CPCU SOCIETY INSURING YOUR SUCCESS

Information Technology Interest Group Cutting Edge

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Message from the Chair

by David L. Mowrer, CPCU, CLU, ChFC, ARM, AIM, AIT

David L. Mowrer, CPCU, CLU, ChFC, ARM, AIM, AIT, has worked in auto claims with State Farm for 35 years. He joined State Farm after graduating from Washburn University in Topeka, Kan., with a bachelor's degree in business. Mowrer earned the CPCU designation in 1990. He has been active in the CPCU Society's Central Oklahoma Chapter, having served as president, vice president and treasurer. Mowrer was a member of the Society's Intra-Industry Committee and the Sections Web Site Task Force. He is currently serving a three-year term as chair of the Information Technology Interest Group Committee.

Since receiving my CPCU designation in 1990 in Washington, D.C., I have been fortunate to be able to attend most of the CPCU Society Annual Meetings because my employer, State Farm, supports my volunteer service to the CPCU Society. After each Annual Meeting, I discovered that I always came home with more than when I left, given the additional information and knowledge attained from the general sessions and seminars. The ability to network, visit with old and new friends, and have fun were additional benefits garnered from attending meetings. My expectations were always met and usually exceeded. This year's event was no exception.

The CPCU Society's 66th Annual Meeting and Seminars had the theme, "CPCU: Your Bridge to the Future." The meeting was held in Orlando, Fla., at the Orlando World Center Marriott. The hotel was well appointed and within close proximity of a variety of entertainment venues, such as SeaWorld Orlando, Kennedy Space Center and Disney World.

A wide variety of speakers covered a broad range of important topics in general sessions, including our 2009–2010 CPCU Society President and Chairman **Douglas J. Holtz, CPCU, CIC, CSP, CRM,** who welcomed New Designees and attendees to the Annual Meeting and Seminars in the opening session; CPCU Society past presidents, who shared their leadership experiences; four risk managers who discussed balancing risk in the entertainment and hospitality industries; and a CEO panel that addressed significant issues facing the financial services industry.

Conferment speaker **Kevin Carroll** was entertaining and inspiring, as he challenged us through the use of a red rubber ball to maximize our potential with a spirit of play and creativity. And former U.S. Secretary of State **Madeleine K. Albright,** the Society's keynote speaker, told us of her experiences as secretary of state and discussed America's role in the world.

It was difficult to choose seminars to attend, as we were presented with more than 40 between the property-casualty technical and leadership and career development tracks. The Information Technology Interest Group, along with the Personal Lines Interest Group, developed the "Personal Insurance Technology — Usage-Based Auto Insurance" seminar.

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The seminar was about telematics, which gives the auto insurance industry the ability to obtain driving-behavior data from inside a vehicle and transmit it to a database. The seminar panel consisted of **Allen Greenberg, AICP,** of the U.S. Department of Transportation, **Richard Hutchinson, MBA,** from Progressive Insurance, and **Christopher Sirota, CPCU,** from ISO. I was moderator.

The panelists spoke about the essence of telematics, where it is today, the possibilities for the future, and the benefits and concerns for the insurance industry and the public, including concerns about privacy. Nearly 50 attended, and many positive comments were received.

The Annual Meeting ended with the popular Final Night. This year's theme was "A Key West Celebration," and what a celebration it was! There were multiple food areas serving a variety of dishes. Entertainment included a band called the Land Sharks, a juggler/tightrope walker, people on stilts, an artist doing caricatures, dogs doing tricks and a man rolling cigars. The evening was very enjoyable and a fitting Annual Meeting "nightcap."

My thanks to the Society for the time and effort spent in having made this a great Annual Meeting. If you were unable to attend, I hope my brief description of this year's event will encourage you to attend next year's Annual Meeting and Seminars — "CPCU: A Winning Strategy" — in Las Vegas. Viva Las Vegas! ■

Top Ten Trends in Business Intelligence

Enterprise-Wide Data Integration Leads the Way, with BCBS as the Example

by Pat Speer

Pat Speer, an award-winning business journalist, is editor-in-chief of *Insurance Networking News,* SourceMedia Inc. With a 20-plus-year career that includes an extensive background in business-to-business communications, Speer has held leadership positions in a number of trade publishing organizations and has reported on software systems and management issues that apply to companies of all sizes in a variety of vertical markets.

