ADDED VALUES: BREATHE THE LIFE INTO PROJECTIONS

Lifetime value (LTV) style calculations may have made their name in life insurance but are now proving their worth to general insurance (GI)/property and casualty (P&C) businesses. What is the lure of LTVs – and how can predictive analytics extract even more value from GI/P&C projections?

Why LTVs aren't just for life

Life insurance, term assurance and mortgage contracts typically span decades. So, it has traditionally made sense for life insurers to assign an LTV to their customers – and project the long-term, total value each customer or contract will represent.

GI/P&C policies, by contrast, tend to last no more than a year. But in the first year, the upfront cost of selling a new policy may take a significant portion of income, as companies try more innovative ways to maximize policy retention. This "new business strain" may even exceed year-one profit margins, meaning the more new policies you sell, the bigger your loss over the year.

The answer for many GI/P&C firms has been to look past the first-year accounting period to the income that a policy could bring in over a lifetime – its LTV. From year two onwards, income and margins will soon overtake the initial outgoings – and the longer the policy is renewed, the greater the LTV.

"WE'VE CERTAINLY SEEN GROWING INTEREST FROM GI/P&C INSURERS IN LTV ANALYSIS – AND PREDICTIVE ANALYTICS SYSTEMS ARE BECOMING AN IMPORTANT PART OF THEIR RISK MANAGEMENT TOOLKIT"

Derek Chapman, Principal
Merlinos & Associates, Inc., U.S.

Value your customers

The LTV comes into its own when it is used to reflect the value of not just individual policies but also customers. If a customer has taken out home and auto policies with the same insurer, each contract will carry its own LTV. Added together they will reveal the total value of that customer's relationship with the company and help build a holistic view of their value beyond the balance sheet. This aggregated view will come backed with a wealth of policy rating data that is ripe for predictive analytics.

> **"INSURANCE IS MOVING FROM A PRODUCT TO A SERVICE, AND FOR INSURERS AN LTV LENS IS THE PERSPECTIVE NEEDED TO SELECT PROFITABLE CUSTOMERS IN ORDER TO OPTIMISE THIS TRANSITION."**
>
> **Rick Shaw,** Partner
> Deloitte Consulting PTY Ltd., Australia

Empower your projections

Online sales channels, telematics technology and increasingly digital operations make it easier for today's insurers to gather behavioral information on their customers. Predictive analytics can extract more meaning from rating data and use information from a customer's policies and other products to forecast future value.

Why, for example, is one customer's LTV higher than another? By applying predictive analytics techniques, you can drill down into the complex combination of factors involved – from age and location to lifestyle choices – and identify which customer segments to target with which products.

As well as informing new business marketing strategies, this approach can help you retain and cross-sell more effectively to existing customers. Given his or her profile, what are the chances of a customer renewing a policy or extending their cover?

To answer such questions, and build predictive models for LTVs, you can apply the same generalized linear modeling (GLM) techniques often used for pricing. You can also show how an LTV may evolve in the future and the best ways to improve or protect it. And with machine learning, a growing capability of advanced analytics systems, the accuracy (and value) of these projections will only improve over time.

Gain a platform for growth

Key to putting projections into practice will be a powerful integrated risk management platform that can support full capital modeling projections alongside individual LTV and customer value calculations. With built-in predictive analytics tools, it will need to handle both GLM and clustering analysis to derive full value from data.

Investing in a solution of this kind will soon pay dividends, by helping you better understand the dynamics of your business and its risks. Above all, it should give you the tools to help better meet the needs of your customers – and improve shareholder value and returns.

About FIS' Prophet Solution

FIS' Prophet solution is a leading enterprise-wide actuarial modeling system that helps insurance and financial services companies meet reporting responsibilities, improve risk management, and develop more profitable products faster. Prophet uses customizable actuarial libraries for all major product types, including regional variations. It provides the transparency, performance and control required by today's actuaries and risk managers through integrated financial modeling and data management capabilities. Prophet is used by more than 9,000 users at over 730 customer sites in more than 65 countries.

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