

INSURETECH AND THE USE OF DATA IN INSURANCE

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USE OF DATA IN INSURANCE – INSURTECH?

INSURTECH REFERS TO THE USE OF TECHNOLOGY INNOVATIONS DESIGNED TO SQUEEZE OUT SAVINGS AND EFFICIENCY FROM THE CURRENT INSURANCE INDUSTRY MODEL. (INVESTOPEDIA)

Customer Relationship Management

- New sales and distribution methods
- Use of technology to aid customer interactions

Big Data / AI

- New Pricing Models that reflect access to broader consumer data – telematics, social media
- Accelerated Underwriting
- Use of Big Data / AI to find fraud and process claims

Innovative Product Design

- Allowing increased user flexibility
- Using technology to drive new products – ap on/off, location-based services, etc.

INSURTECH IS ALREADY TRANSFORMING THE BUSINESS OF INSURANCE

Data and technology driven innovation is being deployed to enhance operational capacity, improve efficiency, reduce costs, and to modernize the customer experience.

- in 2021 alone more than \$12 billion was invested in start-ups and new technological development. Though 2022 investment is down, this is just the beginning
- Changing the way people think about, manage and finance risk
- Forcing mature companies to rethink established business models
- Enabling companies to use technology to “jump the line”

Uses of Data in Insurance

Product Pricing

- Insurer use broad access to population data to understand pricing models
- Rate filings may now encompass thousands of pages with small variations
- Rates built on individualized data points
- The goal is to differentiate pricing from competitor models
 - Decrease adverse selection

Underwriting

- Access to data has changed individual underwriting/pricing
- Fairer pricing better reflects risk of an individual
- Personal public data may be used to impact pricing
- Pricing may be based on specific criteria i.e. car repair history

Accelerated Underwriting

- Often use of public data to provide streamlined underwriting
- May use related criteria that have proven relationship with risk factors
- Publicly available data may be used to confirm eligibility for accelerated underwriting

Uses of Data in Insurance

Consumer Relationships

- Driving more meaningful customer interactions
- Insurers want to build relationships outside of monthly bill
- May use public data to find and fix complaints (i.e. Facebook/Twitter posts)
- May use data to deliver useful and actionable information to consumer that reduces costs

Claims

- May vary significantly by line
 - Using public information to verify loss
 - Using satellite, drone or other public surveillance to establish claim liability
- Public information may be used to start or end claims process (death master file)
- Pricing database may be used to establish loss offers

Loss Reduction

- Insurers may gather and use private data to help consumers reduce claims (better driving, healthier life)
- Generally, the interest of the consumer and the insurer are aligned.
 - Genetic testing
 - Wearable technology
 - Driving data
 - Homeowner data
- The technology can be deployed to fix issues, behaviors, habit

Uses of Data in Insurance

Lead Generation

- One of the more controversial uses of technology
- Generally done by unlicensed entities that sell data to insurance producers
- Advertise, collect, and sell information
- Best entities pre-qualify consumers

