

## Financial Foresight

### Finding the gold in the insurance data mine



Like many financial services firms, insurance companies must contend with a variety of forces that make it difficult to compete in a challenging business environment.

These forces include slow industry growth, commoditized product offerings, pricing pressure from low-cost competitors, shifting channels for customer interactions, increased marketing spending, and demand for increased transparency.

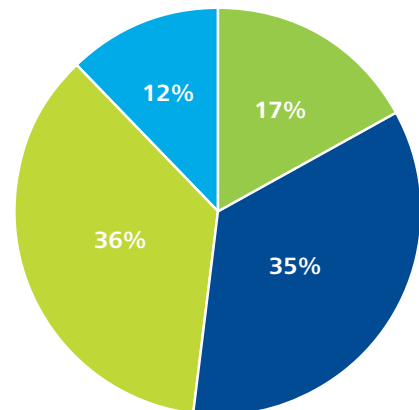
“One of the greatest resources that insurers can deploy to offset the pressures that they face is the enormous storehouse of customer data that they have amassed over the years,” says Rebecca C. Amoroso, vice chairman and U.S. insurance industry leader for Deloitte LLP.

Yet many insurers fail to recognize the business value of data. Instead of treating customer data as a strategic asset, insurers maintain separate data silos to support underwriting, claims, billing, and other business functions.

“By focusing on the business value of data and developing an enterprise-wide information strategy, the whole can be greater than the sum of its parts,” says Arun Prasad, a senior manager with Deloitte Consulting LLP.

According to a recent, informal online poll that Deloitte conducted among some 300 financial services professionals, establishing an enterprise-wide approach to data management is still a goal for many companies. Only 17% say that their organization’s information strategy is complete and 35% report that it is under development. Another 36% report that their companies take a “piecemeal” approach to data management and 12% admit that their organizations have no information strategy.

**At which stage is your organization’s information strategy?**



- Complete
- Currently under development
- Currently a piecemeal approach
- There is no information strategy

#### Potential benefits of organizing and optimizing customer data

Organizing and optimizing customer data can have a direct impact on improved customer satisfaction, lower operating costs, and increased revenue and retention. Examples of the potential benefits that insurers can achieve include the following:

- **Operations and servicing:** Reduced new-account processing costs through the reuse of information; increased customer satisfaction from more effective servicing and sales (e.g., consolidated billing); and reduction in cycle time of key underwriting processes (e.g., renewal process).

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- **Marketing and sales:** Increased revenue from more targeted marketing campaigns and more intelligent product bundling; enhanced client profitability analysis identifies “best” customers to target; and differentiated pricing based on complete customer profile and portfolio of products.
- **Technology:** Simplified technology and operational architecture/processes (reduction in multiple data sources); and enhanced enrollment, billing, and claims management via online and interactive voice response channels.
- **Regulatory and compliance:** Intelligent management of customer preferences and privacy requirements; higher-quality customer information resulting in more compliant communications management; and enhanced reporting capabilities based on a consolidated view of the customer.

“Most insurance companies have significant room for improvement in how they organize and leverage their customer data,” says John Lucker, a principal with Deloitte Consulting LLP who leads the organization’s advanced analytics and modeling practice. “Getting better in this area can definitely yield dramatic benefits across most business functions.”

### Customer insight and customer relevancy

Having well-organized data can enable companies to focus on two critical dimensions of business intelligence: customer insight and customer relevancy.

- Customer insight is when you know more about customers and do something useful with that information.
- Customer relevancy is interacting with customers in ways that are meaningful, value added, and create a positive impression.

Doing these things well can help clinch a deal; doing them badly can kill a deal or sour a customer relationship – sometimes in ways that can take years to fix.

As an example, think of all the retail offers that people receive in the mail, or by e-mail. How many of those coupons actually match up with consumers’ behaviors, expectations, and preferences?

