GROUPE P&V GROEP

Pricing – New Opportunities

ICMIF

De P&V Groep bestaat uit de merken P&V, VIVIUM, Actel, PNP, Euresa-Life en Arces
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The P&V Group

1.625 COLLABORATEURS (effectif)

GROUPE P&V

25,7 % COLLABORATEURS À TEMPS PARTIEL

50,2 % HOMMES

34,6 % CADRES FÉMININS

49,8 % FEMMES

17,0 % COLLABORATEURS PRATIQUANT LE TÉLÉTRAVAIL

COMPTE DE RÉSULTATS RÉSUMÉ

	2016	2015	2014
Primes acquises nettes de réassurance	1.553.296	1.538.631	1.482.371
Charges techniques	-1.616.293	-1.610.404	-1.547.696
Résultat technique	-62.997	-71.773	-65.325
Résultat financier courant	425.303	445.573	452.102
Résultat financier non courant	159.969	231.821	188.882
Résultat financier	585.272	677.394	640.984
Autres résultats	-400.788	-421.769	-423.241
RÉSULTAT TOTAL	121.487	183.852	152.418

(en milliers EUR)

1. Since our foundation in 1907, our credo is to make insurance accessible to as many people as possible
2. Our focus is exclusively on the Belgian market
3. Through different brands, we offer a large range of insurance solutions to individuals, self-employed persons, companies, institutions and the public sector
4. We are a multi channel company : Tied Agents, Brokers and Direct
5. We are active in P&C, Life and EB

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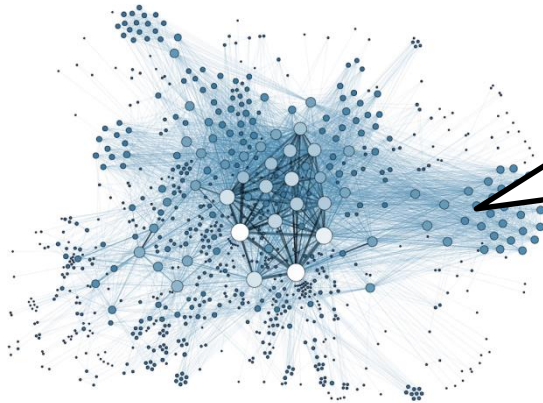
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In an area of change

Climate change with impact on costs and frequency (Irma, Harvey,…)

Usage of **sensor** in Automotive, Home & Health with impact on product & service offering

With **Big data** we are able to assess more accurately the risks with impact on pricing and underwriting
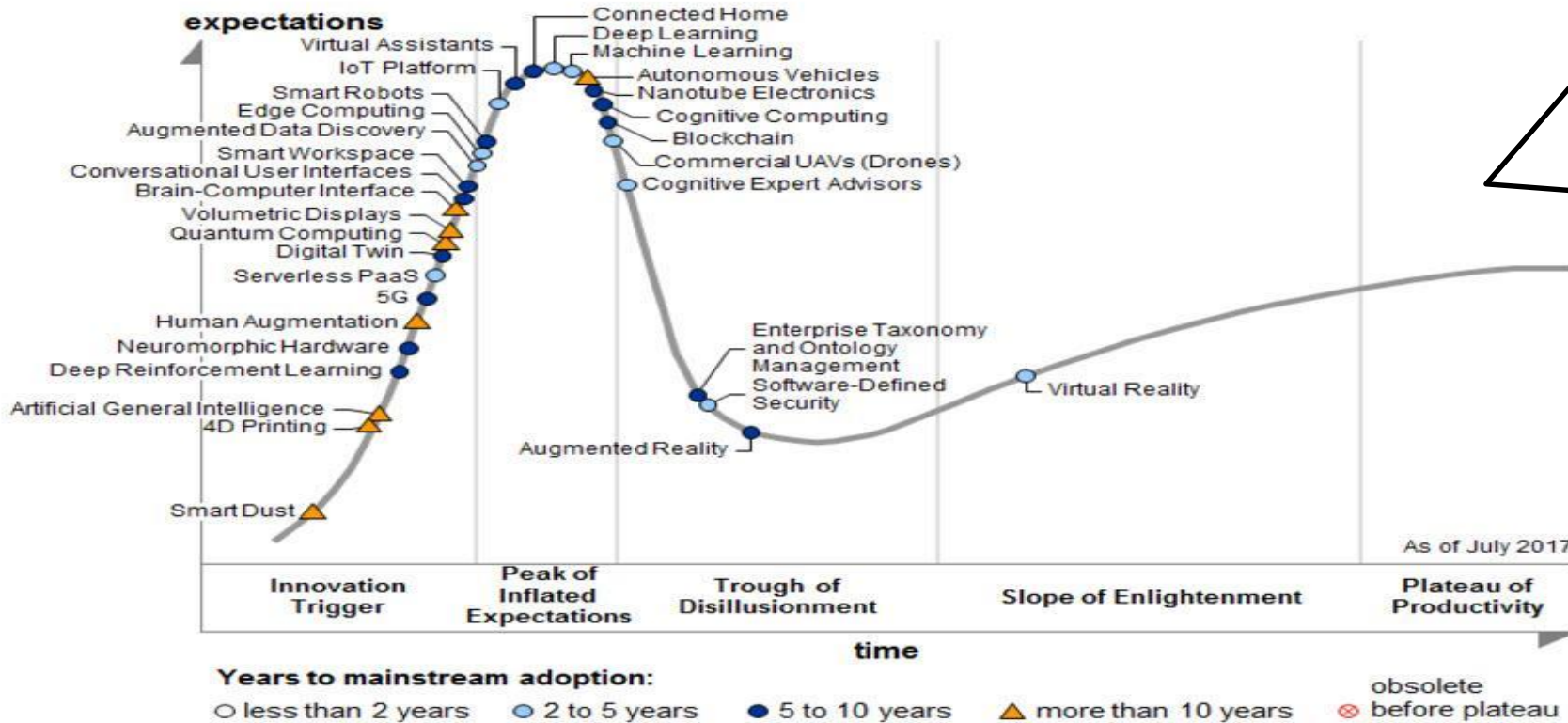
New industry players. To survive and thrive in the digital age, insurers will need to be more agile, factoring in the shift in distribution channels and becoming more collaborative in revenue planning.

