LexisNexis RISK SOLUTIONS

Insurance

Contributory databases can unlock value for insurers

Shared data can be your competitive advantage.

AUGUST 2018

Table of Contents

Executive Summary

Every insurance company has its own data: quotes, policies, claims, fraud experience, market trends and more. But when that information is isolated inside each company, each carrier can only achieve a view of its own business. In contrast, when carriers augment their book with market data, they can view their portfolio in the context of the market—as well as achieve new insights that aren't otherwise possible.

A contributory database is a collection of data provided by market members to a central repository that is then shared among the contributors. The ideal contributory database adds value by normalizing, standardizing, aggregating and linking contributed data with other information. This enables carriers to:

- **Drive revenue growth and profitability**. With access to earlier and more information carriers can better segment and price risks, which enables them to grow premium, reduce expenses and improve customer service.

- **Improve operational efficiency**. A broader dataset enables better risk assessment—sooner and faster.

- **Drive innovation**. Carriers can innovate faster with access to a large repository of industry data that can fuel data analytics and product development initiatives.

- **Access new tools**. The data provided to a contributory database often results in additional tools that are valuable to carriers.

- **Protect themselves against security concerns**. A reputable database provider manages compliance, security and technology concerns for its contributors.

The contributory database delivers the most benefit once it has reached significant market share, but early adopters can enjoy unique benefits before this occurs. Early access to insights can fuel innovation programs and enhance product development efforts, and early adopters may be able to influence additional features or ancillary products. Importantly, early adopters can leverage a contributory database as an offensive move to achieve a competitive advantage, while late joiners may be forced to join as a defensive position against adverse selection.

Perhaps most importantly, the additional insights provided by contributory databases can enable a carrier to achieve a 360-degree view of a customer.

Introduction

The Internet is a vast repository of information, but without an effective way to search for things, it's of little use. Many of us take for granted how easily—and quickly—we can search for something in sub-seconds, receive millions of results and rely on a search engine to show us the results that are most relevant. Every time we use a search engine, we help the search engine provider refine its product. If enough people search for "funny cat video" and have to scroll to the bottom of the page to get the result they want, then the search engine provider knows it needs to refine its algorithm, and move that video, which is searched for most often, to the top of the results list. The more data we give a search engine, the more relevant the results it can provide.

Search engines benefit from the data network effect, wherein its value to users increases as more people contribute to it by searching and using the data. And just as the data network effect makes it easier to find funny cat videos, it can also help insurance carriers be more competitive.

Every insurance company has its own data: quotes, policies, claims, fraud experience, market trends and more. When that information is isolated inside each company, each carrier can only get a view of its own business. In contrast, when carriers augment their books with contributory data, they can view their portfolio in context with the rest of the market. And, when individual companies choose to combine their respective data sets into a shared industry pool, they can achieve new insights that aren't otherwise possible. Contributory databases come with clear rules that promote fair play, consumer privacy, data security and compliance. Rather than give and get, contributors give—and get much more in return.

A contributory database is a collection of data provided by market members to a central repository that is then shared among the contributors. The ideal contributory database adds value by normalizing, standardizing, aggregating and linking contributed data with other information. The more a database is used, the better it becomes and the greater the value it delivers to its contributors. Its value increases both from additional contributions and from the increasing "smartness" of the results through improved analytics and modeling.

A brief history of LexisNexis and contributory insurance databases

In 1987, LexisNexis Risk Solutions introduced C.L.U.E.® (Claims Liability Underwriting Exchange) Auto, a contributory database for personal auto claims history.

Before C.L.U.E. Auto, claims history was typically incomplete and difficult to obtain. This resulted in inefficiencies and information gaps that inflated premiums for most policyholders. Today, the vast majority of carriers use C.L.U.E. Auto to provide more precise pricing and improve efficiency; this, in turn, helps them acquire more profitable customers and increase Net Premiums Written (NPW).

Since then, LexisNexis has launched additional contributory databases in the U.S., such as C.L.U.E.® Property and C.L.U.E.® Commercial, Current Carrier ® Auto, the LexisNexis® Fraud Defense Network and the No Claims Discount database in the U.K. These databases have helped carriers better understand risk, and have generated significant value for the industry. In addition, consumers benefit from more efficient processes and more accurate rates.

What are the benefits of participating in a contributory database?

Contributory data in insurance can help improve outcomes for consumers, carriers and the industry.

