DON'T LOOK BACK

DAVID EDISON SAYS THAT FORECASTING IS KEY TO HELPING INSURANCE FIRMS SURVIVE TOUGH TIMES

The global economy has entered some truly stormy waters, and it may be some time before things finally settle down. It is not easy to see exactly where things will end, nor when, and nor indeed what further jolts there may be along the way. But there are certainly ways to help ride the storm and reap the rewards during calmer weather to come.

"As individual enterprises, there is little we can do to influence either the economy or the overall global environment in which we operate, and predicting the likely state of the economy, even in the very short term, is far from an easy exercise," says David Edison, head of actuarial services at Moore Stephens Consulting. "However, by implementing and using proven forecasting techniques and integrating them with appropriate technologies, we will be able to better steer our way through the rough patch, and to position ourselves to maximise performance when the tides turn."

While the Internet and new technologies aren't crystal balls, the amount of information available is phenomenal. We have achieved almost limitless levels of data capture and storage, and our ability to interrogate and analyse this data using business intelligence (BI) tools such as ProClarity has enabled us to understand our business and what drives it, leading us to faster, smarter decisions. Data mining tools go a step further than conventional BI tools, enabling businesses to use unimaginably clever programs and algorithms to hunt out patterns and relationships in the data, sometimes hidden so deep within such masses of data that you couldn't hope to discover it manually other than by chance. The results of such analysis can change the way in which a business thinks or markets itself. Microsoft's customer relationship management (CRM) software allows us, having developed a marketing campaign strategy, to implement and monitor that campaign, and to ensure its efficient running.

While BI enables companies to monitor business performance, it is essentially a record of the past. Forecasting enables businesses to look forward and make educated decisions. Forecasting requires a plethora of mathematical, statistical, actuarial and scientific techniques and technologies. Take all this data, analyse it, and then use such objective analysis, in conjunction with expert and experienced subjectivity, to project patterns and trends. These projections can be used to learn which way individual business lines are headed, and how we can better control them and maximise their performance.

In recent years, the Financial Services Authority (FSA), along with other national and international regulators, has implemented a number of requirements for regulated firms, from ensuring that customers are being treated fairly through to ensuring solvency and capital adequacy. But its motives for requiring firms to perform such analyses are not only so that the FSA will have peace of mind. Encouraging firms to analyse, investigate and forecast their own data and business on an ongoing basis will lead them to better understand and manage their business and opportunities.

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"As individual items BI, CRM and forecasting tools each perform their own functions in helping organisations prove their solvency and other requirements to the regulators," says Edison. "Regular, structured use of these tools will also enable firms to be increasingly conversant with their business data, and adding Microsoft's data mining tool will add an entirely new dimension to their understanding and interpretation of key business drivers. However, it is only when these different tools are brought together into a unified environment, where data is automatically sourced on a regular basis from them, that the system starts to become truly integrated."

The results of projections from the forecasting system (be they actuarial chain ladder claims projections at any level of granularity, or any constituent output of a holistic stochastic capital adequacy/solvency model) are brought back into the warehouse and, therefore, back into the BI and dashboards. This creates a circular management system via the monitoring, comparison and interrogation of actual, expected and previously forecast results. Such a system becomes far more embedded in the business psyche and strategy than any series of disparate tools – an approach that will allow both you and the FSA to sleep better at night. **F**

DAVID EDISON
Head of Actuarial Services, Moore Stephens Consulting

After graduating in Actuarial Science in 1993, David began his insurance career at a Lloyd's Syndicate before joining the non-life actuarial services division of Moore Stephens' insurance group. Moore Stephens Consulting was established in 2002, and David is responsible for the company's actuarial and statistical solutions globally, as well as for data warehousing and designing content and functionality of forecast cubes.

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