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YOUR GUIDE TO INSURANCE SUCCESS. SINCE 1934

January 2020

CU INTERVIEW

Greg McCutcheon

A DATA EXPERT DISHES ON HOW TO PREDICT WINNERS AND LOSERS IN THE HARD MARKET

HARD MARKET

DATA TO THE RESCUE

Witness to three hard markets, Greg McCutcheon, president of Opta Information Intelligence, tells how advanced analytics can predict the winners and losers in today's hard market

By David Gambrill, Editor-in-Chief

cu | You have witnessed three hard markets over your 25-year career. How does this one compare to others?

It seems like in earlier hard markets, there was a quicker recognition of the fact that results were down, which was curious for me because we have more information and data than we did last time round. Also interesting is that people are using data and analytics to help them find their way out of this.

cu | What's the benefit of using data and advanced analytics in a hard market?

I understand that pricing increases are absolutely necessary when companies are losing money, but more sophisticated insurers will be able to recognize opportunities to offer competitive rates to certain customers across Canada based on analytics and data. Insurers don't have to undertake broad-sweeping price increases. If you can look at your book in a more refined manner, even in this market, you can potentially give a better price. That's based on analytics giving you a better understanding of the risk associated with each individual customer.

cu | What happens to insurers that don't have access to data?

It's funny that, although data is being used by more advanced insurance companies to assess their book of business on a risk-by-risk basis — for example, which risks will lead to more future loss costs, or more likely to have claims, or require price increases upon renewal — in some cases, a lot of companies still do not have data or sophisticated pricing strategies internally. That can lead them to taking bold action. I like to use the analogy of, "I hate to take an axe to a problem when you can use a scalpel or a laser beam."

cu | What does it mean in this context to "take an axe" to the problem? What's the pricing strategy here?

There's only one way out of a hard market and that is to underwrite your way out. The difficulty is when you try to put through blanket price increases across the board. If you do that, your good risks could find a home elsewhere. Another company using advanced analytics will know the difference between profitable business and non-profitable business. If I am a broker and I know a massive price increase is going to come through, I know my customer is going to be upset by that, so I'm going to try to find a new market for that business at a better rate. Sophisticated insurers will understand whether or not this is a good risk; they will price it accordingly.

cu | What's the market impact when some companies use advanced analytics and others don't?

The leading companies got ahead of this hard market. They saw it coming, they acted accordingly, and now you are starting to see the results. They are significantly outperforming the rest of the industry. That's the proof of good data. Look at companies that have advanced analytics versus those that do not in this hard market. Look at the combined ratios of those that have advanced analytics — that says it all. The vast majority of the industry is not making an underwriting profit, but the advanced insurers that deployed rate-by-peril solutions and analytics quite some time ago are turning an underwriting profit. Perhaps not as good a profit as they would like, but in most markets they are making a profit.

For companies without advanced analytics, your good risks end up leaving through the renewal process

PROFILE

GREG MCCUTCHEON

Title: **President, Opta Information Intelligence**

Past experience: **Twenty-five years of experience, including four years as president of SCM Risk Management Services**

Academic Background: **Holds a Certificate in Risk Management (CRM) designation, in addition to a Bachelor with Honours Degree in History and Politics from Queen's University.**

when you take rate actions across the board. Unfortunately, the unprofitable risks — the ones that no other market is willing to pick up — are the ones that will stay on your book. Not only will they have to pay increased premiums, but they are still more likely to have increased losses.

cu | Generally speaking, bigger companies collect more data than smaller companies, giving them a competitive advantage in the advanced analytics space. How do the smaller organizations compete?

They partner with companies that have the data. For example, at Opta we have a very advanced AI platform to help organizations understand pricing strategies and the profitability of their portfolios. We have invested millions of dollars into this platform. We've invested in data scientists. We can help smaller organizations implement rating-by-peril solutions to make their pricing strategies as sophisticated as the large insurers who have these platforms.

cu | We've talked about insurers using data, what about the brokers? How do brokers benefit from using data in the hard market?

Data can tell them analytically what risks in their portfolios are the ones most likely to have any type of claim. We can segment the data by all of the various perils that can happen at a location — fire, water, wind, and hail, by personal or commercial lines, and even liability. That helps you to get ahead of the discussions with consumers. There's an opportunity to have an informed discussion with customers who are in a flood zone, for example. You can let them know in advance that their insurance is going to be higher because they may be more likely to have a sewer backup claim. That's a better way to justify premium price increases than, say, when price increases are implemented and brokers don't necessarily understand the science behind the decisions have been made.

cu | How can inspections play to a broker's advantage in a hard market?

Inspections are a good tool to help understand the risks. For example, if buildings aren't insured to value correctly on the commercial side, you are leaving premium on the table. If you are going to increase a customer's premium, an inspection process is a good way to advise the client why. A broker is able to tell the client: "Here's what we found, and here are some risk mitigation strategies we can put in place to protect your business." We are seeing more brokers advising customers on inspections right now. It shows the customers that the brokers are working for them. I don't think it's a hard dialogue to say, "Hey, you know what? It's been awhile since we've assessed the value of that building. We need to make sure that you are properly insured or managing your risk." cu