GENERATION START UP

3

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With major technologies changes

Hype Cycle for Emerging Technologies, 2017

- Internet of Things Platform
- Machine Learning
- Smart Homes
- Autonomous Cars
- Blockchain
- Virtual Assistant
- Cognitive expert Advisors
- Low-cost sensors & wearables
- 4D Printing
- …

Bron: Gartner, G00289755 - Hype Cycle for Emerging Technologies, 2015

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And new customer behaviors

- Multi-channel
- Digital
- Social Media
- E-Commerce
- Customer Zone

News Feeds

Personal Relationships

Miscellaneous

Text, Mobile Web

Social Networks

Newspaper Ads, Articles

Reviews

Website, Online mentions, Ads

In-Store Experience

Email

Television

Social Networks

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Bron: 4C Consulting, http://www.4cconsulting.com/

Impacting the Insurance Value Chain

| Attract | | Quote | Contracting | Claim intake and handling | | General servicing | | |

Attract
- Consult information: 27% (2012), 35% (2016)
- Get advice: 22% (2012), 23% (2016)

Quote
- Ask specific product information: 27% (2012), 29% (2016)

Contracting
- Purchase a new product: 23% (2012), 21% (2016)

Claim intake and handling
- File a claim: 24% (2012), 24% (2016)
- Follow up a claim: 19% (2012), 35% (2016)

