Increasing Customer Value for Insurers

How Predictive Analytics Can Help Insurance
Organizations Maximize Customer Growth Opportunities

Business Analytics

www.spss.com/perspectives

Introduction

- Trends Influencing Insurers Today

- The Value of Predictive Analytics

- Predictive Analytics Applied:

  – Growing Customer Value, One Unique Customer at a Time

- Case Studies and Examples

- Predictive Analytics for Growing Customer Value:
  A Walk Through

- Summary

- Q&A

Global market forces are impacting us all…

- Access to capital and credit
- Economic change and future uncertainty
- Volatile oil prices and energy shortfalls
- Information explosion and risk or opportunity growth
- Globalization and emerging economies
- New customer demands and business models

The world is increasingly connected:
economically, socially and technically.

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The need for progress is clear

$8 billion

Spent annually by global P&C carriers on claims systems integration and process automation— equivalent to 25% of carriers' external IT budget.

76%

Percent of insurance customers who are willing to pay for higher levels of trust, greater access and exchange of information, and more personalized products to meet their individual needs.

$65 billion

Value of insured losses from Hurricanes Katrina, Rita and Wilma. Some commercial underwriters underestimated losses by as much as a factor of 10 because they lacked the ability to accurately measure and monitor their total risk.

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# Insurance carriers are working to address the expectations of agents, customers and shareholders

Customers are expecting..

- Quick responses to their requests
- Fast turn-around on applications and claims
- Access to customer service 24x7
- Ability to transact via multiple channels (e.g., internet, cell phone, telephone)
- Competitive pricing and the ability to comparison shop

Agents are expecting…

- Increased responsiveness to inquiries
- Fast and accurate information from the insurers they do business with
- Visibility to insurer processes and systems
- Insurers to be easy to do business with
- Innovative product offerings
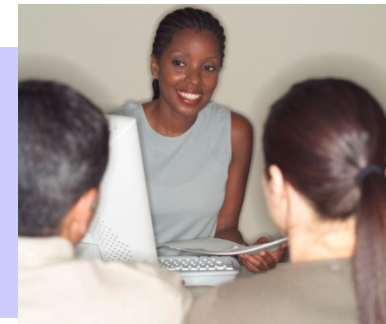
Shareholders are expecting…

- Reduced cost of operations
- Innovation to respond to new market entrants
- Flexibility to support new business models to drive growth
- Ability to integrate acquisitions quickly
- Management to key performance indicators
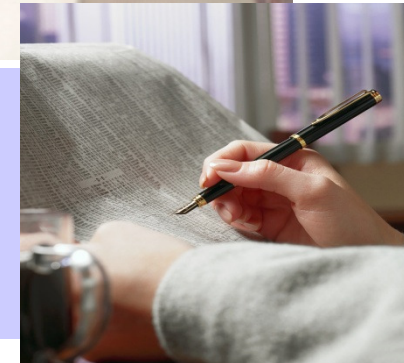
Insurance carriers need to optimize core processes to unleash their full potential

Current Process:

- Operating expense to contain
- Unpredictable response time and performance
- Difficult to report and monitor
- Difficult to leverage across other products and services
- Inefficient, costly and resource intensive

Goal is to flip an "operating expense" into an invaluable revenue builder and differentiator

Fully Realized Potential:

Example Process: Mass Marketing Campaign

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Predictive Analytics Turns Data into Predictive Intelligence

- **Predictive Analytics is a transformational technology that enables more proactive decision making, driving new forms of competitive advantage**

- **Analyzes patterns found in historical and current transaction data as well as attitudinal survey data to predict potential future outcomes**

- **Unique insights that help answer key business questions:**

  - *How do I **reduce customer defection** and retain the most loyal customers to maximize profitability?*

  - *How can I **detect and prevent fraudulent activity** to reduce risk?*

  - ***Which factors are most likely** to drive customers to purchase additional products?*

  - ***Which additional products** is **this** customer most likely to purchase?*

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Customer Retention and Growth in Insurance

- **Challenge for insurers to retain, grow, and create more loyal customers.**

  - **Reducing/Stabilizing levels of churn (in the US, over 12%, in Spain over 21%).**

  - **Retaining existing customers by providing added value products (i.e. Life insurers providing healthcare services in Scandinavia).**

  - **Selling additional products and services by leveraging existing customer databases and understand customer needs/buying propensity.**

  - **Up-selling to more profitable products.**

Churn Rates	Europe	US
Your main supermarket	31.4%	32.9%
Your internet services provider	26.2%	38.2%
Your mobile phone provider	25.3%	11.7%
Your car or house insurer	**19.4%**	**12.6%**
Your bank	19.2%	25.3%
Your main credit card issuer	9.2%	20.6%
Your travel agent	10.0%	2.9%
Your utilities provider	5.1%	12.4%
All Sector Average	**18.2%**	**19.6%**

