



Bridge Between Pricing and Valuation

SEAC Spring Meeting

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Pricing to Valuation Handoff

Discussion - why is this so hard?

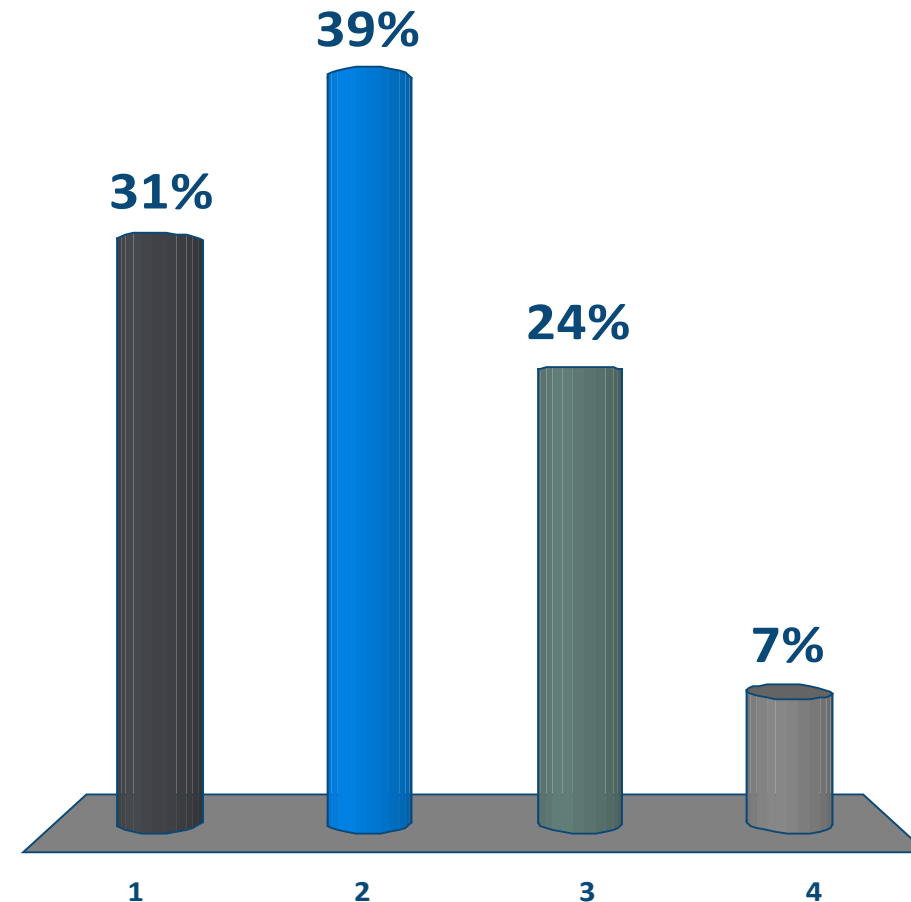
Best Practices

- Formal model hand-off
- Develop valuation prototype during pricing
- Staff rotations to develop experience
- Documentation
- Project manager to bridge teams
- Implementation committee with representation from both teams
- Formal sign-off by valuation before launch
- Make “launch” a step in the process, not the end of the process

Polling Question*

When in the pricing process does communication with the valuation team begin at your company?