Benefit	Consumer	Carriers	Industry
Increased pricing accuracy	X	X	X
Lower premiums for less risky customers	X	X	
Single, secure repository for information	X	X	X
More efficient application process	X	X	
More accurate and complete rating information	X	X	
Fraud mitigation	X	X	X
Streamlined claims handing	X	X	
Better risk segmentation		X	X
Regulatory compliance	X	X	X

How can contributory databases help consumers?

The use of contributory data results in lower rates for most consumers. Without the benefit of contributory data, overall rate levels would be higher as those with better loss experience would subsidize those with worse experience. By providing carriers with insights into an applicant's previous coverage and loss history, contributory databases enable more accurate rating and, for many consumers, lower rates—not just with their current carrier but also with others, should they choose to shop around.

Contributed data also augments prefill solutions (**see sidebar**), which can help carriers provide the streamlined, digital-friendly experience that many customers expect. Finally, the increased transparency provided by contributory databases can help to mitigate fraud, an $80 billion annual drain on the insurance industry[1], which is ultimately passed on to customers in the form of higher rates.

What is prefill?

Prefill solutions enable carriers to pre-populate insurance applications and first notices of loss (FNOLs) with minimal data entry from a shopper, customer or customer service representative (CSR). These solutions can help carriers improve accuracy, enhance the customer experience and reduce abandon rates. Prefilled data elements may include information about drivers, vehicles, insured locations, current and prior coverage levels and other variables. Prefill tools help reduce data entry and improve accuracy by minimizing keystroke errors. They also contribute to underwriter and CSR efficiency, streamline loss reporting, enable automated or straight-through application processing and support accelerated claims processing.

Notably, application prefill has transformed the personal auto insurance industry by enabling carriers to provide quotes within minutes. In other lines of business where such capabilities are less common, the ability to quote more quickly can help carriers to target new customer segments, bring new products and services to market and ultimately, achieve a competitive advantage.

Prefill solutions are built upon contributed data, and are just one example of the innovative products that result from contributory databases. The value of contributed data is multiplied when it is combined with other consumer and public records information to create a prefill solution. This value can be captured throughout the policy lifecycle, from policy initiation to claims reporting.

How can contributory databases help carriers?

Just as consumers benefit from complete and accurate loss and policy information, so do carriers. Contributory databases enable carriers to achieve greater precision and risk segmentation. In turn, that can help improve profitability, foster a healthier book of business and support long-term growth.

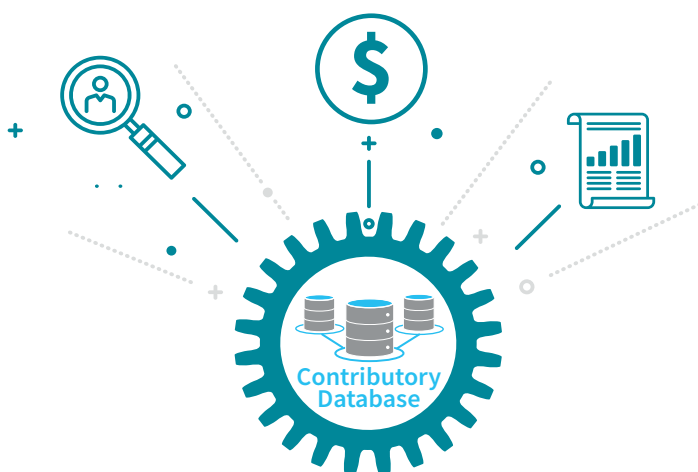### Enable more sophisticated pricing

Contributory databases enable carriers to offer the lowest rates to those with favorable loss and policy history, and higher rates to those with more active loss history, less steady coverage and inconsistent payment history. Carriers already align premiums with risks within their existing portfolio, but some contributory databases can make it possible with prospective customers as well.

Improve operational efficiency

In addition to enabling more precise pricing and risk segmentation, contributory databases can help carriers work more efficiently. Without a centralized repository, it is both difficult and inconvenient to get a customer's full loss history—information that is available with a few keystrokes from a contributory database. Given that manual loss histories inconvenience both prospective and prior carriers, the boost to operational efficiency is amplified as more carriers contribute to the database.

Innovate faster

Contributory databases can help carriers innovate faster. With access to a large repository of industry data, carriers can better drive their analytics and product development initiatives. In addition, early contributors can benefit from insights that are not yet available to competitors.

