



C4.3: (1615 - 1745) - Risks in General Insurance

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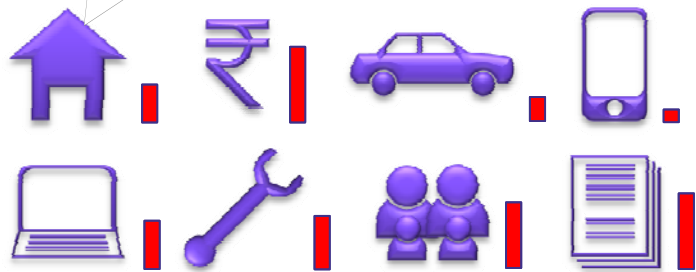
Waves of Reforms...Oceans of Opportunities

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India

Credit reports contain detailed information about people's credit transactions

- Credit applications
- Credit usage: balances, repayment ontime vs. late vs. delinquent

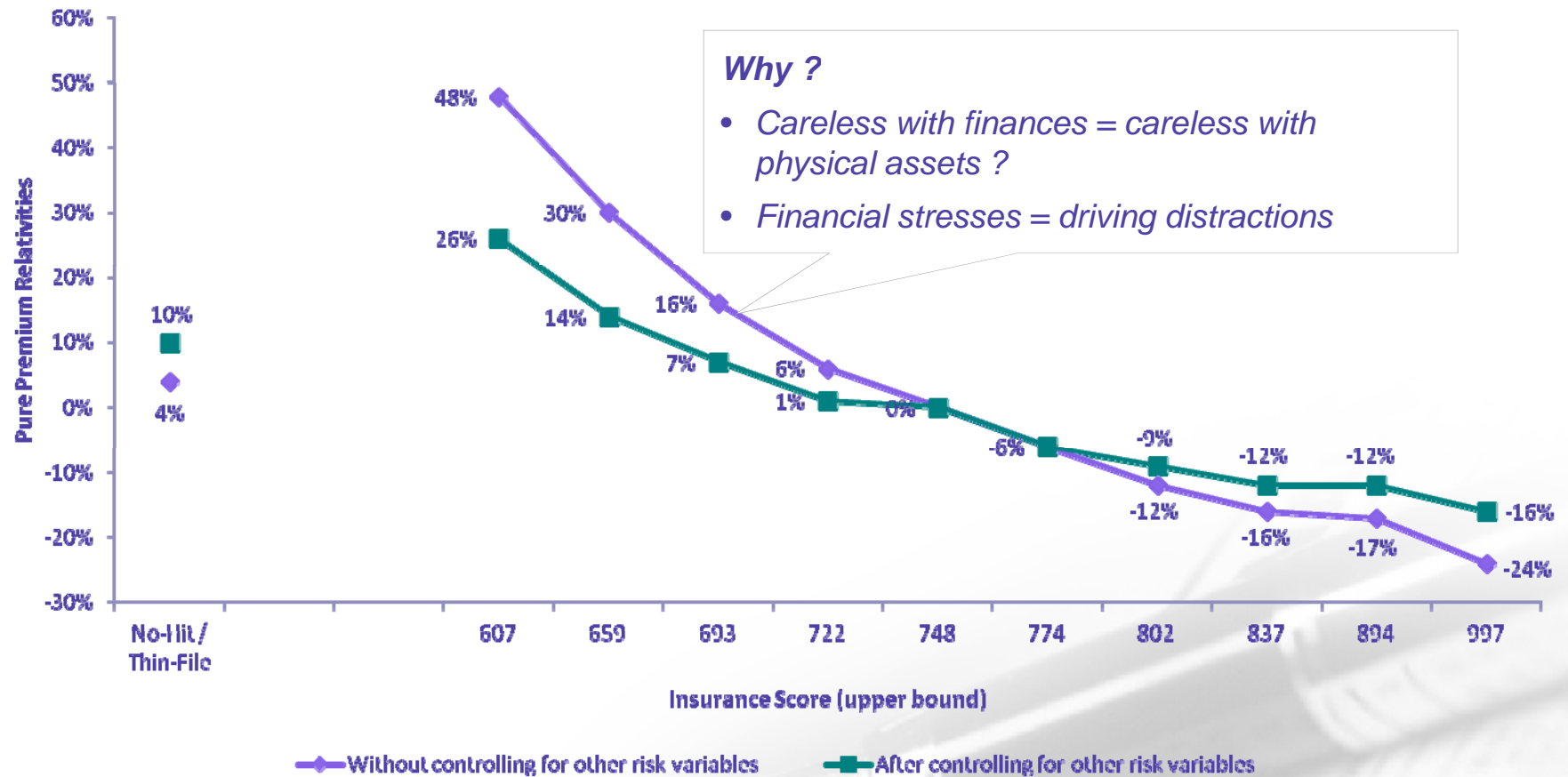


Relative weighting for score

Insurance Credit Score

748

Credit information is highly predictive of claims behaviour in motor insurance



Source: "The Relationship of Credit-Based Insurance Scores to Private Passenger Automobile Insurance Loss Propensity" published by EPIC Actuaries, June 2003

How do Insurance Scores differ from Lending Scores?