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Companies climbing out of the economic crisis will look to IT to transform their business operations, notes Focus Research, a business market research agency in New Orleans.

Focus notes that companies are starting to shift their focus from survival to revival. Much of that focus is on business intelligence (BI), which despite some characteristics of a mature market, remains a source of relative growth and innovation.

In projecting the future of BI, it is useful to note the extent to which its evolution has tracked and leveraged the development of the computing platform itself, as happened in the past eras of interactive, personal and networked computing.

To confirm this prediction, HP conducted a survey at leading BI and data warehousing conferences in 2009, asking respondents to identify their top initiatives. Respondents named data quality, advanced analytics, data governance and MDM. The results of these surveys comprise a white paper that states that more decisions will be automated and more data and its context will be considered. Customer service decisions cannot be made based only on a customer's history or on the current transaction, but must include all relevant data. In a world used to real-life simulation, you cannot hope to develop a few possible scenarios and expect that any one of them will suffice when there are so many variables that influence the situation. BI systems must support these changing needs, notes the firm.

Further, the market will strive to expand the use of BI and apply analytics to many more applications in a number of ways.

(1) Enterprise-Wide Data Integration — A Good Investment

Recently, leading organizations have begun to employ a coordinated, enterprise-wide approach to data integration, enabling cross-functional analysis and enterprise-wide performance management, and improving applications such as customer and risk management.

An example is BlueCross BlueShield (BCBS) of Kansas City, which brought IT and business people together to design and implement an enterprise data warehouse as a single information resource for the business. It provides consistent use of information, a single point of accountability and alignment with business needs. This connected data resource has enabled a business transformation resulting in major improvements in both member health and internal operations, including:

- Exposing data previously unavailable to its physician community, benefiting four to five thousand offices.

- Improved aggregate wellness score of members from 85.1 percent to 85.7 percent in one year.
- Disease management savings of $10 million ($2.5 million in administrative and $7.5 million in medical costs) in the first program year.

(2) Increased Data and Business Intelligence Program Governance

Survey respondents confirmed governance as a key initiative. Intent to invest within 12 months is listed as follows:

- Formal governance 53 percent.
- MDM 52 percent.
- BI competency center 45 percent.
- Standard taxonomy 40 percent.

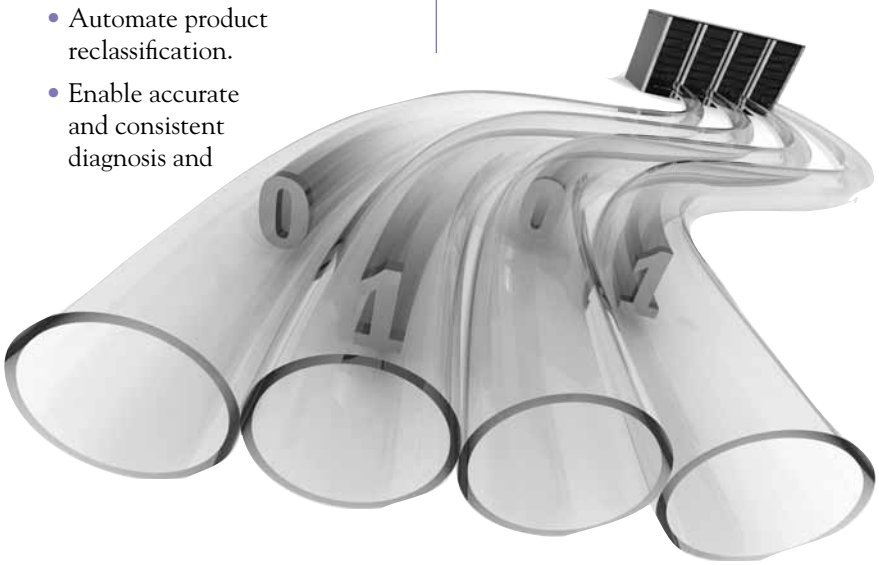
(3) The Promise of Semantic Technologies

Commercial application of this technology is becoming more widespread. Semantic technologies are being used today to:

- Automate product reclassification.
- Enable accurate and consistent diagnosis and treatment across a hospital management community.
- Perform dependency analysis for managing and reconfiguring software assets.