1. When the product idea is initiated
2. During the pricing analysis
3. During product approval
4. After product launch

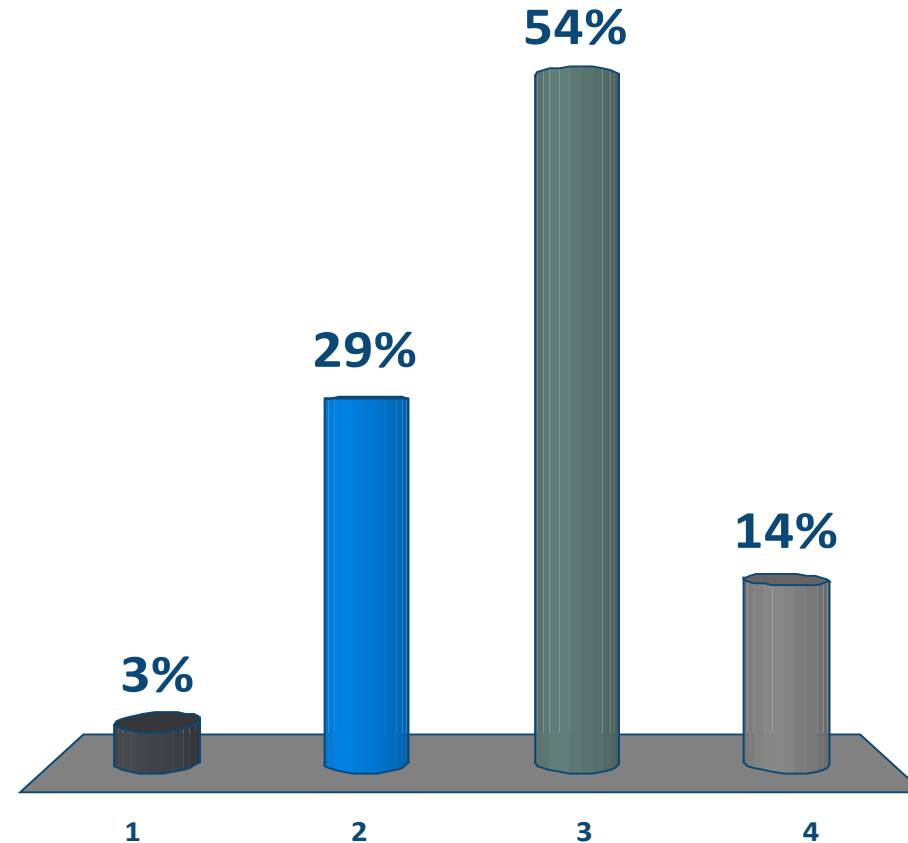


* All poll results from the 2015 ValAct

Polling Question

When a new product is launched, what is the approach to developing valuation models for financial reporting?

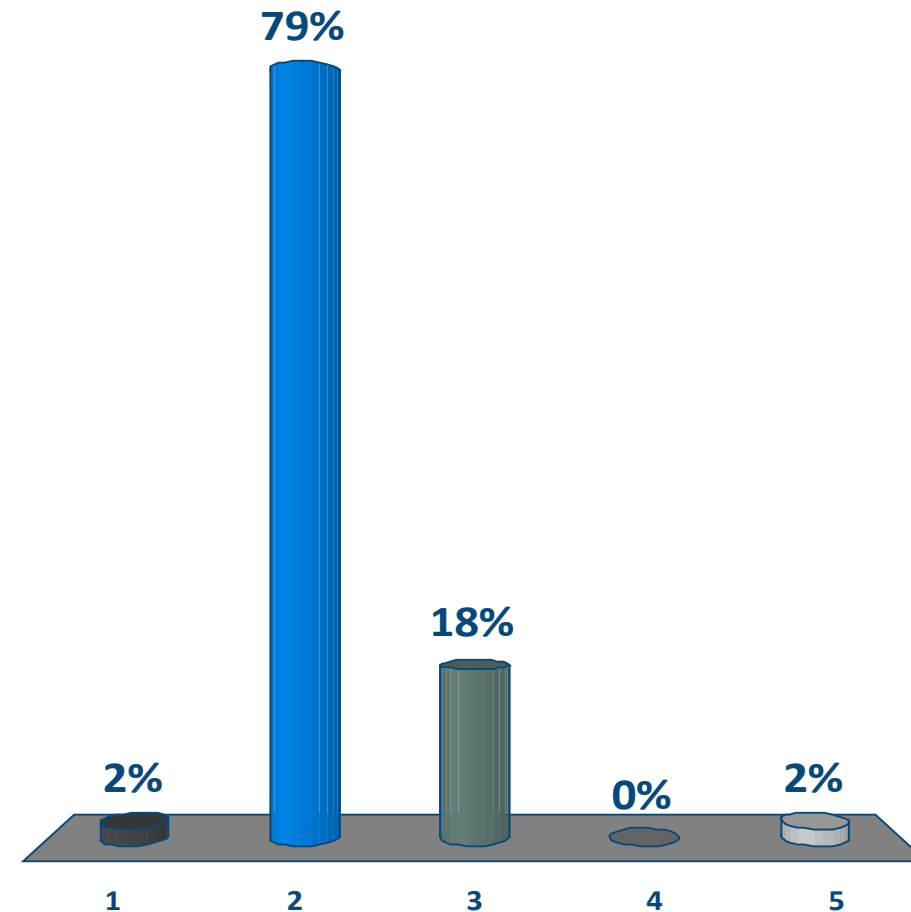
1. Use the pricing models with no modifications
2. Use modified pricing models
3. Use an existing valuation model for a similar product
4. Build a new valuation model



Polling Question

Who is responsible for building valuation models for financial reporting?

