



Demographic Data:

Knowing the Characteristics of Existing and Potential Policyholders

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bms.



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Agenda

- Introduction to Demographics
 - History
 - Credibility of Demographics
 - Challenges Using Demographics
 - How Demographics Are Used Outside the Industry
- Practical Uses
 - Traditional Methods of Understanding Portfolios
 - Better Understanding of the Insured
 - Using Demographics to Evaluate Growth Strategies

CAS Demographics

Employment Type	Total
Property/Casualty Insurance	43%
Consultants	16%
Other	13%
Reinsurance	10%
Retired	6%
Organizations Serving the Insurance Industry	6%
Brokers & Agents	2%
Government	2%
Life & Accident, Health	2%
Academic	<1%

Source: Casualty Actuarial Society, December 2012



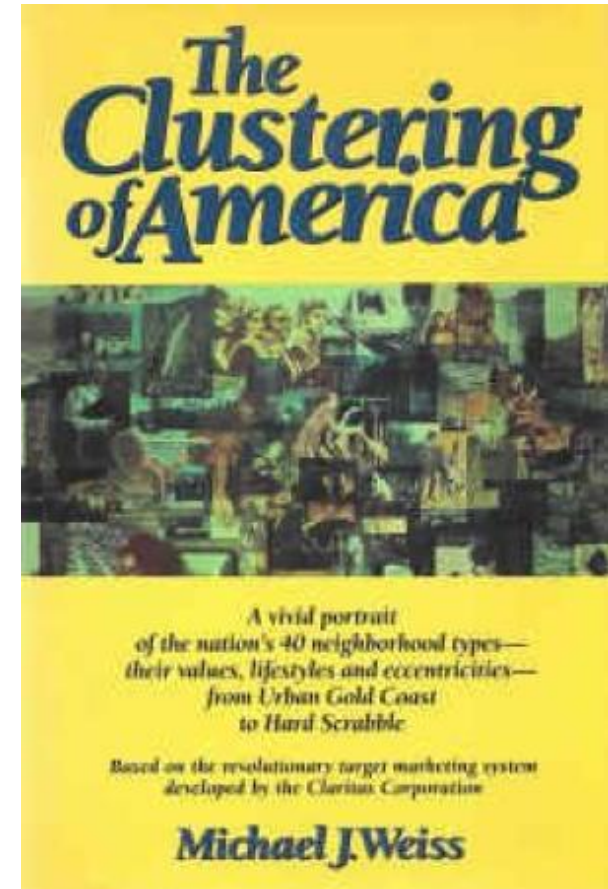
What Is Your Underwriting Area Really Like?

- 1889 – Charlie Booth's *Life and Labour* – London
- Geodemographics – The analysis of people based on where and how they live



Making Smart Decisions

- 1988 – Michael J. Weiss, *The Clustering of America*
 - Introduce the idea that neighbors can be grouped by lifestyles, consumer spending, demographics, and socioeconomic variables
 - It wasn't until 1990 that companies started to use geodemographics to inform business decisions
 - Geography is at the core of how people behave



Breaking Down Demographics

Segmenting a population into demographics allows companies to assess the size of a potential market and to determine whether its products and services are reaching the company's most important consumers.