Recent innovation allowing structured queries over unstructured data is providing greater precision, speed of delivery and reduction of information overload when analyzing content versus using enterprise search.

A good first step toward eventually leveraging semantic technology (and a valuable part of a data governance process) is the development of a taxonomy, or definition of business terms, that is standard across an organization. According to the HP BI study, 30 percent of organizations have already implemented a standard taxonomy for defining business terms, and another 41 percent plan to implement one within 12 months.



(4) Expanding Use of Advanced Analytics

The pressure to use data, not only to make real-time decisions but also to predict relevant business events, is increasing dramatically. A common approach is to extract data from an enterprise data warehouse (EDW) into analytic data marts for advanced analysis. But adding another layer to the data architecture increases complexity and potentially reduces the speed of decisions.

To accommodate these conflicting pressures, technology providers have begun to push the advanced analytics computation closer to the data — similar to relational database management systems (DBMS) using stored procedures to execute procedural logic within the database. Analysts see in-database analytics as the heart of the predictive enterprise.

In the analytics process, computation can be pushed closer to the data when:

- Preparing data for model building.
- Building the analytical model.
- Deploying and executing models.

(5) Narrowing the Gap between Operational Systems and the Data Warehouse

Traditional data warehouses often do not provide up-to-the-minute data or results of analysis that is timely enough for making operational decisions, notes Focus Research. Information is provided as reports, in a format for use by humans, not applications or processes. Where more active data

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Top Ten Trends in Business Intelligence

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warehousing has been attempted, it has been labor-intensive and the results are brittle and resistant to change.

(6) Data Warehousing and Business Intelligence — A New Generation Drives New Priorities

The EDW can no longer be an isolated repository supporting stand-alone BI applications. But the real time and high availability requirements needed for its expanded use are not well supported by most existing platforms. In fact, in a 2009 HP-sponsored research survey conducted by The Data Warehousing Institute (TDWI), 46 percent of respondents said that they anticipate replacing their current primary data warehouse platform by 2012.

(7) Growing Impact and Opportunity of Complex Event Processing

In the HP BI survey, 59 percent of respondents indicated that they use Complex Events Processing or plan to do so in the next 12 months. According to Gartner, "The market for commercial CEP products is expected to have a 31 percent CAGR from 2008 to 2013."

CEP can analyze and correlate many base events to infer complex links and find patterns in data streams from the web, e-mail, sensors and so on.

(8) Growing Importance of Integrating and Analyzing Unstructured/Semi-Structured Data

Most organizations have content management systems to manage and search unstructured content, but have limited capabilities to use the information for decision making. Text analytics is challenging and difficult to scale to large volumes of data. It is further complicated when attempting to integrate the analysis of structured and unstructured data.

At the same time, it is becoming increasingly important to be able to glean information from content generated not only inside the enterprise, but outside as well, from new sources beyond.

(9) Social Computing and the Next Frontier for Business Intelligence

The dynamic conversation channels available through blogs, online communities, Twitter, Facebook, LinkedIn and a host of social computing venues engage customers, prospects, partners, influencers, and employees — touching virtually every key constituent in an organization's value chain.

Today, most organizations are only beginning to analyze the information garnered from online conversations. Technologies such as social mining and social intelligence use sophisticated data mining and text analytics to understand the implicit meaning of this unstructured data, which is completely reliant on the context in which it occurs. These include social behaviors, attitudes, relationships and knowledge, all of which carry subjective qualities not easily categorized.

(10) Growing Interest in Cloud Computing for Business Intelligence

As the sophistication of BI environments has increased, so has their complexity and cost of management. This is not unique to BI, and organizations have already begun to adopt alternative delivery models to reduce the cost and complexity of other IT solutions.