Which of the following suppliers have you changed in the last year?	Italy	France	Spain	Germany	US	UK
Your main supermarket	36.0%	34.0%	32.4%	27.0%	32.9%	27.4%
Your internet services provide	25.7%	22.6%	29.0%	29.2%	38.2%	24.6%
Your mobile phone provider	22.6%	21.1%	23.1%	21.2%	11.7%	38.6%
Your bank	20.4%	16.6%	23.9%	16.8%	25.3%	18.3%
Your car or house insurer	**17.6%**	**16.2%**	**21.2%**	**16.8%**	**12.6%**	**25.4&**
Your main credit card issuer	5.9%	7.3%	9.2%	7.1%	20.6%	16.2%
Your travel agent	12.8%	7.7%	14.9%	6.5%	2.9%	8.1%
Your utilities provider	0.7%	0.4%	1.2%	5.8%	12.4%	17.3%
All sector Average	**17.7%**	**15.7%**	**19.4%**	**16.3%**	**19.6%**	**22.0%**

| Customer Churn Rates - UK Trends	2005	2007
Your main supermarket	19.8%	27.4%
Your internet services provider	24.0%	24.6%
Your mobile phone provider	33.4%	38.6%
Your car or house insurer	**17.8%**	**25.4%**
Your bank	17.5%	18.3%
Your utilities provide (electricity, gas or water)	13.0%	17.3%
All Sector Average	**19.1%**	**22.0%**

Ref PBBI The Dynamics of Defection 2008

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A Difficult Landscape in Insurance Demands Far More of the Business and the IT Enablers

- Increasing analysis and marketing sophistication amongst insurance competitors.

- Cost of acquiring new customers is high.

- Understanding customer need is immature.

- Pressure to retain and service existing customers more cost effectively demands better insight.

- Need to understand where to concentrate budget and effort – increase campaign and program success.

- By increasing the product relationships, customer retention increases and profits with it --- but what product do you offer to which customers?

- Pressure to increase marketing returns means Insurers have to be far more effective at exploiting their data assets & looking outside their "four walls" for indicators.

- Today's IT budgets are setting CIO's a challenge of delivering more for less and at increased pace.

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Customer Retention and Growth in Insurance

- By analyzing the results from historical campaigns and products, IBM enables customers to build models that accurately predict how likely each individual customer is to accept each individual offer.
- Current customers are evaluated against models to identify the best cross- and up-sell opportunities.
- Generate targeted list of customers to execute campaigns.
- Predict which channel to best contact customer with cross-sell opportunity.
- Use effective reporting tools to track success of campaigns and modify models if necessary.
- Predict and identify product profitability by channel.
- Integrate reporting with high quality visualizations including location intelligence.
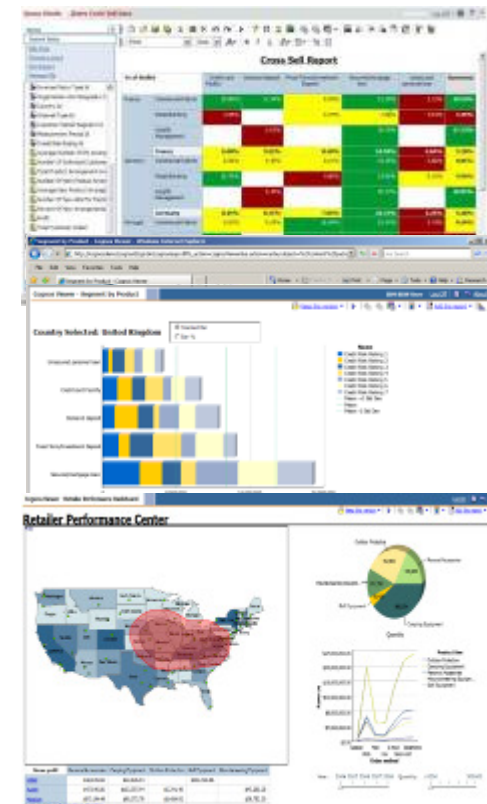
Cross-/Up-sell in Insurance: Realizing ROI

- ROI components
  - Increased profitable growth.
  - Increase annual premiums.
  - Increase in retention rates/customer loyalty.
  - Brand recognition.
  - Producer affinity.
  - Decrease in marketing cost.
  - Campaigns focus – more accurately targeted so are smaller/cheaper as well as having much higher success rates.
  - Reduction in costs of replacement acquisition.

Amicon: 50% increase in marketing conversion rates.
Corona Direct: 25% reduction in marketing cost, sales increase by 10%, and ROI within 6 months.
FBTO: 35% reduction in marketing cost, 40% increase in conversion, 29% increase in profits.
Natexis Assurances: Generated $1.8 million in increased revenue in first year.

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BI, PM and PA are Key Elements in Retention/Cross-Sell Capability

Cognos software

BI / PM aligns Product Profitability and Customer Service issues to insurers Retention / Growth Strategy

Establish feedback loop to measure the effect of subsequent improvements

Insurer uses predictive analytics to identify and target customers who are likely in need of additional products

SPSS

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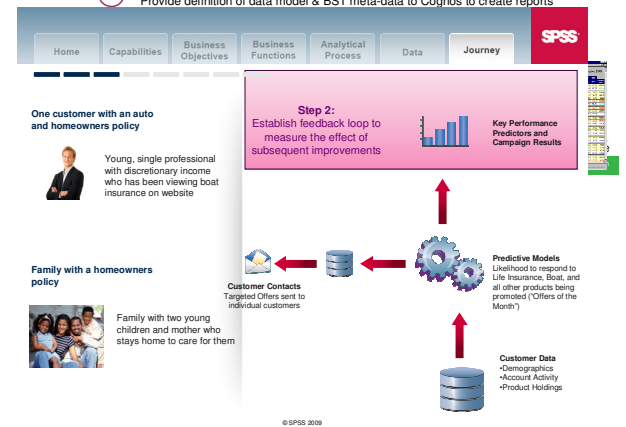
Folksam

Improved communication, visibility and accountability

Challenge

- Needed a way to shorten the time spent gathering and analyzing information.
    - Too much time debating source and accuracy of data.
    - Shorten the time spent gathering information.
    - Integrate with other systems to fulfill the budget process.

