

ORACLE

Accounting for Risk in Planning

An Integrated Crystal Ball and Planning Demonstration

Risk Reporting Renewal Premiums Example

- Selected a simple Insurance example, where the Planner must decide on the best approach for increasing renewal premiums.
- Since his group is measured on achieving revenue targets, the Planner would like to both increase revenue and be confident of meeting or exceeding those forecasted results.
- Two questions:
 - 1. How certain is the Planner of meeting or exceeding the revenue?
 - 2. Which inputs have the most effect on the outcome?

Risk Reporting

Renewal Premiums Example

- In this example, we use Oracle Crystal Ball in conjunction with Planning to:
- 1. Measure the risk inherent in renewal % and average renewal premiums
- 2. Compute the certainty ranges around total renewal premiums
- 3. Perform sensitivity analysis to identify key uncertainty drivers

Thus allowing the strategic planner to evaluate and propose the best approach for increasing renewal premiums.

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e preparing the first draft of the budget for ed from insurance premium renewals. The is a function of the # of policies up for enewed, and the average premium per policy. ns each of these inputs and then calculates the enerated for both 6 and 12 month policies.

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Our first pass at the budget shows us coming in just shy of our \$4000 target. But what if the % of customers renewing falls short of expectations. Or what if more customers take advantage of discounts and the average premium per policy decreases? How likely are we to meet our target?

This was question #1: How certain is the Planner of meeting or exceeding the revenue?









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This chart shows the outputs of 500 what-ifs. We see the range of revenue and probability of hitting our goals. If the goal for renewal premiums is \$4000, there is more than 50% chance that we'll fail to meet our goal.

We've now answered our first question. We definitely would like to be more certain of reaching our goal, given that our group is measured on this outcome. So now, we want to understand why we are likely to miss our target.

And that is question #2: Which inputs have the most effect on the outcome?







Smart View allows us to easily move between the 1st and 2nd draft of the budget. Notice that the budget is largely the same, with two important exceptions.

We think that by increasing our prices we can realize an increase in the average premium from \$122 to \$127... Of course this risks alienating some customers, so we've also decreased the renewal % from 95% to 93%.

What will the net impact be on our gross premiums?

I ◀ ◀ With this slight change we now have a 62% chance of hitting our goal!

By applying a simple methodology that captures the variability or uncertainty in our plan inputs, we've vastly improved both our likelihood of reaching our goals and our confidence in that forecast - a key benefit of Performance Management.

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Probability

Risk Reporting – Taking Action Renewal Premiums

- Potential Courses of Action
 - Price increase to increase revenue

or

- Examine discounting practices to decrease variability
- With additional data we can refine our price elasticity analysis
 - Correlations
 - Optimization

With this information we can identify multiple strategies for driving new revenue. Additional data could be used to support Optimization- enabling us to move beyond what's likely to what's best.



FOR MORE INFORMATION ...



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