1. Pricing team
2. Valuation team
3. Model steward / modeling team
4. IT team
5. Other



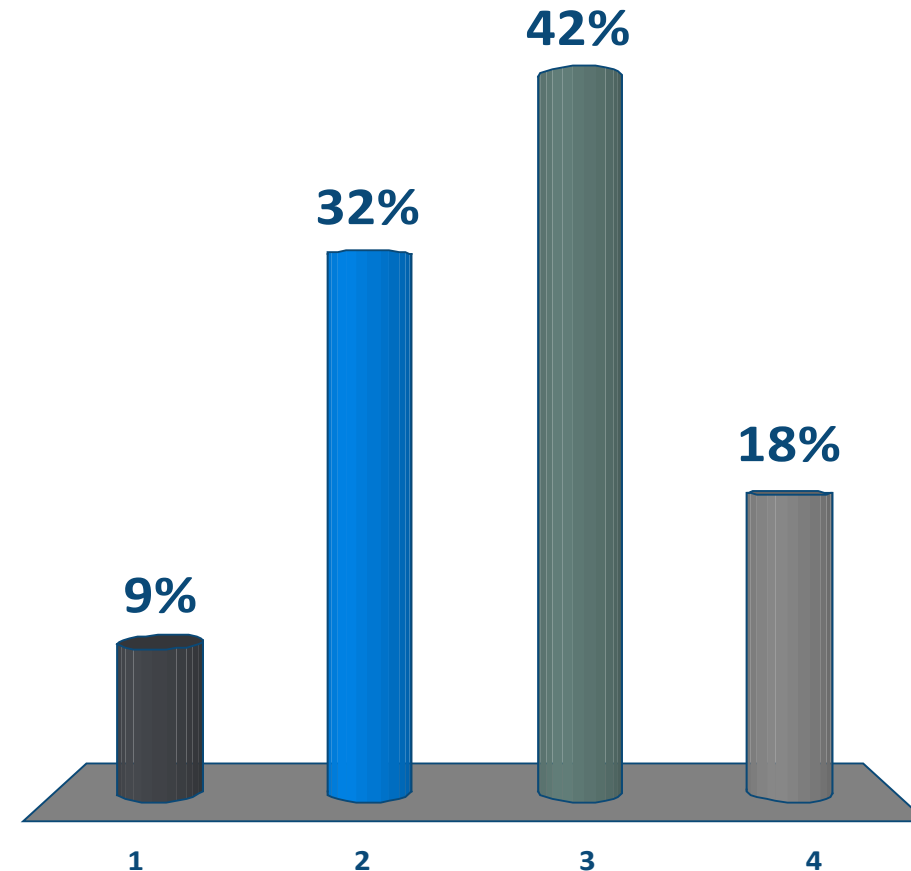
Key Risks in Transitioning from Pricing to Valuation Models

- Speed to market -> Approximations and simplifications
- Comparing pricing and valuation
 - No reserve reconciliation
 - Modeling simplifications
- Monitoring mix of business
- Different modeling standards and levels of “controls”
 - Pricing needs flexibility and production models need stability
- Lack of product or valuation knowledge

Polling Question

What level of testing of the model is performed upon implementation in valuation?

