

“EMPOWERING INDIA THROUGH DIGITAL TRANSFORMATION : A SUSTAINABLE APPROACH”

Volume - II

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Empowering India through Digital Transformation – A Sustainable Approach

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Empowering India through Digital Transformation
- A Sustainable Approach, Volume - 2

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Business Analytics in Insurance Industry

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Abstract

Insurance companies using data analytics solutions have witnessed significant improvements in decision-making underpinned by business intelligence to improve customer conversion. By harnessing the vast amounts of data available today and employing the right business intelligence solutions to make conclusions about that information, data analytics is useful to the insurance industry in every facet of its business: to model what-if scenarios, diagnose why something happened, predict what might happen and determine what should be done next. As such, data analytics is important to the insurance industry because the insight it offers can be used to scale value to everyone under the insurance umbrella: the insurer, the agency and the customer. The present study includes the benefits, challenges, steps involved in business analytics and trends and future of business analytics on insurance sector.

Keywords : Business Analytics, Insurance, benefits and Challenges

1. Introduction

In today's time, it is imperative for every sector to focus not only on better data handling and governance solutions but also steadfast the use of data that is long untamed. Insurance is a data-driven industry. Every day there are new players in the competition and each one of them has a mine of data, but only the ones converting that data into useful insights and using them in their decision-

making can make it a gold mine. According to the findings of a recent study, 86% of insurance companies are working on Insurance data analytics mechanisms for optimum predictions of big data report.

According to a predictive analytics report, current investment in predictive analytics of the Individual Life and Individual Health ecosystem is 70 percent and 40 percent respectively, which is assumed to grow up to 90 percent and 80 percent in just the next two years.

This is the power of data that is being used as a source of strategic decision-making today. But this source of data needs to be unleashed to its full power by procuring insights that will help the insurance companies achieve their long-term goals. If advanced analytics in insurance is leveraged appropriately, it can revolutionize the insurance business and make their operations resilient and future-ready.

2. Objectives of the Study

1. To study the benefits of business analytics in insurance industry.
2. To find the challenges and usage of business analytics to give solutions for the challenges in insurance industry
3. To study the different stages of business analytics in insurance industry

3. Research Methodology

The study is mainly depends upon secondary sources. The required data have been collected from websites, journals and magazines.

4. How does Business Analytics Benefit Insurers?

There are many practical applications for data analytics in insurance. These include mapping risks, setting pricing, targeting prospects, tracking sales and service, analyzing claims, detecting fraud and studying consumer behavior. A simple illustration of how insurance companies are using data analytics in property insurance is the monitoring of weather patterns, claims history and construction costs to model risks and set pricing. Access to enriched data associated with a geographic location can also help an agent meet the needs of customers in real time, such as recommending flood insurance to a new homeowner.

The key benefits offered by data analytics are:

4.1. Customer Acquisition and Personalization

Customer acquisition through a lead generation of high quality has become progressively tougher at a time when information is available at our fingertips and attention is fleeting. Even if you manage to capture the prospect's attention, tracking different lead information from different sources can get tricky through paper and spreadsheet-based processes in place. Such a scenario calls for modernizing legacy systems to centralize information and databases, especially when it relates to core business processes. Insurance data analytics of such unstructured data helps to deep dive into the customer behavior patterns and common demographics and characteristics, and target the right customer segments to create market opportunities to up-sell and cross-sell.

Further, data analytics-enabled tools like CRM and agency management systems enable businesses to extract valuable insights from reports that reveal the customer journey, right from search to conversion. It helps them understand customer behavior and enables the marketing department to target the right personalized messages for warming up leads.

4.2. Meaningful and Deeper Customer Engagement

Satisfied customers drive revenue and brand equity of businesses. Enhanced customer satisfaction is the result of initiatives on advocacy, referral marketing, and brand identity creation. If a business is successful in fulfilling customer expectations, it will automatically register accelerated and unprecedented growth. According to a McKinsey report, satisfied policyholders are 80% more likely to opt for policy renewals.

