

# Big Data - revolutionary to underwriting

**Big Data, the process of gathering and analysing large, complex sets of information for better decision making, has immense application in the insurance industry, to quantify risk and provide competitively priced products.**

**W**ith the increase of personal electronic devices and bespoke sensors connected to the internet, better known as the Internet of Things (IoT), the scope for the insurance industry to devise better quality products has increased.

Additionally, the data gleaned from IoT gives insurers a more accurate picture of the risk they are underwriting.

## THE ABILITY OF DATA COLLECTION

Everything today, from personal computers to credit cards, bank accounts, smartwatches and car tracking devices, has the ability to provide extremely accurate data about individuals and their habits.

This data can be analysed to create more accurate profiles of customers. For insurance firms, this enables the creation of tailored products to suit individuals, rather than the demographic cohorts to which they belong. Being seen by an insurer as an individual client rather than as member of a group defined by age, gender, profession or socio-economic status also shows how Big Data can lead to more egalitarian social outcomes.

Big Data is also showing the inherent limitations on the accuracy of information that can be gathered from simply asking people questions.

A case in point is the election of US President Donald Trump. Months before the election of Trump, opinion polls indicated that Trump was headed for defeat, only for him to emerge victorious in the US presidential race. Part of the problem, it seems, is that people are simply not always forthcoming when it comes to revealing information on sensitive issues.

## 'DIRTY' DATA

As insurers, we need to face up to the fact that a lot of our existing data is still 'dirty', so to speak. Using the analytical tools provided

by Big Data is one way to scrub the 'dirty' data sets and build more accurate pictures of who we are dealing with, at the individual customer level.

This could also precipitate sweeping changes across the entire insurance pricing model to enable a better understanding of risk events. For example, if more people are engaging in risky behaviour than previously thought, it could mean the industry had over-estimated the potential negatives of these behaviours (e.g. the consumption of fats or alcohol). Alternatively, it could mean that the industry had in fact under-priced their risk.

While the jury is still out on which of these two conclusions emerge from the adoption of Big Data, there are still huge challenges that must be overcome.

One of these involves the ethics and legality of gathering large sets of personal data. From a financial adviser's perspective, there is also the risk that Big Data could encroach on certain job functions. Robo-advisers are already shaking up the asset management industry and there is every possibility that they could make their way into the insurance industry as well.

## Advisers need to reposition themselves

Financial advisers may need to reskill or refocus their efforts to capitalise on their function as the human interface between client and insurer.

There is a need to take the traditional approach and enhance it by combining the relevant technological innovations that will shape the insurance industry over the next decade: IoT, Artificial Intelligence (AI) and Blockchain.

Being able to integrate these three technologies into a single platform and client interface should be the main focus in the coming years. And, while clients often still prefer

human interaction, they are becoming more demanding and insist on greater transparency, simplicity, fairness and personalisation.

Like the industry itself, advisers need to reposition themselves to accommodate this rapid change. This will include scaling up the brokerage to take full advantage of the insights Big Data and other key technologies bring – closing the loop to include client understanding and needs.



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