

BLUESUN WHITE PAPER: DATA MINING - PROSPECTING FOR GOLD IN YOUR CUSTOMER DATABASE



BLUESUN WHITE PAPER SERIES

What is Data Mining?

Data Mining is the process of applying computer-based techniques to sort through large amounts of data to identify relevant information and statistical patterns that can aid in decision making. It enables you to "see" or interpret the data you have today so you can better make decisions to, for instance, enhance revenue, profit and retention performance. In its purest form, it is a difficult and complex process. However, there are simpler forms of data mining which are nonetheless effective.

How Data Mining Evolved

The following chart shows how the simple information systems of the past evolved over time to create the advanced data mining techniques available today. As data was collected and analyzed, the need to find answers to ever more challenging and revealing questions arose. New levels of functionality were added, which in turn generated even more questions and capabilities.

Decade	Typical Business Questions	Technology Response
1960's	"How do I handle all these policies and keep track of them?" "What was my total premium and claims in the last five years?"	Transactional Efficiency Data Collection
1980's	"How much term life did we sell in New York last year?"	Process Optimization Data Access
1990's	"What were Critical Illness sales last April in Rhode Island?"	Insight and Transformation Data Warehousing & Decision Support
Now	"What's likely to happen to Universal Life sales next month? Why?" "Where is there opportunity to sell more term life in the next 3 months?"	Knowledge and Predictions Data Mining
2010+	"Whom do we send leads and support information to, to drive sales, now?" "What channels and partners do we use?"	Actionable Intelligence Automated, Real Time, Just In Time, Personalized Execution.

Data Mining in the Life Insurance Industry

The Life Insurance Industry possesses a vast amount of valuable demographic and transactional information that today's advanced data mining techniques can extract and interpret to create profitable new product, sales and service opportunities. Despite this, the Life Insurance Industry does not appear to have embraced data mining as wholeheartedly as other mature industries. Why? It seems the industry has some unique aspects which have held it back from exploiting data mining as a performance accelerator:

- The majority of life insurance is sold via sales agents who are independent of life insurance carriers. They tend to be far more adept at “hunting” (i.e. obtaining new business) rather than “farming” (i.e. nurturing current customers) mainly due to skills profiles, fragmented data sources and commission structures.
- Although carriers will generally recognise that the more products a client has, the higher their retention rate and lifetime value, their ability to market directly is often hampered by channel conflict fears. While the primary contract owner is usually the insurance carrier, the main customer relationship is often with the agent. Many agents view direct contact as a violation of their distribution agreement and even as a risk to their current portfolio.

Sales agents are not data mining, preferring to hunt. Life carriers have no outlet for mining, so why do it?

Why Should I Be Interested in Data Mining?

Data mining is not only the next logical step in capitalizing on the marketing opportunities and cost-saving efficiencies of 21st Century technology; it is particularly applicable to the life insurance industry given current trends in the business.

Here's an example. Due in part to the changing landscape of life insurance products and services, distribution as we know it today is contracting. With the average age of an agent now 56, compared with 46 a decade ago, there are less new agents coming into the business. As their numbers shrink, competition among companies for their attention has heated up. Yet traditional incentives such as increased commissions and faster pay-up have played themselves out. Adding new product and service features can help, but mainly as a temporary solution.

Your company may already have launched its own initiatives to respond to this trend, speeding new products to the market or improving your underwriting and compensation processes. But valuable new insights into the future of the business may be embedded in the rich data you've already amassed. By adopting a "mining" mentality, you can extract the "gold" from this underdeveloped asset and devise strategies that can yield additional sales from within your existing client base, as well as build exciting new marketing opportunities for your field force.

Data Mining Opportunities for Your Company

Implementing data mining techniques and analytical tools can help you drive greater results from your sales and marketing efforts. Here are some proven applications of the process and the outcomes they can produce for you.

- The dearth of insurance sales agents has left many clients orphaned from their agents, who may not feel their business is lucrative enough to spend more time and resources selling and servicing them. Data mining can identify those 'B', 'C' and 'D' customers in your database and help you collaborate with sales agents to build programs that can up-sell and cross-sell them more profitably. Just the fact that these prospects exist in your database makes it likely they'll be favorably disposed to new marketing initiatives.
- With the skillful application of data mining techniques, you can obtain valuable insights into what to sell, when to sell and what channels to sell through. As the traditional sales channel shrinks and the needs of consumers change, life insurance distribution will change, too. The future will see increased sales activity through telemarketing, the Internet, email and other channels. Knowing how to shape

and position your products to be compatible with all channels, including conventional face-to-face, will pay for itself with positive results. This can all be accomplished through smart data mining and marketing strategies.

- Life insurance generally is not bought; it needs to be sold. Traditional sales methods, while diminishing, aren't going away anytime soon. Data mining gives you the opportunity to use the insights gleaned from your database to drive more leads, attract new sales agents and help them with their training. Moreover, making it easier for prospective agents to break into the business and sell beyond their immediate friends and family will encourage them to stick it out and thus expand your market reach and scale of operation. It will also build stronger distributor relationships and loyalty to your organization, while helping your sales force better meet the challenges that face them.

Data Mining: Easier Than You Think

Tapping into the benefits of data mining doesn't mean you have to replace your existing administration system or purchase a high-end data mining tool such as SAS or SPSS. There are interim measures you can take to open up access to your current database and look at the data in a manner where discovery, modeling and predictive analysis can take place. Here are some simple steps to get you started;

1. The first step is to establish what objectives you are trying to fulfill with your mining. Common objectives are reducing churn, increasing lifetime value and enhancing response rates to marketing campaigns.
2. The next step is to get your data somewhere where you can work with it. This usually means pulling your data out of your legacy system into one of the newer, OLAP compliant relational database systems such as Microsoft SQL Server, Oracle 9i or IBM. Start with a relatively small amount of data; use your industry knowledge to choose what data to extract consistent with your objectives. You can always add to it at a later date.
3. You will need at this stage to deal with data anomalies which inevitably appear once you start trying to work with it. Typically this will be things like duplicate records, missing fields and invalid field content (e.g. invalid date values). You need good data to get good results.
4. Once you have the data in a workable form, start by using qualitative methods to analyze the data. One of the simplest is to use a data "cube" to allow you to examine and analyse data. Visual data exploration can be very effective - the human brain is probably the most sophisticated pattern recognizer ever. You will find you can quickly find patterns which give you new insights into improving your business.

All of the modern OLAP tools (Microsoft SQL Server, Oracle 9i, IBM Intelligent Miner, NCR Teraminer) have data mining tools built in which can provide your next step into Data Mining. For instance, SQL Server has an easy-to-use CHAID (Chi-square Automatic Interaction Detection) decision tree modeling tool which provides graphical representations data correlated to a chosen result. You could, for instance, use this to model the policy characteristics that cause policy lapses.

These can be the first important steps in moving toward a more advanced system that can answer the key questions and deliver the solutions essential to your future success in the life insurance business.

Summary

Adding data mining and discovery capabilities to your information systems can drive your sales and marketing functions in innovative ways. Properly implemented, it can also pave the way to transitioning your data to a platform that can efficiently manage the blend of traditional and emerging sales channels that are available today.

Those life insurers who are quick to embrace the opportunities that data mining and its delivery of actionable intelligence affords will be among the future winners in the marketplace.

About BlueSun

BlueSun Distribution Performance Management software increases the sales performance of insurance carriers and large distributors in North America.

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