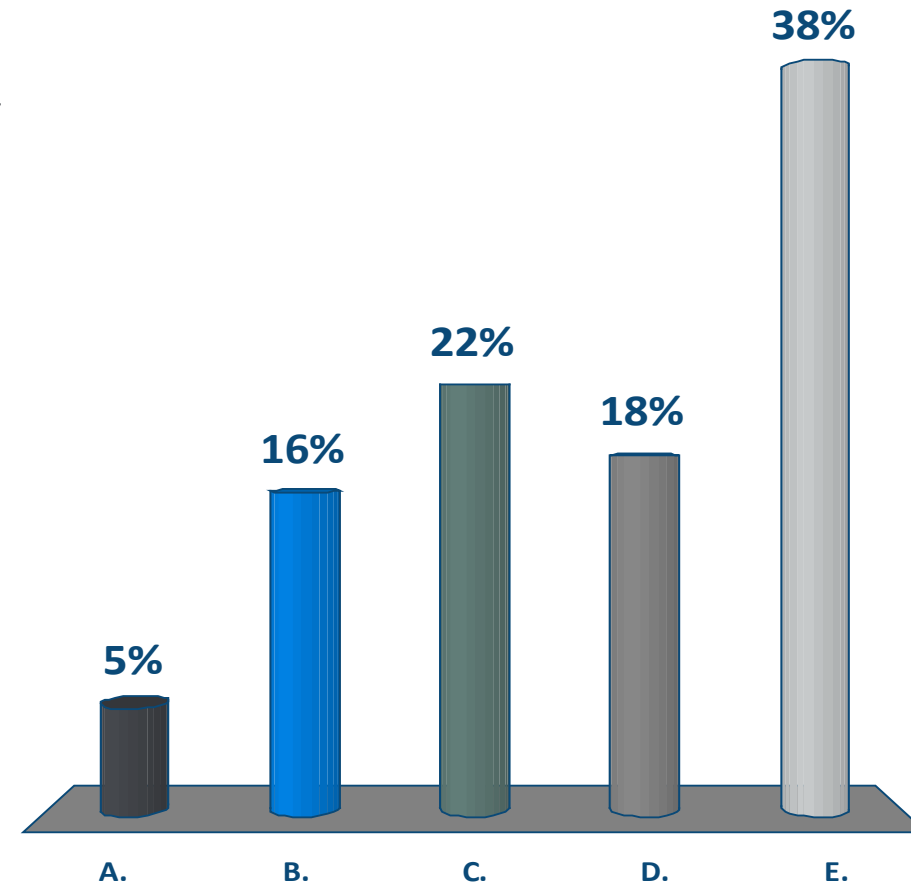
1. Reliance on testing done in pricing
2. Reasonability review/high-level analytics
3. Recalculation testing of sample cells
4. Independent model built



Polling Question

What is the process for developing assumptions?

- A. Pricing team based on industry data
- B. Pricing team based on company experience
- C. Separate team provides assumptions to pricing and valuation
- D. Set during valuation implementation
- E. Collaborative effort across functions



Key Risks in Assumption Development Process

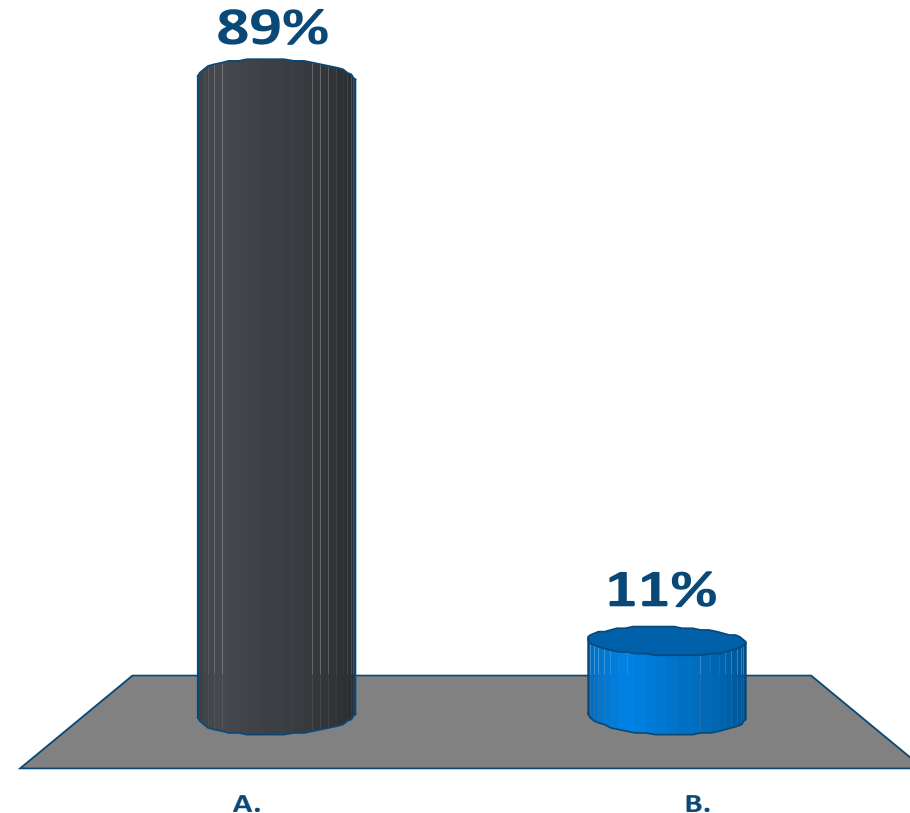
- Outdated assumptions
- Standards & margins differ between bases
 - Pricing may use simplified assumptions
- Assumptions setting process and data credibility
- Assumptions set by two different teams
 - Ideally, one view of assumptions
- Principles based assumptions will introduce new valuation requirements

