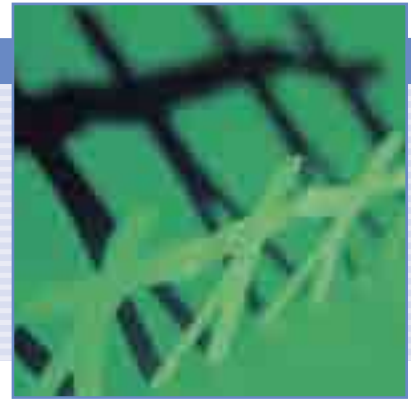


The informed insurer



There is a rhythm to the world's markets that impacts insurance. That rhythm is quickening. Competitive success will only come to those insurers who can respond rapidly or, even better, reshape market opportunities to their advantage, develop compliance agility, and provide best-of-class service. Winning insurers will be *informed insurers* who use real-time analytics to speed up their metabolism to match or exceed the rhythms of the markets, now and in the future.

When the insurance industry and its markets were more stable, insurers were primarily concerned with continually improving the operational aspects of their business. When analytics came along, it was first treated as the “red-

efficiently as possible and second, to generate the necessary financial, statutory and other regulatory reports as required by government and industry authorities. Analysis and research were considered, at best, a distraction to operating the business.

The era of insurance industry stability is long over, assuming it really ever existed. Worldwide, there is a wide range of issues confronting insurers. They range from aging populations to increasingly stringent regulations on capital requirements; from the ethical behavior of insurers and intermediaries to the extension of a litigious culture from the United States to Europe and elsewhere. There are current and short-to-medium-term issues putting property,

demand that insurers become more adept at business intelligence, so they can become more adaptive to changing markets, which are being continually reshaped by risk, regulation and concomitant market dynamics.

From an analytical perspective, this means that informed insurers are those who do more than look in the rear-view mirror to analyze what business is already on the books. Obviously, that has to be done to comply with existing regulations like Sarbanes-Oxley or the emerging Solvency II regulations. But informed insurers are those who are doing more, especially with predictive analytics, as we have found from interviews with insurance and reinsurance companies and other players in this space, such as:

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headed stepchild” of the IT family, the odd one out that was accorded less love and attention than the other kids. Analytics was the child that IT did not want to recognize, because it was too hard to extract the requisite information that drove analytical applications. And it was rejected by other decision makers because business intelligence still wasn't considered a high priority. Insurers' standing orders to their IT folks were first, to keep the transactional engine running as cost

people and continuing business operations at risk, such as a possible global Avian Flu pandemic and more frequent and severe storms. And there are longer-term issues ranging from the risk implications of global warming to the use of genetically engineered food or nanotechnology applications. Regardless of the timeframe, compliance and the “when and where” wild-card of terrorist attacks are issues that must continually be on the radar screen of insurers.

All of these issues and others

- A primary insurer who is doing catastrophe modeling to identify the company's total risk exposure. This risk density initiative encompasses both property and workers' compensation lines of business. The insurer told us it is mindful of the timeliness of the data that flows into its models and whether that data concerns new policyholders, new covers to existing policyholders, or terminated policyholders.
- Several insurers who are developing ever-finer pricing segments to arrive at a “market of one” by developing thousands of pricing tiers with a billion price points. While private passenger automobile insurance has been

the sweet spot for this application of predictive analytics, a few insurers are also employing pricing segmentation for CMP (commercial multi-peril) and BOP (business owner's policy) covers.

- Insurers who are developing their own proprietary scoring models to get a better handle on fraud management, while other insurers are looking to third-party information providers to generate predicted claims outcomes. Insurance fraud amounts to US\$80 billion globally while property/casualty fraud in the US is approximately US\$30 billion. One insurer told us it applies its fraud model throughout the transactional value chain from the point-of-sale.
- Insurers who are using a combination of spatial information and predictive analytics to project the profit potential of their agencies and brokers. Using spatial or geographic information enables insurers to identify where their agents or brokers are performing or not performing. These insurers can strengthen their producer training programs as well as cross-sell and up-sell campaigns with more effective targeted leads.
- Insurers who provide coverage in a market where they have to take all who apply for coverage, such as U.S. workers' compensation state plans. They are streamlining their loss adjustment expenses through the application of predictive analytics.

Looking across all industries, IDC estimates that the end-user business analytics IT spend on both core and predictive analytics was US\$9.4 billion in 2005, of which US\$2.3 billion was spent on predictive analytics. IDC estimates the IT spend on predictive analytics will grow to US\$2.9 billion in 2008 for a three-year compound annual growth rate of 8.54 %.

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Informed insurers will be the firms not just using predictive analytics, but real-time analytics. Financial Insights, an IDC company, defines real-time analytics as the combination of analytical tools – whether core analytics or predictive analytics – with real-time data. Insurers using real-time analytics will be able to identify which of their policyholders are in the path of a storm that is happening right now, or be able to tell regulators the impact on their financial situation of an adverse business event, such as the loss of a large client. Real-time analytics enables insurers not just to look over the horizon but also at the financial and marketing implications of what is currently occurring.

Summing up, informed insurers will use real-time analytics for three primary reasons:

1. Operating at the “speed of need”: using real-time analytics to meet or exceed the quickening rhythms of the market.
2. Strengthening relationships: using dashboards and scorecards to track compliance or to monitor the productivity and profitability of intermediaries and responsiveness of the claims management process.
3. Preparing for tomorrow, today: developing a better understanding of the risk implications of events that could happen, or of exposures associated with prospective insurance clients.

Informed insurers are those who are guided by the philosophy that insurance is an information-intensive industry, and who leverage that information through analytics to strengthen their competitive position on a continuous basis. But the world doesn't stand still. As more insurers become informed insurers, analytics will only be a lever of competitive differentiation for those insurers who continually experiment by developing innovative perspectives to exploit their ever-deepening reserves of market, operational and financial data.

At the end of the day, the informed insurers will be those who remain adept at using business intelligence to adapt to the ever-changing marketplace. ■



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BIO

Barry Rabkin

Barry Rabkin is Senior Research Analyst, Insurance Practice, at Financial Insights, an IDC financial services and technology analyst company. He can be reached at brabkin@financial-insights.com