Insurance Analytics: Assessing external data and technology from the C-Suite

With contributions from:

Brian Cohen, CEO, **Pacific Specialty Insurance Company**
Mick Noland, Chief Underwriting Officer, **Metlife**

Introduction

The insurance industry has a long-established tradition of collecting and analyzing data to evaluate its risk and reward. While insurers have always had a wealth of internal information, they now face a world with tools and systems that can incorporate external information to provide deeper insights. Managing this data, evaluating these insights and determining the reward of such effort is reshaping how insurers approach their models and business operations.
External data has the ability to impact every aspect of an insurer's operations because of the policy lifecycle insight it can provide. However this new data comes with challenges around viability and accuracy that insurers must address.
A better understanding of customers will allow property and casualty insurers to accurately assess risk and price policies, reducing some of the volatility in the market place. Unlike other industries, insurance's use of data impacts customers more on the final price that they pay than the marketing they see or how tailored an advertisement may be to their needs.

There's no scarcity of data available for insurers, so the largest challenge to adopting external datasets remains the usefulness of new information. Insurers are developing practices to define information goals and tests or models to determine if new information meets these goals.

Data is changing the face of property and casualty insurers, shifting company structures to include analytics roles in more departments. Business units are collaborating on insights and this may lead to a future model with smaller teams and a single database for underwriting, claims and other departments.

While the world is going social, the near future will likely see insurers stay mostly hands-off. Social media presents an opportunity for an insurer to communicate with existing customers and resolve account problems, but social information does not yet hold an allure for data models or customer profiles.

To discuss the role of external data in current insurance operations, as well as the benefits and challenges it presents, we have brought together three industry analysts ahead of FC Business Intelligence's Analytics for Insurance USA conference this March. We are grateful for their participation.

DataDriven Business

The Speakers Are:

Brian Cohen currently serves as the President, CEO and a member of the Board of Directors of Pacific Specialty Insurance Company and its sister companies Western Service Contract Corporation, and The McGraw Company. During his tenure he has streamlined operations, grown and diversified revenue, and increased operating income. He was formerly a C.P.A. and a corporate lawyer with a business degree from the University of California, Berkeley and a law degree from the University of Southern California.

Mick Noland has served as the Vice President and Chief Underwriting Officer for MetLife's Property & Casualty businesses since May 2013. He started his career as an underwriter for Nationwide Insurance but now sets strategy for all aspects of underwriting across the P&C business and leads all P&C underwriting activities for all sales distribution channels. Mr. Noland graduated from the University of Florida and pursued graduate studies at the University of Chicago and the University of Florida.

Data Driven Business

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Operations: What's the biggest industry segment that external data is impacting?

Brian Cohen, Pacific Specialty Insurance Company: Insurance is a data business. At the core of it, insurance is really about analyzing risk. Including more data allows us to turn analysis into fair pricing for risk so that we stay competitive but still make a profit.

The history of insurance has been a continuous search for more data so we can make a more precise risk analysis; this leads to more precise pricing. How do you know if someone is a good risk or a bad risk? You need more external data. Better data sources allow you to slice and dice what you have to determine a good risk profile. It's a strategic advantage to get more external data that properly correlates to identifying an individual's risk profile. External data enriches pricing opportunities to develop a more specific price for a customer's risk. Those who win are able to better price insurance risk than their competitors The only way you can do this in today's market is to bring in more information about the people you're insuring.

The ability to collect data has gotten more sophisticated, so companies now can be more granular and specific as to how they price risk.

Mick Noland, MetLife
Number one, external data has a ton of value. Anything that can broaden our understanding has value in insurance, and external data is a big component of that. The key to using it successfully – so the biggest process piece it plays on – is understanding and properly using data definitions. With internal data, you have a long, established history of your data sources and what each element means. This understanding lets you successfully apply definitions within your organization. External data adds an increased need to understand your definitions because new data always broadens your view and helps you look beyond the experiences of your own company.

Quality, objective data, once it is integrated well, absolutely improves your speed to market. Data vendors and insurers have come to a common ground around data definitions and new tools make it easier to pull multiple data sets together. Now, we can manipulate data from across all of these sources and integrate it much more easily than just five years ago.

When I talk about the power of analytics I don't talk about unique data sources or focus on some great hidden variable that the industry is going to find. It comes down to this: on a daily basis, are your data processing and business reporting services better than your competitors' operations?

