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Current issues

Pricing at an inflection point

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Why now is the critical moment to revisit pricing

The underwriting cycle in commercial lines is reversing once again. After a prolonged hard market, competition is resurfacing, broker panels are sharpening pencils, corporates are rethinking tenders, and new market entrants are chasing premium income while existing players are growth searching. In brief, the pace of rate softening seems to be accelerating, and Terms and Conditions (T&Cs) are inexorably getting less tight.

Softer rates may support the top line, but they sow the seeds of their own destruction. Without proper visibility into the adequacy of your premiums across your entire portfolio, you risk being unsighted on future underwriting losses eroding capital. Safe navigation of a softening market demands proactive monitoring of premium adequacy.

The growing risk of insufficiency of premiums

The clear and present danger

Profitability is rarely lost overnight. Instead, it is often eroded gradually through rate reductions and looser terms and conditions across hundreds or thousands of policies across multiple lines of business. In a hard market and when natural catastrophe losses are lower than planned, surplus premiums can mask underlying issues. As rates soften, these hidden leaks and inadequacies become painfully apparent—but often too late. With the tide going out, those insurers lacking pricing robustness could be caught short.

Key checkpoint: Can you confidently identify those lines of business not delivering your target return on capital allocated to them? Within your different lines of business, can you identify the poorly performing segments or those 5–10% of policies contributing disproportionate losses? If not, you might benefit from improving your pricing models.

A portfolio-wide perspective

True pricing sophistication goes beyond individual policy analysis and pricing. It requires a dynamic portfolio approach, answering critical questions:

- **Where** are we earning below our required risk-adjusted returns?
- **Why** is profitability deteriorating - pricing drift, impact of T&CS, underwriter discounts due to competitive pressures, deficient claims inflation assumptions, poorly performing segments in a book?

- **How** can we recalibrate – adjustments to policy mix, reallocated capacity, increased deductibles, sub-limits on some perils, or different reinsurance strategies?

If your pricing and monitoring are not sophisticated and nimble enough to allow you to granularly and comprehensively interrogate your portfolio, you risk sustaining unexpected underwriting losses.

Regulatory spotlight on pricing adequacy

Both Lloyd's and the Prudential Regulation Authority (PRA) have doubled down on premium adequacy in their latest supervisory communications:

- **Lloyd's Market Oversight Plan** 2024 puts "price adequacy and rate-to-risk correlation" on its list of core performance metrics for every syndicate (assets.lloyds.com).
- **PRA Insurance Supervision Priorities 2025 -** flags "pricing and underwriting discipline" among the top themes for all UK insurers (bankofengland.co.uk).

In practice, that means PRA supervisors and Lloyd's oversight team will expect:

- Portfolio MI showing premium adequacy and risk adjusted rate changes by line of business for the entity in a more robust way.
- An understanding of how planned underwriting actions are expected to impact profitability.
- Monitoring of when and the extent to which underwriters do not follow technical prices, with justification for the departure.
- Controlled, versioned pricing models with clear governance.

Completeness and robustness of technical pricing is no longer optional hygiene; it is a regulatory expectation. Treat it as a "nice-to-have" and you risk both unsighted underwriting losses and greater regulatory scrutiny.

Building the business case: demonstrable ROI

In our view, devoting time and resources to improving your pricing isn't just an immediate cost—it's an investment delivering measurable financial returns over the medium to long term:

Benefit	Impact	Example
Margin Recovery	+3–5 pts combined ratio improvement	Correction of rating drift can improve profitability over a 12 to 18 months period.
Growth Opportunity	Confidence in targeted expansion	A Clearer understanding of expected profitability supports strategic market growth.
Capital Efficiency	Reduced volatility and risk, lower capital requirements	Access to the right pricing expertise, insightful pricing models, and comprehensive coverage reduces risk and volatility. It often translates to a cost saving on your reinsurance programme when credible, and ultimately to lower capital requirements.
Reduced regulatory costs	Less reason for regulatory interference	Gaps in coverage of pricing models, low utilisation by underwriters, repeated and significant deviations will prompt regulatory questions. Poorly performing lines attract much greater regulatory scrutiny.

