MARKET NEWS, DATA AND INSIGHT ALL DAY, EVERY DAY

WEDNESDAY 15 JANUARY 2014

ISSUE 4,021

insuranceday

www.insuranceday.com

in association with ACORD

TECHNOLOGY FOCUS

Data analytics and the personalisation of insurance: a revolution in the making?

Is data analysis and technology about to combine to drive an insurance revolution?

Anthony Duffy, retail financial services specialist
Fujitsu UK & Ireland

Companies are using technology to gain customer insight so they can tailor products to the individual

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While the principle of pooling risk is well understood by the industry and the savvy, it may be less so by consumers. Private individuals may never have been told their car and home premiums are being priced against an amalgam of similar risks, rather than against their personal risk profile. But is this about to change? At Fujitsu, we believe data analysis and technology are about to combine to drive an insurance revolution.

Already the signs of change can be seen in the motor market. Here, the rise of the smartphone has enabled new ways by which customer insight can be gained. In the UK Aviva offers an app that monitors and scores an individual's driving behaviours. Over an initial 200 miles, the app seeks answers to risk signals such as how often the car is driven, how often it brakes and how hard and the speed at which corners are taken, before reflecting the insight in revised motor premiums. Of the app's recent users 19% qualified for a 20% discount and 50% qualified for a 10% reduction.

Understanding real behaviour

Aviva is not alone in doing this. US insurer Progressive offers a product called Snapshot, while the UK's Co-operative Insurance offers Smartbox. Insurers increasingly believe many of their (particularly younger) customers are over-paying for car insurance because – contrary to belief – they do not have the same risk profile as other individuals with whom they are grouped.

Opportunities for personalised premiums are also starting to appear in the healthcare sector. British insurer PruHealth incentivises self-selection of healthy lifestyle choices and behaviours by offering reductions on the cost of health screenings, gym memberships and even the cost of buying a new bicycle.

Going mainstream

Yet such developments have yet to become mainstream. While many insurers understand the potential of data analytics and technology, they fear implementing such a strategy demands a near-bottomless reservoir of cash and resources. But we also suspect that some insurers are nervous about the industry moving towards a "pool of one" and the knock-on impact in segments perceived to be riskier. Personalisation for some could lead to unavailability for others.

So how can cost-aware insurers make data analytics work for them? Insurers should start by setting small but attainable objectives. They should segment the customer base to identify those groups – say, householders whose properties are or are not in a flood risk zone – where a more personalised product is both feasible and appealing. Importantly, such segments reveal where premiums will have to rise because of a combination of past history and a reduced pool and provide an evidence trail to support each decision.

Testing the theory

Next, we suggest clients should build a hypothesis that can be proved or disproved using limited amounts of data. Think carefully about what you want to learn about your customers, identify the information sources most likely to provide the answers and avoid the temptation to collect and analyse "just one more piece of data". Avoid building a bigger, more expensive process at the expense of insight, understanding and – ultimately – the creation of a better proposition.

Analytics in the business

Finally, we encourage clients not to neglect opportunities to integrate data analytics with existing operations. This means more than using the outputs of the data-analysis exercise; it means looking for (and implementing) opportunities to improve business processes. Recently, Fujitsu helped one UK government department reduce levels of fraudulent claims more than £150m ($246.1m) by using data analytics to identify high-risk claims.

Increased personalisation is coming to the insurance industry. The market will seek out insurers that can clearly link premiums and benefits to the personal circumstances of each applicant. The challenge is for insurers is to find ways to capitalise on this change by developing approaches that deliver benefits when aligned to lower risks and create clear evidence and communication strategies for those of higher risk. Start small, focus on the possible and never lose sight of the end goal. ■

In actual fact: Analytics delivers insights into the real world

It has always been true information is at the heart of insurance. In recent times, insurers have paid attention to data because they need to communicate better with business partners, create efficiencies and improve quality.

But as our guest columnist points out, data is now well and truly centre stage in product and marketing strategy. Insurers are exploiting technology to enhance and even reinvent the core of the business – which is offering competitive cover for well-understood risks.

The tech buzzword is analytics, which is another way of saying looking hard at data – usually lots of data. But analytics are not just for wonks and if you are being bombarded with graphs, something has gone wrong. As Anthony Duffy says, analytics ought to produce testable theories. This is a very practical discipline.

Analytics deliver insights into the real world. We can use those insights to make changes in the real world – by introducing new products, changing our services or altering the way we operate. To make sure you are dealing with trustworthy facts, ensure your data conforms to industry standards. That way you can be sure your insights are genuine and your pilot results are credible. By working with actual facts, we can change tomorrow's actuality. ■

Gregory Maciag is president and chief executive of ACORD. He can be reached at gmaciag@acord.org