Odds are, many, if not most, of the coupons that people receive do not match up well with their track record as consumers. As a result, the coupons wind up in the trash bin.

How much more effective would those offers be if the companies sending had the data to target their offers more precisely, so that people who used certain products in the past received coupons for complementary or

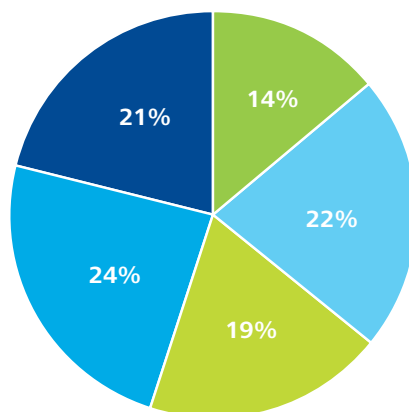
competitive products? That is the value of customer insight and customer relevancy.

To leverage customer data effectively, it is important to create distinct groups of customers with common characteristics, such as interests, risks, behaviors, likes, dislikes, and propensities.

By organizing efforts around defined segments, companies can execute and measure results end-to-end across the company based on a focused effort. Customer segmentation also can bring more focus to new business growth versus retention and cross-sell. However, segmentation efforts can fall short in influencing key business decision makers, who typically focus more on products than customers.

Many insurance professionals believe they know customers’ interests and business needs. According to Deloitte’s recent online poll, 14% of the executives surveyed say they understand their customers’ demographics and buying preferences, 22% know their core business or interests, 19% know their insurance needs, and 24% know all three dimensions. Only 21% admit they do not know their customers very well.

*How well do you know your customers?*



- We understand their demographics and buying preferences
- We know their core business or interests
- We know their insurance needs
- All of the above
- Not very well

### Gathering value from customer data

To generate value from customer data, insurance companies may want to consider adopting a five-step approach that focuses on the value of customer data being delivered.

1. **Define a vision and goals.** The first step begins by defining what a customer is. “This sounds simple

enough, but different stakeholders may have different views of what a customer might be,” says Tami Frankenfield, a specialist leader with Deloitte Consulting LLP. “Agents may view only policyholders as customers, while claims adjusters may view claimants – even those who are not policyholders – as customers. Skip this step in the process and you perpetuate silo data; get it right early on and you set the foundation for delivering incremental value on customer data over time.” This can be achieved by:

- Defining goals that can be articulated so all stakeholders can understand them
- Identifying an initial scope or initiative that will use the new definition of customer
- Developing a business case for the initiative including the costs of maintaining the data
- Building a roadmap to deliver the new solution

**2. Create a common model for the customer.** The second step is to create a common model for the customer for storing customer data in a usable format. This includes:

- Gathering customer data from disparate sources; defining data standards and business rules for key elements; and defining an overall customer data structure
- Creating common definitions; identifying data relationships; integrating data into a common customer model; and develop common data format
- Building a common model comprising customer demographics, products, location, and primary business

**3. Enable information services using the new model.** Once the model for customer data has been created, organizations can populate the model with appropriate data by:

- Building services that will use the new customer model
- Using a pilot initiative to create information services that use the new customer model
- Confirming the data quality has been preserved
- Creating a communication plan to educate stakeholders on the new model and services created
- Training employees to maintain the new model and services that utilize the model

**4. Measure the value of the new model.** The fourth step is to confirm that the new customer model delivers value by:

- Validating the costs and the benefits of the new customer model
- Creating metrics to share with stakeholders on usage, growth, and value to the organization
- Establishing frequency of reporting value to leadership and support additional growth
- Communicating the knowledge to make the process iterative and dynamic in nature

**5. Extend the model to additional initiatives.** The final step in the process is to extend the model to deploy

additional services to share the model with others. This is achieved by:

- Expanding the customer model to support more data elements
- Maintaining focus on business value
- Automating the integration of data so data is available at a lower cost and increased level of availability
- Creating a governance model to manage the growth, extension, and usage of the new model
- Reusing existing data elements to maintain efficiency
- Increasing the number of services that use the model

