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UK Regulator to Review Use of ‘Big Data’ in Retail Nonlife Market

The decision by the U.K. Financial Conduct Authority to look at the use of “big data” in the retail nonlife insurance sector has put a spotlight on an area that has become central to marketing and underwriting in recent years.

The FCA has issued what is known as a “call for inputs” on the use of data. Respondents were given a deadline of Jan. 8, 2016 to provide their views. The FCA said further options include a market study and changes to its policies. A feedback statement is due from the regulator in the middle of 2016.

“Big data is having an ever-growing social and commercial impact, and has the potential to transform practices and products across financial services,” Christopher Woolard, the FCA’s director of strategy and competition, said in a statement. “We are starting our work on big data by seeking to better understand how insurance firms are using data, and how this may evolve in the future.”

The regulator said it wants to know if the use of big data by insurers is affecting customer outcomes and limiting competition. The FCA will also explore whether its own structures have an impact on the use of big data. The FCA said it signaled its intention to carry out the review in its 2015/16 business plan.

“We are keen to talk to both consumers and industry to understand big data’s impact on firms’ decisions, and in turn the effects that this is having on consumers,” Woolard said. “We will then be able to consider what further steps may need to be taken.”

The FCA has cited the deepening role of data in the motor and home insurance markets: Telematics can deliver information on driving habits, while cell phones can manage risks in the home.

The regulator said it is especially interested in the potential effects of big data on consumers “who may not be able to access standard insurance products, including those with disabilities or in vulnerable situations.”

A report issued in October 2015 by Lloyd’s and catastrophe modeling firm Praedicat Inc. said big data, used on a broad level, offers the insurance industry a means to deal with spreading risk.

The report, Lloyd's said, encourages insurers to apply big data to their calculations. The process, Lloyd's added, draws on scientific research, focusing on the likely causes of specific claims and seeking to improve risk management.

"Accumulations of liability risk have the potential to send shock waves through the insurance industry and are one of the most complex exposure management challenges faced by insurers," the report said.

Robin James, of London-based business data specialist Fusion Experience, said now was not the time for a "full investigation" by the FCA into the use of big data by financial institutions. "This is because data privacy legislation will be, for some time, the Achilles heel in attempts to mid publicly available data for behavioral insights as information will be deliberately withheld," James said in a statement.

"Using big data software designed to support the decision- making process will allow the savviest organizations to draw significant insights from customer data," said James, whose title is "platform evangelist."

"In the case of insurers," James added, " this will enable them to create bespoke products, which will ultimately improve the customer experience and encourage market efficiency."

Noting the FCA's focus on the motor and home insurance markets, stockbrokers Peel Hunt in London said the FCA inquiry will look at whether some insurers could derive unfair advantage from "micro-segmentation." The concern, Peel Hunt suggested in a research note, would be that some customers would not be able to obtain insurance. In such an environment, the note said, pricing, could be pegged to behavior rather than risk.

In addition to the array of data-related applications, Peel Hunt also said the FCA had noted that credit agencies and aggregators are among the potential users of big data .

Peel Hunt said the FCA's examination of how the use of big data will affect competition will consider the relationship between aggregators and underwriters. The note cited the ownership by Admiral Group plc of Confused.com and Esure Group plc's ownership of Gocompare.

"The review seems to focus on the flow of information (data) between aggregators and insurers," Peel Hunt said. Saga Insurance, which specialized in providing insurance to people over 50, has used big data to develop its customer base, while nonlife underwriter Hastings Insurance Group has used it to combat fraud, the note said.