An insurance company that can correctly predict the needs of prospective customers by looking through data trends and the complete view of a customer's previous interactions with the brand, has much more potential to make the sale than an insurance company just using conventional methods of selling. Analytics in insurance provides the capability to go through IoT-enabled data to understand the needs, desires, and advice of their customer. Similarly, analysis of the existing customer data can also offer prescriptive insights into improving customer satisfaction. Customer Relationship Management (CRM) solutions can prove to be invaluable in such situations as they can offer detailed and granular insights into the customer's current and future requirements.

4.3. Mitigating Claims Fraud

Claims fraud continues to be a major challenge in the insurance sector. The Coalition of Insurance Fraud estimates that \$80 billion is lost annually from fraudulent claims in the USA alone. Additionally, fraud makes up 5-10% of claims costs for insurers in the North American region. However, insurance companies using data analytics have seen considerable improvements in their fraud detection process. With the application of data analytics, insurance claims fraud detection becomes speedier and more accurate. For example, the history of fraudulent cases is stored in the data trends of an insurance company and while processing any claim, the

insurers can carefully check if the trend is repeated. This, in turn, helps reduce the act of fraud.

Apart from fraud detection, analytics can also be applied for fraud prevention and mitigation. Advanced analytics and claims predictive modeling leverage both business data and information from external third-party sources for identifying potential claims fraud. Even before the submission of the claims, the predictive analytics model can detect individuals who have more odds of submitting fraudulent claim reports.

4.4. Predicting Accurate Risk for Underwriting

Underwriting is a complex task for insurers and it can be simplified through insurance underwriting analytics. For example, the data trend would predict a higher auto insurance premium for a customer who has been engaged in rough driving than that for a customer whose data trend predicts a lesser risk profile. Such data can also come in handy during insurance claims automation as insurers can accelerate the policyholder's journey from FNOL to recovery.

The application of advanced analytics in the insurance underwriting process encourages underwriters to concentrate on subjective tasks that call for judgment and intuitive decision-making while enabling systems to handle back-office work. Data analytics models can also be used for developing better underwriting rules. This, in turn, contributes to a uniform application of underwriting practices and lesser risks.

4.5. Streamlined Claims Processing

Data analytics in insurance can have a significant impact on improving the efficiency and accuracy of claims processing. By analyzing historical claims data and utilizing predictive modeling, insurers can automate and streamline the claims assessment

process. This leads to faster claims resolution, reduced administrative costs, and improved customer satisfaction. Also, as mentioned earlier, applying data analytics in insurance claims processing can help identify fraudulent claims more effectively. This ensures that legitimate claims are processed promptly while mitigating losses due to fraudulent activities.

4.6. Enabling Business Growth

One of the important elements of the Insurance domain is quantifying the levels of risk so that it can accelerate business growth. Until recent times, the calculation of this business-critical risk was purely intuitive and largely guesswork. However, with hordes of data now readily available, it is possible to base such assessments on pure data rather than conjectures, and even predict eventualities that can disrupt operations. Accordingly, insurance businesses can analyze this data and plug revenue leakages that could be eating into the business' profits. In this way, Insurance data analytics acts as an engine for the growth of Insurance companies with its capability in predictive analysis of big data.

4.7. Improving Regulatory Compliance

The insurance industry is subject to a myriad of regulations and compliance requirements. Data analytics in the insurance industry helps insurers navigate this complex regulatory landscape by providing tools to monitor and ensure adherence to compliance standards. Analyzing data in real-time enables insurers to detect and address potential compliance issues promptly. Furthermore, data analytics for insurance companies can assist in generating comprehensive data and analytics reports and audits, thereby simplifying the compliance reporting process. By leveraging analytics to stay abreast of regulatory changes and proactively address compliance concerns, insurers can avoid penalties, reputational damage, and legal challenges associated with non-compliance.

4.8. Product Profitability Analysis

It helps investigate individual insurance products at a deeper level by analyzing the product performance and profit by distribution channel, geographic region, customer segment, and other factors. Within a BI system, it can check the product's premium update, lapsation, claims, and other related details in real-time.

4.9. Revenue Comparison

Conversion ratios, expense ratios, and retention ratios to conduct an in-depth analysis of a single product can be put on a dashboard to have thorough insight into performance. Staying abreast of these parameters helps avoid underwriting overruns and remain profitable.