Fraud Detection

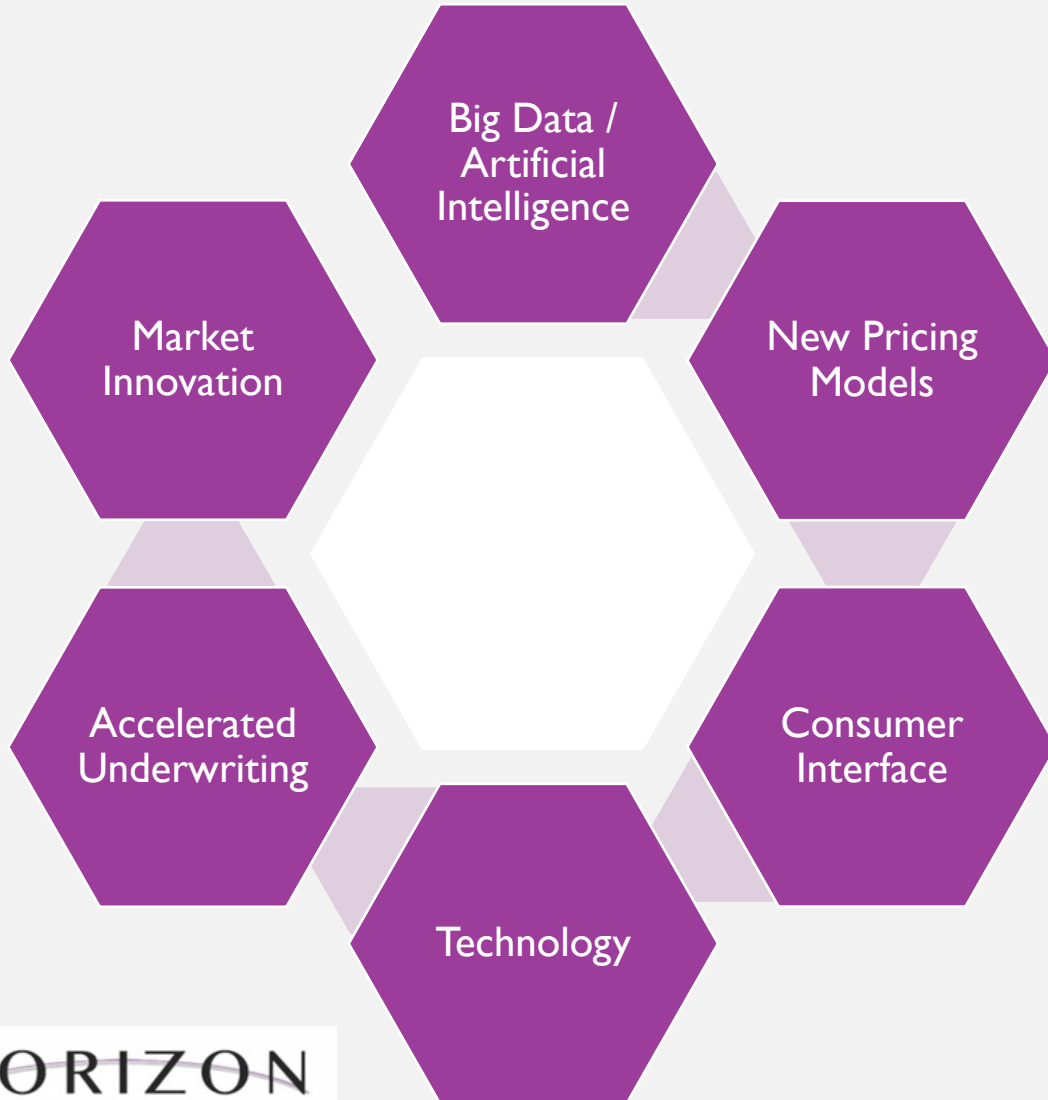
- Insurers and contractors collect and hold information to find fraud patterns
- Data is used to identify fraudsters:
 - Phone calls across insurers – including call recordings, common phrases, etc.
 - Contractor data

Product Development

- Consumer data has been used to develop a variety of new products
 - Life insurance
 - Travel products
 - Personal device coverage
 - Property coverage
- Private data has been often used to bind coverage based on defined set of circumstances

UNDERSTANDING REGULATORY ISSUES

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- Regulatory oversight & the velocity of change
- “Irregular regulation”
- Insurers want uniformity across states
- Building models on flawed or biased data
- Protection of intellectual property (who owns data)
- Data security, data integrity and privacy
- Market stability
- New players not accustomed to regulatory oversight
- **What’s in the Black Box?**

Market Regulation

- How does the consumer interact with technology?
- Opt-in or Opt-out for data sharing?
- Are data sources credible?
- Is the data used in underwriting “actionable” by the consumer?
- Is it merely the same product with new bells and whistles?
- Does the user interface enhance understanding or add confusion?
- How are regulators to review product filings, consumer documents, ensure delivery of consumer documents?

Financial Regulation

- Do the financials of the company make sense?
- Is the new offering merely done through a traditional fronting arrangement?
- How does the pricing differ from “traditional models”?
- Does the data used in pricing model show causation or correlation?
- Will the pricing models hold up over time?

OTHER MARKET REGULATION ISSUES



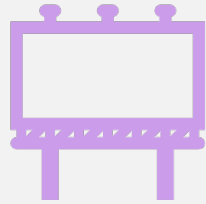
Product Issues

Is the data to price available?

Is the product legal?

Is there a current regulatory structure and standards?

Does the product provide consumer value?



Marketing issues

Is the product sold through new distribution channels?

Is the product easy to understand for the consumer?

Do consumers understand customizable options?



Unfair inducement

Does the insurer offer technology as part of the insurance?

Will the technology reduce risk or help the consumer reduce risk?

Are the value-added products part of the policy?

