

# Consultation response



January 2016

## CII Response to FCA Big Data call input

### Summary

The CII welcomes the FCA Call for Input on Big Data. We think that this is a high profile public issue and the profession must work together with the regulator to articulate a clear and reasoned response about how this data is used in the public interest.

This topic is of particular interest to the CII. In 2015, we published a discussion paper which explored in depth many of the issues you raised. Although not attempting to provide all the answers, our paper does try to encourage insurance professionals to think about these issues and start a conversation about some of the vital questions associated with big data and insurance.

Big data will also create challenges to the insurance sector to develop new skills and capacity not least to traditional underwriting methods. The insurance profession needs to think about the new skills required for the analysis of big data and help ensure they are built into new training and competence requirements.

### Introductory Points

The CII is pleased to respond to this Call for Input on Big Data. Insurance has always relied on data: about our home, our car, our health. The more that insurance firms know about the risk they are being asked to cover, the easier they can decide the right premium, the right cover, the right service. So when a development like 'big data' emerged, insurance firms were always going to be interested in it.

In the CII discussion paper we attach **Big Data - a conversation** we explored these issues. The paper is not attempting to provide all the answers but to encourage insurance professionals to think about these issues and start a conversation about some of the vital questions associated with big data and insurance in a similar way to the FCA Big Data study is doing.

We believe it is important that the insurance sector as a whole addresses the key issues the public may have, now and in the future, and it is important that the insurance sector can articulate a clear and reasoned response about how big data can be used for as great and wide a benefit as possible. After all, the opportunities are potentially huge - a recent study estimated that the market for wearable fitness technology etc could top 91 million units by 2016 and the data outflows from this could transform health management and insurance.

### Implications for insurance

Big data has the potential to transform the relationship between the insurance sector and the public. Insurance firms are quite rightly looking at new and exciting ways to engage with their customers. Whether that transformation in

relations becomes a reality will depend on two things: the value that customers experience from insurance firms' use of big data, and the extent to which the insurance sector's handling of big data builds or undermines trust.

In our paper **Big data - A conversation** we explored the influences that big data could have on trust between insurance firms and their customers. This looks at what is meant by big data and examines how insurance firms are handling big data, in three stages how:

- big data is gathered
- it is analysed
- decisions are then made from it.

Professionalism should be a vital ingredient to a successful transformation of insurance by big data, with these five contributions being seen as distinctive:

1. *Ensure that the customer perspective is recognised in the decisions that insurance firms take around big data.*
2. *Ensure that decisions are taken against the full context of the issues at hand.*
3. *Recognise not just the short term implications of decisions around big data, but those in the mid to long term as well.*
4. *Ensure that decisions are taken not only according to what is permitted by the law, but also according to what is considered to be the right thing to do.*
5. *Encourage insurance firms to recognise the implications of their big data projects not only for those who will benefit from them, but also for those who may be worse off as well.*

## New Skills required

Big data will bring other challenges beyond technological disruption, it will also create challenges to the insurance sector to develop new skills and capacity not least to traditional underwriting methods. The insurance profession needs to think about the new skills required for the analysis of big data which will require new skills sets and help ensure they are built into new training and competence requirements.

## Taking the public interest into account

The way in which the insurance sector has been adopting big data has highlighted two critical issues that insurance professionals need to give careful consideration to. The first is personalisation and the influence this could have on the way in which insured risk is pooled. The more big data allows underwriters to learn greater detail about what is being insured, and then apply that detail to rating decisions, the more the need for risk pooling is brought into question. Pooled data is a strong insurance principle which can have considerable benefit to the social good so its erosion should be an issue the profession as a whole needs to alert to.

Some feel such personalisation of risk means fairer premiums, and to some extent it does, but there's more than this one dimension to fairness and the influence that personalisation could have on those others should be of concern to insurance firms.

The second critical issue is social sorting and the risk that all those data sources and algorithms could lead to discriminatory outcomes for some sectors of society. Insurance firms will of course feel very strongly that is not 'something we would ever do' but it is an area which needs to be carefully monitored.

The risk, however, is of an inadvertent drift in that direction, influenced by the way in which predictive analytics can create 'manufactured data'. Such data emerges out of a perceived set of statistical relationships and influences the

availability, price and cover of the insurance in question. Social sorting has tarnished the reputation of insurance firms in the past and today's insurance professionals need to be vigilant that big data doesn't lead to its re-emergence.

Some of the changes that big data will bring about could revolutionise the way in which consumers engage with insurance. The information fed back to policyholders with a telematics based motor policy allows them to learn about the good and bad points of their driving, and this has proved to be very popular, with many people logging on weekly to check on their driving. Identifying and delivering other such benefits is a focus of many insurance firms.

Yet the conversation also identified changes being brought about through big data that threaten to undermine confidence in insurance. The concerns were summed up by the customer as fairness, privacy and social justice. These are serious concerns that the public is (or should be) articulating, and the insurance sector will need to articulate a clear and reasoned response in return. It is a response that needs to recognise public concerns, rather than sidestep or dismiss them. Insurance professionals have a key role to play in recognising and articulating those public concerns, acting as a voice within their firms for securing the public's confidence in decisions that their firm is taking.

There are two ways in which this can be done:

1. being prepared to challenge justifications for sidestepping the public's interests (such as 'everyone else is doing it' - industry norms),
2. bringing out the public voice at the time of key decisions (such as 'how would this look when discussed with friends' - the 'smell' test).

Changes to insurance that big data will bring about may well challenge public confidence in the sector. Yet for those very changes to deliver successful business outcomes (such as more people buying more insurance), public confidence is vital, for it is what brings customers to the market. The public have to experience outcomes, both individually and collectively, that they accept or at least recognise as necessary. Insurance firms need to individually and collectively address those concerns before the big data changes become hard-wired into how the sector works.

A recent paper (Big Data and Differential Pricing') produced by the US President's Economic Advisory Council noted: *"...given the speed at which both the technology and business practices are evolving, commercial applications of big data deserve ongoing scrutiny, particularly where companies may be using sensitive information in ways that are not transparent to users and fall outside the boundaries of existing regulatory frameworks"*.

But there are upsides if the sector approaches the opportunities in a broad-minded way. EY commented at the outset of the FCA's call for evidence that:

*"financial inclusion is an issue that the industry is tackling head on, and improving how big data is understood and used is a positive way forward, particularly for customers who cannot easily access financial services"*.

**There will have been few times in history of insurance when the sector has experienced a transformation of such vital importance. If that transformation is to be successful for both insurance and its customers, then the obligation under which all insurance professionals' work is done must be upheld: "to secure and justify the confidence of the public".**

The CII is the world's leading professional organisation for insurance and financial services, with over 1115,000 members in 150 countries. We are committed to maintaining the highest standards of technical expertise and ethical conduct in the profession through research, education and accreditation. Our Charter remit is *to protect the public by guiding the profession*. For more information on the CII and its policy and public affairs function, including examples of the range of issues in financial services and insurance that we cover, please see: [www.cii.co.uk/policy](http://www.cii.co.uk/policy).

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