General servicing
- Ask general questions: 20% (2012), 27% (2016)
- File a complaint: 21% (2012), 27% (2016)
- Teminate a contract: 22% (2012), 24% (2016)
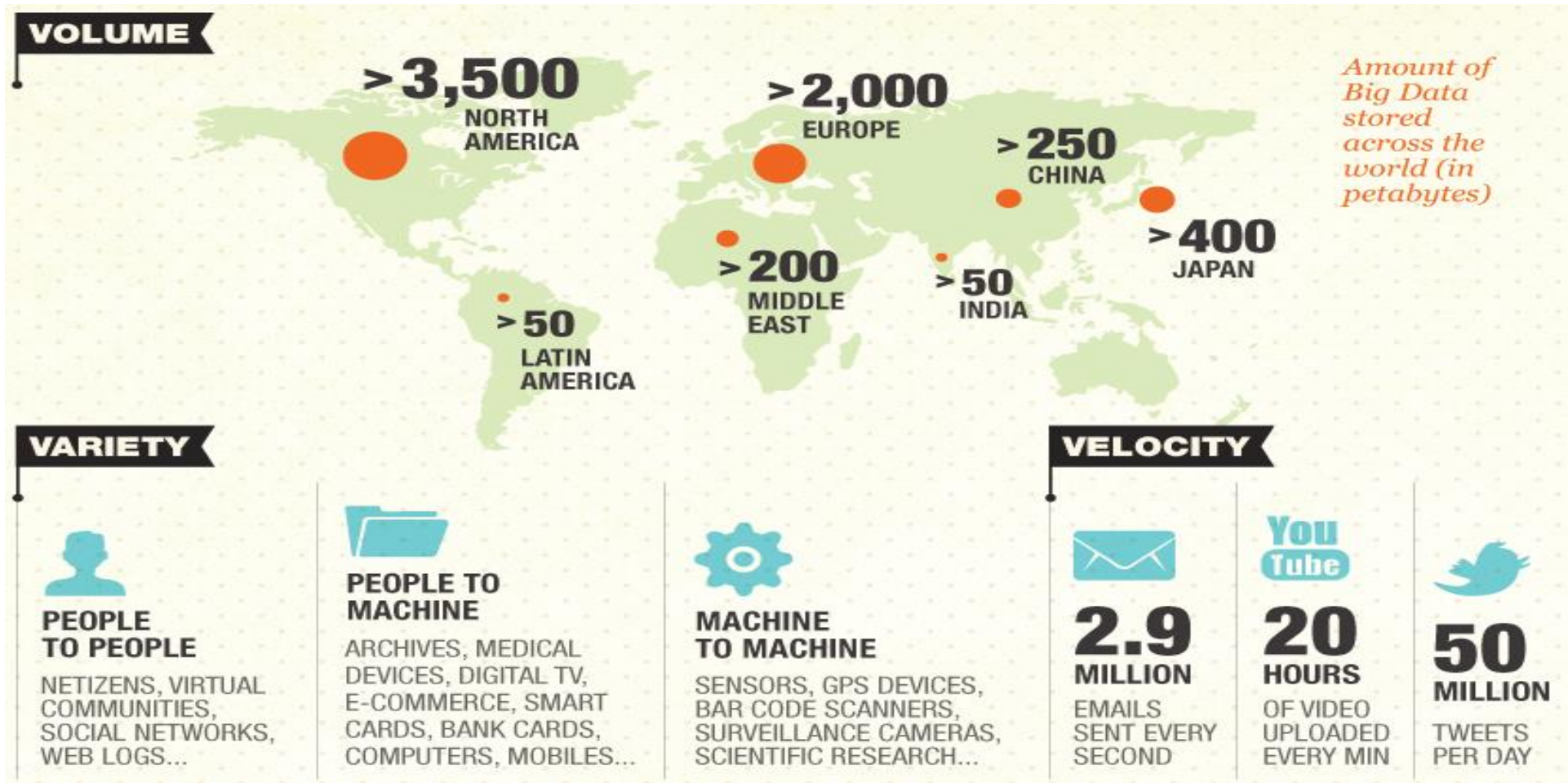
Legend: ☐ 2012 ■ 2016