Psychographics

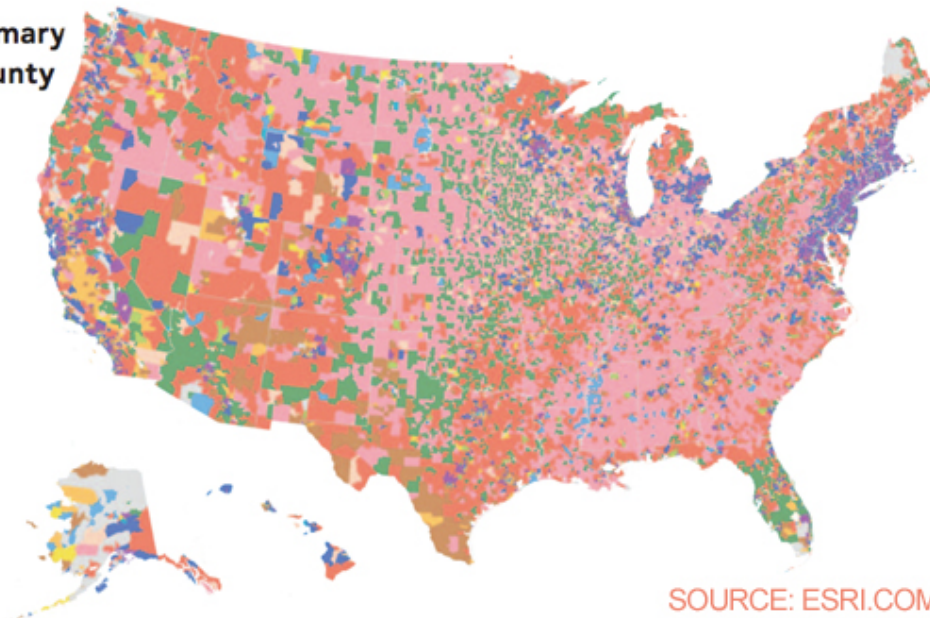
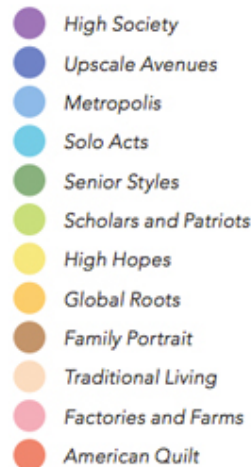
- Describes personalities, values, attitudes, interests, and lifestyles
- Can be used as a proxy for the concept of a culture
- Sample questions:
 - Did they know which brand they were buying before they purchased?
 - What advertising message had they seen prior to buying?
 - How much disposable or discretionary income is available when buying?

ESRI Tapestry Segmentation

Geographic regions are divided up into 68 distinct segments based on socioeconomic and demographic composition

- 14 LifeMode: summary of lifestyle and life stages
- 12 Urbanization: based on geographic and physical features