Solution

- **Cognos BI to gather sales information, insurance sums, claim adjustments/payments.**

- **Cognos Planning for portfolio management, budgeting and forecasting, scenarios.**

- **Cognos Controller for financial consolidation to meet statutory, and legal compliance requirements.**

Results

- **Improved communication, visibility, and accountability.**
- **Less time on planning, more time for analysis.**
- **Quickly update corporate or sales plans when needed with little work and manual effort.**

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Corona Direct

Increases long-term customer profitability by 20%

Challenge

- Needed a way to reduce the cost of securing new customers through direct marketing campaign activities.
  - Campaign expenses exceeded first-year revenues by almost 50 percent, putting Corona Direct's growth strategy at risk.

Solution

- **Using SPSS technology, Corona Direct automatically identifies groups that are likely to respond to a campaign, and then performs a sophisticated profit-cost analysis, balancing growth targets against profit margins.**

Results

- **Campaign costs have been reduced by 30 percent.**
- **Long-term customer profitability has increased by 20 percent.**
- **Product sales have risen significantly.**
- **Payback for the cost of the implementation was achieved within 6 months.**

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FBTO

Increases conversion rates by 40 percent while reducing mailing costs by 35 percent

Challenge

- Unable to target marketing campaigns at customers who are most likely to respond.
- Resulted in low conversion rate of mailings to actual sales.
- Needed a way to
  - Reduce direct mail costs.
  - Increase efficiency of marketing campaigns.
  - Increase cross-selling to existing customers, using inbound channels such as the company's call center and the Internet.

Solution

- **With SPSS technology, predictive analytics are used identify FBTO customers or prospects with a better-than-average propensity to purchase a financial product.**

- **Marketing team can simulate different scenarios and calculate conversion rates and mailing costs in advance.**

- **Based on the probability of conversion, customers were selected for personalized product offers and prepared for subsequent interactions.**

Results
- **Provided the marketing team with the ability to predict the effectiveness of its campaigns.**
- **Increased the efficiency of marketing campaign creation, optimization, and execution.**
- **Decreased mailing costs by 35 percent.**
- **Increased conversion rates by 40 percent.**

Predictive Perspectives **2011**

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One customer with an auto and homeowner's policy

Family with a homeowner's policy

**One customer with an auto
and homeowner's policy**

Young, single professional
with discretionary income
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insurance on website

**Family with a
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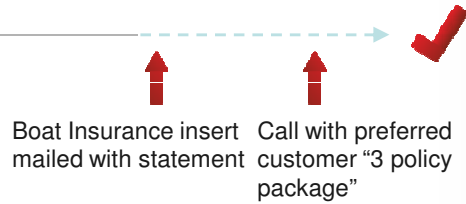
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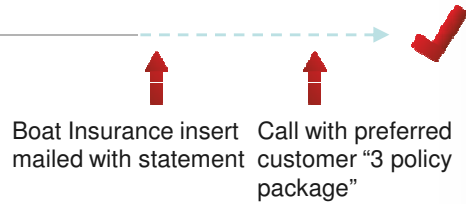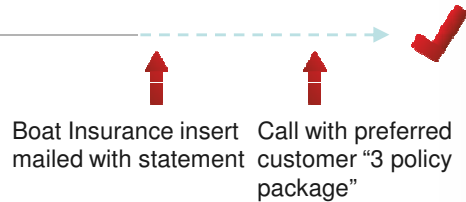
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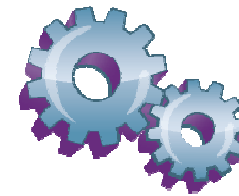
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BUSINESS SCENARIO: INSURANCE CROSS-SELL

Insurer uses predictive analytics to identify and target customers who are likely in need of additional products

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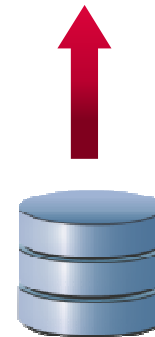Call with preferred customer "3 policy package"

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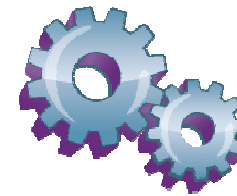Boat Insurance insert mailed with statement

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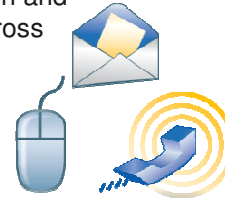**Family with a homeowner's policy**

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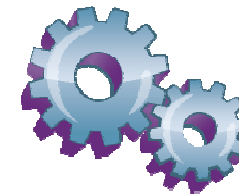Letter and mail sent to promote and describe Life Insurance

Predictive Models
Likelihood to respond to Life Insurance, Boat, and all other products being promoted

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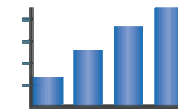**Family with a homeowner's policy**

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Best Next Action
Best offer determined for each customer individually

