

Jim's Perspective...

Insurance and Big Data

The American Institute for Property and Casualty Underwriters recently held its annual meeting in Florida. Over the years, I have occasionally attended this meeting for networking purposes and for completing continuing education courses related to property and casualty insurance. I received my CPCU designation in 1984, and was president of the Nebraska Chapter of CPCU in 1991. The CPCU designation represents a graduate level degree in property and casualty insurance. This designation is managed by the American Institute. When I began the process to obtain this professional credential, it was a five-year program that involved completing ten graduate level courses on insurance and financial services business. The annual meeting this year included a number of seminars on emerging issues in the property and casualty insurance industry. One of the seminars that I attended virtually was focused on big data and its use in the property and casualty insurance industry. Below are a few interesting points discussed in the seminar which was presented by a university professor specializing in insurance, an executive with Lincoln Financial Group and an executive with Florida Peninsula Insurance.

Having grown up in the age of land-line telephones, three television networks, and automobiles with no computer gadgets, it is a little hard for me to fully appreciate the scope and extent of Artificial Intelligence, electronic devices, and social media platforms. The speakers emphasized there were many sources of electronic information about each and every one of us. The following statistics were presented:

- Facebook. Users “like” 4 million posts per minute.
- Twitter. 347,000 new links every minute.
- Amazon. 4,000 new visitors per minute.
- Uber. 694 passengers take a ride per minute.

Each of these entities collects a load of information on their users. As you probably already appreciate, the collection of information about all of us extends even further with security video apparatus; telematics; Twitter; wearables; smart helmets; and smart home technology including the Internet of Things. According to Matteo Carbone, founder and director of IoT Insurance Observatory, twenty two of the top twenty five U.S. property and casualty insurers are using telematics. Eight million U.S. drivers are connected to their auto insurer everyday. Progressive already has a \$500 million portfolio in telematics-based commercial auto insurance. Allstate has a telematic program called “Allstate Drivewise” that can provide up to a 20% reduction in premium which can be placed in the policyholder’s digital wallet once it is earned. This product includes an item called “pedal medal” which monitors speed, another, called “braking badge” which, as the name implies, checks how you brake the car, and there is another called “my trips.” One of the speakers mentioned that he got rid of Alexa after he was talking about something in his house, and he immediately received commercial information related to what he was talking about on his Facebook.

Information Google has about you includes the following:

- Name, gender, date of birth
- Your email addresses
- Where you live
- Phone numbers
- Where you work
- Websites you visit
- Searches you made on Google Search
- Your ad preferences
- Your interests
- Your YouTube search history and recently watched videos
- What you've said to the Google Assistant¹

The speakers explained what they believe is the number one ethical consideration related to all of this information collected about us.

- Was data acquired with the owner's permission, and not violating the right to privacy? In this regard, is it ethical for any third party to sell this collected information to an insurance company perhaps to be used for rating purposes?
- Was the data used in the manner intended? It was explained that telematics data is now being sold to advertisers who then know what stores you frequented and, thereafter, send you advertisements related to these stores.
- Does the data have an expiration date? Suppose you change auto insurers, and your new insurer does not use telematics, but the former auto insurer did. Is it ethical for the former insurer to still sell your telematics data?

Of course the obvious ethical consideration is whether it is fair and reasonable to use some or all of this data to set insurance rates. It was suggested that the "insurance score" of the future will include a "social media" score, a "wellness tracker" score and a "reputation brand" score (yikes! I will be uninsurable!).

As I pondered all of this, one of the speakers ventured down a little bit different path regarding rate making. Why do we price risk? Why do we attach a monetary amount to different risk exposures? There are a number of reasons for this process.

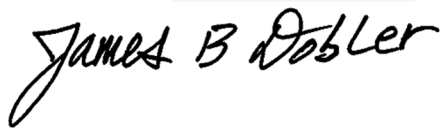
1. Rates charged must cover losses, expenses and earn some profit.
2. Rate-making is the process of identifying characteristics of risk that can reliably predict future losses.
3. Rates should reflect risks so as to discourage inappropriate risk-taking. (distracted driving)
4. Rates should encourage risk reduction behavior. (smoke detectors, telematics, security devices)
5. Rates should not be **unfairly** discriminatory.

¹Katie School of Insurance and Risk Management

The ethics of big data started 20 years ago with the credit score which was developed by Fair Isaac and Company. The credit score was changed to insurance score to move away from the argument that a rate based on credit discriminates against low-income people. The debate about big data as a part of insurance rates has been significant and on-going ever since the credit score, and I predict the intensity of the debate will only increase in future years. There was also some discussion by the speakers about how much educational and explanatory information should be given to insureds by both insurers and agents. Should the agent alert the client that telematics information in their car might be shared with third-parties. Should the agent visit with insurers and have an understanding of what the insurer might do with data collected on policyholders.

“Our future is a race between the growing power of technology and the wisdom with which we use it. Let’s make sure that wisdom wins.”

Stephen Hawking
English theoretical physicist



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Questions or Comments? Please email jbdobler@outlook.com