**Tapestry LifeMode Summary
Groups in the US by County**



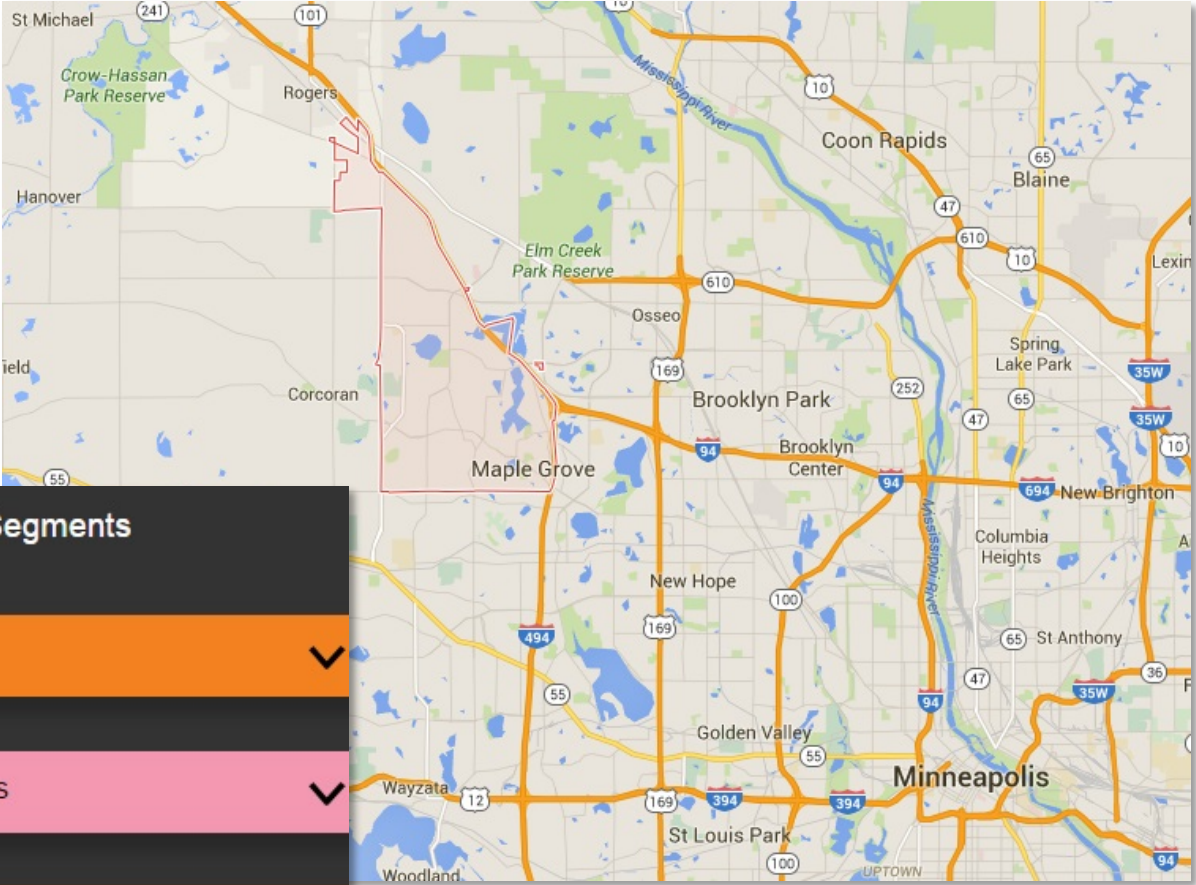
SOURCE: ESRI.COM

http://www.esri.com/data/esri_data/tapestry.com

Lifemode - Summary

- **High Society:** affluent, well educated, married-couple homeowners
- **Upscale Avenues:** prosperous, married-couple homeowners in different housing
- **Metropolis:** city-dwellers in older homes reflecting the diversity of urban culture
- **Solo Acts:** urban young singles on the move
- **Senior Styles:** senior lifestyles by income, age and housing type
- **Scholars and Patriots:** college, military environments
- **High Hopes:** young households striving for the “American Dream”
- **Global Roots:** ethnically and culturally diverse families
- **Family Portrait:** youth, family life and children
- **Traditional Living:** middle-aged, middle-income – “middle America”
- **Factories and Farms:** hardworking families in small communities, settled near jobs
- **American Quilt:** households in small towns and rural areas

Andrew Siffert – Demographic Summary



Top Tapestry™ Segments		
30%	Boomburbs	✓
27%	Soccer Moms	✓
23%	Professional Pride	✓

Andrew Siffert – Who Am I?

Professional Pride

Lifemode: Affluent Estates

Urbanization: Suburban Periphery



Age

40.5

Education

College Degree

Household Income

\$127,000

Career

Business and Financial
Operations

Housing

- Single-family homes
- Median value of \$387,000
- 92% are home owners

Work

Goal-oriented couples, often commuting far and working long hours; fine-tune their lives to meet the needs of their school-age children.

Lives

Take pride in their newer homes and spend valuable time and energy upgrading; homes are furnished with the latest in home trends including finished basements equipped with gyms and in-home theaters.

Shops

Shop at big-box stores and rely heavily on Internet shopping; Amazon.com is a favorite.