Customer ID	Product	Channel
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56437	Boat	Statement
59235	Auto	Email
45276	Home	Phone
Etcetera		

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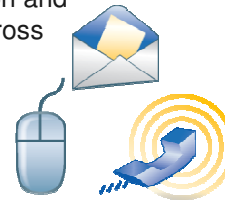
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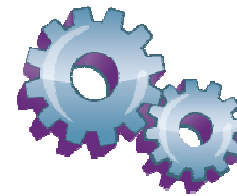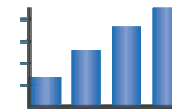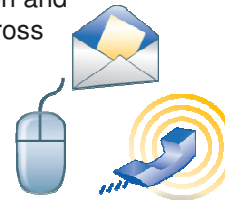Letter and mail sent to promote and describe Life Insurance

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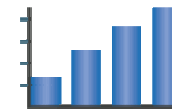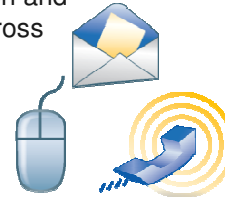
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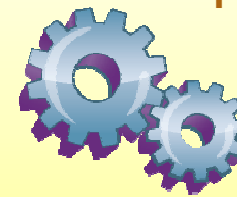To accommodate new offers and to apply customer contact rules

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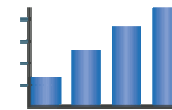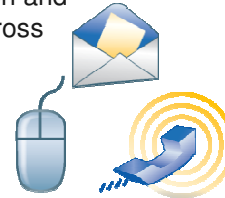**Key Performance Predictors and Campaign Effectiveness**

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Predictive Modeling

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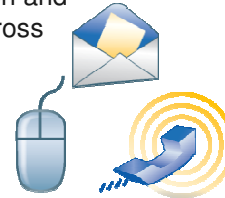
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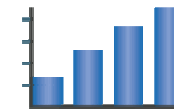
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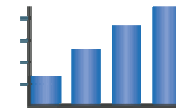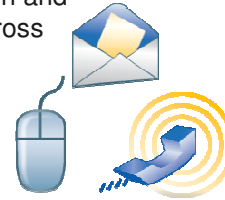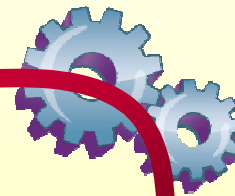
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Analysis, reporting and KPPs

Key Performance Predictors and Campaign Effectiveness

Automated Updates
To accommodate new offers and to apply customer contact rules

Best Next Action
Best offer determined for each customer individually

Customer ID	Product	Channel
12435	Life	Direct Mail
56437	Boat	Statement
59235	Auto	Email
45276	Home	Phone
Etcetera		

Predictive Models
Likelihood to respond to Life Insurance, Boat, and all other products being promoted

Customer Data
- Demographics
- Account Activity
- Product Holdings
- Channel Activity
- Information Requests
- Complaints

One customer with an auto and homeowner's policy

Young, single professional with discretionary income who has been viewing boat insurance on website

Boat Insurance insert mailed with statement

Call with preferred customer "3 policy package"
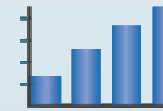
Family with a homeowner's policy

Family with two young children and mother who stays home to care for them

Letter and mail sent to promote and describe Life Insurance

Grow customer value

Customer Contacts
Marketing offers are personalized based on Next Best Action and optimized across channels

Key Performance Predictors and Campaign Effectiveness
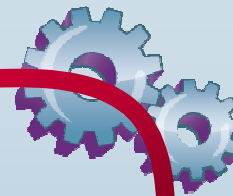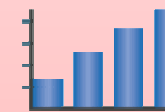
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"Marketing"

Customer Contacts
Marketing offers are personalized based on Next Best Action and optimized across channels

Key Performance Predictors and Campaign Effectiveness
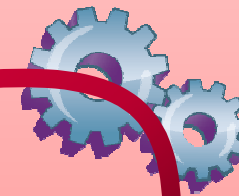
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Boat Insurance insert mailed with statement

Call with preferred customer "3 policy package"

Family with a homeowner's policy

Family with two young children and mother who stays home to care for them

Letter and mail sent to promote and describe Life Insurance

Campaign History
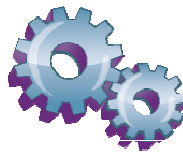- Contact Data
- Response/Decline
- Test/Control Group

Interaction Data
- Call Center
- Website Visit Data
- Service Request

Customer Data
- Demographics
- Account Activity
- Product Holdings
- Survey Data

Capture ⟶ **Predict** ⟶ **Act**

Campaign History
• Contact Data
• Response/Decline
• Test/Control Group

Interaction Data
• Call Center
• Website Visit Data
• Service Request

Customer Data
• Demographics
• Account Activity
• Product Holdings
• Survey Data

Analyses
Predict who is likely to respond, based on each customer's profile

Capture → **Predict** → **Act**

Analytical Process

Campaign History
• Contact Data
• Response/Decline
• Test/Control Group

Interaction Data
• Call Center
• Website Visit Data
• Service Request

Customer Data
• Demographics
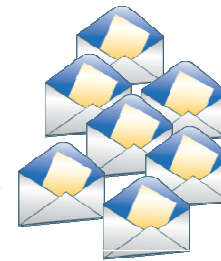• Account Activity
• Product Holdings
• Survey Data

