Analytics for insurance

Mr Naushad Khan of **GrayMatter Software Services** discusses how insurance companies can tap into analytics and data discovery solutions in all their functional areas to develop their competitive edge.

In today's world, information is viewed as a pond, and the focus is on expanding the pond and peering into the water for insights, patterns and relationships. Moreover, information needs to be perceived more like a stream flowing rapidly around enterprises and prospective customers. Truly leveraging analytics in this context requires knowing how to capture information, selectively store and capitalise on the right information, and eventually derive meaningful business insights.

Insurers the world over are moving in this direction. It will not be long before analytics becomes pervasive in all aspects of the insurance business at an enterprise level. How do we harness this opportunity to increase penetration rates in the MENA region?

My answer is fairly simple, based on experience and results seen in the last five years – get to know your consumer's latent needs and segment better using advanced analytics. I would use the popular 4W questioning concept – know what consumers need, why they need it, when and where they need it. How do you get the answers to all these questions? For all you know, the answers are already with the insurers, but they have to be "discovered". This is where analytics play a pivotal role in the growth and adoption of insurance products and services in the MENA region.

An increasing number of global insurers are adopting analytics as a management tool to understand customer behavior and satisfaction, campaign effectiveness, new product performance, high-risk segments and enterprise-level performance. Those companies who are seeking a competitive advantage will integrate analytics into each of their functional areas, from risk management and catastrophe modelling to claims, underwriting, actuarial, marketing and finance.

Analytics results will increasingly be used to drive higher operational efficiency and improve decision-making. From early fraud detection and developing market-defining new products to innovative marketing campaigns and building awareness, analytics will play a major role in all of these.

The analytics solution

Some of the challenges faced by the insurance sector in the Middle East have been well-documented and reiterated over and over again in many forums. My focus here would be to discuss how analytics and data discovery solutions can drive the shift of perception and thereby, exponential growth for the industry.

First of all, the adoption of analytics across the enterprise should be driven by the top, spreading across hierarchies to make it effective. Right now, the fear of performance in the short term is driving some of the decisions. This is extremely short-sighted and needs to be rectified.

The insurance sector is very competitive, especially in the motor segment in the Middle East. However, with the internet and social media, insurance players can look at innovative pricing strategies and products if they adopt analytics. For example, there are multiple sensors and GPS devices fixed to vehicles today showing information related to vehicle performance, speed, braking and accelerometer information on acceleration. This information, when gathered and analysed with the right algorithms, can throw up data on driving habits and vehicle performance that can be used by insurance companies to determine a usage-based pricing formula, risk-based pricing or introduce new and innovative products.

Providers of life insurance and personal lines can also look at achieving competitive pricing as well as new markets with the use of analytics. The same goes for the P&C sector, which can obtain extremely critical data from government agencies to evaluate and ensure the right product pricing as well as innovative products.

Key benefits and uses of analytics

Analytics can be used in every functional area of an insurer, from sales and distribution to marketing, claims, operations, underwriting, actuarial, reinsurance and finance.

- **Sales and distribution management**: Maximising growth in the insurance industry depends on effectively managing multiple distribution channels and intermediaries with intelligent customer insights. Analytics can be used for lead management, cross- or up-sell, sales contest management, competition benchmarking and forecasting.
- **Marketing and product**: Analytics can be used in customer segmentation, market trend analysis, product mix, customer churn, customer retention, customer basket analysis, customer's life time value and many related subjects.
- **Claims** is the single largest cost centre for insurers, with an average payout of 60-74% of the premium earned. Agile and profitable insurers are attempting to improve customer satisfaction, while continuing to contain costs

and expenses. Analytics can help improve customer satisfaction and reduce losses with improved turnaround time, predict fraudulent claims and contain loss ratio by performing various claim patterns.
- **Underwriting** is primarily based on analysing claims experiences by different portfolios and segments related to premiums and exposures to risk. Analytics can help in identifying risky segments well in advance and pricing the risk appropriately.
- **Actuarial and risk analysis**: Analytics can help the actuary evaluate extremely large amounts of data more quickly and perhaps incorporate data elements that previously were not available or were not considered to be relevant in the assessment of loss cost.
- **Reinsurance**: Managers need to control their exposure in order to correctly design reinsurance programmes. Using analytics, they can analyse the results of portfolios ceded to reinsurers, and calculate their own companies' margins to ensure profitability in this segment.

A key differentiator

Because data is now everywhere, so are analytics. This fundamentally changes the competitive landscape in a way that makes analytics central to competitive strategy. Analytically proficient organisations are enabled and empowered to tactically consume this data to make fact-based operational decisions much faster, with more consistency and regularity than ever before. Organisations not so adept at analytics and data discovery are at risk of drowning in all of this data and lagging behind competitively.

Today's business landscape has therefore changed in ways that put the "analytics-ignorant" at a substantial disadvantage relative to the "analytics-savvy". Analytics and predictive modelling are the answers to the growth of the insurance industry in the Middle East, creating a strong foundation of trust among consumers. Once this is achieved, the sector's growth will pick up momentum automatically. So the onus essentially rests on the executive to take that analytics plunge as a strategic long-term programme to be implemented across the enterprise in an inclusive manner.◼

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