4.10. Enhanced Process Automation

Optimizes operational processes done by automating data entry, compliance checks, and repetitive tasks. By leveraging technologies, such as RPA can automate & improve back-office processes and customer-facing services.

4.11. Effective Decision Making

Data visualization tools provide insights to empower marketing by tracking sales and services, claims processing, underwriting, product development, and other aspects of an insurance business. Insurance companies can glean an abundance of valuable information by using different data visualization techniques.

4.12. Improved Customer Satisfaction

With data analytics, you can digitally capture prospective clients' feedback, store it, and derive actionable insights into their buying

behavior and lifestyle habits. Utilizing the data, you can plan better to provide them with a better experience.

5. How is Data Analytics Changing the Insurance Industry?

Data analytics significantly impacts the insurance industry, transforming how insurance companies operate and serve their customers. It allows insurers to base their decisions on comprehensive data analysis, leading to more accurate pricing and improved risk assessment. This results in tailored insurance policies that cater to individual needs, faster claims processing, and enhanced customer service. Data analytics also empowers insurers to predict future trends and risks, reducing costs and making insurance more efficient and customer-centric. It's a powerful tool that makes insurance companies more efficient, competitive, and innovative.

6. Challenges: Those Insurance Companies are Facing and How to Overcome Them?

The insurance sector faces complex challenges affecting its operations and customer-centric approach. These challenges demand innovative strategies for sustainable growth and customer satisfaction. Let us understand these challenges in more detail.

1. Cost Escalation

The most critical challenge for insurers revolves around the continuous rise in cost-of-living expenses. Rising inflation and healthcare expenditures further exert pressure on insurers to keep premiums affordable for customers and adjust premium rates accordingly. The growing number of natural disasters and the increasing cyber security threats can lead to business disruptions and put pressure on insurance companies' profitability.

Solutions

- **Fraud Detection :** Data analytics can be used to detect fraudulent claims. Machine learning algorithms analyze claims data for unusual patterns and anomalies to help predict when claims are likely to be fraudulent.
- **Risk Assessment and Pricing :** Data analytics enables insurers to conduct advanced risk assessments. Insurers can accurately assess risks by analyzing extensive data sets, including historical claims and external data sources.
- **Claims Management :** Automation and analysis of claims data help insurers identify trends and patterns that could lead to higher claim costs.

2. Potential Regulatory on Volatility

Health insurance companies operate within a highly regulated environment, encompassing federal, state, and local levels of regulation. This complex regulatory landscape can introduce uncertainty, posing challenges for health insurers in planning for the future. Changes in regulations can significantly impact their business operations.

Solutions

- **Regulatory Monitoring:** Data analytics enables insurance companies to track key metrics and closely monitor compliance with regulatory changes at all federal, state, and local levels.
- **Predictive Analysis:** Data analytics tools can predict regulatory trends and changes by analyzing historical data and policy shifts. This proactive approach allows insurers to anticipate forthcoming regulations, assess their potential impact, and prepare for compliance well in advance, reducing the element of surprise.

3. Evolving Customer Demands

Modern consumers seek insurance app development tailored to their unique needs and delivered conveniently. They are also becoming increasingly price-conscious, prompting insurers to develop innovative strategies to meet these evolving expectations effectively.

Solutions

- **Personalized Offerings:** Data analytics enables insurers to analyze customer data and preferences. With this insight, they can create personalized insurance offerings that cater to individual needs and preferences, aligning their products more closely with evolving customer demands.
- **Pricing Optimization:** Insurers can use data analytics to develop dynamic pricing models that respond to real-time market trends and customer behavior. This allows them to offer competitive pricing while meeting the price-conscious expectations of modern consumers.

4 .Technological Disruption

The emergence of advanced technologies, particularly artificial intelligence (AI), Machine Learning (ML), and block chain, presents opportunities and challenges for insurance firms. These technologies hold the potential to create innovative products, enhance operational efficiency, and reduce operating expenses. However, their adoption demands significant investments in technology integration and employee skills development.

Solution

- **Technology Assessment:** Data analytics analyzes current claim processing efficiency vis-à-vis that of competitors and the industry

as a whole to identify emerging technologies like AI and block chain that are most likely to benefit the insurance company to boost insurance operations.