Analyses
Predict who is likely to respond, based on each customer's profile

Scoring

Capture ⟶ **Predict** ⟶ **Act**

Campaign History
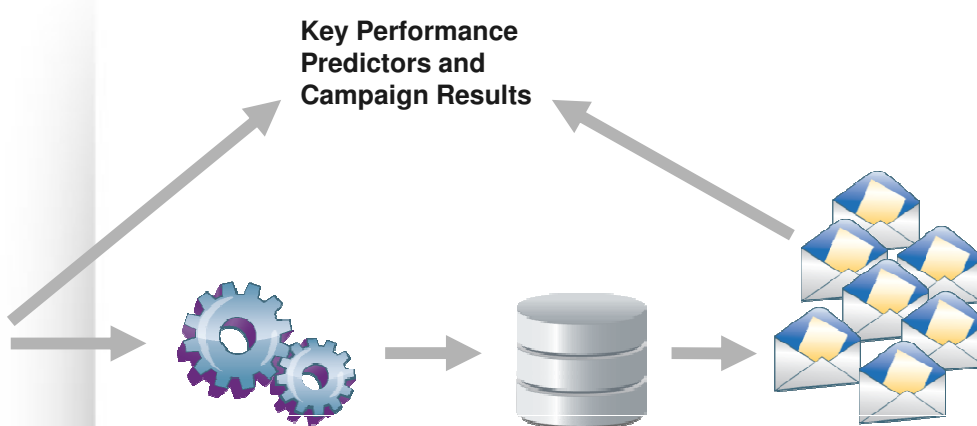• Contact Data
• Response/Decline
• Test/Control Group

Interaction Data
• Call Center
• Website Visit Data
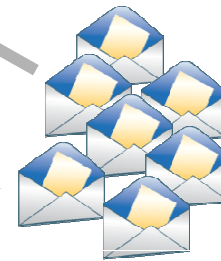• Service Request

Customer Data
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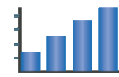
Scoring

Marketing campaign process

Capture ⟶ **Predict** ⟶ **Act**

Campaign History
• Contact Data
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• Test/Control Group

Interaction Data
• Call Center
• Website Visit Data
• Service Request

Customer Data
• Demographics
• Account Activity
• Product Holdings
• Survey Data

**Key Performance
Predictors and
Campaign Results**

Analyses
Predict who is likely to
respond, based on each
customer's profile

Scoring

**Marketing
campaign
process**

Capture → **Predict** → **Act**

Campaign History
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Key Performance Predictors and Campaign Results

Analyses
Predict who is likely to respond, based on each customer's profile

Scoring

Marketing campaign process

Capture ⟶ **Predict** ⟶ **Act**

Analytical Process

Key Performance Predictors and Campaign Results

Campaign History
• Contact Data
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Interaction Data
• Call Center
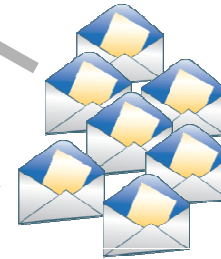• Website Visit Data
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Customer Data
• Demographics
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Analyses
Predict who is likely to respond, based on each customer's profile
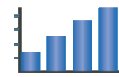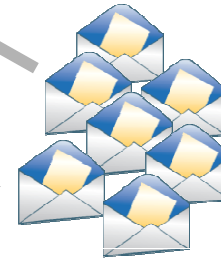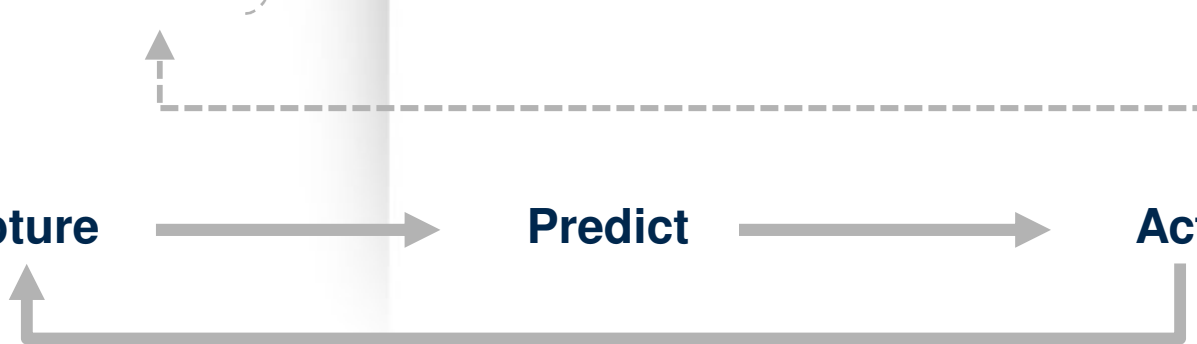
Scoring

Marketing campaign process

Capture → **Predict** → **Act**

Insurer uses predictive analytics to identify and target customers who are likely in need of additional products

One customer with an auto and homeowner's policy

Young, single professional with discretionary income who has been viewing boat insurance on website

Boat Insurance insert mailed with statement

Call with preferred customer "3 policy package"
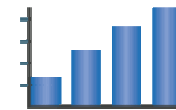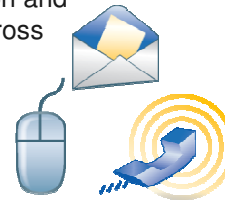
Family with a homeowner's policy

