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CONTENTS

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The World of Social Media and Risk Management

by J. Eddie Smith

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Sony, not Apple, should have given us the iPod. Sony failed miserably because it couldn't collaborate across its many decentralized divisions. It could deliver only one kind of performance—wonderful products coming out of independent business units that had a great deal of freedom. But it couldn't add another level of performance—great products resulting from collaboration across its divisions. It failed to move its performance to a higher plateau—to gain the best of both worlds—by keeping the benefits of having independent business units and reaping big results from collaboration. It lacked disciplined collaboration.

In his book, *Collaboration: How Leaders Avoid the Traps, Create Unity, and Reap Big Results*, Morten Hansen, professor at the UC Berkeley School of Information, offered one explanation for why Apple succeeded with the iPod and iTunes, while Sony failed with "Sony Connect" (Sony what?). Essentially, Apple was able to harness the collective creativity among its employees, while Sony failed to do the same across independent platforms.

This theme can be applied to a variety of other contexts. Actuaries, like other knowledge workers, store and produce a great deal of valuable information at an individual level. Individual thinking is vitally important because it leads to the pursuit of self-interest in a capitalist economy and also ensures a varied mix of ideas and solutions to problems.

But we can do much more at the company, industry and social level by combining what we know with other actuaries as well as members of other disciplines. To date, we've been encumbered by geographic and

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social barriers. This is by no means unique to the actuarial profession; knowledge workers across the globe stare at the same walls and ceilings.

Fortunately, this is changing thanks to social technologies that allow individuals to collaborate regardless of conventional barriers. By connecting smart minds more inexpensively and efficiently, I'm confident that we will see new iPods delivered at an even faster pace as we move into the 21st century—one that will take interdisciplinary collaboration to levels we cannot fathom today.

So, how do we use these new social technologies to leverage our existing actuarial skill set data in a way that creates value for customers and clients?

Brass Tacks—Customer Expectations and Getting the Job Done

"If you look deep into the social business movement you will see that we are on the brink of a fundamental change in the way businesses interact with customers, partners, suppliers and employees," said Michael Fauscette, group vice president, IDC Software Business Strategies. "Customers' expectations of technologies and the way they interact with suppliers have changed, driven greatly by the social Web."

The results of a recent IDC study underscore the fact that social media is about much more than just marketing. The concept of Web–based social networks will affect organizations at all levels, as the following statistic points out:

Fifteen percent of 4,710 U.S. workers surveyed reported using a consumer social tool instead of corporate–sponsored social tools for business purposes due to the following top three reasons, (1) ease of use, (2) familiarity due to personal use, and (3) low cost.

This is a very important trend to watch. Driven by the desire to create uniform operating environments and hindered by economic woes, many companies have done little to change their workplace technology "toolbox" in the last 10 years. In fact, most office workers are using essentially the same technology they did in the 1990s—some version of Microsoft Office and e–mail.

Technologically, the world was a very different place in the 1990s. The personal computer was still a new concept, and because of cost, employees naturally relied on their employer to provide work–related technology. Mobile phones basically did one thing 15 years ago—they made calls. But today, more and more households have not one, but several computers. And today's smart phones are arguably more sophisticated than the typical CPUs residing in cubicles across the world.

So while the "getting things done" technology available within the corporate firewall has remained largely unchanged, the technology available to the consumer outside the firewall has grown by leaps and bounds. Social media is a big part of it, and it's very important to consider its benefits, not just its risks.

There are so many examples of acceptable social media use cases that essentially pose no risk at all. For example, consider a department within a large company that no longer has an administrative assistant. If a manager needs to do an unintuitive administrative task like a mail merge, he or she can either spend a few hours figuring out how to do it, delegate it to another knowledge worker, or turn to the Web or social networks to get instruction. If you believe in paying employees to do their jobs, the latter solution is obviously the most attractive.

While somewhat abstract, this is a very real benefit to the enterprise and should be encouraged if anything. Generally, things that add to the "R" in ROI without adding to the "I" are to be coveted.