Base 2012: Insurance = 1000, Accenture Market Research 2012
Base 2016: Insurance = 4000, Accenture Market Research 2016
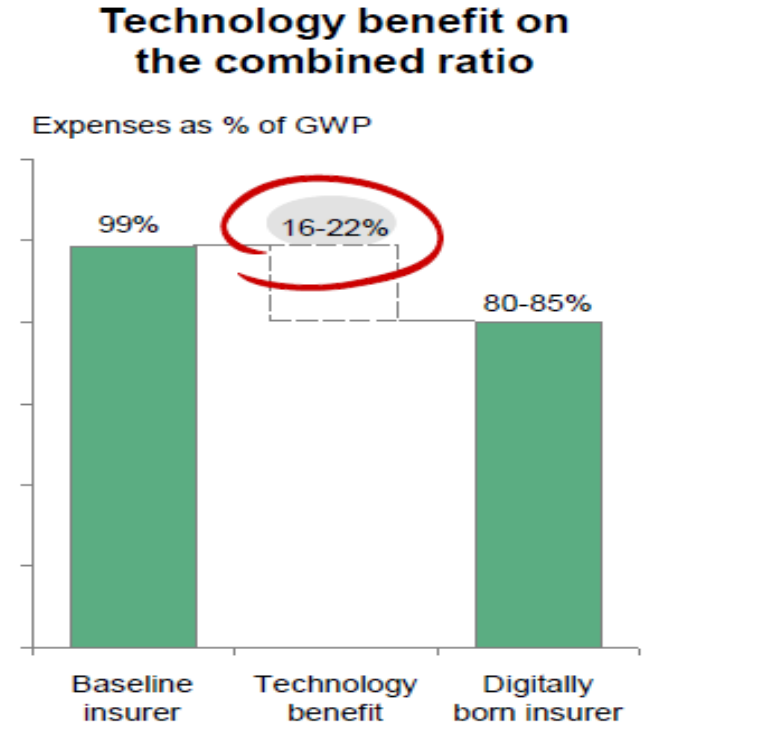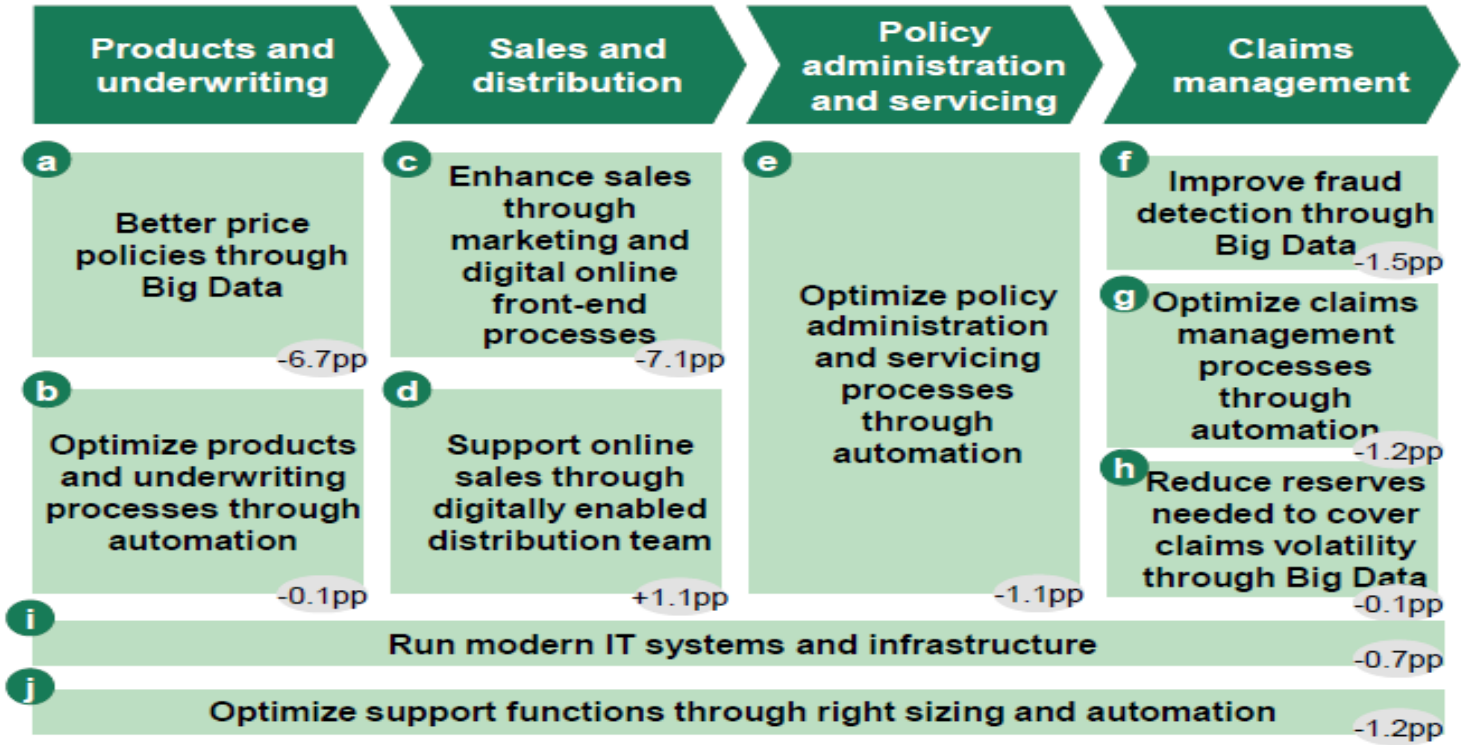
Increase of the impact of digital enable us to revisit/rethink our Value Chain. Face2Face remains important for some steps of the Value Chain

