



Insurance companies around the world face the same challenges: How can they lower costs while increasing profitability? Improve efficiency? Identify, attract and retain the most profitable customers? Reduce fraud and manage risk? To answer these critical questions, insurers are applying predictive analytics to their daily business operations – and seeing dramatic results.

Maximize customer value and reduce costs and risk

IBM SPSS predictive analytics solutions help insurance companies maximize customer value and improve processes by integrating real-time analysis within their existing operations. Predictive analytics makes it possible to take advantage of under utilized data from every channel – even web data and textual claims data like notes from call center applications – in a “closed-loop” that applies analysis results to improve interactions. This empowers insurance brokers, customer service representatives and other key stakeholders with the predictive insight to create new revenue opportunities, decrease costs and reduce risk.

Insurers integrate IBM SPSS predictive analytics within their existing processes to:

- Segment customers more accurately
- Acquire the right customers cost-effectively
- Achieve greater customer intimacy
- Retain the the most profitable policyholders longer
- Optimize claims processing and minimize fraud

Segment customers more accurately

Effective customer segmentation processes that use insurers’ own data have become critical, as generic segmentation models no longer provide an accurate view of customers. Many insurers discover “most valuable customer” segments that account for the overwhelming majority of total customer profitability – and other “value-destroying customer” segments that represent a significant loss. Often, profitable segments are hidden within those with high loss ratios – and vice versa.



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IBM SPSS customer segmentation solutions help insurance carriers differentiate the value of customers more accurately using both their data and business expertise – enabling them to manage different customers differently. Insurance companies apply their understanding of customers to guide the automated IBM SPSS segmentation process, using all relevant data – including claims, behavioral, demographic, text, web and attitudinal data. They combine advanced segmentation with predictive modeling of each customer segments’ lifecycle and associated claims risk for the insight needed to acquire, grow and retain the right customers and maximize their value.

Acquire the right customers cost effectively

The insurance business experiences some of the highest customer acquisition costs of any industry – with a single face-to-face sales call averaging \$400 or more, and initial sales cycles of three to five years from first contact to closing. With underwriting costs continuing to soar as competition increases, optimal targeting is required to keep acquisition costs low. Leading insurers are building analytics into their acquisition processes to target the right customers with the right policies at the right price.

With IBM SPSS customer acquisition solutions, insurance firms like Corona Direct can focus marketing programs on the prospects most likely to respond and become profitable customers. These insurers minimize acquisition costs by predicting prospect response rates before investing limited marketing budgets on the wrong targets. Marketers can even combine acquisition campaigns with proactive claims risk optimization and filter out prospects that match predetermined high-risk profiles.

Corona Direct uses IBM SPSS predictive analytics to transform acquisition campaigns into profitable efforts. By automatically identifying the prospects most likely to respond to a campaign, and performing sophisticated cost-profit analyses, the insurer balances customer acquisition goals against profit margins. This approach enabled Corona Direct to reduce campaign costs by 30 percent, increase long-term customer profitability by 20 percent and recoup the cost of its implementation within six months.

Achieve greater customer intimacy

Pressure to deliver revenue growth with minimal cost has made it imperative for insurance companies to extract more value from existing assets. Leading insurers are using predictive analytics to capitalize on points of customer interaction, from their branch offices to their call centers – transforming cost centers into profit centers.

Independent Health, one of the largest health insurance providers in western New York, used IBM SPSS software to pinpoint the best way to engage each individual customer. For example, by placing policyholders into particular segments, the company's marketing department was able to create preventive health materials tailored to people's specific needs and concerns. Policyholders received preventive health information in a format that they could easily relate to and which motivated them to choose the right type of medical care, at the right time and in the most efficient manner.

Retain the most profitable policyholders longer

With the cost of underwriting new customers increasing to many times the cost of keeping current customers, retention of the right policyholders has become key to profitability. For some companies, as little as a five percent improvement in customer retention can increase profitability by 25 to 100 percent. But a recent analysis of a typical insurer's portfolio by McKinsey & Company also showed that a 10 percent churn rate among unprofitable customers actually boosted the company's combined ratio by one percent and profits by 25 percent. Many insurers are adding predictive analytics to their renewal processes to proactively focus retention efforts on the right customers – while letting the “wrong” customers churn.