When done well, investments in pricing more than pay for themselves.

Choosing the right approach

The pitfalls of "Big-Bang" transformations

Experience repeatedly tells us that most large-scale pricing projects don’t land the way they were expected to. Not because the ambition was wrong, but because the execution was rife with pitfalls. We are wired to try to do too much at once. Ambitious, multi-year pricing transformation programs fail in their idiosyncratic ways but are characterised by:

- Overly ambitious scope (eg, attempting to overhaul multiple systems simultaneously).
- Vendor lock-in with complex customisations.
- Change fatigue among underwriters leads to poor adoption.

For most insurers, a massive "change everything" initiative introduces significant operational, organisational and financial risks.

Our preferred path: “Feel the stones” transformation

Instead, adopting a pragmatic, judicious and phased approach provides faster, more reliable results:

1. **Gap Analysis (4–6 weeks)**
    - Identify key deficiencies in your existing pricing framework.
    - Prioritise the maximum bang for the buck areas initially.
2. **Quick-Win Improvements (8–12 weeks)**
    - Address the most pressing issues first, such as entity dashboard enhancements and specific line of business solutions.
3. **Step-by-step enhancements (quarterly or half-yearly cycles)**
    - Have a medium-term plan.
    - Gradually increase line of business or product coverage, use data augmentation where relevant, implement advanced capabilities in specific lines of business, learn by doing and replicate successes as appropriate.

Our step-by-step approach consistently proves more successful—delivering incremental value, building credibility and buy-in from stakeholders, and avoiding common transformation pitfalls.

Flexible technology solutions

At Hymans Robertson, we are agnostic as to which technology or software provider our clients prefer to use. We can build open source pricing models as well as work with commercial software (eg Rulebook from Verisk). Ultimately, the right technology platform for pricing will depend on your organisation's preferences and situation. Options include:

Platform Type	Advantages	Considerations
Excel	Familiar, accessible	Limited audit trails, scalability
Open-Source (R/Python/SQL)	Cost-effective, highly customisable	Requires strong internal capabilities
Commercial Software	Comprehensive audit capabilities, support	Ease of use but higher licensing costs and vendor dependency

Hybrid solutions can also work – where firms use open-source for analytics or some lines of business alongside proprietary tools in other lines of business - often strike a balance between flexibility and control.

Practical steps you can implement immediately

- **Premium Adequacy and RARC Dashboards**: Track actual vs technical premiums, and risk adjusted rate changes, by line of business and in aggregate on a monthly or quarterly basis.
- **Line of Business Performance Dashboards:** Track expected profitability by line of business together in consistency with business plans and target returns on capital.
- **Establish Pricing Governance**: Bring the right team together to review the adequacy of pricing models quarterly and ensure delivery of corrective actions, working alongside underwriting.
- **Monitor Override Practices**: Ensure underwriting decisions and deviations are appropriately documented, stored and consistently monitored.
- **Prioritise Quick-Wins**: Invest targeted budget where the maximum benefit can be obtained.
- **Proactively Engage Regulators**: Demonstrate transparency and proactive improvements.

Conclusion: don't navigate the soft market blindly
A softening market is challenging, but a lack of visibility into premium sufficiency is not. By adopting a clear, step-by-step, and strategic approach focused on ROI, your organisation can confidently navigate market shifts, protect margins, and leverage pricing as a strategic advantage.

Ready to act?
If you'd like to explore improving your pricing and how Hymans Robertson can add value in the process, let's talk. We'd be happy to share ideas, give examples, and help you think through what would work best for your firm initially, and partner with you on implementation or on delivering on your already established pricing maturity journey.

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