Source : Accenture

Generating more and more datas…

More data will be created in 2017 than the previous 5,000 years of humanity

VOLUME

>3,500 NORTH AMERICA

>2,000 EUROPE

>250 CHINA

>400 JAPAN

>200 MIDDLE EAST

>50 INDIA

>50 LATIN AMERICA

Amount of Big Data stored across the world (in petabytes)

VARIETY

PEOPLE TO PEOPLE
NETIZENS, VIRTUAL COMMUNITIES, SOCIAL NETWORKS, WEB LOGS…

PEOPLE TO MACHINE
ARCHIVES, MEDICAL DEVICES, DIGITAL TV, E-COMMERCE, SMART CARDS, BANK CARDS, COMPUTERS, MOBILES…

MACHINE TO MACHINE
SENSORS, GPS DEVICES, BAR CODE SCANNERS, SURVEILLANCE CAMERAS, SCIENTIFIC RESEARCH…

VELOCITY

2.9 MILLION EMAILS SENT EVERY SECOND

20 HOURS OF VIDEO UPLOADED EVERY MIN

50 MILLION TWEETS PER DAY

Bron: GlobalDots (http://www.globaldots.com) "Big Data – The Promise, The Hype, The Challenges", 2014

With impact on insurance profitability… and opening new opportunities

Products and underwriting

a Better price policies through Big Data
−6.7pp

b Optimize products and underwriting processes through automation
−0.1pp

Sales and distribution

c Enhance sales through marketing and digital online front-end processes
−7.1pp

d Support online sales through digitally enabled distribution team
+1.1pp

Policy administration and servicing

e Optimize policy administration and servicing processes through automation
−1.1pp

Claims management

f Improve fraud detection through Big Data
−1.5pp

g Optimize claims management processes through automation
−1.2pp

h Reduce reserves needed to cover claims volatility through Big Data
−0.1pp

i Run modern IT systems and infrastructure
−0.7pp

j Optimize support functions through right sizing and automation
−1.2pp

Technology benefit on the combined ratio

Expenses as % of GWP

99% | 16-22% | 80-85%

Baseline insurer | Technology benefit | Digitally born insurer

xpp Expected impact on combined ratio

Bron: Gartner, G00289755 - Hype Cycle for Emerging Technologies, 2015

Bron: BCG Digital Report

New opportunities in terms of pricing … but also a threat

- Ability to design **usage-based and innovative** pricing models

- enable to estimate **risk or consumer willingness to pay, buy, or churn** more accurately

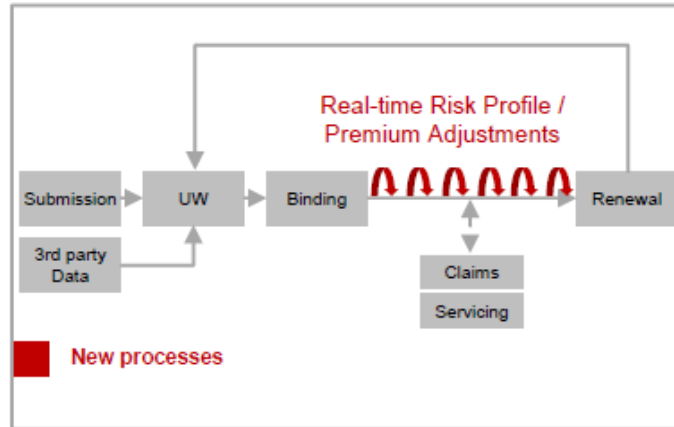- Enable to identify consumer with **higher risk or higher probability** to commit fraud

Insurers that do not recognize that will

- quickly **lose competitive edge** to rivals that better understand what is driving their clients' needs and willingness to pay

- eventually **end up** with a larger pool of relatively riskier and less profitable clients.

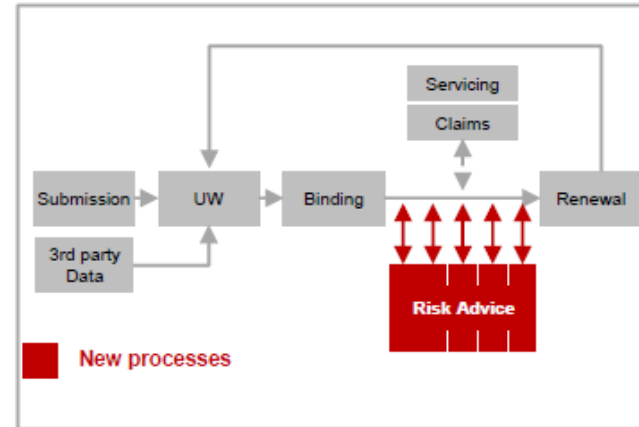- **negatively impact** profitability and, ultimately, market share.