They range from open source tools and embedded functionality to bundled tools to development and starter licenses. Most notably, research surveys by HP and TDWI indicate fast-growing interest in exploring the use of utility-based delivery models such as Software as a Service (SaaS) and cloud computing for BI. ■

Eight Symptoms of Insurers' Social Media Mania

by Bruce Temkin

Bruce Temkin is customer experience transformist and managing partner at the Temkin Group, a customer experience research and consulting firm.

Editor's note: This is a slightly modified version of an article originally published by *Insurance Networking News* Insurance Experts' Forum on Sept. 7, 2010; it is reprinted with permission.

A few months ago, I tweeted about one of my posts called "XFINITY Is (Unfortunately) More of the Same." Immediately afterwards, a nice woman from Comcast replied to my tweet and tried to change my opinion. This type of social media outreach is not unusual for Comcast, which has made a name for itself over the last few years with an active presence on Twitter.

Comcast, however, continues to receive less-than-stellar (I'm being nice) feedback on its customer service. The company managed to come in 125th and 126th out of 133 companies in Forrester's 2010 Customer Experience Index, and ended up in third place on MSN Money's "2010 Customer Service Hall of Shame."

So Comcast reaches out to strangers on Twitter but doesn't service customers very well when they contact Comcast. Something seems out of whack.

My take — Unfortunately, this type of behavior is becoming more common as the wave of social media excitement continues to crest. In order to better understand this disorder, I've given it a name: "Social Media Mania," which results in "providing levels of service in social media that differ significantly from service levels in other channels."

Does your company suffer from this ailment?

Answer the eight questions below to diagnose the symptoms. A single "yes" may indicate that your company has Social Media Mania.

(1) Does your company have poor customer service ratings and aggressive goals for social media?

(2) Does your company treat people with "influential" social media voices better than it treats other people, even good customers?

(3) Has your company invested more in social media outreach than it has invested in improving its traditional service organization?

(4) It is "cooler" in your company to be part of the social media team than it is to be a part of the customer service organization?

(5) Are employees reaching out in social media more empowered to solve customer problems than other customer service agents?

(6) Does your company's social media team have more headcount than its voice of the customer team?

(7) Does your company have separate organizations handling social media complaints than it does handling complaints that flow through other channels?

(8) Is more than 20 percent of your company's customer experience strategy focused on social media?

Does this mean that companies should stay away from social media? No. But social media efforts can't be used to mask poor service. If your company delivers poor or inconsistent experiences to customers, then fixing those problems should be the primary focus of your efforts. Eliminate poor experiences from happening; don't chase down social media complaints after the fact.

If customers do run into problems, companies should take action when they complain directly to the company — embracing the five elements of my C.A.R.E.S. model for service recovery: communication, accountability, responsiveness, empathy and solution. Once this is in place, companies can add social media outreach to the customers that fall through the cracks.

The bottom line: Use social media to augment, not avoid, the delivery of great service. ■

Personal Insurance Technology — Usage-Based Auto Insurance Seminar

by Celeste Allen, CPCU, CLU, ChFC, FLMI, and Richard L. Fritz, CPCU, CLU, ChFC, CPA, FLMI

Celeste Allen, CPCU, CLU, ChFC, FLMI, and **Richard L. Fritz, CPCU, CLU, ChFC, CPA, FLMI,** are members of the Information Technology Interest Group. Both are systems managers at State Farm.

The Information Technology and Personal Lines Interest Groups developed the "Personal Insurance Technology — Usage-Based Auto Insurance" seminar at the CPCU Society 2010 Annual Meeting and Seminars in Orlando, Fla. **David L. Mowrer, CPCU, CLU, ChFC, ARM, AIM, AIT,** chair of the Information Technology Interest Group served as the moderator for the seminar, which included presentations by **Christopher Sirota, CPCU,** ISO; **Richard Hutchinson, MBA,** Progressive; and **Allen Greenberg, AICP,** U.S. Department of Transportation. Presenters provided information on the fundamentals and benefits of telematics in insurance pricing and an overview of PAYDAYS (Pay-as-You-Drive-and-You-Save) concepts, including benefits as well as challenges.

