
SEARCH

# From big data *to big insight*

**Data analytics can help risk managers ensure their company's insurance policies and risk mitigation strategies are commensurate with its risk profile, and to demonstrate to senior management a more analytical and strategic approach to risk management.**

*Words by* DAVID WORSFOLD

The world has developed an obsession with data and the insurance industry is no exception. But it is not always sure what to do when given more data.

Ultimately the importance of 'big data' – as it is often fashionably labelled – lies not in its quantity but in its quality and, most importantly, in how it is used: commonly referred to as data analytics.

Data analytics enables companies, working in conjunction with brokers and insurers, to profile their risks and risk appetite in far more granular detail and, using that information, to make better-informed decisions about their risk management and risk financing arrangements.

"Data analytics enables companies to move beyond just the pricing and placing of insurance and reinsurance and to create a bespoke financing strategy that is driven by an understanding of the interaction of enterprise risk management and the need to deliver shareholder value to a business," says David Flandro, Global Head of Analytics at JLT Re.

"If risk managers can demonstrate that a better understanding of risk, and the trade-off between retaining risk and transferring risk, affects share prices and returns, then boardrooms will start to take notice," adds Flandro.

A fundamental shift in the role of the broker lies at the heart of greater data analytics, says Hamish Roberts, Business Development Director at JLT Specialty.

"We can take client and industry data and expert opinion from key internal stakeholders to create bespoke risk financing programmes to take to the market, but there is an opportunity to do much more than that. Brokers can help their clients have an internal discussion around the analysis of their data so they can buy insurance in a more strategic and optimum way, and make improvements to their broader risk management strategies," says Roberts.

## Board-level attention

Opening up these broader discussions helps to make risk and insurance a strategic issue that receives more board-level focus. With years of soft markets in most classes, for some companies insurance is less of a board subject than ever, as it has become commoditised and relegated to a cost centre that can be managed at an operational level. In many cases insurance strategies, sometimes even the programmes themselves, have not changed in years and can be improved to better match companies' risk profiles.

Bringing powerful analytical tools to bear on a firm's data can reverse this trend, however, says Michelle Mason, Head of Client Management at JLT Specialty.

"By using analytics to enhance understanding and quantify risk, companies are able to make more informed decisions about risk retention, financing risks and considering the merits of vehicles such as captives. They will also be able to potentially look at risk financing solutions for risks previously held on the balance sheet. They will be able to look more completely at the total cost of risk – retained losses, risk transfer costs and the cost of capital".

Some sectors are already ahead – including some life science companies – and the strategic impact is clear, says James Bird, Head of the Life Science Risk Practice at JLT Specialty.

"Using this greater insight, a company might decide to buy less insurance in some areas because there is little volatility and the worst possible loss is tolerable to the company.

Conversely, there might be good strategic or tactical reasons why a company might buy insurance in areas previously uninsured or underinsured. Ultimately data analytics enables a company to more keenly understand these reasons and develop a strategy based on data linked to the impact on their own financial metrics, rather than employing too much guesswork."

## Four-stage process

Insurers and insureds traditionally have good data on losses for property and natural catastrophe and other risks but other areas can be blind spots.

"Product recalls, regulatory shutdowns, failure of suppliers and cyber events are examples of risks whose impacts are not often adequately identified or quantified. It is sometimes difficult to find that data within your own company," says Bird.

"Identifying data elsewhere, however, such as in publicly available resources, and supplementing it

