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KPMG Perspectives

Developing and managing trust in the algorithms

BY embracing advanced analytics and black-box algorithms, insurers have the ability to hand over many of their business decisions to machines.

Machine learning and cognitive computing are being harnessed to perform more complex, yet routine, tasks and, increasingly, to manage some underwriting capabilities and claims processing. Many insurers are already applying predictive and prescriptive analytics to optimize operations, reduce losses and manage risk.

While these uses of data and analytics certainly can deliver significant benefits, they also require the organization, from executives down to the call-center agents, to trust that the algorithms (and the insights they deliver) can truly help reduce costs, improve efficiency and make better risk-based decisions.

On the flip side, employees may be worried that new predictive analytics tools and InsurTechs will make their specialized skills redundant. They may be skeptical that a robo-advisor-based InsurTech can provide advice and make decisions as well as trained professionals. Executives and managers often view the introduction of outside data as having a diluting effect on their proprietary risk profiles and claims data.

Establishing the proper controls and methodologies to manage trust in the algorithms will also require executives and analytics leaders to think carefully about how they develop and manage their analytics across the organization.

There is also a need to embrace and learn valuable lessons about the long-term management of trusted analytics from the InsurTechs. Fundamentally, it may not be possible to understand

exactly why a model based on machine learning made a given decision, which could create concerns for regulators. For example, some InsurTechs use historical data to train a machine to make decisions in claims processing, based on long-term patterns and thereby embed historic ethical precepts automatically. As the ethical environment changes, these precepts may suffer from a lag, which ultimately could erode the customer's and the regulator's trust in the insurer unless it periodically tests and reviews the ethical framework embedded in its analytics.

While the wider integration and application of data and analytics in the insurance sector is already prompting provocative questions, it will take some time for insurers to understand the full impact of InsurTechs and data analytics on trust with both internal and external stakeholders.

What is already clear, however, is that incumbent insurers must start rethinking the relationship between InsurTech, customers, their customers' data and trusted analytics as they hasten to embrace new business models.

Getting down to the practicalities

ISSUES of trust in data and analytics already have the power to create and destroy value, but it is an immature field which still lacks a comprehensive framework for practical action. As we proposed in the series' first article, The Power of Trust in Analytics, assuring trusted analytics across an enterprise can be addressed with four key dimensions, or anchors of trust: quality, effectiveness, integrity, and operational control.

In order to benefit from the chang-

ing trust relationship and the rise of InsurTechs, insurers should consider the following at a minimum:

1. Consider where it may be better to collect new customer data gradually over time and evolve the relationship. Customer confidence and trust are earned and established in stages, which increases the likelihood that customers will provide factually correct personal data.

2. Introduce a data usage transparency policy that is clearly worded so that customers can understand how their data will be used.

3. Move toward greater transparency in pricing, underwriting and claims interactions with customers. In the long term, this is likely to build customer trust in the analysis of their data.

4. Understand that the border between personal lines and commercial lines is blurring, and start to evolve products and services accordingly.

5. Consider developing application programming interfaces (APIs) for back-office functions. This will aid in stronger relationships with InsurTechs, ease integration challenges and improve trust with customers.

The article was taken from KPMG's publication entitled *Helping insurers compete in the age of disruption* by Gary Richardson and William Howe of KPMG in the UK.

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