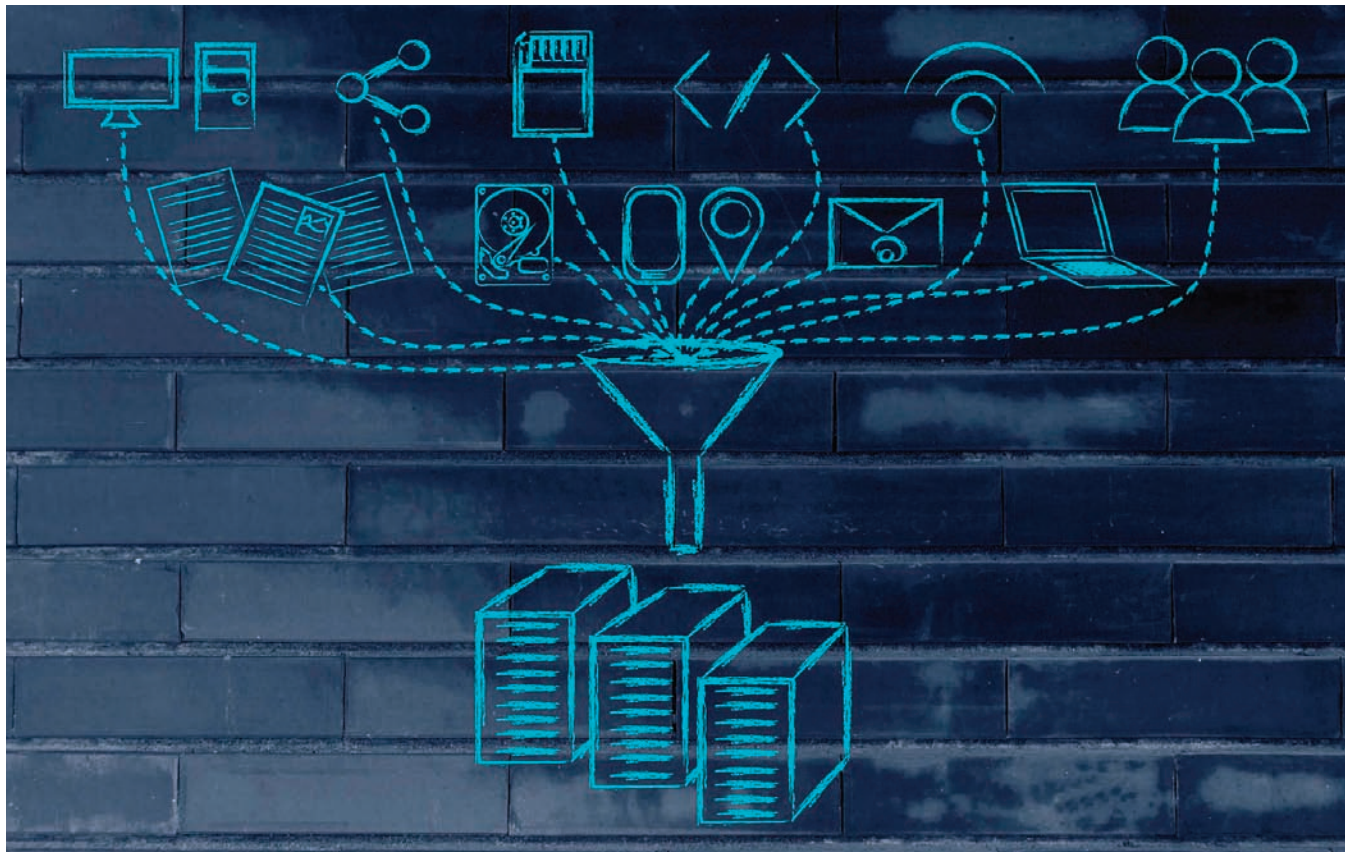## INSIGHTS – THINK TANK

The Geneva Association
Big Data, Big Impact

What are the trends in Big Data and analytics in the insurance industry?
What are the threats and opportunities for insurers? What is the impact on insurers' risk management?
These questions were addressed at The Geneva Association's 13th Annual Roundtable of Chief Risk Officers in Copenhagen in April 2016 that analysed how Big Data and ecosystems are a disruptive force that could threaten insurance incumbents throughout the value chain. **Messrs Nic Gordon** and **Ofir Eyal** of **BCG Big Data** elaborate.

Big Data is disruptive across the insurance value chain and insurers who master the use of Big Data will gain a significant competitive advantage through, for example, better client understanding, contact, risk profiling and claims management.

