Insurance Insights: Harnessing the Power of Predictive Analytics

Top row (from left to right): Mark McLaughlin, Global Director of Strategy for Insurance, **IBM Insurance Industry**; Andrew Parkinson, General Manager Claims, **TAL Life**; Anthony Dijanosic, Chief Financial Officer, **Calliden Group**; Patrick Riley, Chief Financial Officer, **Real Insurance**; Joseph Russell, Chief Financial Officer Hollard Business Partners, **Hollard Insurance**; Eilis Hurley, Head of Finance, Insurance, **MLC & NAB Wealth**; Alec Taylor, Senior Manager, Strategy, **Insurance Australia Group**; Terry Gaze, Executive General Manager Insurance, **Suncorp Business Services**; James Delooze, Client Director Insurance, **IBM**; Paul Robinson, Director for Insurance Growth Markets, **IBM**; David Spratt, Business Analytics & Optimisation Specialist, **IBM**. Bottom row (from left to right): Kate Kerr, Head of Marketing, Communications and Client Experience, **MetLife**; Wendy Thorpe, Director Operations, **AMP**; Leanne Stagnitta, General Manager, Customer Analytics, Research and Development, **Allianz**; Colette Reid, Retail Advice Portfolio Actuary, **CommInsure**; Damian Hollingsworth, Head of Internal Audit – AAP, **QBE**; Sushil Ramrakha, Group Chief Internal Auditor, **TAL Life**; Michael Henderson, Chief Operating Officer, **MetLife**.

FST Media and IBM hosted an exclusive luncheon with a select group of insurance executives to discuss strategies to best harness the true potential of predictive analytics in the industry. This event brought together leaders within the insurance industry to discuss predictive analytics to reduce fraud, identify and mitigate client risk and reach target markets.

MARK MCLAUGHLIN, IBM: IBM's market analysis team within the Institute for Business Value does studies on the insurance industry. We have different organisations that look at how the industry is behaving worldwide: what our customers and distributors are thinking and how that is relevant to what insurers might want to do around business and technology. We also look at long-term technology development trends and how those might impact the industry. When we consider the impact of technology on industry, we think about instrumentation, interconnectedness and intelligence.

Instrumentation has an impact on analytics because it provides us with data we did not have before. We were talking earlier in a group about some of the pilot work in telematics in Australia. We have seen a lot of that in the US and in a couple of other markets around the world. Think about the wiring and sensors in homes. Right now I can tell you what the temperature is in my house; I can set the alarm; and I can understand what the electrical usage is. If I can do that here, insurers can also access that information. What might

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insurers do with that information? If I understand a homeowner's electrical usage, I might be able to predict where they might have an electrical fire. I might be able to understand through fitness apps what my customers are doing to improve their lifestyle. Insurers can say, "If you can prove that you cycled 30km or ran 10km a week, we will reduce the premium." You can give people an incentive to manage their risk appropriately.

Interconnectedness is the second big trend. Systems and people can interact in ways that they were not able to 5 to 10 years ago. We have our personal tracking devices, but we also have internet access almost all the time.

Every time we make a payment on any transaction, we are going to be using our electronic wallet. It might be NFC or iBeacon, but the broad trend is fairly clear.

There are many different ways a transaction could go, and insurers are at the risk of getting dis-intermediated from the transaction because it is probably not going to be my primary insurer who is making that offer. That presents possibilities for relationship building and understanding customers.

Think about the tracking of a customer's location and what that implies about the ability to provide them with new products and services. Maybe I see my customer is on a plane to Bangladesh on a humanitarian relief mission. They probably have a bunch of products and services they need for that specialised environment.

Social networks are another method of connectedness impacting our industry. Understanding a claimant's relationship with their social network connections can increase the ability to detect fraud. When I look at a claim, I see that 'Susie Q' was the claimant, which by itself does not tell me that much. But if I know she was a witness in three other accidents, and all the accident participants had the same doctor and the witnesses in those accidents are linked to her on Facebook, all of a sudden I have a fraud case that I did not have before I looked at those interconnections.

The third big trend is intelligence. We can analyse information more fully than we could before, and we are more precise about how we analyse it.

