

Case 1B

Type: Profitability



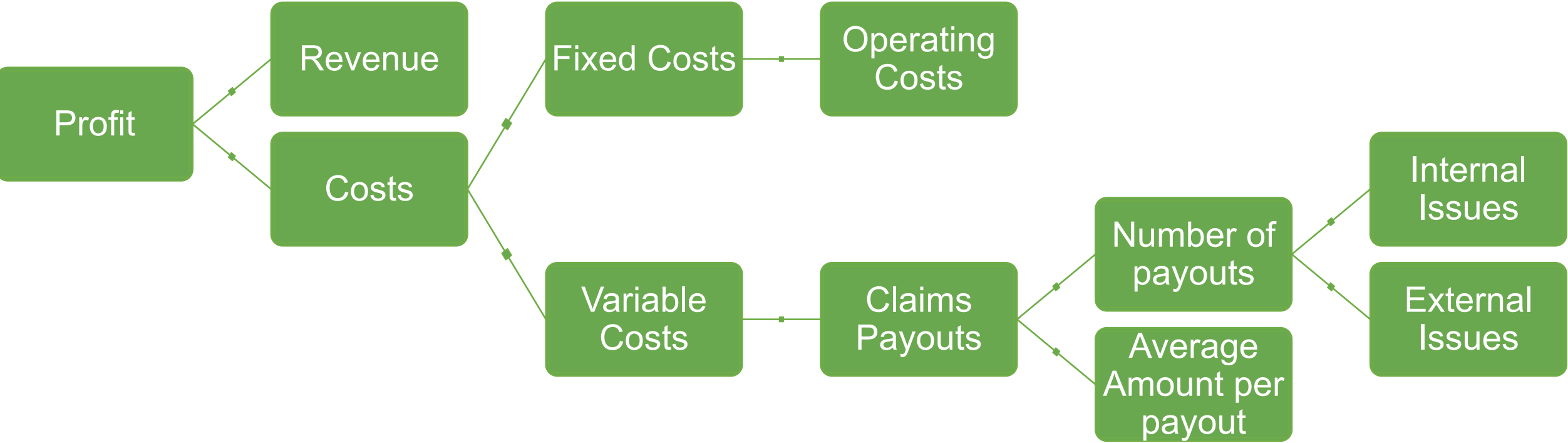
PROBLEM STATEMENT

Your client is an insurance company who has been facing a decline in its profits since the last 1 year. Analyze the problem and suggest recommendations for the same.

SCRIPT KEY	
Interviewee/Candidate	
Interviewer	

<p>Your client is an insurance company who has been facing a decline in its profits since the last 1 year. Analyze the problem and suggest recommendations.</p>	<p>Number of payouts have increased.</p>
<p>Before I commence with the analysis, I wanted to ask some clarifying questions. What kind of insurance does the company provide? What are the geographies it operates in? How does it sell insurance? And are other companies in the industry facing similar issues?</p>	<p>There can be 2 types of causes for this - Internal like algorithm/formula determining claims payout could have changed or External like increased number of accidents could be taking place.</p>
<p>It provides many types of insurance but the decline has mostly been in Automobile insurance. It operates in 3 Indian states- Delhi, Maharashtra and Gujarat. It has partnered with car dealers to sell insurance at the time of purchase. Apart from this, renewals are continued by directly approaching the customers. This is happening only with our client, the rest of the market is fairly unchanged.</p>	<p>We are informed that the internal algorithm and formula has remained unchanged.</p>
<p>Noted. I'll breakdown the profits into revenues and costs. Any changes in either of those?</p>	<p>Noted. So in case of External factors, there can be 2 possibilities - Technical flaws like faulty cars leading to more accidents or Interpersonal flaws like irresponsible driving.</p>
<p>Revenues have been unchanged and costs have increased.</p>	<p>You have got the answer. We have observed that the young population of our customer base has been driving recklessly which has led to more occasions for paying higher amount of claims. Could you suggest some recommendations for the same?</p>
<p>So this is a cost side issue. Costs can be broken down into fixed and variable costs. The major cost head in fixed is operating costs while that in variable is claims payout. Have anyone of these increased?</p>	<p>Sure. In the short term, algorithm/formula can be changed to either set a cap on the damages that can be reimbursed or take a higher amount of premiums from risky youth drivers. In the long term, the client should diversify its customers both age wise and state wise so that this doesn't affect their bottom-line a lot, in the future.</p>
<p>Yes, the claims payout has increased.</p>	<p>Good recommendations. We can close the case here.</p>
<p>Okay, so the total claims payout cost can be broken down further as number of payouts and average amount per payout. Which of these has changed?</p>	

INSURANCE COMPANY



QUALITATIVE INFORMATION

Case Background:

An insurance company is facing a decline in profits because of increased costs.

Case Facts:

1. It operates in Delhi, Maharashtra & Gujarat.
2. It partnered with car dealers to sell insurance.
3. Problem since 1 year.
4. Increase in costs.
5. Claims payout increased.
6. Internal algorithm unchanged.

CLARIFYING ANSWERS TO BE PROVIDED ONLY WHEN ASKED BY THE INTERVIEWEE

<u>Interviewee</u>	<u>Interviewer</u>
What kind of insurance does it provide?	Many types provided, but decline has primarily been in the Automobile insurance.
What are the geographies in which it operates?	Delhi, Maharashtra, Gujarat.
How does it sell insurance?	Partnered with car dealers to sell insurance at the time of purchase.
Is this an industry-wide phenomenon or a company-specific issue?	Happening on with the client. The market is unchanged.

RECOMMENDATION

1. **Short Term Recommendation-** Company can change algorithm/formula to either set a cap on the damages that can be reimbursed or take a higher amount of premiums from risky youth drivers.
2. **Long Term Recommendation-** The client should focus on diversifying its customer base to all age group and state wise so that this doesn't affect bottom-line a lot, in the future.