Lending Credit Scores

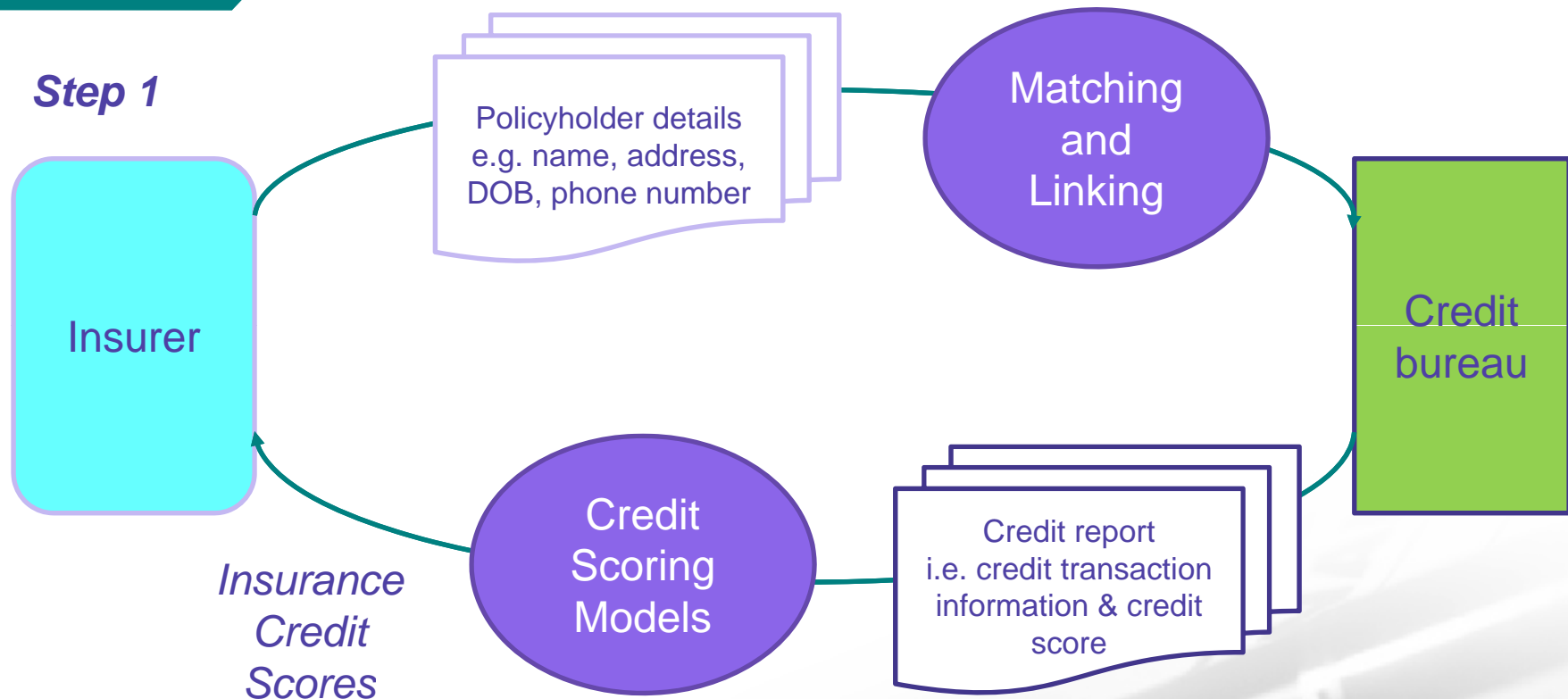


Insurance Credit Scores

- Financial Models are developed on ***bad debts or 90+ delinquencies***
- Financial Scores rank order the odds of ***credit “bads”***
- Financial scores are more sensitive to credit delinquencies

- Insurance Models are developed on ***historical insurance losses***
- Insurance Scores rank order ***claim frequency or a similar metric***
- Insurance scores are not as dependent on derogatory behavior

Credit reports are retrieved, and the resulting scores used for underwriting and pricing