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New opportunities in terms of Value Proposition

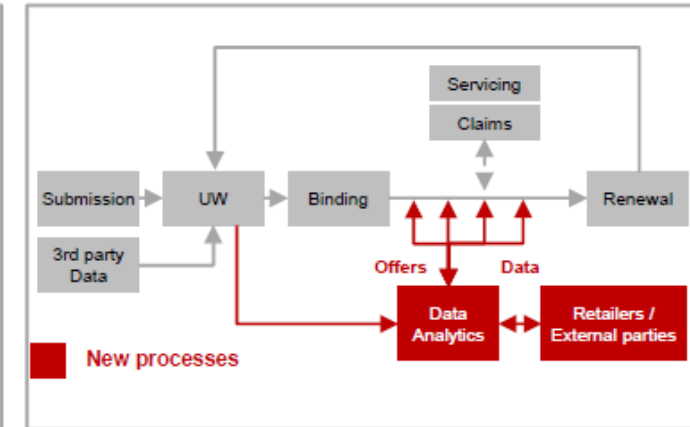**1** **Personalisation of insurance policies**

- Connected devices allow **insurers to track and continuously refine individual risk profiles** with empirical data, enabling more accurate underwriting of individual risks

- Furthermore, connected devices enable a **channel for consumers to purchase event-based coverage** to personalise their policies for better protection

2 **Active management of the insured's risks**

- Connected devices create a bilateral channel for insurers to **interact more frequently with their customers** and proactively get involved in **managing their customers' risks** (e.g., health consultation based on data gathered through wearables)

- By developing '**concierge**' functions, insurers can actively **manage their client's risk, lower losses** and deliver additional value to customers

3 **Broker of personal data**

- Connected devices allow insurers **to gather** ongoing **behavioural data** from their customers to **gain a fuller view** of customer identity and lifestyle

- Working with retailers and other external parties, insurers use the increased knowledge on their customers to **deliver relevant, financially beneficial information** (e.g., offers)

Source : WEF – Final report 2015

Example 1 : Pay As You Drive

> • New pricing variables
> • New services
> • New opportunities to contact the consumer

| Insurance Product | • Usage Based Pricing (PAYD)
• Discount on other coverages (theft) |

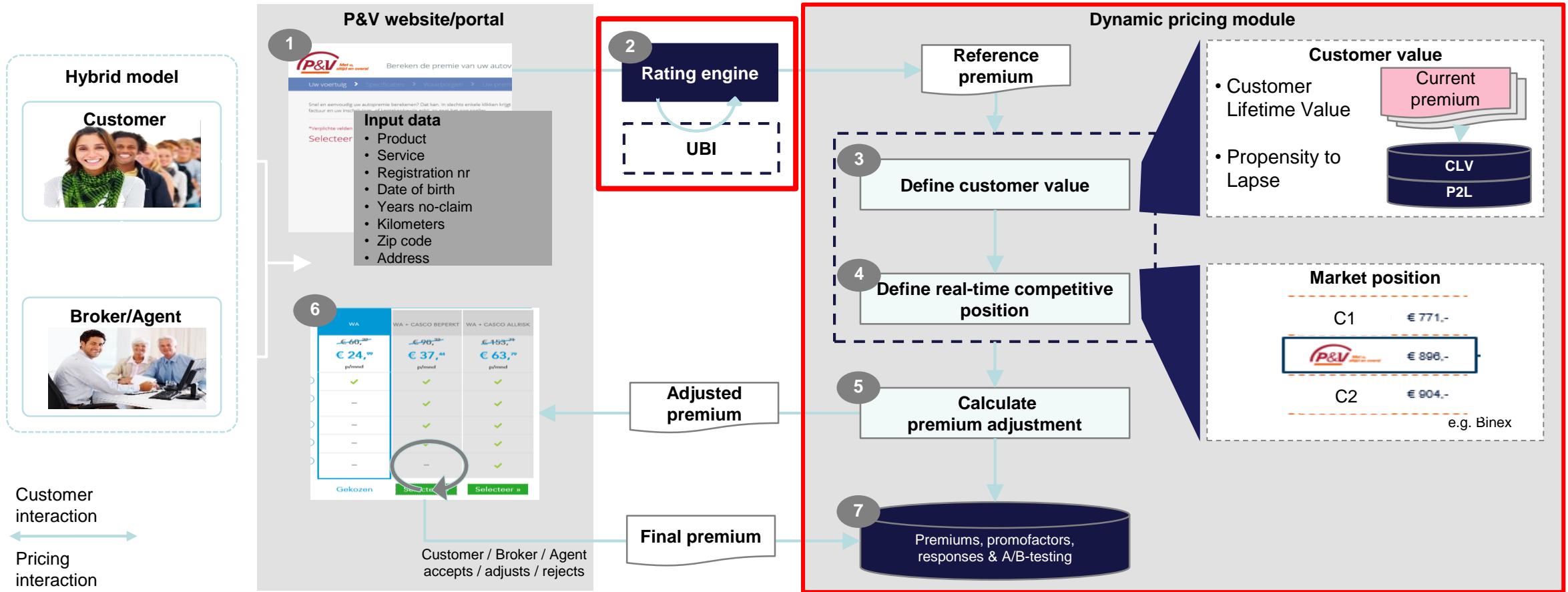| Rewards & Incentive | • Rewarding Safe driving behaviour
• Engaging and gamified touchpoints |

