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## **Risk Management**

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# Chairperson's Corner

By Tom Weist

**P**redictive Analytics continues to gain popularity in every aspect of our industry. Go to any actuarial conference and there will be numerous sessions on this topic. At the recent ERM Symposium in New Orleans, I was part of a panel discussion “From Quantification to Decision Making.” Our moderator checked the schedule once it was finalized and to our disappointment we were up against a predictive modeling session. As you are probably aware, these are highly attended sessions and tough competition for opposing presenters. Fortunately, it was an “Introduction to Predictive Modeling” session. Given our breakout room was full, I can only assume there were enough attendees that already knew the basics. What a relief.

Later in the conference, there was a second session on predictive modeling. This was entitled “Risk Management Perspective in Predictive Modeling.” The session description read “This session will explore the risk management perspective on predictive modeling and will answer questions like: What questions should a risk manager ask? How should the model be validated initially? How should the model be validated on an on-going basis? What data considerations should be taken into account?”

These are all very important considerations when developing and implementing a model. However, in my opinion, this is not the greatest risk facing our industry. The number one risk that I see is complacency. Open any insurance journal, newsletter or briefing and you will most likely see the word InsureTech. There are a few companies that understand this evolution and are partnering with tech firms in Silicon Valley or elsewhere. However, there are many more companies or segments of business within companies that seem to be in denial that change is at our doorstep.

In various discussions over the years, I have heard everything from “those models don’t work for my line of business” to “we already use all of the most important information for pricing or underwriting.” Some folks throw IT under the bus with statements such as “IT has a backlog” or “we are getting a new system

in the near future that has to delay implementation.” There are also other roadblocks thrown up that relate to the submission or quoting process. Something similar to “our competitors don’t do that, so we won’t be able to write any business if we do.” To all of the naysayers, I point to a recent quote from Brian Dupperault at the InsurTech Connect Conference, “The natural clinging to what you have inhibits real change.”

It is this reluctance to adopt new technology or data analytics that is the real risk. Our underwriting expenses are too high and our distribution of products is not as efficient as it should be. If we do not innovate, someone else will. There will be new entrants in this industry that will beat us at our own game through technology. According to CB Insights, insurance tech startups raised \$1.7B across 173 deals in 2016. That’s a lot of capital looking to disrupt our industry.

I was excited to see sessions about Predictive Analytics on the ERM Symposium agenda. There are many risks associated with building and implementing these models, or lack thereof as the case may be. These were a great addition to the already outstanding program. I hope to see all of you there next year.

As far as the other activities for the JRMS, we are updating EBSCO with new ERM literature. This should be completed by the time you read this. We negotiated a 50% discount on individual yearly subscription to the U.K. based media site [www.InsuranceERM.com](http://www.InsuranceERM.com) using the code SOA2017. We continue to host networking events at SOA, CAS and CIA meetings. These are a great way for our members to gather and discuss important risk management issues. (i.e., complacency around predictive analytics perhaps) Please keep an eye out for the JRMS signage and communications. Come meet your fellow risk managers and bring someone new along. There will be a variety of webcasts in the second half of the year to provide more CE opportunities. We plan to organize an additional networking event in 2017 (Boston, scheduled for October) like we did in Hong Kong (February), Toronto (May), Quebec City (June), and Austin (June). And finally, we continue with our research agenda. This is the most critical piece of our mission.

Enjoy this edition of the JRMS newsletter. ■



Tom Weist, FCAS, CERA, MAAA, is chief actuary at Tokio Marine HCC. He can be reached at [tweist@tmhcc.com](mailto:tweist@tmhcc.com).