Family with two young children and mother who stays home to care for them

Letter and mail sent to promote and describe Life Insurance

Customer Contacts
Marketing offers are personalized based on Next Best Action and optimized across channels

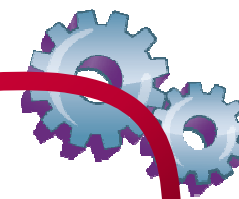**Key Performance Predictors and Campaign Effectiveness**

Automated Updates
To accommodate new offers and to apply customer contact rules

Predictive Models
Likelihood to respond to Life Insurance, Boat, and all other products being promoted

Best Next Action
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Descriptive

Customer Data
- Demographics
- Account Activity
- Product Holdings
- Channel Activity
- Information Requests
- Complaints

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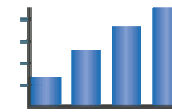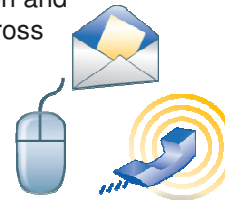
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Behavior

Customer Data
- Demographics
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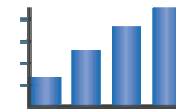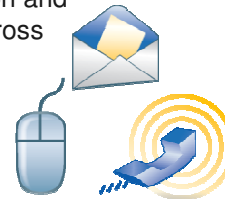
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Interaction

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- Channel Activity
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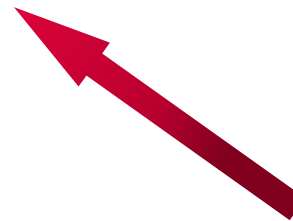
Family with a homeowner's policy

Family with two young children and mother who stays home to care for them

Before predictive analytics:
"Offer of the month"
sent to all customers or using
rudimentary 'targeting' methods

Customer Contacts
Offer of the month sent
to all customers

Customer Data
- Demographics
- Account Activity
- Product Holdings

One customer with an auto and homeowner's policy

Young, single professional with discretionary income who has been viewing boat insurance on website

Family with a homeowner's policy

Family with two young children and mother who stays home to care for them

Customer Contacts
Targeted Offers sent to individual customers

Predictive Models
Likelihood to respond to Life Insurance, Boat, and all other products being promoted ("Offers of the Month")

Step 1:
Optimize offer of the month by not contacting customers not likely to respond