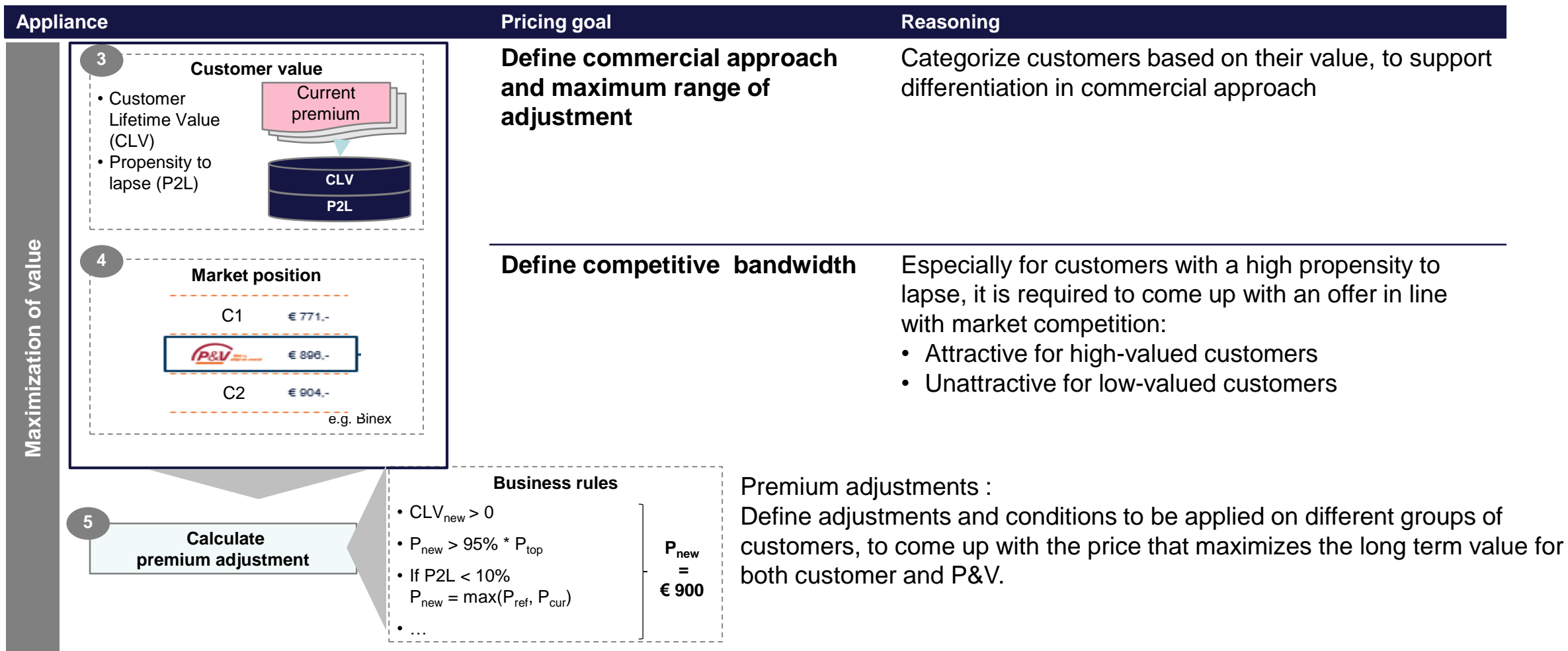| Services & Support | • Mobile or automatic access to assistance
• Anti Theft and Car Finder
• Mobile access to Contact Center
• Claims FNOL and follow up
• Fuel efficiency recommendation
• Car Maintenance services |