When you look at all these technology trends, you can see that the power is in bringing them together. These are not research problems any more, but engineering problems. The challenge for insurers is going to be how to understand their customers' evolution well enough that they can offer them a tailored product or service.

Where we see competition emerging in the industry, we see three big shifts. First, we are going to move out of the claims business to a certain extent. Now our model is: We are going to collect money from you every so often and your only interaction with us is going to be: i) when I am taking your money; ii) when I am taking more of your money because my premium went up; or iii) when you had a claim. We are going to shift to being more risk mitigators. We know tons about risk and about our customers. Why not help them prevent those things from happening in the first place?

The second big shift is around insurance as a value-added service. We are going to move beyond the concept of selling customers a product and making them decide about deductibles and coverages, and the sort of complex contractual conversations we have with them. The third area of shift is that of advice. We need to do better as an industry in providing tailored advice to customers and taking our understanding of customers and experience of risk and working it through with them. It is not about the product I am going to sell, but the thing you are worried about. And because I know something about you demographically, I know that it is 70 per cent likely that within the next three years you will marry, and, if you do, it is 50 per cent likely that you are going to have kids in the next four years.

So rather than wait till that happens, start having the conversation beforehand, educating the customer about those risks that are coming down the line and having a more holistic conversation.

Let me open the discussion with a question to all: How are analytics impacting your company in the current environment?

TERRY GAZE, SUNCORP BUSINESS SERVICES: Two things for us – one is capability, both delivering the analytics and understanding and gaining insight from those analytics. The second is customers and putting them first. We have been very good at this from a product sense, but perhaps we have to be better from a customer sense.

DAMIAN HOLLINGSWORTH, QBE INSURANCE: Innovation is the key for me. We talk about people, but that comes from ideas; it comes from asking: "Is that profitable? Is it quality? What is your service offering?" For QBE, that is front of mind at the moment. Do we want to be a claims organisation or do we want to be an underwriting organisation? History tells us we are an underwriting organisation, and we think there is a need to change. Internally we are seeing innovation, which is exciting. Having the data and the ability to look at it, and then whether you can understand it or not is secondary.

JOE RUSSELL, HOLLARD INSURANCE: Most of the business that I deal with is in the commercial space and providing risk mitigation to commercial customers is particularly exciting. We do a lot of intermediated business and spend a great deal of time supporting intermediaries and working in partnership with them. Anything where we can look to maximise the claims experience and how they deal with commercial policies and risks is likely to be very useful.

WENDY THORPE, AMP: In the risk part of our business we are taking a holistic approach to customer analytics, starting at the front-end and

following the process through to underwriting and then claims. There is a real appetite in the business to understand more and to think about how we assemble and use data, also making sure we have the right people to ask the right questions of the data – because one without the other is not helpful.

ALEC TAYLOR, INSURANCE AUSTRALIA GROUP (IAG): It is important to look at our people capability and ensure we are getting the most out of our analytical personnel, while also making sure we are delivering to the customer.

SUSHIL RAMRAKHA, TAL LIFE INSURANCE: We have just had a major reorganisation, and one of the drivers for the change is to become more customer-focused. Trying to get that data and understand it better so that we can insure customers better is what we will have to do.

KATE KERR, METLIFE: I listened to a news story recently on how a 'black box' had been developed for car insurance to enhance safety. But really it is about a better experience for the customer and about price and flexibility. If you take that into the life insurance business, it is a similar thing. Our strategy is around customer-centricity; using real-time data to make it simple and accessible, but also flexible in terms of access.

How do we understand what consumer behaviour is and how we drive that in terms of predictive analytics? The black box for life insurance is about coming together with the health industry, having it assess the way you exercise, where you go, how much you travel, how much you drive. This will all feed into a model where we can price risk according to the individual. It is that customisation that is the trend we see happening in the insurance industry.

LEANNE STAGNITTA, ALLIANZ: At Allianz we are also focusing on the customer. Analytics has been a differentiator, but it is turning into almost an imperative for organisations. You need to be good at it in order to continue to grow and survive in the current marketplace, and it is something that is moving fast. Analytics is a way of translating some of the information that our very experienced people have and distributing it through technology to be able to share that information with a lot more people. So I see analytics as a huge enabler for growth within any organisation.

