ARTICLE

Post-Lockdown data:

Still fit for purpose?

The transition from a full lockdown life to something that will feel more normal has begun. While there is huge uncertainty about what lies before us, we can recall lessons from our past that may help us in this next phase.

Data changes in either absolute measurement, accuracy or predictive power.

84%

Over a five-year period, US consumer debt as a percentage of GDP fell from 99% in 2007 to 84% in 2012.

Uninformed decisions: follow the data

We know that in social and economic disruptions of a systemic scale, the data we capture for our business decisions is altered and/or degraded. The data changes in either absolute measurement, accuracy or predictive power. Insurers and others in financial services should be proactive by learning from the past and acting now to build tools to measure and detect this degradation and avoid making naïve and uninformed decisions.

Only 12 years ago many industrial countries experienced a financial crisis which led to widespread loss of wealth, business failures and unemployment. In many countries, there was a response on the part of consumers to de-leverage. In the USA, the household savings rate doubled over three years from 3.6% in 2007 to 7.1% in 2010[1]. Over a five-year period, US consumer debt as a percentage of GDP fell from 99% in 2007 to 84% in 2012[2]. One result of this widespread de-leveraging was an overall across-the-board improvement in credit scores. This created a problem for insurers who use credit for predictive models.

1 Personal savings rate in the US from 1960 to 2019 – Statista, 2020.
2 US Bureau of Economic Analysis, 2019.

Since the data change was an overall shift of the credit curve, an improvement in someone's credit score wasn't necessarily any movement at all in their relative place in the shifted curve. When the de-leverage shift occurred, the predictive models could not recalibrate quickly enough and as a result, insurers were caught off guard. The emerging bias (and under-pricing) took years to observe and correct.

Building resilience: making the right investments

Can we expect a similar effect after our lockdown lives become a thing of the past? Are companies ready? Our sense is yes, the data will degrade, and no, companies are not prepared for the impact that data changes and shifts will have upon their models and decision-making. To be on top of this, companies need to invest in tools, such as continuous outlier analysis and time consistency checking, that detect degradation in the predictive power of their data.

The impact on credit scores will be different this time as reporting agencies are actively altering their scoring algorithms in an effort to reduce unfair assessments of creditworthiness but a change will happen for sure.

Managing degradation: the wider impact

What other data will change and possibly degrade? Certainly, annual mileage, household consumption profiles (shopping basket data), prior claims data, recent violations and convictions, and other activity-based data will all be altered. Even mortality tables are likely to be impacted.

Our reviews have brought us to the conclusion that the data-related impacts could be very widespread, both because of the nature of the pandemic and the massive increase in the amount of data used in decision-making. Sophisticated insurers could suffer adverse selection if they are not on top of this impact.

The pandemic and lockdown have created a new landscape and predictive models built with data from our world before the crisis will definitely degrade as a result.

FTI Consulting is helping companies navigate decision-making in light of these challenges. Learn how insurers can build resilience here: https://ftiemea.to/winningrebound #WinningOnTheRebound

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