5. Increased Competition

The insurance industry is noticing intensified competition, with traditional insurers facing formidable challenges from newcomers. These tech-savvy entrants leverage advanced technology to introduce inventive insurance solutions, posing a significant challenge to well-established industry players.

Solution

- **Competitive Analysis:** Get competitive business intelligence insights for the insurance sector by analyzing market data and the strategies of competitors, helping traditional insurers adapt and innovate.

7. Top Use Cases of Data Analytics in Insurance

Insurers are increasingly using the power of data to identify new growth opportunities using customer information and, in a way, protecting their businesses from potential risks. The use of business analytics in insurance helps get insights about potential markets, competitors, customers, risks, regulations, and plans for natural disasters.

Listed below are some crucial analytics use cases in insurance that highlight how companies are leveraging this paradigm shift to achieve their business goals.

1. Pricing and Service Optimization

- The ability to examine risk and determine price policies becomes a central point of value creation for insurance companies. Data

analytics in insurance helps actuaries to build policies better suited to dynamic business needs, market conditions, risk concentrations, and patterns.

- By analyzing consumers' behavior, lifestyles, pricing sensitivity, and buying preferences, you can optimize and showcase more appropriate insurance products.
- Previously, it was difficult to customize policies at the individual level. However, insurance providers can now use pay-as-you-go and more dynamic pricing models based on clients' behavioral signals, predicted risk factors, and shopping preferences.

2. Fraudulent Claims Detection

- Improvements in technologies have made it possible to detect suspicious claims, fraudulent activities, and behavioral patterns by leveraging predictive analytics that are subjected to further investigation.
- Whenever a claim made by a user with a history of false claims is detected, the fraud prevention system halts the claim process and suggests case investigation. Predictive modeling techniques are applied to analyze patterns in fraud and screen false claims.

3. Risk Management

- Advanced data analytics helps conduct a real-time risk analysis that enables companies to become resilient in a volatile scenario to detect, analyze, and mitigate the situation and plan corrective action.
- Insurance data analytics provides the ability to integrate all your data from internal and external sources into one system to conduct comprehensive risk assessments. For instance, historical data can be

collected from credit agencies, customer e-mails, user forums, third-party vendors, and social media.

- Previously, evaluating the risk of insurance policies was challenging by relying on specific, predefined guidelines, basic statistical models such as profiling and scoring models, and their intuitions. Data analytics in insurance industry help detect risky claims and forward them for further analysis.

4. Personalized Marketing Campaigns

- Advanced analytics extract valuable insights from the vast database comprising details such as user’s demographic data, hobbies, lifestyle details, interests, belief systems, and more. This helps insurance providers devise targeted campaigns for their customers through personalized offers, policies, loyalty programs, and recommendations.
- The acquired data from various digital platforms helps create a hypothesis/model to craft personalization and marketing strategies. This leads to deciding on personalizing offers, policies, prices, and even marketing ads. A total of the same helps to acquire customers and, in turn, increases support the insurance rate ratio of a company.

5. Lifetime Value Prediction

- Customer lifetime value (CLV/CLTV) is one of the key stats that represent the profit generated by the business over the entire span of the relationship with your company. Insurance marketers can also get insights from CLV data to segment their existing user base and better understand the performance of marketing campaigns in real-time. Data analytics provides insights on revenues gained and expenses incurred predicted over the entire future relationship with a particular customer.

- Customer behavior data is used to forecast the CLV to predict the customer's profitability for the insurance companies. This behavior-based model is utilized to forecast cross-buying and retention.
- CLV prediction provides the client's informative insights that enable forecasting the possibility of customer behavior and attitude, policy maintenance, or a policy surrender.

8. Stages to Use Insurance Data Analytics

Data analytics is crucial in helping insurance organizations make informed decisions and improve their services. Let us break down the process into six main stages to help you understand it better.

1. Problem Framing

Before diving into data analysis, it's essential to understand the problem you're trying to solve. In this crucial stage, insurance companies identify specific challenges or questions they aim to address using data insights. These problems can range from optimizing premium pricing, identifying fraud, predicting customer churn, or streamlining claims processing. A well-defined problem serves as a foundation for the entire analytics process, guiding subsequent stages.