Contributory Database

Augment fraud detection

Contributed data can help reduce the opportunity for fraud by enabling carriers to validate information at the point of quote, renewal and claim. It can also uncover new information—such as "forgotten" new drivers, claims or other insights—that might have bearing on underwriting, pricing or claims adjudication. At point of claim, contributed data can offer a broader context to identify suspicious patterns or behavior.

Become producers' carrier of choice

Current quoting processes require producers to spend time gathering data. In contrast, contributed data frees producers from time-consuming data entry and allows them to focus on establishing and nurturing a relationship with current and prospective clients. More broadly, the availability of digital tools can make it easier for a producer to work with a carrier, and in the long run, may bring a carrier more business.

Achieve a 360-degree customer view

Above all, contributed data helps carriers formulate the 360-degree view that is crucial to better knowing each customer. By understanding the full breadth of a customer's financial needs, carriers can offer the products that best meet those needs—and just as important, to not offer the ones that don't. By combining contributed information with other data sources, carriers can also identify points in the relationship where the customer may be at risk of leaving, and proactively take steps to engage and retain the customer. This more holistic understanding of customers and their needs enables carriers to evolve the relationship over time and, as appropriate, offer new products.

In other words, contributory data can help carriers strengthen the customer relationship by providing a more relevant, personalized customer experience—not unlike the historical customer-carrier relationship, when both parties worked and lived within the same small community.

360

How can contributory databases help the market?

Over the last 25 years, since the arrival and broad adoption of contributory databases in the personal auto market, the rate of uninsured motorists has decreased by more than 20% (Figure 1). While many factors contribute to the uninsured rate, including economic conditions and the regulatory environment, one factor is the greater availability of data—including contributed data—to help carriers more accurately price and underwrite policies. Having fewer uninsured drivers and fewer opportunities for fraud contributes to lower rates. Further, the combination of lower rates, improved segmentation and increased availability have helped make P&C insurance more affordable and accessible.
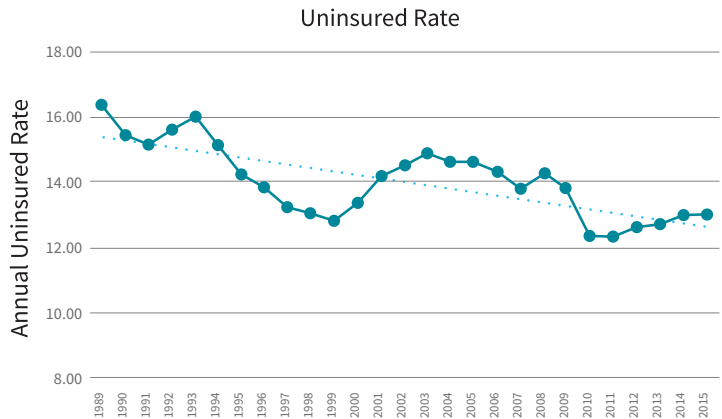

Figure 1. Since the arrival and broad adoption of contributory databases in the personal auto market, the rate of uninsured motorists has decreased by more than 20%.[2]
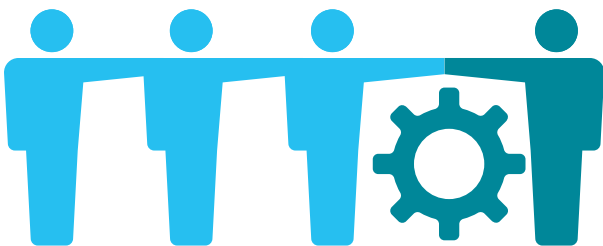
The market also benefits from having its information in a centralized, standardized and secure repository. With many competitors in the market, insurance is less concentrated than other industries, such as auto manufacturing (Table 1). This, combined with the multitude of systems and data formats, would make it extremely difficult for carriers to share data without a reliable, independent data steward to connect them.

Industry	4-firm concentration ratio	10-firm concentration ratio	Total number of firms
P&C Total[3]	25%	46%	> 200
Personal auto	49%	71%	
Home	41%	62%	
Commercial auto	25%	43%	
Life	25%	43%	
Auto Manufacturers[4]	59%	91%	< 20

Table 1. Given the dispersed nature of the insurance industry, carriers can benefit from an independent, reliable third-party partner to bring industry data into a single repository.

What should I look for in a contributory database provider?