Challenges Using Demographic Data

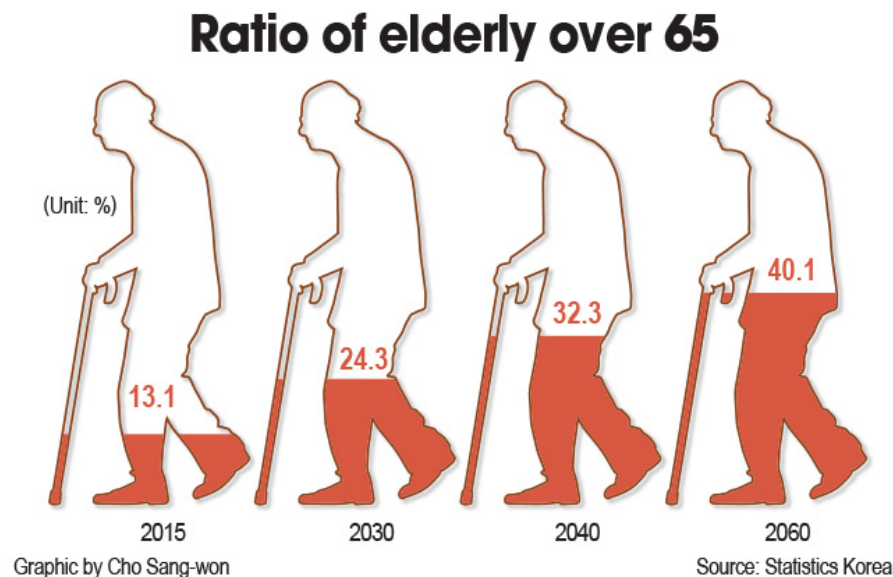
- In a complex world, one size cannot fit all
- Data is dated, especially in growing areas
- Amount of data and data sources can be overwhelming
- May not be predictive
- May not be legal to use for risk selection and rating
- No worldwide source (yet)

Demographics Shift and Change

Demographic data changes for many reasons:

- An aging population
- Shifts toward the coast or out of rural communities
- Economic events or a city loses a major employer

Demographic changes mean products and rate plans must recognize the new reality.



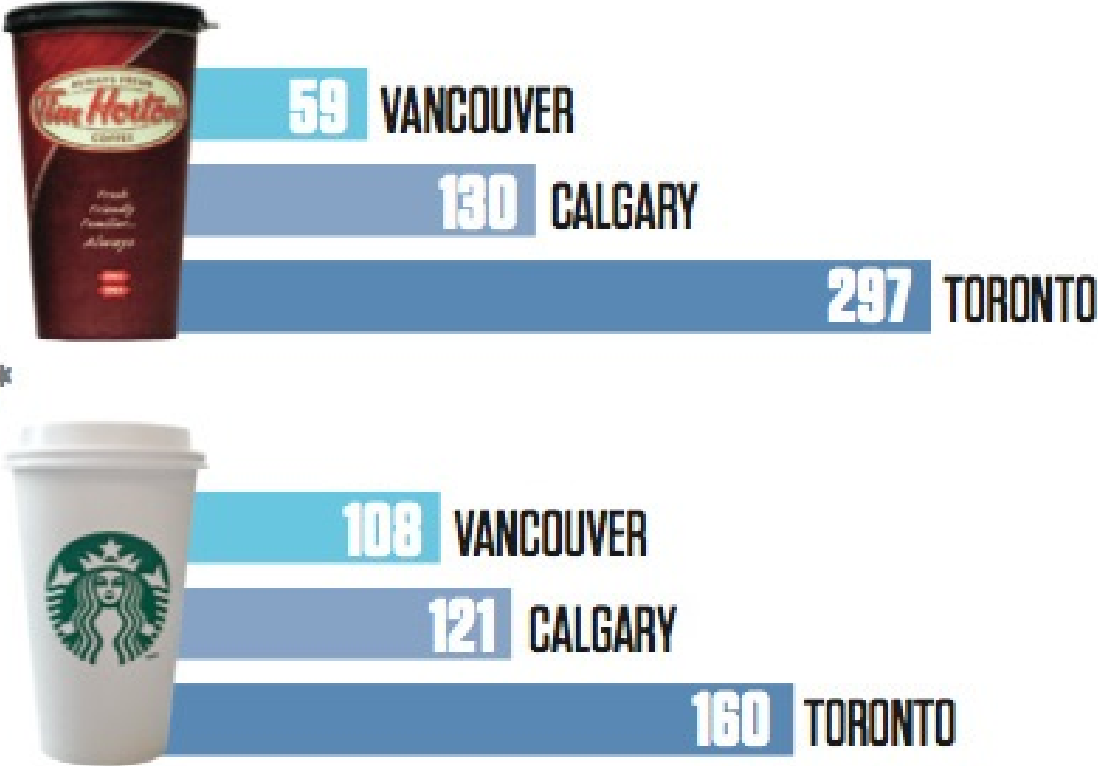
Retail Demographics

- A spatial lens on information and analytics is important in any company
- Many important decisions are often based on location: where a store will be placed, what merchandise goes in the store
- M&A activity – where competitors are versus current
- Taking a strategic, geocentric approach, and thinking locationally and geographically is important; if not, you're missing something

Coffee Competition

NUMBER OF TIM HORTONS VS. STARBUCKS BY CITY*

*Figures are for the cities proper



SOURCE: Tim Hortons and Quartz

Retail – Use of Demographics

Demographics

Both genders between ages 18-44 account for 89% of business; wealthy drinkers.

