

Product Management: Leaky Faucets

Southeastern Actuaries Conference

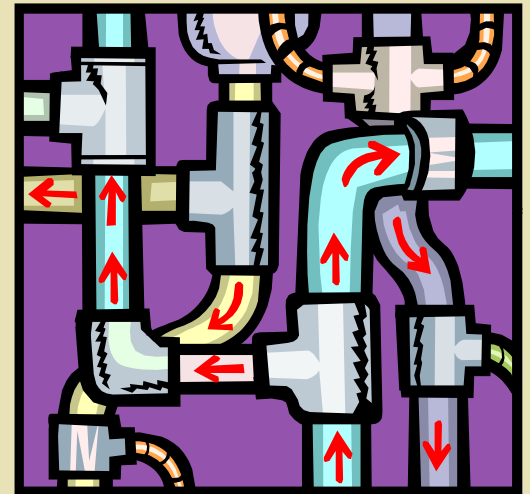
Spring Meeting: 13 June 2002

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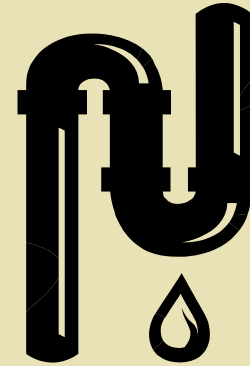
Product Management: Leaky Faucets

- ◆ Part of construction in work of actuarial science
- ◆ Pipes can clog up, and faucets can leak, for a number of reasons
- ◆ Emphasis today is products
- ◆ Good plumbing gone bad
- ◆ Anonymous tips



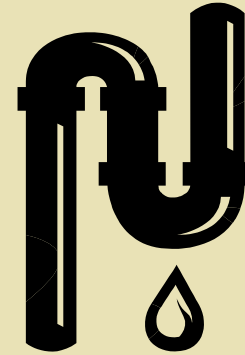
Product Management: Leaky Faucets

- ◆ Types of leaks
- ◆ Detecting leaks
- ◆ Measuring leaks



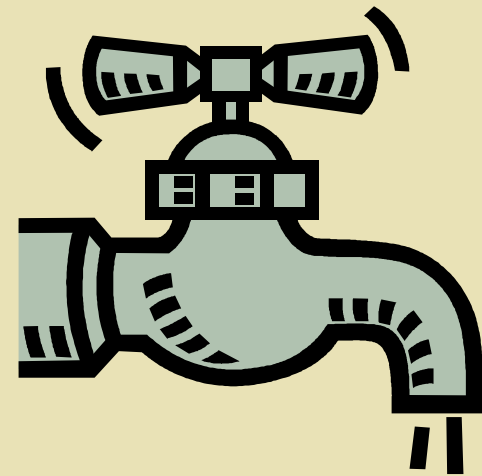
Product Management: Leaky Faucets

- ◆ Types of leaks
- ◆ Detecting leaks
- ◆ Measuring leaks
- ◆ Controlling leaks
- ◆ Avoiding leaks
- ◆ Repairing leaks



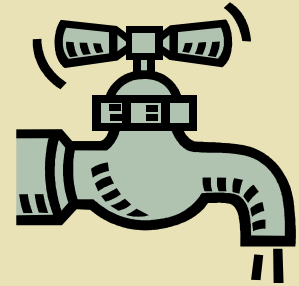
Types of leaks – chronologically

- ◆ Original pricing
- ◆ Original benefits
- ◆ Repricing
- ◆ Benefit redesign
- ◆ Combinations



Types of leaks – logistically

- ◆ Concentration of risk
- ◆ Untested product innovations
- ◆ Asset/liability management
- ◆ Alignment of coverage and pricing assumptions
- ◆ Segmentation of experience analysis
- ◆ Cause and effect – and misinterpretation thereof
- ◆ Lack of qualified specialists
- ◆ Focus on secondary goals



Types of leaks: Original pricing

- ◆ Initial premium rates
 - Assumptions too optimistic
 - Too little flexibility in premium rates
 - Loss leader
- ◆ Guaranteed or not
 - Vanishing premium
 - Confusing combinations

Types of leaks: Original benefits

- ◆ Initial benefit descriptions
 - Inadequate definitions (now or later)
 - Lack of inside limits
- ◆ Seemingly “minor” components
 - Cash value bases
 - Settlement options

Types of leaks: Repricing

- ◆ Price elasticity
 - Inconsistency in product management
 - Resetting dividends
 - Health insurance
 - Guaranteed renewable
 - Group medical
- ◆ Regulation
- ◆ Litigation