As a result the risk profile of insurers is changing dramatically. Other industries such as technology players, car manufacturers and utilities providers, profit from deeper client relationships and better control of the ecosystems, mainly through client understanding and contact, whilst incumbent insurers are marginalised as providers of capital to shrinking risk pools.

Multiple catalysts for Big Data and ecosystem growth

Despite some key hurdles such as privacy concerns and the required high investments in technology, there are four main catalysts that will accelerate the trend towards Big Data and ecosystem growth according to BCG.

- **Technology adoption:** smartphone adoption is growing 46% annually to an expected 2.3 billion by 2018. Device connectivity is growing at an exponential rate – by 2020, expect that 80-100% of all shipped cars will have embedded connectivity.

- **Internet of Things:** nearly everything in our cars, homes and bodies (health related) could potentially be monitored, stored, analysed and reviewed online. Many technology giants have launched B2C platforms that can manage these connected devices.

- **Consumer expectations:** Approximately 50% of consumers would definitely switch or consider switching to new innovative insurance models, based on consumer research.

- *Regulation:* safety regulation will further accelerate the adoption of connected devices. A clear example is the eCall EU initiative that requires all cars from 2017 to be equipped with a system that automatically generates an emergency call.

Threat for insurers across the value chain

There is no doubt that Big Data is having a profound impact on the insurance industry – the Internet of Things and the rise of digital ecosystems are enabling new insurance models and disruptive propositions that challenge the status quo.

- *Distribution:* eEcosystem models will trigger a shift to non-traditional channels with deeper levels of customer understanding and engagement. What's more, the "Mobile-first" design of new entrants offers a superior customer experience.

- *Underwriting and pricing:* underwriting to become a data-driven game as ecosystem models will increasingly leverage their insight from novel data sources, such as social media and connected devices. The sharing economy is creating demand for new forms of insurance and is enabling peer-to-peer insurance.

- *Administration and claims management:* ecosystem models to have an advantaged position to control and minimise their risk exposure. Focus will shift from re-active management of a claim to the provision of services that monitor and manage risks in real time.

- *Disintermediation:* players with access to customers, devices and data can position themselves as an aggregator. For insurers that would mean further loss of the customer relationship and data ownership/control

Key actions for insurers wishing to gain a competitive advantage

Data alliances will grow rapidly, the customer journey will change dramatically and consumer trust becomes a key competitive weapon in data usage. How should insurers be responding right now?

- Understand the economic opportunity and threat – what is the potential for new revenue streams, customer segments, and better cross- and up-selling of existing products?

- Prioritise offerings based on company strength – what data does the company have, where can they leverage external data and add real value to the ecosystem and produce the highest returns?

- Transform the operating model to foster innovation – does the current organisational structure have the right capabilities and structure to leverage Big Data tools and infrastructure?

- Data alliances will grow rapidly in the next three years along. So, what are the key strategic partnerships needed and how to ensure they will deliver value five years from now?

- Test ideas in the market and scale up quickly – Can ideas be taken to market quickly in a small scale, and how to determine as soon as possible whether they are worth further investment?

- Understand and embrace the customer journey changes that offer new opportunities for customer engagement and risk profiling.

- What internal data stewardship is in place and is the organisation engaging the consumer with ongoing communication to track trust over time?

Impact on insurers' risk management

The insurance risk profile is rapidly changing due to the availability of new technologies and data but there is a significant opportunity for the risk management function within this evolution. By tipping the focus to risk-based strategic reporting, the function becomes a more invaluable strategic business partner offering strengthened advisory capabilities.

- *Strategic:* what is the risk my business will be disrupted? Are we investing in the right technological developments? What are the changes to customer preferences and needs?

- *Technical:* is all available and relevant data in pricing and claims being adequately used? What are the client mix changes resulting from new rating capabilities and omni-channel? How is all of this being incorporated into our risk models?

- *Operational:* what is the correct transformational programme required? How sound is our technological infrastructure? What is the vulnerability of the new digital platforms when it comes to internal/external fraud?

- *Compliance:* how to ensure data protection and privacy across multiple legal jurisdictions? How do we continue to deliver on AML and restricted entity requirements? How do we use data to identify compliance hot-spots?

Big Data provides opportunities to drive value and competitive advantage. However, many insurers have not made significant progress when compared to how far forward players from other industries have moved to date.

As competition intensifies from inside and outside the insurance industry, inevitably rates will continue to lower in key lines of business, squeezing profitability.

Put simply: insurers who take advantage of the opportunity in data and analytics will outperform those who do not. The greatest paradigm shift will depend on how different data ecosystems develop and the threat of adjacent entries. Insurers should take note of how technology providers approach data and radically remodel their approach to innovation with the aim of shaping data asset markets and strategic partnerships with other data providers.

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