We operate in personal lines and that's a zero-sum game, arguably a negative-sum game. That means you have to be better than the market.

Technology: How are technology and data changing your customer-facing efforts?

Brian Cohen, Pacific Specialty Insurance Company:
In insurance there are two reasons you create marketing: to become top of mind or to help agents find customers that you want to insure.

Pacific Specialty Insurance Company uses independent agents to find customers, so what we try to do in terms of marketing is find or create tools that enable independent agents to find the customers we want to insure. Our goal is to figure out how best we can use data internally so that when an independent broker has a customer sitting across from him, we can determine a quote that is aggressively priced for a customer we want or not priced aggressively for a customer we don't want. We've also got to be able to do this in seconds. External data becomes critical for us at the time of customer acquisition.

Mick Noland, MetLife
New data, and in particular new external data, allows you to know your customer better. These deeper insights translate directly to improved service for your customers. A stronger profile with proper definitions improves your ability to

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match products and services to customer preferences. The customer profile is improved on the front end so the products we can offer and the policies we create accurately meet the customer's needs. All of this improved understanding helps us adjust cost or packages by creating a deeper understanding of claims cost and loss over time. Integrating external data means we can improve on the lifetime cost of policies for our customers. Improvements from marketing and pricing to underwriting all help us improve our ability to retain customers over time.

Benefits: What are the main customer, employee and business benefits for introducing additional data?

Brian Cohen, Pacific Specialty Insurance Company:
Customers want to pay a fair price for insurance, based on their own personal experience and risk. No one wants to pay too much because someone else's risk is higher. This risk band starts off very wide but shrinks as the insurer gains more information about the risk pool. Having more data on an individual risk means the insurer comes closer to knowing and being able to charge the true cost of each customer's risk.

For the consumer, it's ultimately about getting a price that rewards your for your good behavior instead of punishing you for another person's bad behavior.

Company and employee benefits for external data really align around the way an insurance company operates. Insurers used to have legions of people that literally stapled and collated policies that were sent out to customers. It was boring work.

The insurance company of the future, and even the company of today, will have a lot more people working for it that are very clever and analytical. This benefits the company because it makes the work more interesting and rewards higher-level skills, so it shifts to better-paying jobs. A focus on data also helps improve profitability by improving operations and the level of employees. The challenge is that the insurance industry is slow to move, so this isn't going to happen overnight.

Mick Noland, MetLife
Good data provides clarity. Once you've integrated data in and you're using it properly in your business, you can push it through your operations for business and employee benefits. External data help you identify what "good" is, and this creates clarity for your associates and makes their job easier.

It may sound like a simple concept, but in our business where pricing is very assumptive, having clarity around what "good" means is very helpful to the organization. Policy allocation and pricing becomes less biased, less subjective and more quantifiable.

Clarity improves people's ability to do their jobs in insurance and makes it easier for the company to define achievable goals that increase value. The challenge of this is importance. Data for the sake of data can lead to analysis paralysis. You've got to be smart about how you use data and find the right amount to use to make correlations quickly and successfully.

You want to ensure that everything has an end in mind; that end for us is to drive customer value. You want to broaden and deepen your use of data, but this needs to be done in ways that don't slow decision making. Data must aid decision making and help turn a company from a market-lagging reaction to a market-leading approach. For customers, this all comes back to better-priced offers that meet the customer's needs based on improved assessment and understanding of risk.

Targeting: How do you ensure a vendor's data is right for the customer you're targeting?

Brian Cohen, Pacific Specialty Insurance Company:
Usually you have the right information for the customer in front of you, but the real need for insurers is to properly correlate the information to a deeper insight into the risk you're trying to insure. The question isn't as much 'can I rely on this data?' as it is 'am I getting the right information?'

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Data vendors have been helping out by building platforms that insurers can purchase. This helps to speed analysis and provide results in seconds compared to the months it may take for a manual process. Vendors also sell pre-diced information that provides different correlations already. It's not that there's a scarcity of data about an individual or customer group, it's almost as if there's too much. Insurance companies do a great job at getting data about individuals from direct data sources such as motor vehicle information, credit information and police records, all of which provide some information around the individual or the property as a risk, but this information is very diverse and may not be clear for your needs.

So before you analyze data, you have to arm yourself with a very clear idea of what you're looking for and what you're trying to accomplish. That's what we spend most of our time doing as a company before we go out and speak to data vendors.

