ADDED VALUES:
BREATHE LIFE INTO P&C PROJECTIONS

Lifetime value (LTV) style calculations may have made their name in life insurance, but they are now proving their worth to a new generation of property and casualty (P&C) businesses. Neil Covington, director of solutions management for FIS' general insurance business, explains the lure of LTVs – and how predictive analytics can extract even more value from 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.

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 be a significant portion of income as companies try more innovative ways to maximize policy retention in todays' transparent and highly competitive markets. This "new business strain" may even exceed year one profit margins meaning that the more new policies you sell, the bigger your loss over the year, which is clearly bad news for the board and shareholders.

The answer for a growing number of P&C firms has been to look past the first-year accounting period alone to the income that a policy could bring in over a longer lifetime period – its LTV. From year two onwards, with no upfront sales costs to consider, income and margins will soon overtake the initial outgoings – and the longer the policy is renewed, the greater the LTV.

Value your customers

The LTV truly 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. But added together they will reveal the total value of that customer's relationship with the company.

Aggregating customers' LTVs across products will help build a holistic view of their value that goes way beyond the balance sheet. More importantly, it will come backed with a wealth of policy rating data that is ripe for predictive analytics.

Empower your projections

Online sales channels, telematics technology and increasingly digital operations make it easier for today's insurers to gather and store behavioral information on their customers. Predictive analytics can extract more meaning from rating data than ever before and use information from all of a customer's policies – or other product relationships – 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 geographic 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.

> "We've certainly seen growing interest from 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.

Gain a platform for growth

Key to putting your projections into practice will be a powerful integrated risk management platform – one 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 your data.

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

About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit **www.fisglobal.com**

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