EILIS HURLEY, MLC: For me it is about linkages. We talked about where your analytics team sits, whether customer analytics or product analytics. Or do they sit in technology? The key is to bring it all together and get the data, first of all, into a place that you can use it, rather than have separate groups of clever people not necessarily working on the same thing.

Secondly, is the kind of phone or its operating system an indicator of your propensity to fraudulently claim? Equally, how can we make better use of all the data. Recently I read in the newspaper about analytics on supermarket bills and the correlation between people who drink milk and whether they have more or less car crashes.

How can we all access that information before the likes of Google becomes the insurer of the future because they will be the ones analysing the data and deciding on the price for that risk?

COLETTE REID, COMMINSURE: One thing I have seen at Comminsure is that it is potentially moving away from traditional ways of assessing. There is now the propensity to use non-traditional rating factors; One of the key considerations for me is identifying why certain things are strong, predictive indicators for claiming, which are not necessarily obvious.

MICHAEL HENDERSON, METLIFE: MetLife in Australia is predominantly a group insurance provider. We also have a direct telemarketing arm, and in the past couple of years we have invested heavily in analytics. What this has allowed us to do is use the capability to build a bridge across the two blocks of businesses. We can now tap into our group insurance members and provide a service that previously we were unable to.

Our biggest dilemma is getting access to the data because the members belong to the group insurances like the industry funds, so no one has access. How do we connect social media and the social behaviour of our customers into our legacy system?

The other advantage of our data analytics is that we are allowed to go back to the industry funds and provide valuable feedback about their members. So analytics has certainly changed our behaviour internally; across underwriting, claims, product, distribution and pricing. It is going to continue driving change throughout our business.

People have two lives: a physical life and a virtual life. We want to tap into that virtual life. The next question is how do we get the products through to that virtual life and start selling?

ANTHONY DIJANOSIC, CALLIDEN GROUP: As a relatively small player, we are benefited in some ways by not having a large number of legacy systems to deal with, but we also have smaller pockets. We are also fairly early on in our journey, and we recognise the value of providing risk services and value to our intermediaries, and the value associated with underwriting. One of the key focuses and challenges for us is what are we going to attack first? We do not have the capacity to do everything at once, and even if we were larger, there would be a question of whether we could focus on all these things at the same time anyway.

PATRICK RILEY, REAL INSURANCE: As an innovator in tailoring insurance for how people behave on the road, we watch this space with a lot of interest. Once you have this data, it is going to tell you

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perhaps that your risks are worse than you thought. It will be interesting to see how the industry deals with a situation where we collect data that is not for the benefit of that customer. From a customer relationship point of view, this will be challenging.

ANDREW PARKINSON, TAL LIFE: I look after the whole of the claims function for TAL. The market has changed and there is a paradigm shift in some of the claims behaviours. My observation is that the life industry is lagging 10 to 15 years behind where the fire and general companies are – and the fire and general companies are miles behind Google in using data.

The critical thing for us is assessing how to use data to identify people who you can actively work with to get them back to health and back to work. How do you use data to educate medical professionals that there are benefits for everybody to have somebody at work, even if it is part-time, as opposed to being signed off for an extra three months?

I also wonder where mental health is going. As an example, imagine I have been a lawyer for 20 years, working 120 hours a week. All of a sudden, I am burned out and off work for the next 15 years on stress leave. From a product perspective, this is not sustainable, so how do we make insurance sustainable? How do we use data to identify those trends and then move to more living insurance and prevention?

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– Terry Gaze, Suncorp Business Services

PAUL ROBINSON, IBM: One of the important things to understand from some of the other industries, particularly retail, is that sometimes you do not need a hypothesis. Sometimes it is okay to collect data and then ask your people to come up with bright ideas about how to use it.

Looking at what the retailers are doing in this space is advantageous to us as an industry because I am concerned that Google, Amazon or some others are going to eat our industry for lunch in the future. The other learning that the retailers can bring to our industry is the power of crowd sourcing. You can get some interesting insights from people who regularly work face-to-face with customers.