Telematics — We Know When You've Been Braking and Speeding ... and More

Sirota's presentation focused upon information pertaining to issues, benefits and concerns of telematics and the use of the concept in developing individualized premiums and garnering information for use in establishing future pricing programs. Issues surrounding a telematics device include determining who owns the data and privacy impacts of incorporating and reporting GPS data points. Individuals might feel that obtaining an individualized premium would serve as an incentive to installing telematics devices in their vehicles.

Telematics technology is the integration of telecommunications and computing technologies to facilitate collection and sharing of data between devices and systems. It is used in home appliances, mobile phones and computers. From an auto insurance perspective, this technology is used to collect information about driver behaviors, vehicle tracking, alerts for excessive speeds, routine vehicle maintenance as well as abnormal vehicle behavior, traffic information, entertainment and engine health.

A telematics device is essentially a cellular modem with a SIMS card that will transmit device ID, GPS information, accelerometer data (x-axis, y-axis and z-axis accelerator components that provide information on the pressure applied to the accelerator, speed of the vehicle and more), and onboard diagnostics.

The data is linked by a service provider and can be sent to someone such as a commercial fleet manager. The key in connecting data would be the VIN, which would then be transmitted to an actuarial unit. Data flows from the telematics device to a wireless company, then on to a telematics service provider to a company's database for analysis by staff and then on to the policyholder (e.g., a fleet manager).

Management of data should include what data is collected, how often it is collected, and retention of company as well as third-party data. While there are many issues surrounding the collection of GPS data, the value of same is overlooked in that it can provide crime, weather, demographics and more. Granularity of GPS data is a function of a number of collection points, costs of collection, and database storage and maintenance, which would be useful for actuarial purposes. If there is a concern with a person's exact location being revealed, then it would be best to "blur" the route by cutting off its beginning and ending points.

ISO conducted a survey in which one-third of participants indicated that they would be willing to share data collected for purposes of obtaining individualized premiums, one-third was not willing and one-third took a middle ground stance, as they were not convinced of the value. Sirota cautioned just simply examining mileage and indicated that the quality of mileage examined should address factors such as hard stops, jack-rabbit starts and stops, and curvature of roads.

Use of telematics devices by car manufacturers has spurred 13 states to enact Event Data Recorder Laws to ensure that data collected before and after crash impacts for car manufacturer liability issues would not be used in an adverse manner toward consumers. Four states have precluded use of such information in insurance contracts. Virginia prevents use of such data for nonrenewals if the consumer denies permission to access such data. There are a myriad of variances in how to stipulate use of data, such as permitting use of mileage data, but not GPS data, and some require vehicle owner permission for use of data.

Sirota believes that telematics devices can save lives, as they lend to better drivers and improved safety on roads. Fleet managers have noticed an improvement of approximately 10 to 20 percent in losses when telematics devices are installed in fleet vehicles — this is akin to risk management. Sirota indicates that this will have applications in the personal arena, especially with regard to teenagers.

Progressive — Practical Application of Telematics and PAYDAYS Concept

Richard Hutchinson advised that Progressive Insurance Companies offer usage-based insurance. Telematics data can be used to customize insurance rates based upon actual data relating to more than 1,000 specific observations of driving behavior for an individual — this data can be used for risk segmentation, thus providing the "ability to transform an industry."

From an industry perspective, data can be used for development of a product differentiation model, providing vehicle safety and providing diagnostic information. We could have a healthier culture, as drivers modify behaviors more commensurate with rates that are best for them, which could lead to less consumption, which could lead to fewer accidents, and perhaps could lead to less road congestion, and so on. Folks most likely to elect this form of coverage consider themselves low mileage, low usage and "safe" drivers. Targeted segments could also include parents of teens and those who are environmentally conscious.

Progressive has been using telematics for a number of years and started employing the concept in Texas with devices about the size of stereo components. Technological advances have evolved to the point of devices now being the size of a small object that will fit in the palm of a hand. Devices provide information on mileage, acceleration and driving behavior during day versus night (different risk factors). Use of this technology empowers consumers, as they want devices that are simple and easy to use.