Monitoring Profitability

Polling Question

How many of your companies do some sort of monitoring of on-going profitability (aka dashboarding)?

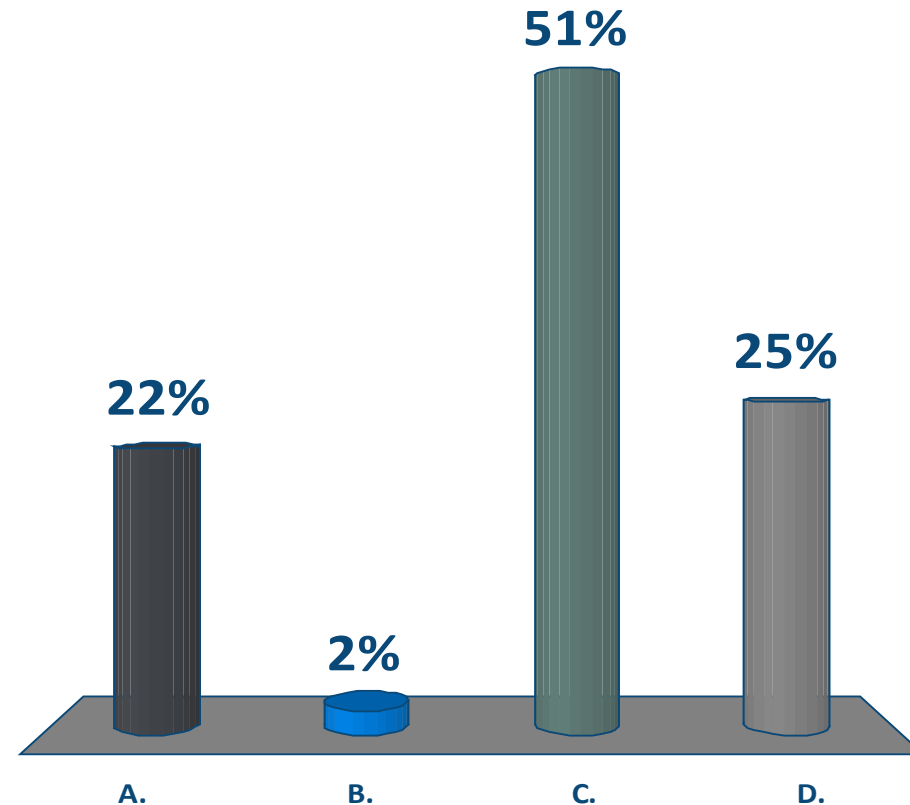
- A. Yes
- B. No



Polling Question

Of those that answered **Yes**, how many times per year is such analysis performed?