In the insurance market, a contributory database is a partnership between contributors and the database provider, with the intent to build greater knowledge across the industry, and to help carriers better assess risk and improve operational performance.
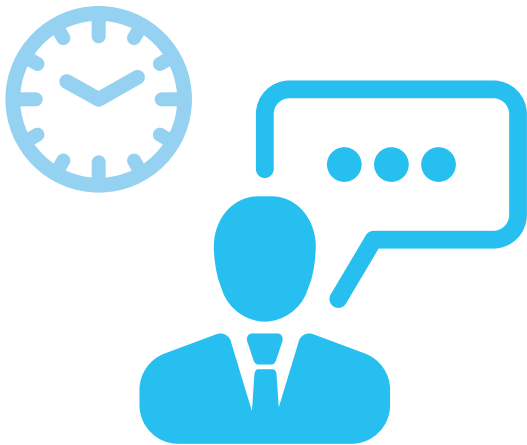
There are three keys to a provider delivering value with a contributory database.

- **The ability to link data**. Perhaps most important, a contributory database must be able to locate and accurately match data points about a subject. Without this ability, contributors cannot extract insights from the database—or worse, may receive incorrect information.

- **Dedication to data quality**. In order for carriers to make effective data-driven decisions, they must trust the data they are working with. A contributory database provider must be dedicated to initial and ongoing data quality checks to ensure completeness and accuracy. Failure to do so can result in poor link quality and inaccurate information.

- **Market share**. To maximize the value of contributed data, the database must achieve a critical mass of contributors. That said, there are benefits to contributors regardless of when they participate: early adopters can achieve first-mover benefits from insights not available to competitors.

While these are the three main factors, they aren't the only ones. Carriers should take care to select a database provider with expertise in compliance and data security. As recent high-profile data breaches have shown, there can be tremendous financial and reputational costs to not considering these factors. In addition, carriers should look for a database provider that adds value to their data contributions by augmenting and normalizing the data to develop innovative products that improve outcomes for the industry.

When is the best time to start contributing?

While the maximum value of the database happens with a critical mass of contributions, there is value in joining much earlier than the tipping point.

Early adopters can achieve a competitive advantage with insights that aren't yet available to the general market. For example, the insurance payment history of a current customer is often used at point of renewal, but such information isn't typically available at point of quote. However, early participants in a payment history database could get those insights about prospective customers ahead of their competitors. Knowing this information at the point of quote helps carriers identify opportunities to drive higher conversion of lower risk policies through more competitive rates and attractive payment options. Early adopters can also influence additional features or ancillary products to the database—in essence, crafting a product that addresses their specific needs.

At any point in the adoption cycle, contributors can benefit from access to a larger repository of data than is available within their own book. When a carrier brings that data into its warehouse, the result is faster innovation and more targeted product development.

Early adopters also have the opportunity to gain a deeper understanding of market behavior and performance. Benchmarks and trending data can help a carrier understand how its individual performance compares to peer groups or the market. This can give an indication of whether market and competitive actions are having the desired impact and provide context for how the industry may be evolving.

While early adopters can use contributory databases as an offensive move, late joiners might be motivated by defense. In particular, as industry adoption of a particular database increases, the insights within it become table stakes. At that point, contributing becomes a defensive move against adverse selection. Because no one can predict when a contributory database will achieve critical mass, late joiners risk being too late.

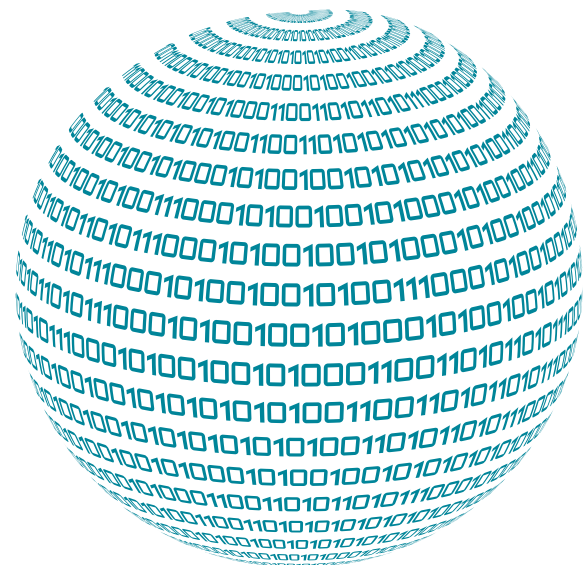# LexisNexis has a proven history as a trusted data steward

LexisNexis Risk Solutions has more than three decades of experience in taking data contributed by the insurance industry and transforming it into solutions that deliver significant value. LexisNexis Risk Solutions serves as a trusted steward for contributed data, providing a secure repository for the data, and a single location for reporting and inquiry.