Customer Data
- Demographics
- Account Activity
- Product Holdings

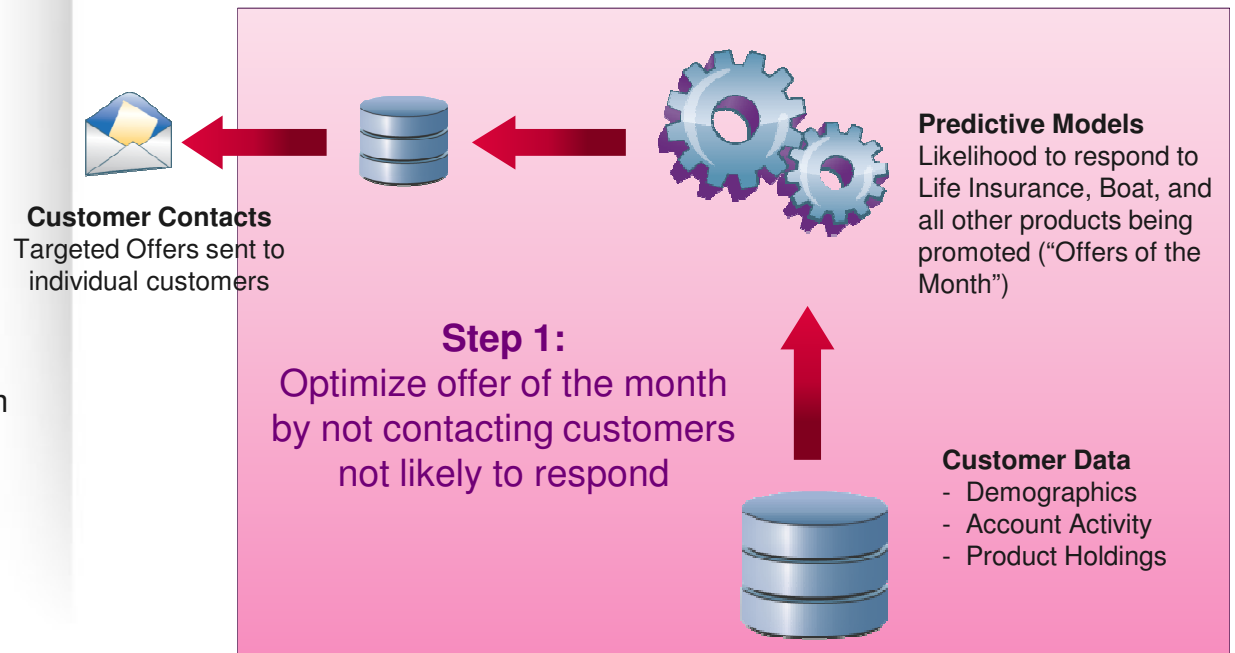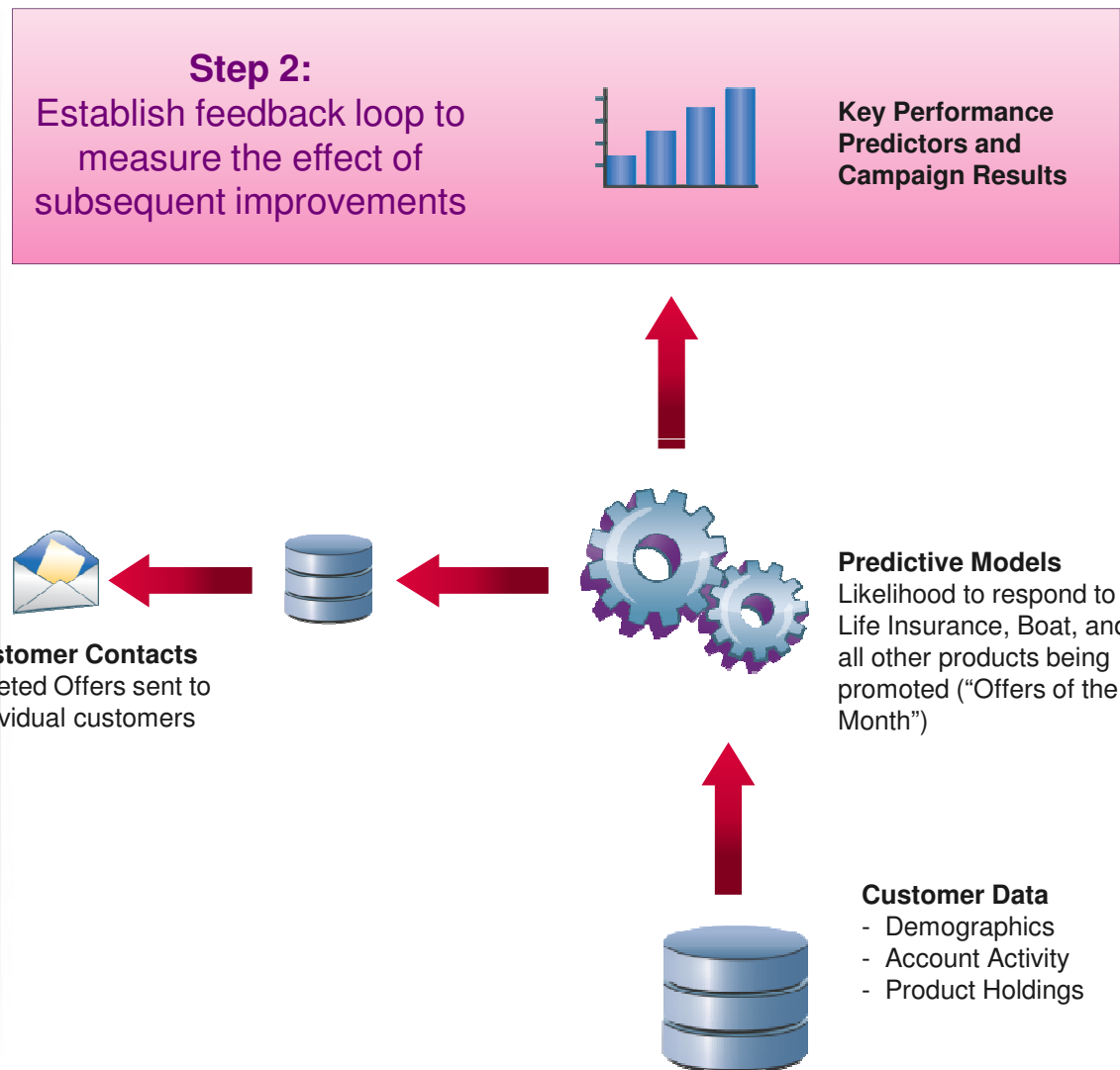**One customer with an auto and homeowner's policy**

Young, single professional with discretionary income who has been viewing boat insurance on website

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Step 2:
Establish feedback loop to measure the effect of subsequent improvements

Key Performance Predictors and Campaign Results

Predictive Models
Likelihood to respond to Life Insurance, Boat, and all other products being promoted ("Offers of the Month")

