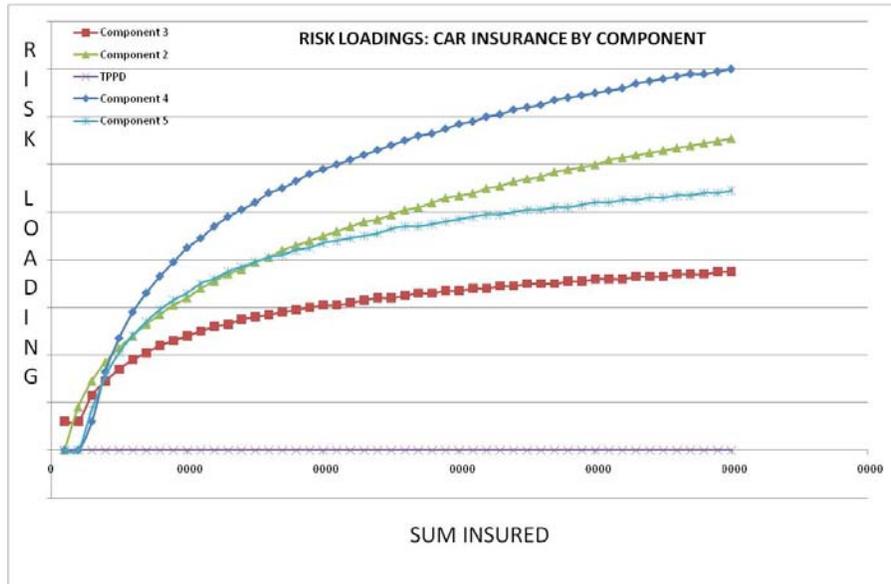
Building your pricing models

Tip 8: Don't under-estimate the lowly risk model, even if your focus is profit optimisation

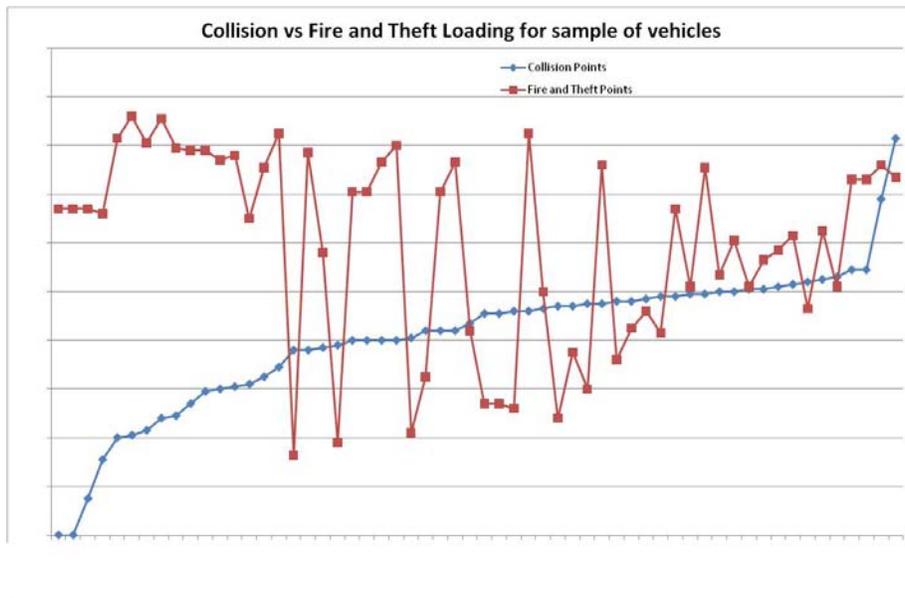
Whilst there seems to be a lot of focus recently on “optimised” pricing approaches, we shouldn't under-estimate the lowly risk model. Accurate optimised pricing is dependent on being able to have a good underlying understanding of risk as it is that model that drives profitability equation.