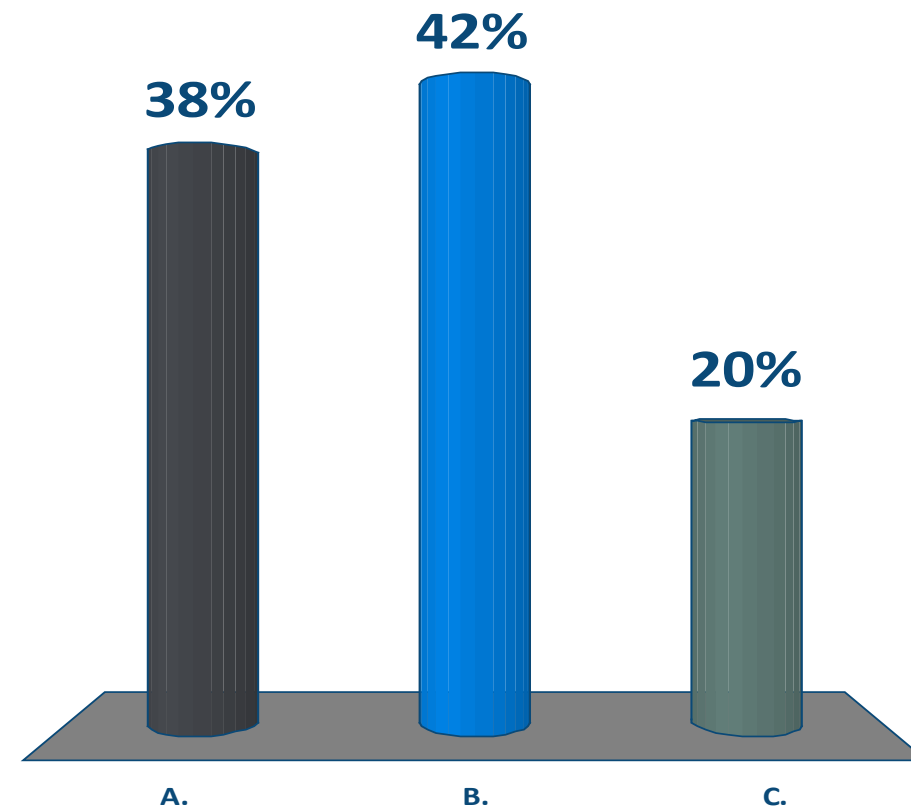
- A. Annual
- B. Semi-annual
- C. Quarterly
- D. Monthly or more frequently



Polling Question

Of those that answered Yes, is your dashboarding process formal or informal? By formal, meaning periodic actionable deliverable items shared with senior management?

- A. Yes, formal by pricing
- B. Yes, formal by another area
- C. Yes, more informal



Why does dashboarding go by the way-side?

- Lack of time to generate dashboards
- Lack of time to analyze and research results
- Lack of resources
- Lack of data, especially for older products
- Reluctance to focus on inforce over new products
- Poor documentation

Factors of Profitability Variance

Some factors that can lead to varying profitability over time:

- Demographic Assumptions (“Mix of Business”)
 - Age, Gender, Risk Class, etc...
- Pricing Assumptions
 - New view of mortality, lapsation, earned rates, RBC, etc...
- Regulatory Basis
 - XXX to AG38
 - AG38 to AG48

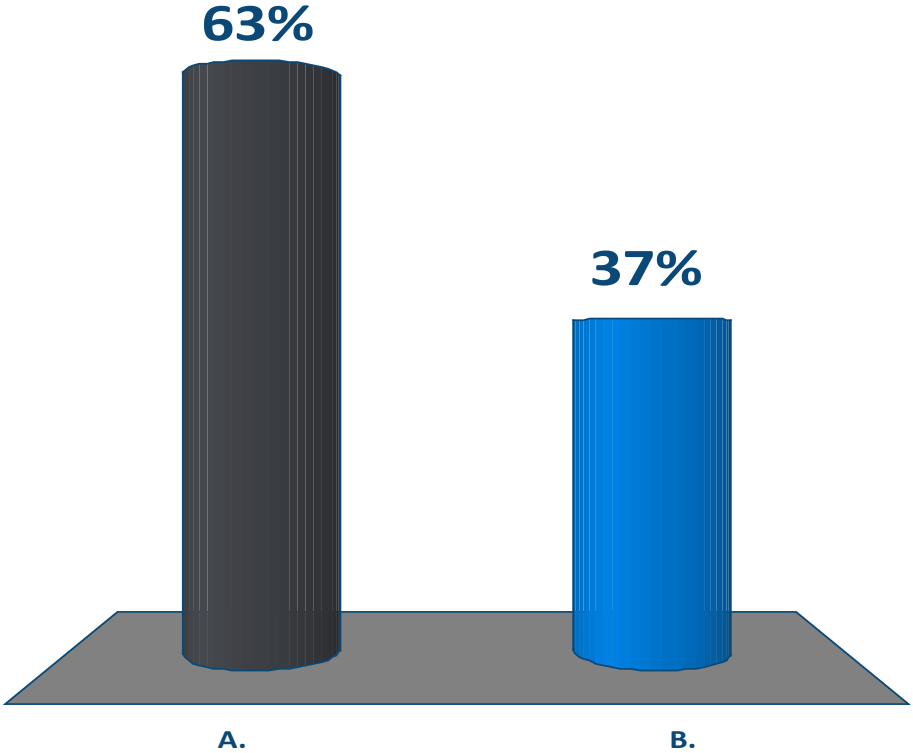
Which pricing assumptions should you monitor?

