Spotlight Big Data

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BIG DATA, BIG OPPORTUNITIES

Imagine having access to a digital record of potential customers' daily lives. The information is there — it's just a question of how insurers can use it

By Edward Murray

Possibility and reality rarely walk side by side when it comes to new technology and once the experts have dreamed up what they want to do, it takes a lot of time and no little grunt to actually make it happen.

Big data is a case in point and the insurance industry has wrung only a drop of the potential value from this sodden vein of possibility. There are all manner of projects and pilots taking place, but in terms of mainstream underwriting

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processes the market is still a long way from incorporating big data analytics into its everyday pricing model. The questions are, can big data really make a difference, where will it make a difference and when will the market begin to start hitting some home runs with it?

Perhaps the best place to start is with big data itself. To some people the term simply means unfathomably large amounts of data that are difficult to mine for useful information. Imagine the records, for example, that ▶ **22**

one of the UK's major composites holds. Dating back hundreds of years, covering millions of customers and all manner of general, life and health insurance policies — the amount of information is staggering.

But to others, big data represents the unstructured data produced by everything from social media and retail spending to CCTV recordings and mobile phones. Looked at from this angle, big data is the digital record of our daily lives.

At this end of the scale there is very little being done to meaningfully use big data. It is simply too random and too difficult to tackle, and the balance of risk and reward is not attractive. There are also a lot of easier shots to play in the big data game that will generate faster and more profitable returns, while helping to inform where bigger projects could be aimed at in the future.

"There are very few parties constructively using unstructured data in any meaningful way," says Max Carruthers, former chief operating officer at Axa commercial lines and personal intermediary and now a non-executive chairman of Absolute Partnership.

"The argument for that is that insurers have not extracted anything like the potential value out of their structured data, so why would they spend huge amounts of money and effort trying to decipher very complex data structures where the value is unknown?"

Using the data effectively

So where can insurers make headway with the data they already have — and what new data sets are becoming available that will help them further?

Carruthers highlights some basic issues many insurers have in simply trying to link up claims

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with individual policies and he comments: "There is no good in having tons of data if your claims department cannot correlate it back to the customer record." He accepts this sounds incredibly simplistic, but says there are a lot of insurers that still cannot do this.

A lot of insurers also fail to create a single view of their customers and their families. If a person buys their motor policy and their household policy separately from the same company there are not many insurers that will be able to link these two policies as being held by the same person. This denies them the opportunity of creating a fuller and more valuable customer profile.

Even fewer, if any, can then pull together the products held by an entire family into a single view. This sort of information would be even more powerful. "It is not just the policies tied to one person but all of their family," says Carruthers. "If they have children and grandchildren you could build up a family

picture and sense events happening like births, deaths, birthdays and so on."

Imagine the power of being able to talk to new customers about insuring the generations of their family before them? In addition to the loyalty value, the understanding insurers would gain would let them create bespoke pricing and market additional products they knew would be attractive to the policyholder.

Neil Mercier, head of motor for personal lines intermediary at Axa, accepts there are improvements that insurers across the board could make. Talking of linking multiple products up to individuals and their families, he says: "I do not know anyone that is very good at that to be honest. We and others like us are not great at joining those things together."

Part of the problem is dealing through various distribution channels and the multiple data sets this creates. Another issue lies in the disparate systems insurers use for different product lines and the difficulty of then pulling those together into a single, workable format.

Big opportunity for motor

Despite such challenges, Mercier believes there are some big wins on the horizon for the motor market. The My License project is giving insurers access to individual driving license data and this is incredibly valuable.

"We will be able to see, at the point of sale, the driving license number," says Mercier. "That means the policyholder probably lives where they say they live and it gives us all their convictions. Immediately it separates good from bad and does it faster than asking people for their data."

In a similar vein, Mercier is also excited about the prospects of getting details on individual cars straight from the manufacturer. "If you

Big data demands a new breed of analyst

Actuaries have traditionally done the heavy number crunching for insurers, but their forte is looking back and drawing conclusions from past events. Analysing data sets to predict future actions requires a subtly different skill set that even comes under a different job title.