Tip 9: You will get some important insights modelling at the component level

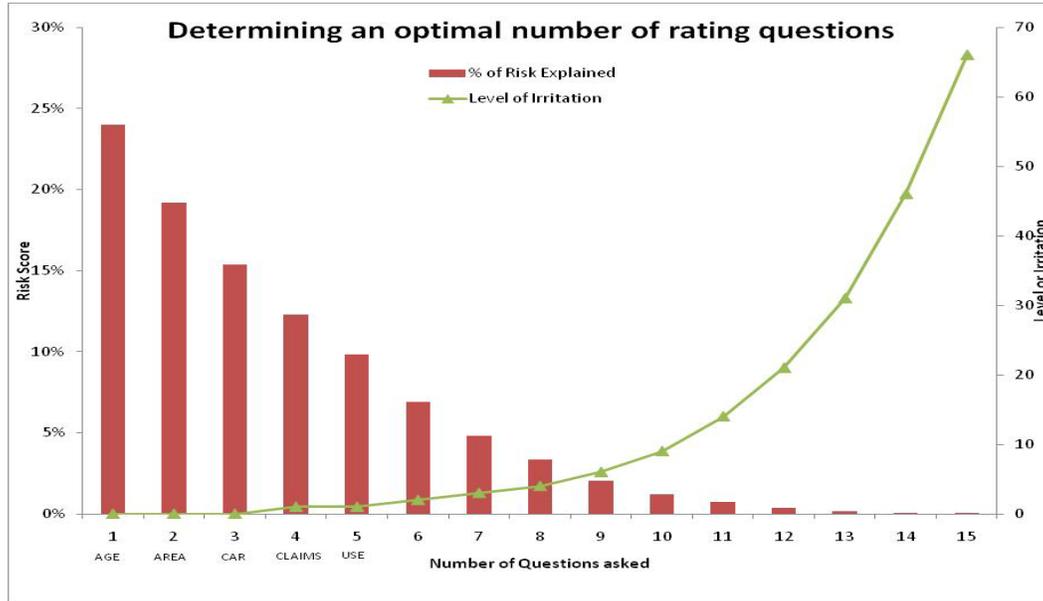
Development of component-level models (for Storm, Cyclone, Flood, Bushfire, etc) provides both an opportunity to understand how the separate risk drivers perform and to target specific risks through targeted pricing. It also provides real transparency and choice to consumers and is especially important if customers are able to opt out of specific covers. The following chart shows the risk loadings for Car by component for the Sum Insured factor.



Not surprising, there isn't a perfect correlation between Theft Risk and Collision risk for all vehicle types. Newer high performance cars may for example have higher collision loadings driven by both the frequency and cost model. They might also have a high cost loading from the Theft model but a significantly lower frequency relativity.



Another issue to be considered is what level of detail you require from the customer to assess risk. If you order the risk factors, then at what point is the impact on overall premium “insignificant” to the consumer? At what point does the level of irritation make asking that question sub-optimal? If the intention in asking a question is to vary price and gain a variable conversion rate, then at what point is there no significant impact?



We assessed very carefully what the optimal number of question we should ask based on:

- The relative importance of each factor
- The level of irritation to customers
- The impact on the conversion funnel

Tip 10: Provide transparency in pricing to the customer

Customers don’t understand how insurers weave their “magic” in coming up with a price and this causes suspicion that they are being ripped off. Consumers described our industry as “patriachial” and “patronising”. In some cases premiums offered by the one insurer are confusing and inconsistent.