2. Data Collection

The next thing to do is gather the right information. Insurance companies have a wealth of data, like customer details and past claims. However, to get accurate results, it is important to ensure that the data is relevant and includes first- and second-party data.

3. Data Extraction, Cleaning, and Crunching

Legacy system often contains a wealth of valuable data that are still in use by the organization. Extracting, cleaning, and processing this

data requires expertise and efficient analytics software. During this step, you'll check for errors, eliminate duplicates, handle outliers, fill in missing data, and ensure the data is structured correctly.

4. Model Development and Data Analysis

Once your data is extracted, cleaned, and organized, it is time to analyze it thoroughly. There are four types of analyses:

- **Descriptive Analysis** : This tells you what has happened in the past. For instance, an insurance company may summarize its customer base and claims data to identify trends and patterns in data.
- **Diagnostic Analysis** : It helps you understand why something occurred. For instance, an insurance company might use diagnostic analytics to develop strategies to reduce customer
- **Predictive Analysis** : This predicts future trends based on past data. Insurance companies can use the data to develop and train predictive models, which are then used to predict customer behaviors, market trends, and risk factors.
- **Prescriptive Analytics** : It provides recommendations for the future. Insurance companies can use prescriptive analytics to help customers manage risks or recommend actions to reduce the risk of fraud.

5. Results and Sharing

Insurance companies have a lot of stakeholders. Once the analysis is done, the results must be shared with many people. To ensure everyone understands the results, explain the information thoroughly with clear visualizations and precise explanations.

6. Evaluation of Success or Failure

Using insurance data analytics can be tricky. Even if it seems like it went well, figuring out why is essential. Did you notice any interesting patterns in the data that made you curious? Were there any issues with the data that needed extra care? This step helps ensure that what you did can be done again and made even better.

9.What can Insurance Agents do with Data Analytics?

Employing data analytics opens the door for agencies to begin benefitting from greater transparency and insights. If using data analytics seems too complex or out of reach, consider the following low-barrier ways agents can get started by leveraging their Agency Management System (AMS) and Customer Relationship Management (CRM) capabilities:

- **Pair records with third-party sources** : To enrich prospect and client records for quoting, cross-selling and upselling, explore the agency's system of record's pairing capabilities to third-party data sources. For example, pulling in geographic information, such as weather and geo-specific risk factors, can be paired with prospect and customer records to deliver customized personal and commercial lines property coverage solutions based on those risks. This can also help identify coverage gaps and spotlight new opportunities within an agency's book of business.
- **Set up marketing reporting** : To build marketing campaigns that target new prospects and convert leads in the pipeline to sales, set up reporting from the system of record to mine lead generation data and reveal a customer's journey from first contact to sale. Use that data to inform future marketing efforts.
- **Aggregate the data of online reviews** : To gauge customer satisfaction, automatically track online reviews and aggregate that

data over time to illuminate and fix what's not working and continue to support what is.

- **Automate sales reporting** :To gain producer insight, set up automated reporting to track sales activities and conversions to illuminate producer productivity. Use that insight to automate rules for assigning leads based on the data, such as the geographic location of the lead, required expertise and potential deal value.
- **Set up automated triggers** :To support customer service activities, set up automated triggers based on the data in the system of record to identify and alert staff to reach out to clients to check up on claims, identify cross-sell and upsell opportunities, or strengthen at-risk relationships.

2024 10. Aata analytics Trends for Insurance

Advancements in data analytics have led to rapid transformations in the insurance industry. Top trends include focusing on opportunities with predictive analytics, which allow for a deeper understanding of individual client preferences, life circumstances, potential risks, and buying behaviors. These insights can deliver on a customer-centric approach, from seamless and tailored sales and service experiences to risk prevention. Nationwide continues valuable partnerships and investments to stay on the forefront of these data analytics trends. Examples include:

- Investing in the award-winning AI platform, CLARAty.ai, which uses predictive AI, generative AI, and large language models to extract claims data to deliver concise case summaries, predictive alerts, and actionable recommendations to claims associates to inform data-driven decisions.
- We've teamed up to make Comp. Science's Intelligent Safety Platform available to more business owners and prevent workplace injuries.