In 2008, the company moved to a third generation device with onboard diagnostics, and it was "married" to a phone. In 2010, a fourth generation device was launched in conjunction with a Snapshot Discount, which is a "transformative pricing approach." Progressive will use the "Flo" marketing character to describe the use of the device "as being as simple as one taking a picture of one's driving." Doing so can result in a discount of up to 30 percent. Consumers can review a trip report with data in 24 states (primarily in Mid-America), and there are plans to expand the program nationally. Information is provided to insurance departments with the proviso that trade secret protection be afforded to Progressive.

Research and Impacts of PAYDAYS

Alan Greenberg described PAYDAYS as a pay-as-you-drive, usage-based driving and car-sharing concept. It was surprising to learn that the concept is not new, in that as far back as 1929 a concept was introduced pertaining to pricing car insurance on a per-mile basis. **William S. Vickrey, Ph.D.,** a Nobel Prize Laureate in economics, outlined the fundamentals and touted the benefits of the concept in 1968. Studies conducted by his department show that many low-income drivers would prefer to incur variable versus fixed costs related to using motor vehicles. Government interest was developed because of the potential to reduce miles driven, lessen highway congestion, decrease air pollution and lower infrastructure costs.

Nearly 50 attendees learned about the role telematics plays relative to usage-based auto insurance at the Information Technology and Personal Lines Interest Groups' Annual Meeting seminar.

Greenberg described the process as a pure premium prescription and referenced a few studies that show the potential and increased benefits of obtaining real data. A "100-Car Naturalistic Study" of drivers who commuted in and out of the northern Virginia/Washington, D.C., metropolitan area was conducted by the National Highway Traffic Safety Administration, Virginia Department of Transportation, Virginia Transportation Research Council and Virginia Tech. Commuters used cameras to save data before and after a "trigger" event, such as hard braking. (The driver was able to hit a button to save data.) Other behaviors focused on, for example, aggressiveness, drowsiness and weather conditions. A 95-driver test of ways to incent Swedish drivers to change behaviors when advised of data led to significant decreases in speeding frequency. Incentives to utilize the PAYDAYS concept also include improved air quality and highway-and-driver safety. A hypothetical government scenario for incentives would be to offer a 10 percent tax credit related to the value of pay-as-you-go pricing.

Progressive is a leader in this arena, and other companies also involved include GMAC Insurance, Unigard Insurance, Norwich Union (in the U.K.) and American Family. The latter offers discounts to teen drivers when their vehicles are monitored using DriveCAM in Minnesota and Colorado. Unigard funded the pilot for the U.S. Department of Transportation in Seattle when the state was concerned with the safety of car poolers. Results pointed to fewer miles traveled, curtailed two-car and multicar accidents and lowering of infrastructure costs.

Presentation of pricing in action can be done through a graphic display in the vehicle of price per mile or price per minute. Studies have shown that about one-half of those who could be offered the opportunity would be in favor of a per mile basis program. Offering a transit pass discount to nondrivers is another incentive that can be offered. If GPS is incorporated, as is done in Australia, alternative trip options can be presented. Marketed to the appropriate audience (e.g. low-mileage drivers, urban folks, environmentalists, non-car commuters) and increasing public knowledge about PAYDAYS can perhaps significantly increase the number of people willing to participate in such a program.

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The government set aside $3 million in non-toll pricing projects in 2009 and is soliciting for future PAYDAYS opportunities. The Strategic Highway Research Program began studying more than 2,500 instrumented vehicles in 2009 to assess impacts and benefits of changed driver behavior on the environment and infrastructure. There is a movement afoot to help align such programs with gas taxes, with a push to align gas taxes and fuel efficiency by 2016.

Barriers to implementation of the concept include patent issues, regulatory issues, knowledge of how to price, dealing with customers on billing issues and public policy of driving being seen as a risk factor. Greenberg's final comment was that self-selection could be the first step in transformation.

Conclusion

The collection of data through telematics and PAYDAYS is key to obtaining data that impact affordability of insurance, link driving behavior commensurate with appropriate risks, promotion of a healthier environment and a safer physical driving environment. The seminar was very informative and engaging for attendees. ■

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