Step 2

if (good credit) -> lower insurance risk -> (somewhat) lower price

if (poor credit) -> higher insurance risk -> (somewhat) higher price

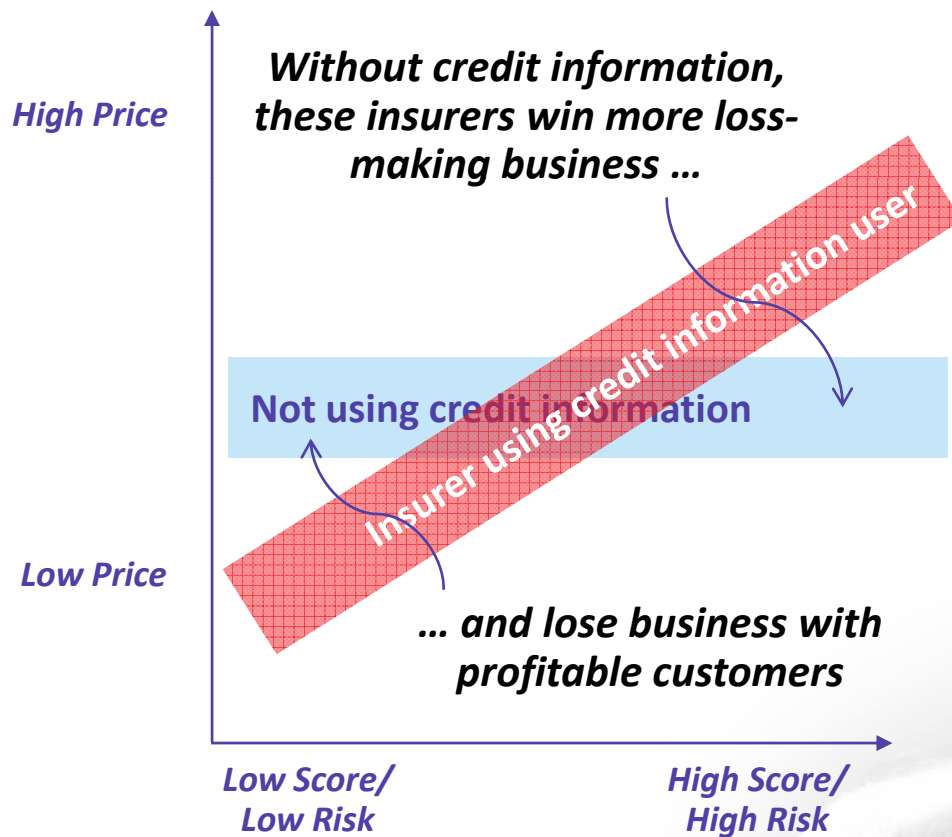


The key ingredient needed is identity data

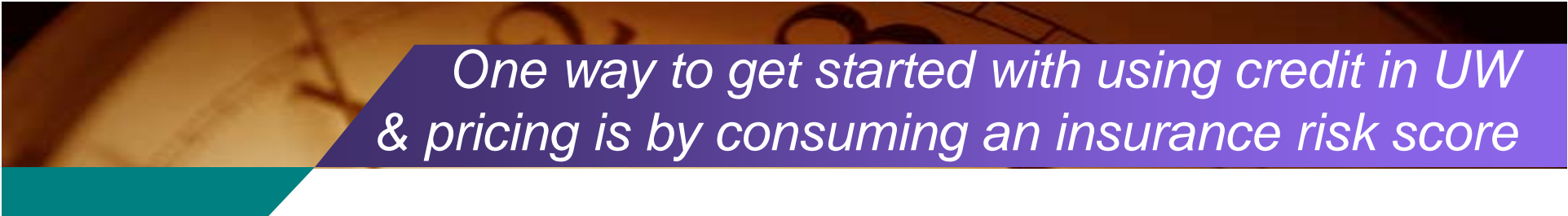
- **Identity data** is used to query against the credit bureau
- **Current hurdles**
 - Not collected
 - Not reliable
 - May not be in the credit bureau's coverage zone
- **These are improving every day and surmountable**
 - Improvement in matching and linking technologies with multiple data sources
 - Some segments have better identity data than others e.g. banca
- **There's value in using the portion of good identity data**

Failing to price to credit, like other information asymmetries, leads to adverse selection

Adverse selection



- Credit information users are more able to align their prices to true costs
- Others will face increasing pressure on underwriting results....
- ...or have to increase average prices (i.e. raise the whole bar), resulting in lower volumes



One way to get started with using credit in UW & pricing is by consuming an insurance risk score

Methods of Incorporating Credit into UW & Pricing

A. Create statistical models using credit variables with internal analytics team

- Difficult to do – hundreds of relevant data attributes