Mick Noland, MetLife
The advantage of broader, industry-level data is that it's easier to understand and properly correlate. You always need to ensure the credibility of your data so that insights are meaningful and not just coincidental. Creating credibility depends a little on the data you're working with and the problem you're trying to solve.

Big Data has gained a lot of media attention lately, but insurance companies have had significant amounts of data for a long time. What's changed is the support vendors can offer to manage and sift data for industry-level insights as well as provide tools that help companies mine internal data.

As an industry, we've moved very aggressively from knowing how important data is to determining key indicators and developing the tools to mine and manipulate data. We've known how to qualify data and ensure credibility, but we now have the right tools for access and analysis.

Organizational: What can an insurer do to best align their processes or people to make use of new data?

Brian Cohen, Pacific Specialty Insurance Company:
Every company has their own way of doing things, but what we're seeing is a move away from the typical information silos present in the industry. We've discovered that what is happening in our product development department is also going on in our marketing and underwriting departments. All three are learning to be better at data analysis and at finding useable patterns in data.

What I see is that there's going to be much more of a blurring of departments. We're taking data analytics folks from our marketing side and having them get involved with product development and underwriting in special projects. This creates informal bridges and helps open up communication so groups share insights and best practices.

What we're discovering is the need to have a good breaststroker in these areas, despite earlier thinking each department used to swim its own style. For us, special projects have been the best way to share across departments and improve analysis everywhere.

Mick Noland, MetLife
It starts with having a common premise or vision around which key data element drives decision making, whether that's a customer value metric, pricing variable or loss driver metric. Organizations think about this very differently and, based on the answer, will have very different levels of cross-functionality.

The key is to have a metric that can work across the entire organization; something you can share and apply everywhere. What you choose to measure is every bit as important as how measure it when deciding how data will move through your organization.

To improve the teams themselves, we've relied on lunch-and-learns, user groups, forums and real-time chats.

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Face-to-face problem solving that gets people together and helps them go over what's important is essential to getting everyone on the same page. Organizational structure has to be tailored to what the company deems most important, getting everyone on the same page with the same end goal in mind.

Social Media: Has the era of social media arrived for insurers or are social sources not yet ready for inclusion?

Brian Cohen, Pacific Specialty Insurance Company:
The most important use for social media in the insurance environment is in customer service and being proactive. You almost have to already have people on social media looking for customers of yours and your competitors who are upset about something. Wouldn't it be amazing if you could reach out to them in their time of need and resolve their issue?

With social media, there's no reason to drive a truck through a devastated area or buy local ads anymore, you can do this all in real-time because the first place people go to for breaking news is Twitter and Facebook. It's a push-pull kind of strategy but it, to me, relates to customer service. Right now that's the only place to play with social media as an insurance carrier.

We've been very lucky. We're in the heart of Silicon Valley and the way I've looked at this is by taking a "startup mentality" to insurance. I look at new technology to see how it can get rid of the legacy natives and, if you star there, then you can get very excited about what data can do.

Mick Noland, MetLife
If I've learned one thing in this business it's don't discount new data sources.

I think there could be value in social media but the industry can't quite quantify it yet. There are behavioral components to social media that can definitely affect someone's loss performance so it can teach you something. Incorporating it, however, can't just be an academic exercise.

To use social media, it would need to show insight beyond existing data sources. It also needs to pass through all the state-level compliance and regulatory screens that our business has to go through. Additionally, it may raise privacy concerns from customers and regulators alike. Certainly, the use of credit faced challenges when it was first introduced – and it's still not allowed in three states. So, the compliance and regulation issues coupled with customer reaction to how the industry uses the data may be the bigger challenge for our industry.

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End Note

Our speaker's thoughts show that the market is cautiously adopting the benefits of big data. Insurers are incorporating new data elements with surgical precision because of the value in their existing models and the need for new data to improve understanding instead of simply complicating matters.

External data can play a significant role in understanding risk and assessing customers, but it requires an insurer to align their business processes and employees to take full advantage of the offering. Insurers will continue to internalize insights, improving operations and risk profiling in ways that are only visible to the customer at the pricing stage.

New technologies and capabilities now position data as the differentiator, where insights drive competition in this zero-sum, and potentially negative-sum, game. The history of insurance is steeped in data, so it's only fitting that the future of the industry relies on a continual improvement of data models, assessments and a bit of finesse in applying this data to the end customer.