MARK MCLAUGHLIN, IBM: You can make an argument either way because, on the one hand, you are going to learn more when lots of people look at the data; but on the flip side, they are going to make erroneous assumptions. They are not necessarily going to understand the data they are looking at; they are going to think "loss ratio" means one thing when it means another. How do you feel about opening up the data to everybody?

SUSHIL RAMRAKHA, TAL LIFE: Ultimately we are dealing with a consumer who is not always rational. For example, I have a Woolworths card and I only buy ice cream occasionally. So what does that data say about me? The more data you collect, the more chance you have of making sense of it.

MICHAEL HENDERSON, METLIFE: I do not think there is a right or wrong answer. It should be open to everyone because the analytics will give you raw numbers and some assumptions, but the front line people who are dealing with the individuals day to day are the ones who understand the behavioural patterns and what people are looking for. The analytics might not tell you some of that, so there is an opportunity to have both parties involved in making the right decisions on how you use it.

KATE KERR, METLIFE: It is also a way to validate data. The sort of validation of assumptions using crowd sourcing, your internal staff and social innovation platforms that we now use in our business, where you go out to your whole community in the business and say, "Okay, here is an idea; what do you think?" They then build on the idea and collaborate, and suddenly you are reaching out to the whole talent pool in your business.

LEANNE STAGNITTA, ALLIANZ: It means that our people need broader skills. You take the traditional marketing manager – once the creative type – but now it is very much about the analytics and where we are going to spend that marketing budget and get the best return.

DAMIAN HOLLINGSWORTH, QBE INSURANCE: So is it all about customer experience or about profitability? This comes back to some clear strategic decisions and vision, beacuse in 20 years we are going to be selling products by ways that have not yet been invented.

KATE KERR, METLIFE: If you look at the cost of data analysts these days who have been recruited as soon as they join university, there are companies out there that recruit them on their first day of university and they are earning $100,000 after the first year in their university course. Actually, we all have a workforce where we have a lot of talent. The people who use this data all the time are very capable and adept at finding their way around it – it is about tapping into that skill as well.

EILIS HURLEY, MLC: It cannot be just the 'big bang' geniuses doing their crazy stuff and coming up with these weird ideas that have no relation to real life and real people. You need street smarts, too.

TERRY GAZE, SUNCORP BUSINESS SERVICES: We have to be careful that we do not lose sight of the customer. We can get internalised about data and information, and reacting or being predictive about the information, but I question how much time we are spending interacting with the customer.

MARK MCLAUGHLIN, IBM: We seem to be talking about subconscious analytics or analytics at the base level. When we think about how people access the

information, we can insulate them from some of the lower level analytics.

I will give you an example: We have a tool called 'COBRA' (Corporate Brand and Reputational Analysis). The program examines social nets to identify sentiments. We used the tool to look at emotional reactions to a movie trailer for a large production from a major US movie corporation that wanted to know what people thought about it. The tool sorted out the details of what was a positive and what was a negative response. You know what? The public hated it.

We also did some analysis for a large sports drink manufacturer looking at what people were saying about their product. They figured out that their product had, without any effort from their part, built a reputation for being a hangover cure. You cannot necessarily market to that, but you can change your sales profile. They made sure their product was on the shelf of every convenience store within five miles of college campuses, and their sales showed a measurable uptake as a result. Zero marketing.

They took that lower level capability of sentiment analysis and then said let us make a higher level business decision looking at the broad strokes of what people are saying about our product.

When I think about analytics, it is like finding oil. By itself it does not do a lot for you – you have to refine the oil. Think about data and analytics as being the oil, the resource that we all need to mine as insurance companies. Then we look at how to refine that data, and then we have to assess how to use that data.

So, where are the challenges?

ALEC TAYLOR, IAG: There are interconnections between all of these and the sum of the whole is greater than the sum of the parts. You fix all of those things together and you get an improved solution from the back-end.

DAMIAN HOLLINGSWORTH, QBE INSURANCE: Insurers are conservative. We mitigate risk; we are not in the business of creating risk. We are not investment bankers. Investment bankers create risk to get the reward from it. Part of that is cultural. It is down to organisations' culture and it is down to government. We need to say "What field are we playing on here and where do we want to go?" If we really want to go somewhere special, we will jump on the coat tails of the retail space and not worry about the failure of a particular product or offering, because there is always failure along the way with innovation.