B. Using a credit bureau's 'credit score'

- A credit score indicates the risk of credit default – *somewhat* predictive of claims
- No need to investigate hundreds of data attributes
- Still need an internal team to translate credit score to an underwriting or pricing decision – but may be complicated due to indirect relationship

C. Using an 'insurance score'

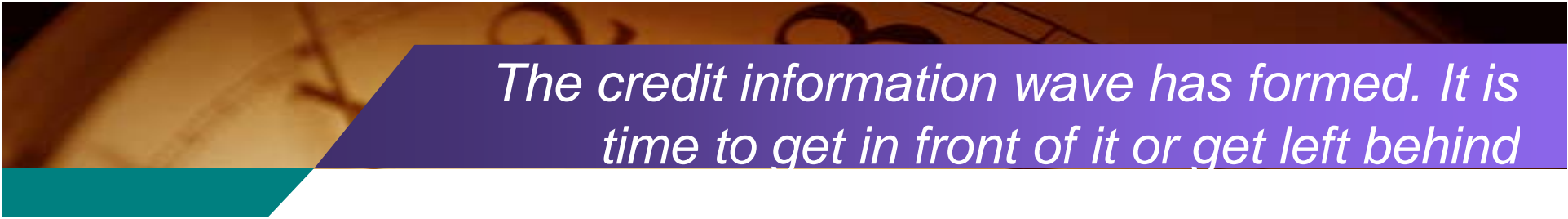
- Directly indicates the risk of an insurance claim, pre-correlated against the hundreds of credit attributes
- Easily adapted into underwriting and pricing tables due to direct relationship – higher scores => higher propensity to claim



Applications of Credit Data

- Personal Auto
- Small Commercial
- Life Insurance
- Health Insurance
- Personal Property
- Underwriting
- Rating
- Policy Renewal
- Marketing

Insurers will need to experiment to determine the applicability and value of credit data to the different lines of business



The credit information wave has formed. It is time to get in front of it or get left behind

“The time seems rightbut what about the challenges in India”

- Name and address data quality
- Coverage of the population by the credit bureaus
- Challenge of setting prices in some distribution channels
- Competitive position



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