Some of our key capabilities include:

- **Unmatched linking capabilities**. LexisNexis uses billions of records from thousands of sources to develop a LexID®, our unique identifier that works with proprietary matching logic, to ensure accuracy in linking inquiries to subjects and results.

- **Laser focus on data quality**. LexisNexis employs extensive record and field-level data checks before adding new contributions to our databases and our dedicated team continuously checks the quality of our databases.

- **Proven track record as a trusted data steward**. More mature LexisNexis contributory databases have industry-leading market share. New contributors are regularly added to the databases. In addition, newer contributory databases can provide insights and value to participants even at early contribution levels.

Contributors to LexisNexis databases know they can rely on us to manage all of the compliance and data security elements associated with a contributory database:

- **Regulatory compliance**. We ensure compliance with applicable laws such as the Fair Credit Reporting Act (FCRA), Gramm-Leach-Bliley Act (GLBA) and Driver Privacy Protection Act (DPPA).

- **Consumer disclosure and dispute services**. We provide consumer dispute services, as required by the FCRA, to manage inquiries from consumers about their contributed data.

- **Unparalleled data security capabilities**. We ensure data is stored securely and protected from unauthorized access and misuse.

LexisNexis is committed to data security

As several high-profile events have shown, consumers—and regulators—have increasingly stringent expectations for how organizations store, use and share personal data.

For three decades, LexisNexis has been a trusted steward of consumer data, and an industry leader in effectively identifying and managing risk. Our comprehensive risk framework maintains highly effective security controls across the enterprise, and ensures that consumer and customer information remains confidential. We have incorporated industry standards for information security and privacy, as well as proprietary criteria for how we credential and secure consumer and customer information.

There are four key elements to our risk framework:

- **Continuous improvement**. Our iterative Plan-Do-Check-Act (PDCA) model means our information security capabilities are always getting better.
- **Standards-based implementation**. Standards are constantly shifting and we draw from established global best practices to ensure we're up to date.
- **Internal validation**. We measure our performance against internal metrics, key performance indicators (KPI) and enforcement.
- **External validation**. Annual third-party control audits and routine customer audits ensure we're delivering on our security promises.

Current Carrier: A case study in constant innovation

In order to maximize the value of their data, contributors need partners who will continually collaborate in innovation. Current Carrier® Auto is one example of how LexisNexis Risk Solutions has done this with contributing carriers.

Current Carrier Auto was launched in 2002 with the aim of confirming prior insurance for personal auto lines. Using the contributed data, we developed two additional products. LexisNexis® Policy Watch helped identify changes to a carrier's book, such as the addition of young drivers in the household, and LexisNexis® Auto Data Prefill revolutionized the way consumers and carriers applied for auto insurance (see page 5).

Next came Carrier Discovery™, which makes contributed policy data available for the claims investigation process and, in particular, streamlines subrogation.
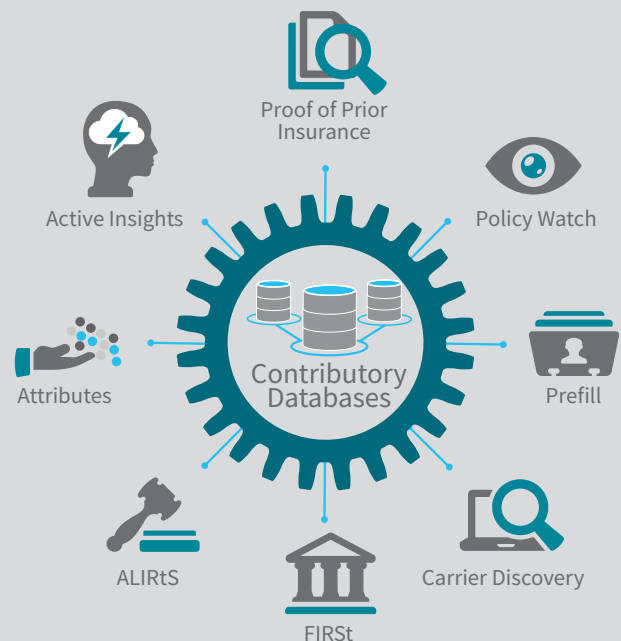
Subsequently, we developed two products to assist contributing carriers with regulatory and lienholder reporting. ALIRtS® connects carriers to 35 states for regulatory reporting, and FIRSt provides lien and mortgage reporting to thousands of lenders and financial institutions.