| Community | • Community
• Discount Partnerships   (Gas stations, travel agency,…) |

Example 2 : Dynamic Pricing

Example 2 : Dynamic Pricing

Appliance	Pricing goal	Reasoning
3 Customer value — Customer Lifetime Value (CLV), Propensity to lapse (P2L), Current premium, CLV, P2L	**Define commercial approach and maximum range of adjustment**	Categorize customers based on their value, to support differentiation in commercial approach
4 Market position — C1 € 771,- / P&V € 896,- / C2 € 904,- / e.g. Binex	**Define competitive bandwidth**	Especially for customers with a high propensity to lapse, it is required to come up with an offer in line with market competition: • Attractive for high-valued customers • Unattractive for low-valued customers

Maximization of value

5 Calculate premium adjustment

Business rules

- $CLV_{new} > 0$
- $P_{new} > 95\% * P_{top}$
- If P2L < 10%
  $P_{new} = max(P_{ref}, P_{cur})$
- …

$P_{new} = € 900$

Premium adjustments :
Define adjustments and conditions to be applied on different groups of customers, to come up with the price that maximizes the long term value for both customer and P&V.

Example 2 : Dynamic Pricing

3 Customer value

Av %

Propensity to lapse > 20%

Retention focus

Value at Risk (€) (Revenue – Cost)

Example options for retention:
- Premium discount
- Cashback
- Specific retention treatments aligned with lapse driver

Example options for additional value
- Premium mark-up
- Limitation coverage
- Deductible increase

Value focus

Propensity to lapse (%)

0%   25%   50%   75%

Simplified example for discounts/markups*

		Propensity to lapse		
		0%-10%	10%-20%	> 20%
VaR (€)	> 200	85%	80%	75%
	0 to 200	95%	90%	85%
	-200 to 0	105%	100%	100%
	< -200	120%	110%	110%

* Premium adjustment rules are determined during implementation:
- Differentiation can also be based on different other input factors like broker retention rate, current market position, etc.
- Target is to maximize value, so keep premium as high as possible to keep desired customers satisfied

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Example 2 : Dynamic Pricing

4 | Market Position

A Input data is put in a comparison database to receive quotes

Input data

- Product — xxx
- Servicing — xxx
- Registration nr — xxx
- Date of birth — xxx
- Years no-claim — xxx
- Kilometers — xxx
- Zip code — xxx
- Address — xxx
- … — xxx

B The reference premium is ranked amongst <u>selected</u> peer competitors

Provider	Premium
C1	€ 690,-
C2	€ 772,-
C3	€ 771,-
P&V Met u, altijd en overal	€ 896,-
C4	€ 904,-
C5	€ 932,-
C6	€ 989,-

C Business logic defines how P&V invite premium can be adjusted

Business logic examples
- Final premium is capped at 95 % of top in market
- Discount of 14% would position top 3
- Markup of 10% would position out of top 10

Example outcome
Given a customer with:
- High CLV (> € 1000)
- High propensity to lapse (> 25%)
- And current market position (4th)

Discount for this customer would be minimum 14% to reach top 3

5 | Calculate premium adjustment

Conclusion : New techs and Big Data are an opportunity but also a real challenge…

- We must continue to ensure risk pooling and use Big Data in the respect of mutualist principles

- We must take care that our business will become not become more and more dependent of actors collecting data (GAFA,…)

- Data privacy and new risks linked to the new technologies are the next challenges for our business

But

- New techs and Big Data open a wide range of opportunities in Offering and Pricing

- Collaborative economics and social networks allow the achievement of the founding values of mutuality

- Mutuals who make judicious and necessary product innovation choices will be able to take advantage of new technologies to deepen the relationship with the client-member