- Investing in climate-tech company Mitiga Solutions. The company combines scientific models with technology to better evaluate the impact of natural hazards, helping industries like insurance understand and address the risks and uncertainties of climate change.
- Raising awareness and advocating for the adoption of modern building codes and resilient infrastructure. With our partnership with IBHS, we understand, based on scientific research, that enhanced building codes protect people and their property during severe weather events.

11.The future of data analytics

As data and analytics trends continue to evolve, combining predictive power and personalization, remember these trends are more than numbers. Armed with the right data, you can guide your agency toward informed decision-making and refined risk management that can ultimately enhance your client relationships. Taking time to understand these trends will help you unlock opportunities for differentiating your business.

12.How is Data Analytics Transforming the Insurance Industry?

Insurance analytics has been constantly changing the way the insurance industry operates. Insurance companies need to be aware of these benefits that one can leverage to improve their business processes and make use of the data in the best possible form. They need to understand how data affects internal processes at an insurance business and what is the impact of data analytics in the insurance industry and implement it accordingly.

Some of the key ways in which insurance analytics is transforming the insurance industry are listed here –

- **Providing Client-centric Services**

Clients are always looking for a trusted and reliable partner for their insurance needs. Insurance data analytics is helping insurance companies and brokers to provide customized services to their clients. Companies can leverage intelligent insurance management platforms and other technologies to gain key insights generated using customer data and provide clients with exactly what they are looking for.

- **Reducing Fraud and Waste**

Fraud and waste are commonly seen and faced by insurance companies. Thanks to data analytics now, there are ways to reduce these attempts of fraud by a considerable extent. Insurance companies can make use of this actionable data intelligence to figure out who may be a likely fraudster even before it happens.

- **Pricing Premiums Accurately**

The major challenge faced by the insurance companies is to accurately price their premiums for each policyholder. Oftentimes, the policyholder may face unfair premium amounts for no mistake of theirs. To be more competitive in the market, insurance companies have come up with new methodologies using insurance analytics. By deriving actionable insights from data analytics and tracking individual policyholders' behavior, the prices of the premiums can be set.

- **Self-servicing of Policies**

Being one of the major innovations in the insurance industry, self-servicing of policies is being increasingly used by organizations. Providing a customer portal to your clients where they can manage their own policies will ensure that companies will have an ample amount of time to focus on other key issues of their business. By

making use of data analytics, insurance companies can make smart recommendations to the client right when they are buying or renewing their policies.

- **Restructuring the Insurance Industry**

Data analytics will make the insurance industry even more competitive and companies will implement various strategies to stand out in the crowd. Providing low-cost products as compared to their competitors, operating in a much more efficient manner, and providing excellent customer service will be a priority. Insurance analytics as a whole gives companies the transform their existing processes and easily meet the evolving regulatory requirements.

- **Managing Claims**

With the help of data analytics, insurance companies will be able to analyze the large amounts of data at the underwriting stage of the policy and detect any discrepancy. When a customer makes a claim, the insurer can easily detect the claim is legitimate or not. Data analytics can be leveraged for real-time monitoring through digital channels and social media and help in the digital transformation of traditional insurance companies

13.Conclusion

The use of big insurance data analytics in the insurance industry is rising. Insurance companies invested \$3.6 billion in 2021. Companies that invested in big data analytics have seen 30% more efficiency, 40% to 70% cost savings, and a 60% increase in fraud detection rates. Both the customers and companies benefit from these solutions, allowing insurance companies to target their customers more precisely. To retain that competitive edge, the emerging leaders of the insurance sector are leveraging insurance data analytics while making decisions concerning pricing strategies and risk selection. Many research studies show that accelerating

investments in digital and analytics will be the “difference between slowly declining and flourishing” businesses in the insurance sector. Given the unpredictability of the marketplace insurers operate in, an accelerated analytics journey can help them drive strategic decision-making at scale across underwriting, claims management, customer satisfaction, and policy administration functions. Therefore, the insurers should not postpone their analytics agendas.

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