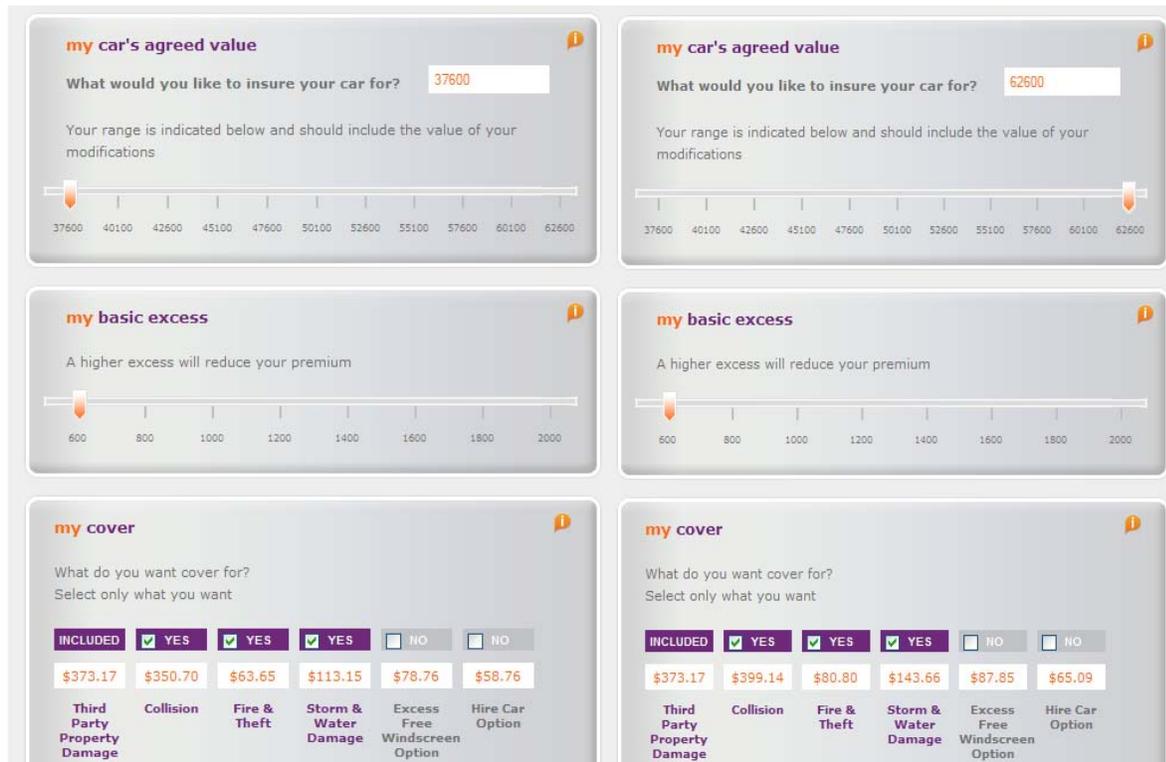
Example: 2008 BMW 320i E90 Executive, Parramatta, 40 year old male, private use, no finance, no claims, new customer with insurer

Insurer 1: \$2,064	\$44,000 Sum Insured
Insurer 2: \$1,527	\$42,700 Sum Insured
Insurer 3: \$1,389	\$44,000 Sum Insured
Insurer 4: \$1,386	\$45,000 Sum Insured
Insurer 5: \$1,339	\$45,000 Sum Insured
Insurer 6: \$1,086	\$44,000 Sum Insured
Insurer 7: \$1,018	\$44,000 Sum Insured

Variation in premiums between insurers creates a high level of suspicion amongst customers that insurers are either likely to be selling them an inferior product or promise at one end of the scale or are ripping them off at the other end of the scale. Some of the blogs that online customers have access to reinforce this view.

Customers therefore want to understand exactly what they are buying and what they are paying for. The Buzz has addressed the transparency issue on a number of fronts.

We not only provide their premium broken down by component, the consumer can also see that the TPPD component of the premium doesn't change as the sum insured increases. Why would it? It covers damage to the other vehicle. That level of transparency is important to consumers.



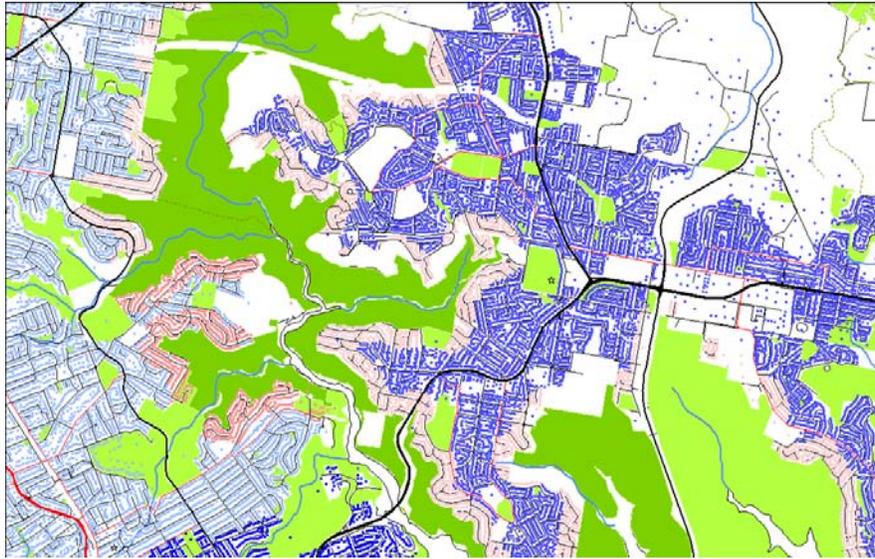
Being transparent around pricing requires:

- Consistency between the risk components. Some insurers price TPPD and TPFT entirely separately from their Comprehensive portfolio. It's not impossible to find scenarios where an insurer will charge less for Comp than for their TPPD or TPFT cover or where there is a serious inconsistency between comp cover and TPPD when applying higher basic excess levels.
- A willingness to "expose" more information about your pricing approach (IP) and the sub-components that make up the price. Is this giving away valuable IP or not? Our belief is that exposing IP does not necessarily give away competitive advantage if you continuously innovate.

Tip 11: The Suburb is dead, long live the Geocode

It becomes particularly obvious when you risk price by component that there is enormous value in geocoding risks such as Bushfire, Theft, Flood (obviously), Cyclone and to a lesser extent Storm.

If your rating engine doesn't have this capability or your analysts aren't developing Statistical Rates at the household level, then find someone who can. It is no longer acceptable to rate products such as Home at the suburb, postcode or regional level – even if you aren't offering flood cover.



Marketing

Establishing a new brand is not easy, nor cheap.

Tip 12: Look for innovative ways to get your brand out there. Social networks are becoming increasingly important and cost effective for online businesses.

Information Technology

Flexibility in IT was critical in delivering to consumers. The tight time frames to develop this IT capability was both a challenge and an enabler in delivering an innovative IT solution.

Tip 13: Selection of Systems – Play to your Strengths

It can be tempting when establishing a brand new company to go for the latest and greatest, or try the latest technologies. You certainly must perform a sensible market review, however you must also keep “time to market” and “total cost of ownership” high up in your selection criteria. For example, anything new has to be supported and maintained by your team in addition to what is already in place. If it is a new technology, who in your organisation is equipped to build it and then support it on going?

This does not mean that you avoid new technologies, the Buzz’s architecture from both software and infrastructure view is a mixture of tried and true with “latest proven” across multiple layers. A start-up also has the opportunity to allow your organisation to test out new technologies in a lower risk environment and IAG has benefited from this approach.

Tip 14: Software Development – Always think of your Customer’s Experience

Another temptation when developing under pressure is to take the fastest proven path because you know it will work. It probably will, however when a customer attempts to use it the result is frustration and if this is not recognised before production, the cost and impact to change it will be significant.

Traditional insurance green screen systems work in a call centre because you have human operators who can create a good customer experience irrespective of the sequence that the system is asking the questions or the format of the data. The internet is different. Whatever backend system you decide on, it is critical to have the ability to manipulate how the customer will interact.

The Buzz unique differentiator of being able to get a Quick Quote in under 60 seconds was an important feature identified by customers – ‘don’t waste my time’. This meant that the systems had to provide a sound price with the minimum of information, then be able to constantly increment this in a way that was understandable by the customer as more information became available.