More recently developed, Attributes converts a Current Carrier report into thousands of policy attributes that can be easily assimilated for modeling and analytics.

LexisNexis® Active Insights is a next-generation Policy Watch that constantly monitors an entire book for changes that could reflect new insurance needs, such as insurance shopping, listing a home for sale, new drivers and other life events.

Finally, the market is beginning to understand the value of using contributory data across lines of business. For example, auto policy data can be valuable and predictive for other property and life carriers.

Notably, all these product innovations are enabled by a single contribution to Current Carrier. In addition, our dedicated socialization team continually works with contributors and regulators to review new and innovative uses of data.

Proof of Prior Insurance

Active Insights

Policy Watch

Attributes

Contributory Databases

Prefill

ALIRtS

FIRSt

Carrier Discovery

Get the complete picture

Imagine that a prospect plans to open a new restaurant and needs coverage. Without a prior relationship with the prospect, a carrier has limited historical information for rating. Accordingly, its rate will be similar to other carriers', which limits its ability to differentiate from the pack.

However, if a carrier participates in a contributory program, it has immediate access to significant information to help answer questions, such as:

1. Has this person had a prior business somewhere else and what was the risk exposure and claim history of that business?

2. If this is their first commercial venture, what does their personal lines coverage look like? Are they well covered with a limited loss history—indicating a safe, well-run business— or does their auto and property claim history indicate a higher risk profile that might carry over to the commercial world?

3. Do they have continuous, uninterrupted coverage with a reliable payment history or are they prone to lapses and late payments?

4. Are there existing riders on their current home policy from when the restaurant was just a catering business and what coverage did they carry? Are there any claims against the individual as a caterer on their home policy?

5. If the carrier already provides auto or home coverage for the prospect, does the opening of a commercial policy indicate that changes are needed to the auto or home policy, perhaps due to the nature of the business or how personal assets are being used?

Participating in contributory databases across lines of business and using the information across the customer lifecycle provides access to a more complete picture of the activity in the household. This enables carriers to engage the prospective or current customer with more knowledge, and more effectively manage the risk across all of the policies. It also helps carriers to serve as a trusted advisor for a customer's entire portfolio, rather than be an order taker for a single policy.

Accelerate insights

Telematics is one area of emerging opportunity. The difficulty in pricing an auto policy, whether commercial or personal, comes from a lack of information about how the car is driven, where it is driven, when it is driven and who is driving it. Current tools often depend on self-reported unverifiable data and only provide rudimentary insight to enable broad inferences about the future, based on historical events:

- Who is listed as a driver
- How the vehicle is being used
- How far the vehicle is driven
- Whether any of the drivers have received moving violations
- Whether the driver or vehicle has been in any prior accidents

When carriers contribute telematics data, they can get a much more complete—and current (near real-time)—picture about who is driving, and how, where and when a specific vehicle has been driven prior to that prospect applying for a policy. This provides details needed to more precisely rate a risk, improving new business conversion in a profitable manner.

When personal lines carriers participate in telematics, traditional auto and home databases, they can boost profitability by quickly learning of changes in the household. For example:

- Has another driver entered the household?
- Has the route or the distance traveled changed significantly?

- Is the person becoming a better or worse driver over time?
- How does this person score relative to all of the other drivers on the road, rather than just those on a carrier's specific book?

Participating in a life policy database can give carriers greater visibility into the activities of their existing customers that may signal changing needs. Awareness and timely outreach when specific events occur can help life insurers enhance the customer experience and respond quickly to provide value at the right time. These events include:

- Home purchase
- Births and deaths
- Contact updates

When carriers participate in a commercial contributory loss history database, they can realize the benefits of automated loss history reports that personal lines insurers have enjoyed for decades. These benefits include:

- Alerts to "boomerang" risks, posed by those customers who move from one underwriting company to another after a loss.
- Real-time loss runs to streamline quoting and underwriting.
- More accurate rating due to greater knowledge of a company's loss history.
- The ability to consider a driver's personal loss experience in rating the business policy.