Types of leaks: Benefit redesign

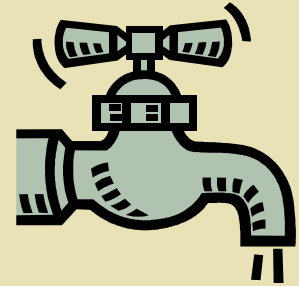
- ◆ Carelessness to detail
 - Potential for attained age antiselection
 - Extreme high ages
 - Changes in tax law
- ◆ Product emulation with missing puzzle pieces

Types of leaks: Combinations

- ◆ Entry to a new line (*e.g.*, investment)
 - Different horizons
 - Different assets
 - Different balances among the four C's
- ◆ Rapid growth of a line (or product)
 - Guaranteed issue
 - Re-entry term

Types of leaks – logistically

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Types of leaks: Untested innovations

- ◆ Disconnect among underwriting, pricing, and sales
- ◆ Field compensation gamesmanship
- ◆ Long term care / Critical illness / Advances



Types of leaks: Asset/liability management

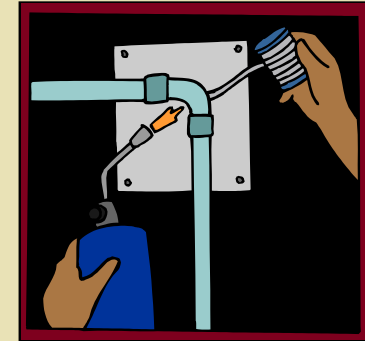
- ◆ Run on the bank with concentration in an asset
- ◆ Poor product results due to non-performing assets
- ◆ Mismatching



Detecting leaks

- ◆ Leakage where anticipated
 - Lack of product innovation
 - Incursion by “new” competitor
- ◆ Leakage where unanticipated
 - Overinsurance
 - Dividend practices / Claims procedures

Measuring leaks



- ◆ Appear where expected
 - Run on the bank with concentration in one type of asset
 - Disconnect with assumptions
- ◆ Appear where unexpected
 - Concentration of risk
 - Adverse [mortality] experience

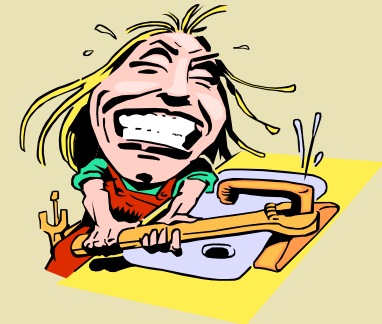
Controlling leaks (part 1...)

- ◆ Controlling during product design
 - Flexibility in premium rates
 - Reasonable and consistent dividend practices
 - Consistency among underwriting, pricing, and sales
- ◆ Controlling during learning period
 - Ranges around assumptions
 - Product innovation or emulation?
 - Consistency in product management



Controlling leaks (...part 2...)

- ◆ Controlling the uncontrollable
 - Product innovation or stagnation?
 - Concentration of assets
 - Concentration in types of assets
 - Non-performing assets
 - Control over distribution
 - Futurism in play
 - Weather, economy, terrorism, *etc.*, *etc.*
 - Sweat the details – before they cook you



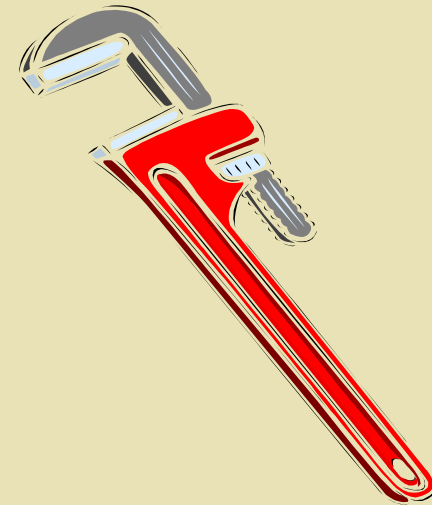
Avoiding leaks

- ◆ Built-in *vs.* separate charges
- ◆ Guaranteed *vs.* non-guaranteed
 - Premiums
 - Benefits
 - Processes



Repairing leaks

- ◆ Corrective repricing
- ◆ Discontinuing sales
- ◆ Exiting a product or a product line



Leaky faucets do not bode well



- ◆ They very seldom repair themselves
- ◆ They make a mess of the walls and floors
- ◆ They are always in a hard-to-get at place
- ◆ The residual odor can hurt property values

Leaky faucets do not bode well, so



Practice safe plumbing