This is a point made in PWC's report *The Insurance Industry in 2014,* which highlighted the importance of data scientists in today's environment. It said: "A data scientist has extensive and well-integrated insights into

human behaviour, finance, economics, technology, and of course, sophisticated analytics. As if finding this combination of skills wasn't difficult enough, a data scientist also needs to have strong communication skills. First and foremost, he must ask the right questions of people and about things in order to extract the insights that provide leads for where to dig, and then present the resulting insights in a manner that makes sense to a variety of key business audiences."

buy a car that has got a crash avoidance system or a lane change system then I would love to know about it so I can give you a better price," explains Mercier. "But the way aggregators and the like are set up they would only recognise the standard fit. When you bought the car, what extras did you have fitted? I would love to know that data without having to ask people as they are often not able to tell me what they have. I cannot really do that in the current process."

Different dreams

For underwriters, the Holy Grail offered by big data is the possibility to treat every risk as unique and to price accordingly — but for brokers the dream is different.

"The insight we gain means we can deliver better customer journeys and design and highlight more tailored products," says Martyn Green, pricing and insight director, BGL Group. "Thereby we can accurately target the right type of customer and keep them for the long term."

Nor is it just data sets relating directly to insurance that Green wants to analyse. He says there are important correlations between external and insurance-specific data. He comments: "Understanding how customers prefer to buy all kinds of items can tell you a lot about how they are likely to behave when they buy insurance. Are they reluctant to buy online, or are they driven by convenience and speed rather than price? Once you understand the different customer groups, you can interact with them differently to benefit them with the right products and customer experience, helping to retain them in the long term. The Holy Grail for the future is to create a personalised buying journey for every customer."

The idea of using data to create individual profiles is not a new one, but there are a number

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Why big data matters

Research from Marketforce, the Chartered Insurance Institute and the Chartered Institute of Loss Adjusters in conjunction with Ordnance Survey found 82% of those questioned believed that without capturing the potential of big data insurers would struggle to remain competitive.

The research also found 95% of those asked felt underwriting departments lacked the necessary tools required to capture the potential of big data, while 81% said they lacked the specialist skills needed.

Source: Ordnance Survey: "The big data rush: how data analytics can yield underwriting gold"

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of things happening that are beginning to make it more possible. The first is the digital revolution and the access it creates to data. The second, according to Green, is a shift in the price of working and analysing that data. He says: "Data mining and analytics tools that would have cost a business hundreds of thousands of pounds three years ago are now available at a fraction of the cost."

Joining the club

Many major retailers are looking to take advantage of their knowledge of customer buying habits as they diversify their operations into the financial services sector.

"At Tesco Bank, we have been developing how we use Clubcard to improve our insurance products for nearly 10 years," explains the bank's external communications manager, Sarah

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Wright. "We started in 2005 by offering a flat discount to all Clubcard customers, and over the years we have developed our processes so we are able to use the insights from Clubcard to offer millions of Tesco customers cheaper insurance as a result. We only ever use Clubcard data to offer cheaper insurance to customers."

BGL is also looking at developing this approach, and Green adds: "In our partnerships business, Junction, for example, we access partner data to drive a better customer experience and encourage loyalty. For example, we access partner loyalty card insights to verify customer information and improve risk profiling. Our partner brand can thereby offer the best possible premiums to loyal customers and our insurers gain good quality risks."

As the insurance market seeks to realise its big data dreams there are two things it needs to keep in mind. The first is the need to peg out very clearly what each project is trying to achieve and to maintain a complete focus on that. Carruthers says: "There is always the danger that you can disappear up your actuarial rear end, as it were, if you lose the plot over what you are trying to do and you see false correlations in the data. You can easily spend £20m, £30m or £40m and not get much out of it. But it is equally easy to spend a lot less and get disproportionate gains."

The second is that Rome was not built in a day and successfully structuring internal data to make it flexible and easy to analyse will deliver more immediate benefits and more valuable insights than anything else.

The reality of what big data is delivering for insurers may still be tottering a long way behind what is ultimately possible, but there are a lot of people trying desperately to close the gap. ■