This is only the beginning

As the amount of data available to carriers has exploded, contributory databases can help carriers minimize their blind spots. And while the Internet of Things (IoT) brings promise for carriers to better personalize pricing and help customers prevent risks, connected devices will also generate massive, unprecedented amounts of data that present new challenges for carriers.

To understand how insurance professionals view IoT data, its impact on the industry and how it can help carriers achieve a competitive advantage, LexisNexis Risk Solutions conducted the 2018 IoT and the State of the Insurance Industry Study.

LexisNexis research shows that insurance professionals recognize the value of the IoT and agree that it will have a definitive impact on the industry and define its next leaders. In addition, the majority of survey respondents agree that the IoT presents an opportunity to create a competitive advantage. The study also reveals that the IoT playing field is relatively even, which creates a significant opportunity for carriers to capture the opportunities the IoT offers: to enhance existing offerings, develop new products—and in the process, gain a first-mover advantage.

A data and technology partner can help carriers navigate the challenges that come with making sense of a large volume of data from disparate data sources. With the help of an experienced, trusted partner, carriers can begin to capitalize on the opportunities made possible by the IoT: the capability to better address customer needs, respond to the shifting risk landscape, access new business opportunities and fend off competition from within and outside the industry.

Imagine the possibilities

Winning in a competitive industry depends on being able to adjust quickly to changing conditions. With contributory data, carriers can learn faster about changes in a household so they can act appropriately.

When carriers have information about a current or prospective customer that promotes personalized interactions, they can offer the full suite of insurance and financial services products they need at the time, at the level they need, and in the most efficient and customer-focused manner possible. Carriers can anticipate and project customer needs as or even before they arise.

Contributory databases vastly improve the amount of knowledge that carriers can use at the point of quote, sale, renewal and claim. By participating in policy and loss contributory databases across lines of business, a carrier can see the complete current and historical view of

an individual, household and commercial entity. In turn, this can enable them to make better decisions as they acquire and renew each policy and adjust every claim.

Participating in contributory databases also helps protect against blind spots across the insurance policy continuum, from contact to quote to underwriting to renewal and claim. A complete picture of all parties to insurance transactions allows carriers to offer the right product at the right time, and speeds processes for authenticated transactions and consumers. It also gives insurers flags when more information or review may be required.

Perhaps most important, carriers get access to better information—so they can make faster, smarter decisions.

Victor Bayus

Vice President, Product Management, LexisNexis Risk Solutions

Victor Bayus is Vice President, Product Management Insurance, for LexisNexis Risk Solutions. He joined the organization in 2010 and is responsible for managing existing products and for developing new data solutions for the insurance industry. Prior to joining LexisNexis, Bayus spent 9 years at S1 Corporation in product management where he was responsible for launching and growing insurance and financial services software solutions. Bayus also spent more than six years in consulting roles with firms such as McCall Consulting Group and Accenture. Bayus earned a bachelor of science degree in economics from Allegheny College and a masters in business administration from The College of William and Mary.

With contributions from William Ayscue, Director, Product Management, LexisNexis Risk Solutions

Sources

1. "By the numbers: fraud statistics," Coalition Against Insurance Fraud, accessed May 31, 2018, http://www.insurancefraud.org/statistics.htm

2. "Facts + Statistics: Uninsured motorists," Insurance Information Institute, accessed July 23, 2018, https://www.iii.org/fact-statistic/facts-statistics-uninsured-motorists

3. 2016 Market Share Reports for the Top 125 Life and Fraternal Insurance Groups and Companies by State and Countrywide, National Association of Insurance Commissioners, 2017, http://www.naic.org/prod_serv/MSR-LB-17.pdf

4. "Market share by manufacturer," Edmunds.com, accessed May 31, 2018, https://www.edmunds.com/industry-center/data/market-share-by-manufacturer.html

For more information, call 877.719.8805, or email
insurance.sales@lexisnexisrisk.com

LexisNexis®
RISK SOLUTIONS

About LexisNexis Risk Solutions

At LexisNexis Risk Solutions, we believe in the power of data and advanced analytics for better risk management. With over 40 years of expertise, LexisNexis Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. We provide data and technology solutions for a wide range of industries including insurance, financial services, healthcare and government. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX Group (LSE: REL/NYSE: RELX), a global provider of information and analytics for professional and business customers across industries. RELX is a FTSE 100 company and is based in London. For more information, please visit www.risk.lexisnexis.com, and www.relx.com.