I have little doubt that the trend toward using more consumer technology in the enterprise will continue. As computer hardware becomes increasingly commoditized, and therefore cheaper, knowledge workers will naturally leverage their own tools to do their jobs more effectively. Social networks do pose threats to companies, but it's important to understand that their use is not being driven entirely by "time–wasting" motivations. Rather, they could be significant time–savers.

Listening to Each Other With Social Media

At this point, those of us with any knowledge at all of social media probably agree that it's not going away. For prudent insurers, the focus must be on how to make use of the information vortex swelling from social media networks. For now, it's just a really loud, mixed conversation—a bit like standing in the middle of a large, outdoor concert crowd. How can insurers detect and make sense of the signals embedded in the cloud of noise resounding from social networks?

Claims investigations and even underwriting—which are both information–collecting exercises—will likely find valuable uses for information volunteered by individuals on the Web. Much like employers now do informal background checks on potential employees by looking at their social media profiles, insurers can be expected to do the same sort of reconnaissance on their current and potential insureds. It's already happening. In 2009, a Canadian was denied future disability benefits by her insurer, who cited evidence from the woman's Facebook profile that contradicted her disability.

Clearly, companies with the best information about their insureds make the best guesses about future outcomes, and consequently, price their premiums the most effectively. Good information is important not only to the financial success and solvency of the insurance company, but also necessary to provide sufficient benefits to claimants at a fair and competitive price.

Data from social networks will certainly be useful on an individual, case–by–case basis, but it will help insurers learn about "the crowd" as well.

In fact, auto insurers are just beginning to use crowd–listening tools like Telematics, a blend of global positioning system and mobile technologies. Telematics allows insurers to harvest valuable information about driving habits as well as provide customers with additional services on–the–go.

It's not unreasonable to imagine a day when macro studies of human online social behavior might aid insurers of all kinds in their quest for the best probabilities available. Social media profiles and interaction patterns among people online will provide an unprecedented view of human behavior at both low and high levels.

Another example: Imagine if Company ABC notices that the customers of Company XYZ, ABC's key competitor, are not very happy about some product feature or level of customer service. (People can be very vocal online if things aren't going their way.) Services like Twitter make it possible to broadcast rants quickly and cheaply. ABC would be able to adjust their marketing efforts to capitalize on the opportunity.

It will be interesting to see if—or rather how quickly—insurers are able to glean information from the crowd that can be used to more effectively price insurance products and aid competitive strategies. It's a data mining exercise of finding patterns and connecting the dots. For better or worse, technology will eventually arrive that makes the dot connecting easy, though it's a seemingly impossible task today. A company called Narus is already working on a technology that will aid the government in catching criminals who are operating anonymously online. It's conceivable that the same technology could be used to data mine social networks for insurance and other intelligence uses.

Don't Overlook the Individual

If you're not an insurance company, but rather the customer of one, this may seem unsettling. The idea that insurance companies are "spying" on you is not comforting. I have two main thoughts to offer on this. First, more consumer education is needed to make people aware of the consequences of broadcasting their lives online. Insurance is the least of your worries if you tell the world everything about yourself. Second, the era we're entering will not only shed more light on your behavior as a customer but also that of insurance companies.

Web 2.0 is not a one-way mirror. Increased transparency will reward the most ethical companies and be punitive for those that the public perceives as exploitative.

One thing is certain to me: as the public becomes more aware of the economic consequences of publicizing their lives, habits will change. And this is by no means a bad thing. Much like people are incentivized today to adopt healthier life styles to qualify for more affordable health or life insurance, the social media era could accelerate this even more.

For example, people who frequently discuss their exercise habits online can be expected to have better health than those that talk about eating cookies. People that like to update public social media sites while on vacation are probably more likely to be robbed.

By putting more of an economic spotlight on people's behaviors, they may find more reason to change bad habits.

Before we fully judge the era we're entering, we should ask the question: Is too much information a bad thing? Yes, it's a loaded question and depends entirely on context, but with insurance, information can have powerful, positive effects. Companies are able to provide fairer, higher quality, more customized products and consumers are better informed on the choices.

Whether it is risk assessment, analytics or some creative use of the torrent of data being produced by modern society, actuaries can play a major role in helping their employers and clients evaluate the new opportunities and risks emerging in the Web 2.0 era.

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