Tip 15: Software Development – Build Sustainability Up Front

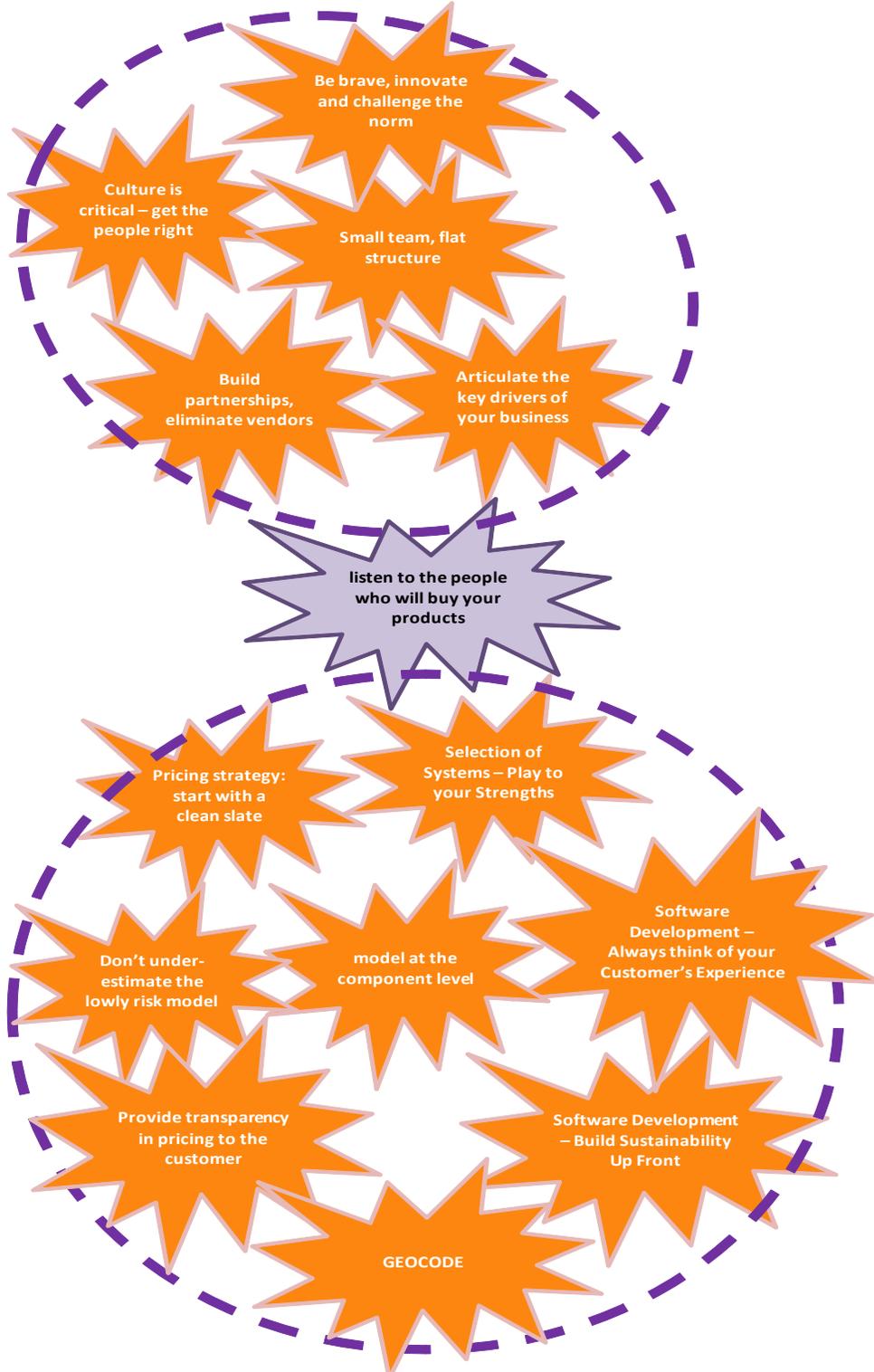
Going live is the first hurdle. You then need to be able to maintain the business. Key to this is to be able to update the pricing engine quickly and reliably. If this is not factored in when the systems are built, it is expensive to retrofit and in many organisations, difficult to justify. The benefits of having it are priceless – literally.

There are three key areas. Firstly, you need to have a suite of automated tests that test the various transaction types, new business, endorsements, renewals. Secondly there should be the ability to quickly create and run rating tests against a set of scenarios that exercise the specific changes made to the latest rating sets, both before and after the effective date. Finally, the systems need to be configured in a way that transferring the new pricing sets from the actuarial models to the rating engine and test models are electronic with the minimum of human interface and absolutely no manual manipulation.

Establishing this form of setup has allowed the Buzz to do what many organisations take weeks to do in a day and even hours if needed.

Conclusion: Here are our top tips for launching a successful online start-up insurance business.

How you operate as a Business



What you look like to customers