- Mortality
- Lapses
- Interest rates
- Compensation
- Rolling target impact
- Expenses
- Basically, there are LOTS of assumptions that evolve over time and figuring out when to react to them is a delicate science

Polling Question

How many of you have been involved in a situation where your company actually took specific product action as a DIRECT result of dashboarding?

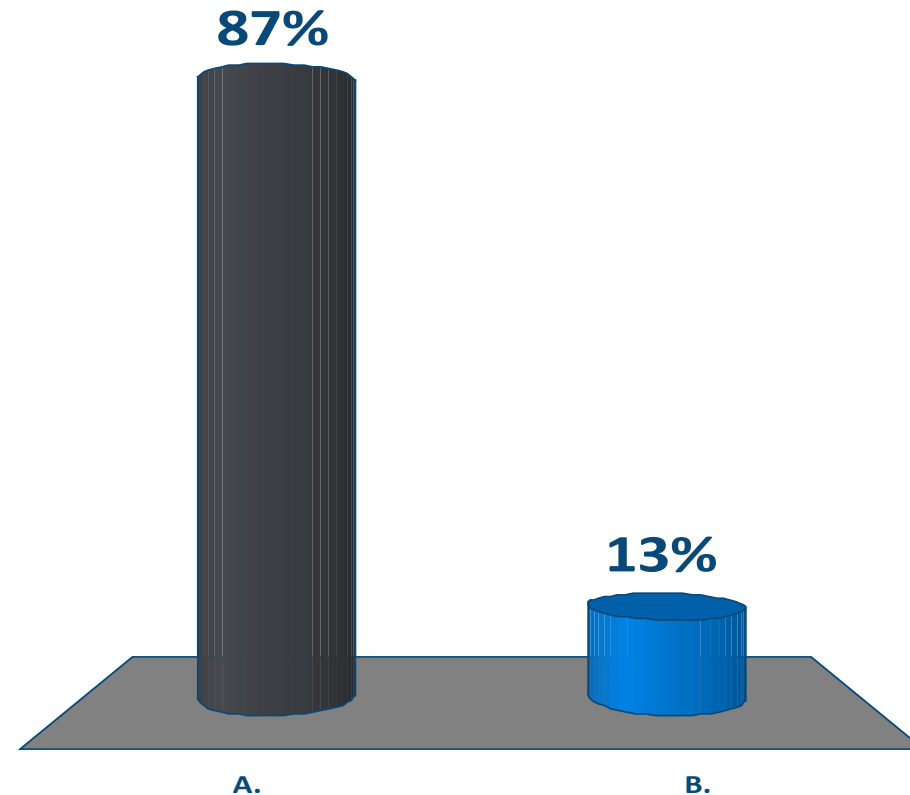
- A. Yes
- B. No



Polling Question

Of those that just responded Yes, how many took a “negative” policyholder action (raised rates, took away a feature,.....)?

- A. Yes
- B. No



Considerations in Taking Action

- What are the data sources? Is the data clean? Duplicates? Valid?
- How long has product been on market?
- Is experience “credible” in your opinion? Many ways to define credibility, both quantitatively and qualitatively
- Is there something particular in the marketplace that caused the shift in trends that you are witnessing?
 - New way of selling product, settlement companies
- What will be the reaction from Distribution/Sales?
- If you do want to make a change, consider perception
 - Call it a product “refresh”
 - Take this opportunity to build a new product that includes the change



Thank you

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