LEANNE STAGNITTA, ALLIANZ: This is a big challenge because the more information we get, the more we can personalise that insurance and the more we understand the risk. So if we see the potential for a flood, are we going to stop insuring our customers in that area against flood?

KATE KERR, METLIFE: You have the data, and then you analyse it and you come up with the 'refined' data and question how you are going to apply it. That user interface is the crucial piece because if you have the data, it is how you then put it into a simple, user-friendly interface that people across the business can use to make sound decisions based on valid data.

MARK MCLAUGHLIN, IBM: If you have to go to IT, that is going to be a competitive issue down the line. It probably already is. The companies that are beyond that can move faster.

DAVID SPRATT, IBM: Another practical application that we have not talked about it yet is the matter of fraud. Many of our clients are starting to focus on reducing the element of fraud because the pay back can be large and very fast. We asked one of our clients in Canada if we could do some analytics on a set of their historical claim data. So they gave us three years of data and said, "If you can come back and indicate that there is at least $4 million dollars of potential fraud, we are interested in talking to you further". So we ran it through our own analytics engines. The result came back with $194 million of potential fraud to an 85 per cent confidence level, which was about 8 per cent of their claims for that period, close to the 10 per cent believed to be standard across the industry. It is also believed that only 1 to 3 per cent of that is being found today.

ALEC TAYLOR, IAG: Fraud is one of those areas where the more information you get about more stakeholders, the higher the level of prediction. The more you can capture, the more value you can capture. It is the one area in the industry where we can collaborate.

KATE KERR, METLIFE: How much do we collaborate as an industry and share that information? Traditionally, we have kept our data to ourselves as a kind of protectionism.

ANDREW PARKINSON, TAL LIFE: It is a consumer bias in that space. In Medicare and the life industry, we should have an open door to that data. It would make life so much easier for the customer in terms of underwriting claims and so on. Can we get easy access? No. Big data is here, but accessibility is not.

MARK MCLAUGHLIN, IBM: Is that a regulatory issue or a systems issue?

ANDREW PARKINSON, TAL LIFE: Predominantly it is regulatory.

ALEC TAYLOR, IAG: Perhaps we can find a model where we provide data, fund separate entities, maybe even resource those entities, but they are managed and controlled by some of these more government-oriented institutions.

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MICHAEL HENDERSON, METLIFE: It was tried some years ago, but it did not work because not everyone who bought into it was provided the data they required.

SUSHIL RAMRAKHA, TAL LIFE: Who is going to pay for the data? One of our product guys from TAL was talking about the fact that in a group life insurance business, when the group life insurer wants to change to another life insurer, one aspect that they need to consider is the accuracy of the data that is transferred.

MARK MCLAUGHLIN, IBM: Having seen some variations on this problem in other markets, public/private partnership is going to be the most effective model to get past that initial question of who is going to pay for the data. You need a regulator or a government entity to help organise things, where the insurers get together with the regulatory entity and say, "How do we do this?"

EILIS HURLEY, MLC: Can we learn something from the liability crises of the early 2000s? How much did insurance companies lose as part of this? How many years did it take to get appropriate data to realise the scale of the problem so that action could be taken? Can this be used as an example of the cost of not having appropriate data?

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SUSHIL RAMRAKHA, TAL LIFE: Price increases are happening in the life space. We have already seen that in the group space because we were basically undercutting each other and giving a cheap product, which was not sustainable in the long term.

ANTHONY DIJANOSIC, CALLIDEN GROUP: Regarding the possibility of working with governments, the key issue is that of the public good. During the liability crisis, one key medical indemnity insurer said, "I am not going to cover anyone". Sixty-five per cent of doctors went, "I am not going to operate on anyone." So that quickly brought things to a head. When you are just talking about insurers who are losing hundreds of millions of dollars every year from claims fraud, you are going to struggle because it is hard to identify the public good.

MARK MCLAUGHLIN, IBM: You could make an appeal to your customers and suggest that every incidence of fraud raises premiums for everybody. You could say, I have a fair idea who might be a fraud case; the flip side of that is I could pay claims a whole lot faster on those ones I know who are not fraud cases. That is the side of fraud we do not always talk about much as an industry, and we could. You can 'jet' underwrite when you have this kind of system.