Customer Contacts
Targeted Offers sent to individual customers

Customer Data
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- Account Activity
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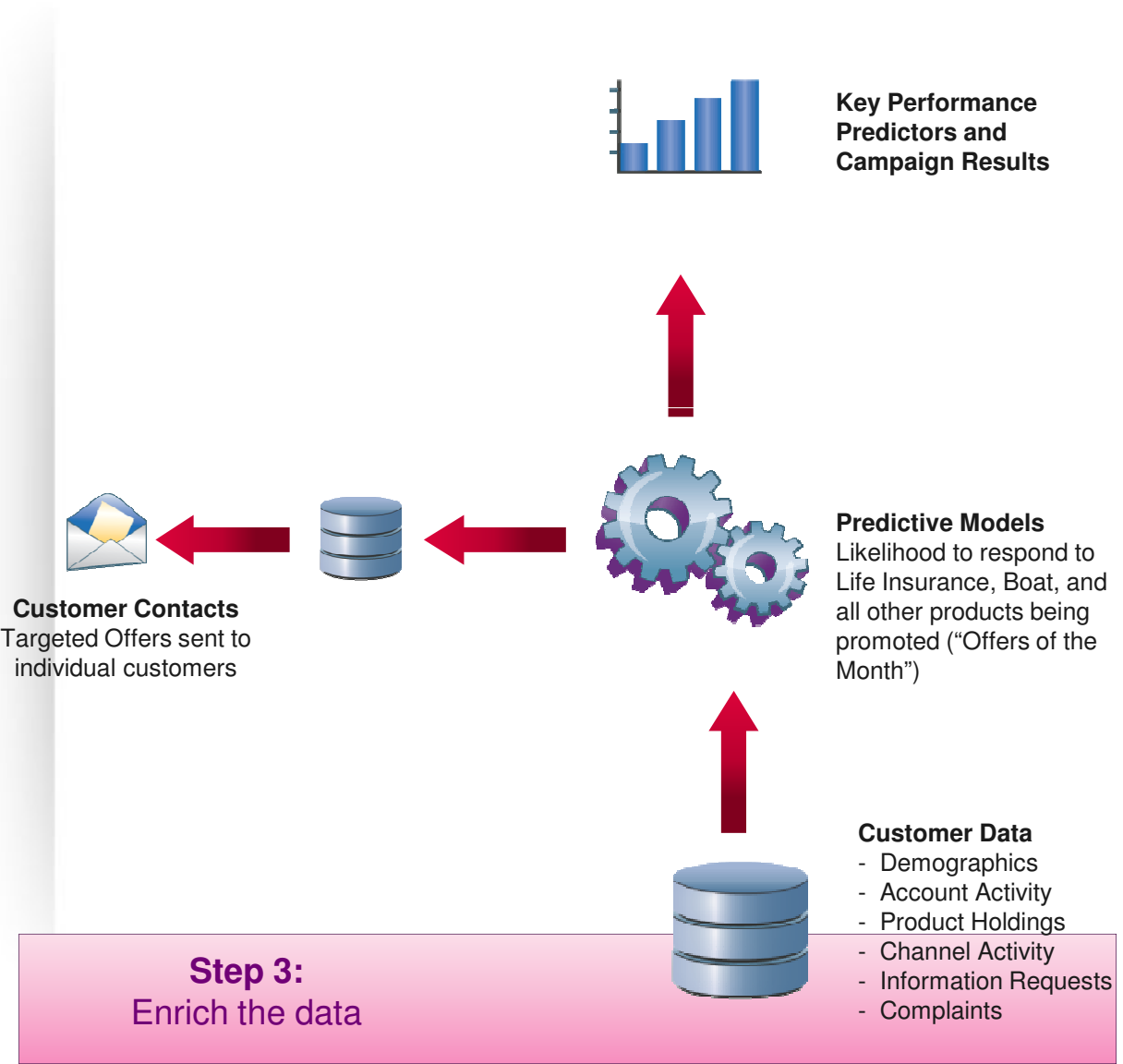**One customer with an auto and homeowner's policy**

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Customer Data
- Demographics
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Step 3:
Enrich the data

One customer with an auto and homeowner's policy

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Family with two young children and mother who stays home to care for them

Customer Contacts
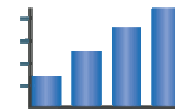Marketing offers are personalized based on Next Best Action and optimized across channels

Step 4:
Optimize across multiple offers

Best Next Action
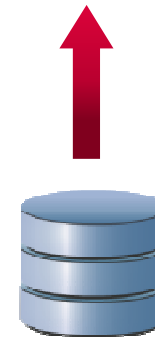Best offer determined for each customer individually

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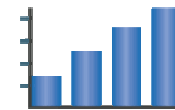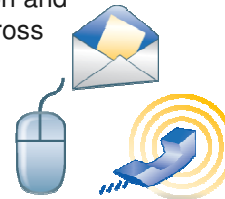Young, single professional with discretionary income who has been viewing boat insurance on website

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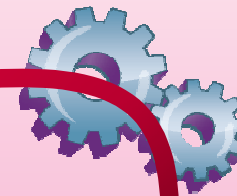Marketing offers are personalized based on Next Best Action and optimized across channels

Key Performance Predictors and Campaign Results

Automated Updates
To accommodate new offers and to apply customer contact rules

Predictive Models
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Automated Updates
To accommodate new offers and to apply customer contact rules

Step 5:
Automate processes

Customer Data
- Demographics
- Account Activity
- Product Holdings
- Channel Activity
- Information Requests
- Complaints

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Young, single profes
with discretionary inc
who has been viewin
insurance on website

Family with a homeowner's policy

Family with two your
children and mother
stays home to care f

Future Steps:

- Implement across additional touch points
  - Customer Service Center
  - Website
  - Email
  - Agents / brokers

- Add retention offers

- Optimize across customers, offers, channels and time

- Include risk predictions when making marketing offers
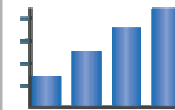
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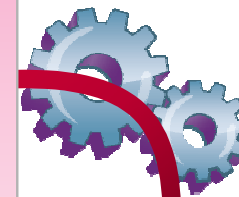
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Summary

- Competitive and Economic Forces
    - Insurers need a laser focus on the customer
- Data Explosion as Opportunity
- Predictive Analytics Turns Data Into Insight
- Applying Predictive Analytics to Marketing Yields Powerful ROI Results

IBM.

Questions?

THANK YOU!