Many insurers use IBM SPSS customer retention solutions to keep the right policyholders longer through real-time predictive analytics. They do this by identifying valuable customers most likely to defect before those individuals end their relationships, along with the actions predicted to earn customer loyalty. This valuable insight is deployed to provide the early warning that insurance agents, call center representatives and other stakeholders need to take action to keep the best customers and improve customer lifetime value.

In some cases, models built with IBM SPSS predictive analytics have correctly identified 60 to 70 percent of the customers who would cancel their policies. Armed with this invaluable understanding of which customers are most likely to cancel, companies can focus on strategies to reduce churn.

Optimize claims processing and minimize fraud

Because up to 20 percent of an insurer's expenses may be related to processing claims, claims operations are one of the most critical success levers insurance companies have. Without risk-aware customer profiles that include predicted loss ratios and fraud-risk scores, insurance carriers not only expose themselves to losses from current customers but may be acquiring new high-risk customers.

IBM SPSS claims optimization solutions help insurance companies optimize claims processing to reduce claim handling costs, minimize fraud and increase customer satisfaction with automated, real-time risk assessment. When new claims enter the system, they are immediately analyzed against risk profiles, and either approved for processing or flagged for investigation. The productivity and accuracy of the entire claim handling process is improved – from first notification of loss to settlement – regardless of the channel used to submit claims. Our software integrates directly with existing claims management systems, incorporating the business rules insurers already have in place with the adaptive ability to develop new rules based on the automated detection of emerging fraud profiles.

Infinity Property & Casualty Corp. found that claims processing had become a bottleneck and turned to IBM SPSS software to improve claim cycle time and enhance customer service. Predictive analytics provides Infinity with a real-time claims scoring solution that helps it determine whether claims are legitimate and qualify for immediate approval, or potentially fraudulent and need further investigation. Since deploying the IBM SPSS solution, Infinity has reduced referral time to its SIU from 14 days to less than 24 hours and identifies and addresses subrogation claims in 10 to 15 days instead of the previous 26 days – improving the speed and accuracy of its entire claims-handling process.

Meeting new challenges

The insurance industry is undergoing some dynamic market shifts. Around the world, insurers are struggling to remain profitable in a fiercely competitive landscape and face heightened regulatory focus that will dramatically change the way they conduct business.

Solvency II, the updated set of regulatory requirements for insurance firms operating in the European Union, will unite insurers and reinsurers under a single set of rules governing what constitutes an acceptable level of insurer creditworthiness. The initiative outlines a comprehensive risk management framework for defining required capital levels and mandates that firms implement procedures to identify, measure and manage risk levels. In the U.S., new healthcare legislation could transform the way health insurance providers operate by forcing private companies to compete with proposed lower-cost, federally-sponsored insurance programs.

As insurers re-examine their business models in response to these changes, they will look to technology to help them drive sustained, profitable business growth. Predictive analytics can help companies meet their most critical business issues head on giving them the insights to forecast industry trends accurately, respond to regulatory demands quickly, manage operational, market or credit risk effectively and control costs across the business.

About IBM Business Analytics

IBM Business Analytics software delivers complete, consistent and accurate information that decision-makers trust to improve business performance. A comprehensive portfolio of business intelligence, predictive analytics, financial performance and strategy management, and analytic applications provides clear, immediate and actionable insights into current performance and the ability to predict future outcomes. Combined with rich industry solutions, proven practices and professional services, organizations of every size can drive the highest productivity, confidently automate decisions and deliver better results.

As part of this portfolio, IBM SPSS Predictive Analytics software helps organizations predict future events and proactively act upon that insight to drive better business outcomes. Commercial, government and academic customers worldwide rely on IBM SPSS technology as a competitive advantage in attracting, retaining and growing customers, while reducing fraud and mitigating risk. By incorporating IBM SPSS software into their daily operations, organizations become predictive enterprises – able to direct and automate decisions to meet business goals and achieve measurable competitive advantage. For further information or to reach a representative visit www.ibm.com/spss.



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