DAVID SPRATT, IBM: In terms of 'customer good', one of our client examples is Santam in South Africa. Santam reduced their insurance premiums two years running because they were finding so much fraud, they could afford to. Instead of just keeping the profits, they decided to pass them on to their customers.

MARK MCLAUGHLIN, IBM: What is the logical starting point for introducing analytics in insurance today?

SUSHIL RAMRAKHAH, TAL LIFE: It boils down to how much will it cost and what are the benefits. If the benefit is greater, there is a better case for doing more data analytics.

JAMES DELOOZE, IBM: What about the analytics around your customers?

MICHAEL HENDERSON, METLIFE: Customer-facing applications are more prevalent now. A lot of these are self-servicing tools that exist within websites we are all hooked up to. Our problem is collecting data. We are all on legacy systems with limited data, and that is where we have a disconnect. Analysing data from 10 years ago would be very different to analysing data that has been taken in the past 12 to 18 months.

JAMES DELOOZE, IBM: And customers are different. Customers 10 years ago are not the same as today.

DAMIAN HOLLINGSWORTH, QBE INSURANCE: That is why we are behind the retail guys, because retailers have a transactional view, whereas particularly a product like group life I look out onto the horizon. You can have all the customer data you like, but what does that drive?

MICHAEL HENDERSON, METLIFE: That is what I was talking about earlier: client-facing tools that attempt to understand their behaviour. We do not have that social media feeding into our legacy systems, combining it to get a full view of our clients or our individual members, whereas our retailers do a great job of this. Coles and Woolworths know people's patterns from the time they walk in. Westfield tracks, through GPS mobiles, where people go and what floors they shop on. Bringing this into insurance will help drive change in our product development.

LEANNE STAGNITTA, ALLIANZ: It is understanding what the customer wants that should drive the focus of the business case.

KATE KERR, METLIFE: We started to do some work in the US bringing together that sort of social data so we could begin to understand what drives customer behaviour. You mentioned that it is different to 10 years ago – it is even more complex now because we still have people who want to buy as they did 10 years ago! We also have so many other different channels, and we need to use data to understand consumer-buying behaviour so we can service them

according to whether they want mobile apps or the traditional IFA approach.

TERRY GAZE, SUNCORP BUSINESS SERVICES: We talk about these mobile items that are collecting the data we can tap into, but the consumer has that as well. They have a lot of intelligence at their fingertips around what their risk is and therefore what the price might be for what they are buying and needing. A desired asymmetry is becoming rapidly symmetrical, which is going to pose as much of a challenge as dealing with data in our organisations.

MARK MCLAUGHLIN, IBM: The UK auto market is a cautionary tale. Aggregators basically got rid of that information asymmetry, and it is one of the toughest markets in the world to make a dollar in now because the aggregators have seized control of the relationship.

Think about how the airlines handle this problem because they had to battle aggregators. Travelocity, Expedia and Orbitz, without Google, are offering you all of this transparency around the base product, so they have vertically integrated. They asked: "What value-added services can I wrap around the base airfare product that is already commoditised to the point I cannot charge more for it. We will charge you for extra seats and for the luggage."

There are all kinds of things that they can bundle and which allows them to differentiate in an environment where the base product has been commoditised – and still make some money. Can insurers do that? You could offer home referral services; you could offer wellness services; you could offer all kinds of financial advice. The product may almost become a loss leader and you make your money on those things.

KATE KERR, METLIFE: That is already happening, certainly in the wellness space. We can work with our group insurers and with individuals or employers to start looking at health in terms of productivity, absenteeism – all of those things. It is more a partnership.

MARK MCLAUGHLIN, IBM: The insurers who seem to have made headway tend to have a program around this. They have hired a data scientist; they have the big picture in mind, but they are doing incremental projects.

IBM has some tools that will help you analyse website traffic at a detailed level. It is a small project, but it demonstrates value and then you add to it. The insurers who innovate in this space have enough of a program view where they are not thinking that this project has to pay off in this timeframe. They say, "We are going to bet that out of those five small projects, one or two of them are really going to pan out. We are going to learn something from the failures, too." *

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