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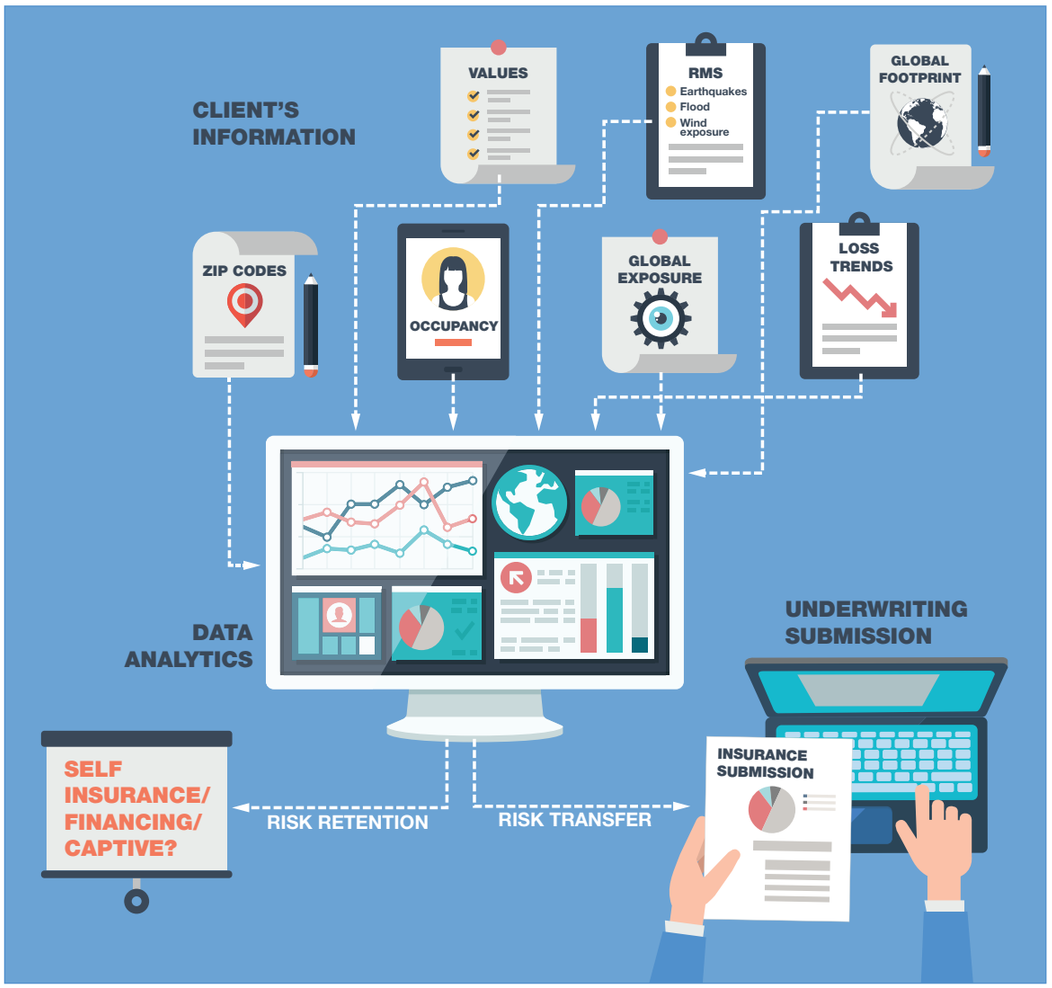


*Analytics can show the increased volatility associated with retaining more risk against the cost of transferring it.*

with client data can shed new light on previously hidden risks and their potential costs," Bird adds.

For this approach to really be successful, insured companies and their insurance brokers need to accept that the insurance-buying process has evolved, as different skill sets are brought in, says Roberts. "Our approach to market is a process of discover-develop-discuss-deliver. This expertise has always existed in the reinsurance arena because insurers reinsuring into the market through brokers describe their portfolios by analysing them to the nth degree. We are now seeing this expertise brought into the mainstream and used among direct insureds."

Data analytics also helps companies get to grips with the efficiency of their own risk evaluation and insurance process. Often it shows that the most serious risks might, understandably, take the largest share of premium but, too often, absorb the least amount of time in terms of the company's risk management. "Data analytics helps companies to see these discrepancies, often for the first time – therefore enabling them to synchronise the weighting of a) risk with b) time spent managing the risks and c) insurance premium spend, or to better understand why they are not in sync," says Roberts.

In the cost-conscious world most businesses operate within, this also has wider benefits, says Mason. "A lot of companies are tasked with reducing costs as part of a general cost-cutting programme. Analytics helps to do that intelligently, providing a transparent rationale for insurance buying decisions that can be shared with the board and supported by clear numbers. For example, analytics can show the increased volatility associated with retaining more risk against the cost of transferring it. The board can see those numbers and make decisions against their own corporate and financial goals."

## New opportunities

Quality, creative data analytics also brings a wealth of new opportunities to benchmark against peer groups, which has huge implications for firms, Flandro says. "Access to really broad data, especially for mid-market companies, gives businesses a whole new set of analytical capabilities to apply to their business planning and risk assessment."

The biggest prize for businesses is often understanding hidden threats, such as risk aggregation following a period of merger and acquisition, especially in a multi-national company, or failing to spot a supply chain vulnerability. Often the analysis is about the amount of time spent with suppliers: the biggest suppliers typically get the most attention but sometimes a small but highly specialised and crucial relationship is overlooked. The answer, as so often is when data analytics is applied intelligently, isn't always 'buy more insurance' but to manage risks in a smarter, more business-relevant way. ■

***For more information***
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