INSURANCE NETWORKING NEWS

75 percent of Insurers to Increase Data and Analytics Spend

Data and analytics increasingly used for customer-centric projects, report finds.

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> *Analytics increasingly provide competitive differentiation for insurers and are at the heart of the industry's transformation to a more customer-centric business model, according to "Data and Analytics in Insurance: The Dawn of a New Era," from Strategy Meets Action*

"Analytics hold great promise for the insurance industry, including the application of traditional business intelligence approaches, as well as advanced techniques such as predictive models and Big Data," said Mark Breading, SMA Partner. "The keys to success for insurers are improving data quality and data management, and creating a corporate culture based on management by analytics."

The report, which covers the spectrum of tools from business intelligence tools to advanced analytics tools, finds that the average insurer invests 9 percent of the IT budget on data and analytics. This amounts to almost $10 billion per year, and while the insurance industry has long used analytics for traditional risk-centric analysis, there is a shift in the 'how, where, and when' the industry leverages data and analytics, according to the report.

Underwriting and product design/actuarial are the top two traditional areas of analytics. In terms of investment, underwriting leads the way, with 70 percent responding that they use data and analytics to better assess and manage risk. Product development is next; 52 percent use such tools to design and develop new products. Claims is the third highest area of investment, with 50 percent using analyzing data about risk to increase profitability.

However, analytical tools are being applied across the enterprise, and the new trend is the emergence of more customer-centric analytics projects, the report finds. A significant number of insurers now are investing in data and analytics tools for marketing, distribution and policy servicing.

In the front office, insurers also are using tools to analyze internal and external data. More than 40 percent of respondents are already using analytics to develop advanced customer segmentation and another 20 percent are currently piloting or implementing; 21 percent are using analytics to develop a single view of customers and another 26 percent are piloting or implementing the tools. A quarter are using analytics for campaign analysis and another 18 percent are piloting or implementing them to conduct more effective marketing campaigns. Analytics are also being applied directly to sales, to better understand customer relationships and agent performance.

Analytics are in use by 48 percent of insurers for channel/agent performance management, and another 20 percent are currently piloting or implementing the tools there. For customer relationship management, 30 percent are using the tools and 22 percent are currently piloting or implementing them.

While most insurers have analytics projects in use or in process for product development, they are not always using the same IT tools that are used elsewhere in the enterprise, the report finds. Many have built custom models using spreadsheets or the APL programming language.

In the back and middle office, analytic tools are already widely used. But now, 23 percent have new projects underway to support claim operations, with 7 percent piloting and 16 percent implementing data and analytics tools. These new projects are helping claims management evaluate the productivity of adjusters, identify fraud and mitigate losses.

In terms of spending, one-third of respondents are spending more than 10 of their IT budget on analytics projects and 15 percent of insurers are spending more than 15 percent of the IT budget on data and analytics. More than three-quarters said they will increase spending on data and analytics over the next three years. "It is difficult to envision how a company will remain competitive over the next decade if they do not aggressively invest in data and analytics," the report said.

Further, the report finds that insurers are using many approaches to enhancing the proprietary data they have captured in the underwriting process. Some insurers are correlating, comparing and combining data for demographic, firmographic and psychographic insights and almost 60 percent of insurers said they enhance their data by using data matching techniques.

Data quality and completeness, of course, provide the foundation of these projects. The top drivers for data management spending are: ensuring data is cleansed, standardized and well organized (61 percent), building data warehouses and data marts (59 percent), leveraging an enterprise-wide data model (43 percent), acquiring data from external sources (30 percent) and ensuring the privacy of customer and agent data (30 percent).

In addition, the report considers:

• The most important methods of enhancing data—data matching (57 percent) and appending risk data (53 percent)

• The challenges of capitalizing on analytics—chiefly data quality and completeness (57 percent) and lack of an overall strategy (43 percent) and accessibility (37 percent)

• The most valuable customer insights—real-time identification of cross- and up-sell opportunities (49 percent), proactive loss control alerts (47 percent) and baselining (40 percent)

• The most valuable operational insights—loss trends (63 percent) and productivity measurements (49 percent)

The report concludes that insurers should conduct a comprehensive assessment of data, , identify where business intelligence and analytics tools are being used in the enterprise today to determine additional business applications for existing and new tools, and develop a plan for building and staffing a center of excellence for data and analytics.