When employing this approach, insurance companies should consider the use of appropriate enabling technologies, such as:

- **Extract, transform, and load (ETL)** – ETL technologies extract data from source systems across various platforms and formats, transform the data to create and define relationships, and load the data into a relational data warehouse.
- **Data warehouse** – As the core of the analytics solution, a data warehouse stores relational data that has been transformed by the ETL and allows for analytical filtering and grouping.
- **Business intelligence** – These solutions analytically display data in dashboards, reports, and ad-hoc reports. They are highly interactive and afford “drill-down” capabilities.
- **Master data management** – These tools track and consolidate changes to a master repository and push changes to each system to maintain integrity. Enterprise management of key data types and values provide the “pillar data” that serves as a foundation for all analysis.
- **Advanced analytics** – The use of advanced analytical tools provides a richer discovery into the “why” of a given data situation, predictive modeling of upcoming customer events, and builds upon business intelligence results.

### Information management maturity model

In order to unlock the business value of their customer data, insurance companies must understand where they stand in terms of information maturity and how they can advance to the next level.

The typical information management maturity model comprises four stages:

- **Stage 1 – Basic reporting:** In this most fundamental stage, companies rely on relatively unsophisticated information systems, characterized by heavy use of spreadsheets and much manual effort, to provide information about customers.
- **Stage 2 – Information access:** In this widespread stage, insurance companies find themselves managing data stored in an array of complex legacy systems.



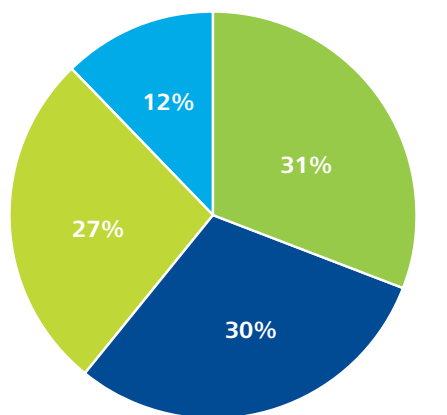
**Stage 3 – Enterprise information:** When companies are able to move past the legacy stage of data management, they employ more sophisticated systems to integrate information across the organization and achieve the desired “single version of truth.”

- **Stage 4 – The intelligent, agile enterprise:** In the ultimate stage, companies use technology to provide stakeholders with relevant data on demand while providing both information alignment and accountability across the enterprise.

“As insurance companies reflect on their position in the information management maturity model, they must ask themselves, is it really the technology that is stymieing my progress or is it the inability to make and affirm business decisions between functions and business units,” says Linda Pawczuk, a principal with Deloitte Consulting LLP.

According to Deloitte’s recent online poll, most executives surveyed say their companies still rely on spreadsheets (31%) or transactional reporting created on demand (30%) for information management. Fewer companies provide decision makers with self-service reporting (27%) or highly analytical technologies (12%).

*How would you characterize the maturity of your company’s usage of information management technologies?*



- We utilize spreadsheets
- Transactional reporting created on demand
- Dashboards, drill-down self-service reporting
- Highly analytical technologies in place

### Looking ahead

- The timely and effective use of data can help insurance companies generate business value.
- Identifying, understanding, and organizing data as pillars that support the business instead of silos that impede the flow of information across the enterprise can play a critical role in improving business processes to build business value.
- Utilizing a disciplined and tested approach to qualifying and organizing information can greatly enhance the overall success of a data management initiative.
- Understanding the enabling technologies that are a best fit for an organization can further augment and accelerate the power of information delivery in decision making.
- Understanding where a company lies on the maturity model can help in designing the most effective roadmap to becoming an intelligent, agile information enterprise.

Data management is not just a technology issue. It is a collaboration between technology and business stakeholders working together to unlock the business value of data for the greater good of the entire organization.

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