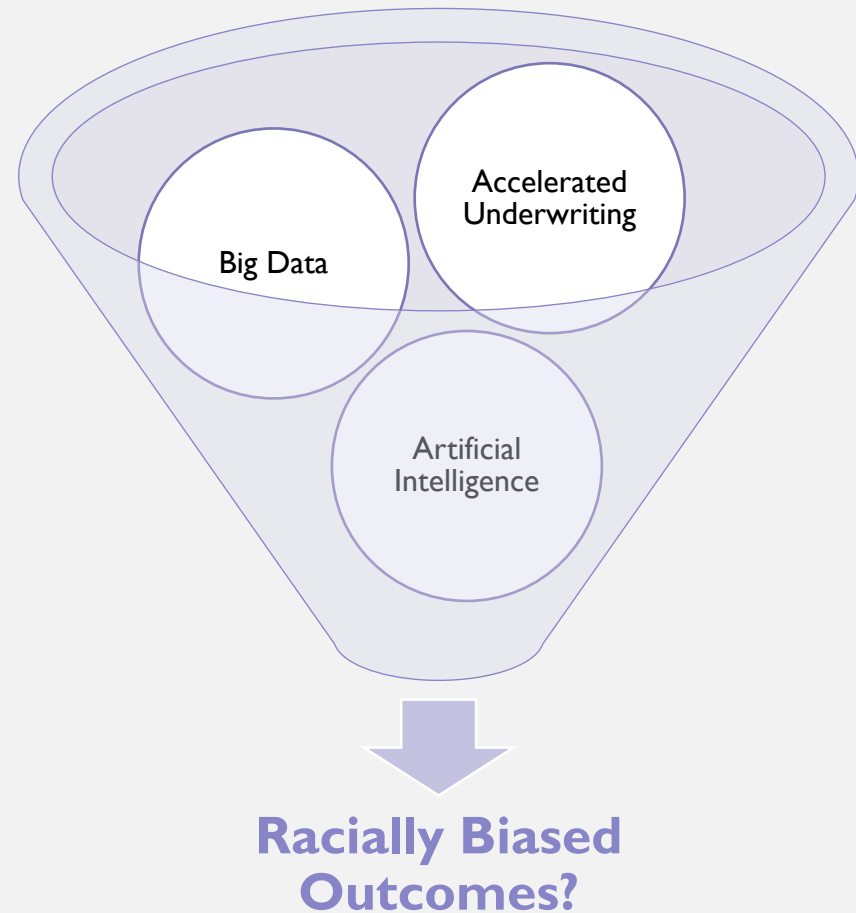


PRICING ISSUES

- Rate structure
 - Is the pricing data predictive?
 - Is the data correlated or is there a causal relationship?
 - Is the product underwriting consistent and predictable?
 - Are there adverse selection issues?
- Big Data
 - The use of some data may have underlying bias concerns
 - Correlation vs. Causation
 - Underserved communities
 - “Redlining” concerns
- Artificial Intelligence
 - Based on data that has a bias
 - Algorithms lead to biased outcomes

UNDERSTANDING BIAS ISSUES IN INSURANCE

- **Access**
 - Does the company ensure access to traditionally underserved communities?
 - Is access limited by access to technology?
- **Underwriting & Rates**
 - Are the rates fair? Are the rates reflective of problematic underlying data?
 - Does the underwriting criteria have a disparate impact on underserved communities?



REGULATORY DATA ISSUES

- How do form filings work?
 - Ap-based insurance
 - Smart forms
 - Proprietary underwriting algorithms
- Consumer privacy
 - Consumer control
 - Impact on rates
- Understanding the Black Box
 - Artificial intelligence
 - Biased data
 - Biased outcomes
- Insurance rate review
 - Rates sufficient
 - Based on predictable data sets
 - Correlation vs. Causation



STATE LEGISLATOR ISSUES

- Insurance remains primarily state regulated
 - Financial regulatory system included state domiciliary issues
 - State insurance IT staff is limited
 - May have to look to ORSA-style model with NAIC expertise
- Health is different
 - HIPAA privacy laws create a federal overlay
 - Data sharing key to claims/coverage
 - Pandemic and public health issues further complicate
- Property Insurance
 - New data, new products, and new pricing
 - Data related to the property, vehicle, or device
 - Over time, might replace more controversial pricing (credit)
- Life Insurance
 - National framework / Insurance Compact
 - Post sale, interests of the consumer and life insurer aligned
 - Data often used to improve patient health
 - Accelerated underwriting
 - Alternative to more intrusive process

QUESTIONS?

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