Psychographics

Place for college students to hang out and study; “Third Place” with offering certain specialty drinks and gourmet coffee.

Geodemographics

Urban centers – upscale locations near offices and near college campuses.



STARBUCKS[®]

Demographics

Gender and age ranges equal with decreased consumption by seniors; wealthy are more likely to frequent Starbucks.

Psychographics

“On-the-run” consumption style – glass pot coffee and donuts; appreciate corporate social responsibility and environmental action.

Geodemographics

Suburban and small urban area with lack of penetration in affluent and sophisticated areas.



Forward Looking

Data and analytics make marketing campaigns more relevant – reaching more of the right customers with the right message using the right channels.



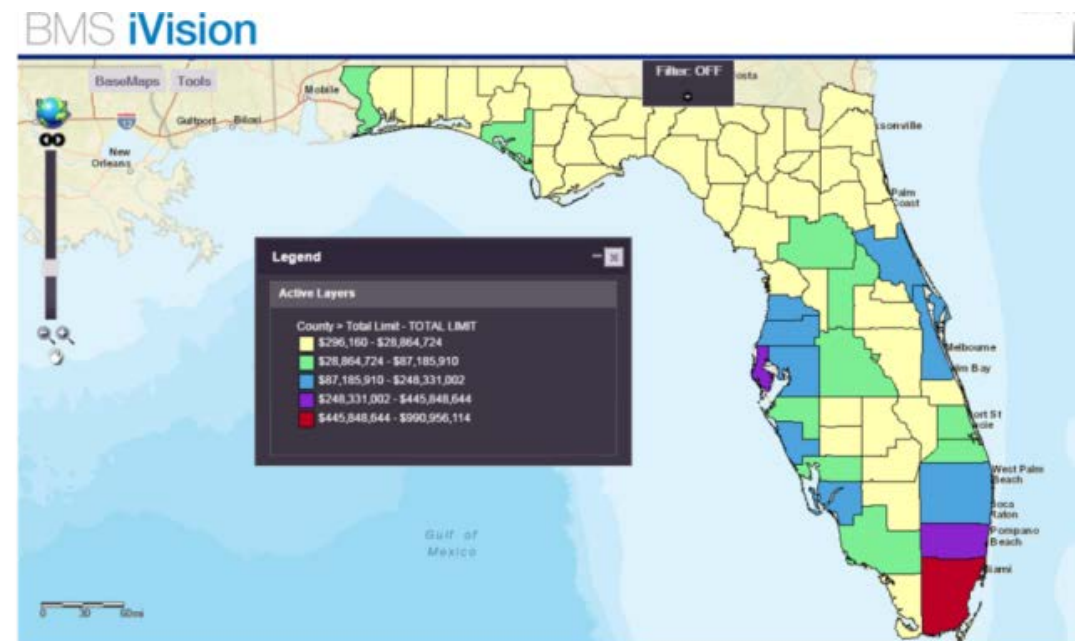
Insurance Industry

- The future may be hard to predict, but not impossible to prepare for
- The insurance industry faces several broader challenges that make predicting the future difficult, but insurers who can anticipate and plan for change can create their own future
- Insurers must understand the fundamental changes in demographics and arm themselves with knowledge—not only of their policyholders and potential markets, but also of their own employees

Understanding Your Existing Portfolio

Traditional methods focused on exposure concentrations, profitability metrics and hazard information:

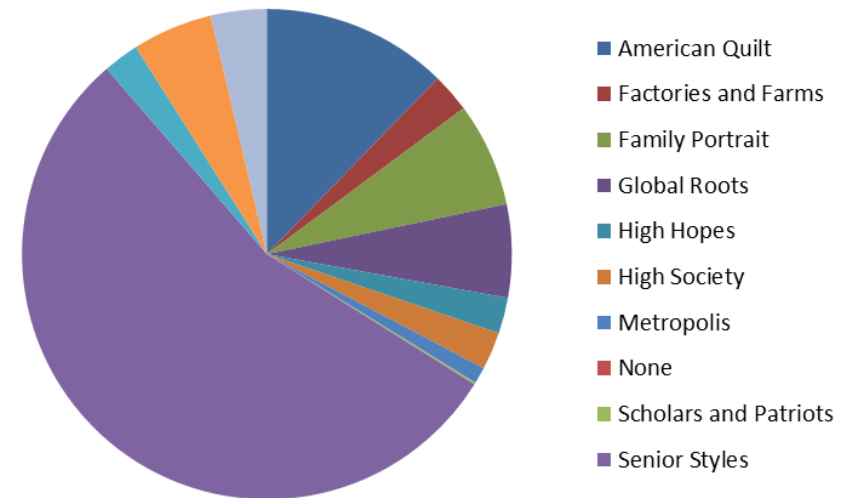
- Loss ratio
- Reinsurance costs
- Premium adequacy
- Capital requirements risk concentrations
- Proximity to flood zones and fire stations
- Risk of catastrophic losses



Understanding Your Existing Portfolio

Knowing your customer:

- Drives product development
- Impacts marketing and distribution strategies
- May influence rates and rate changes
- Helps form underwriting approach
- Can help limit execution risk associated with growth strategy
- Claims handling practices



Understanding Your Existing Portfolio

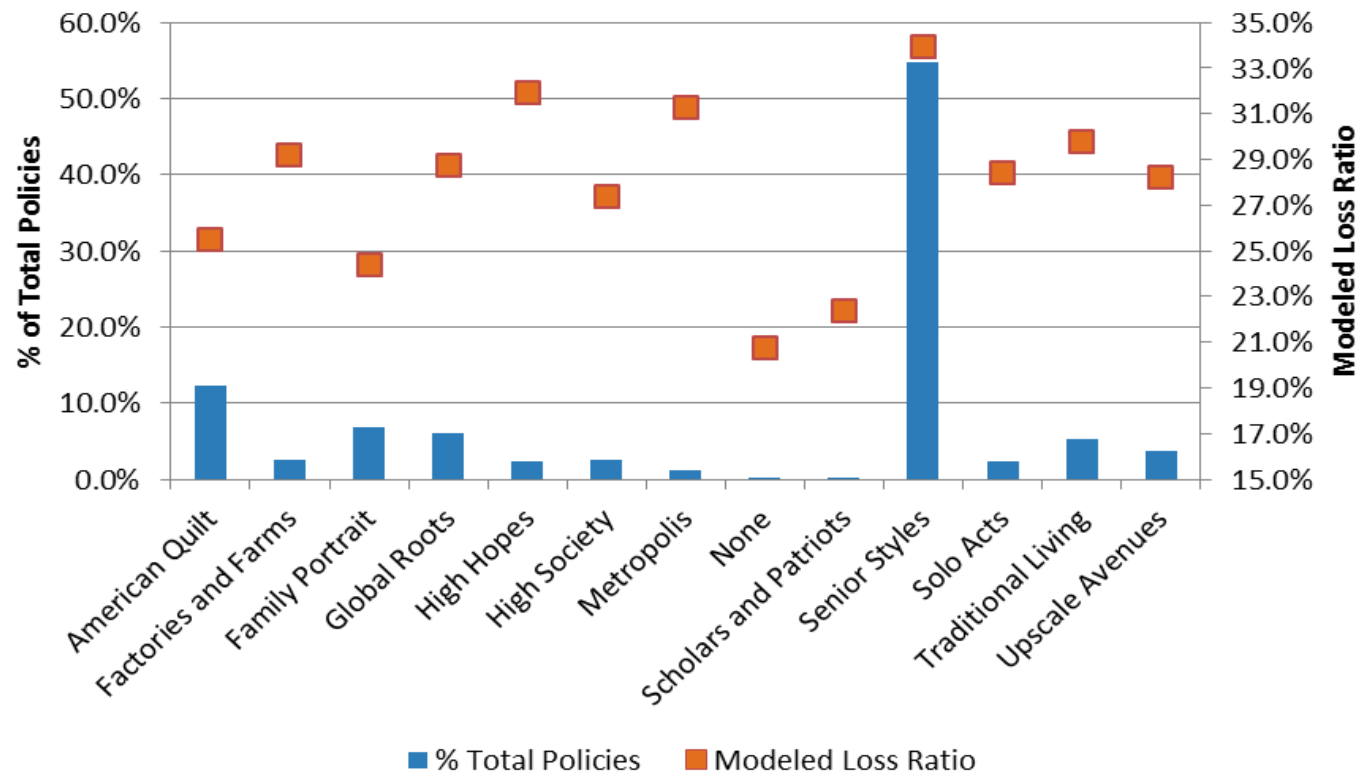
Marketing to current portfolio:

- Limited income; low tolerance for rate increases
- Snowbirds
- Marketing via mail campaigns; value direct interaction with agent
- May not require auto insurance

Senior Styles	
Socioeconomic	\$17k - \$64K
Demographic	- 49.5 average age - No children - Home owners (may be in communities)
Preferences	- Read daily newspapers - Watch TV news and talk programs - Belong to various clubs and fraternal orders; participate in charities - Tend to shop at discount stores versus department stores - Golf cart or Buick

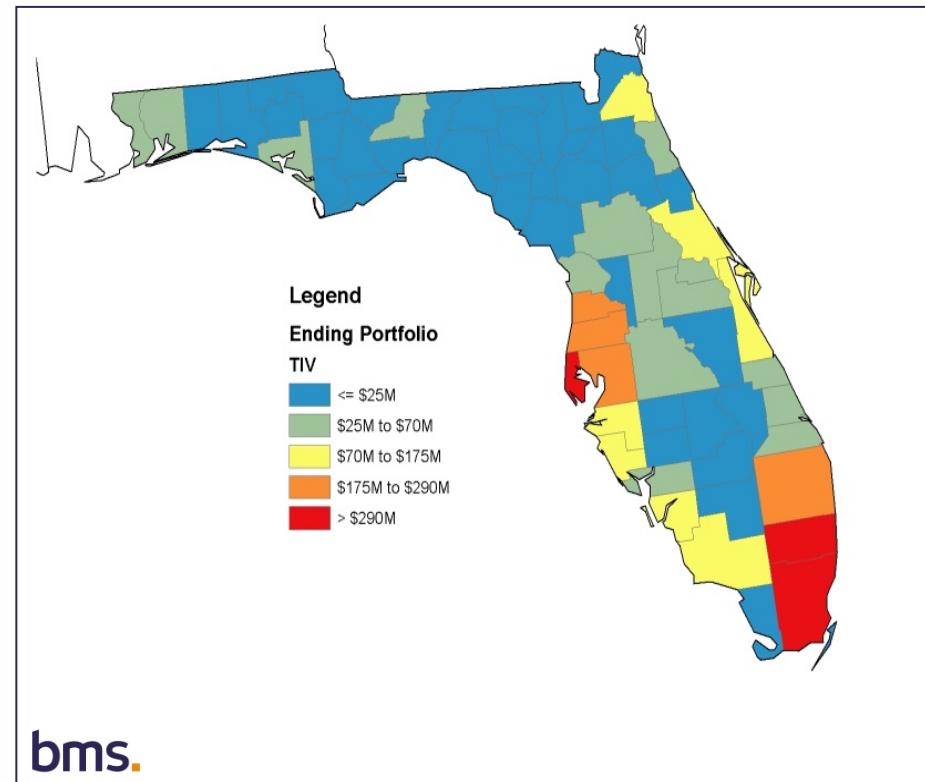
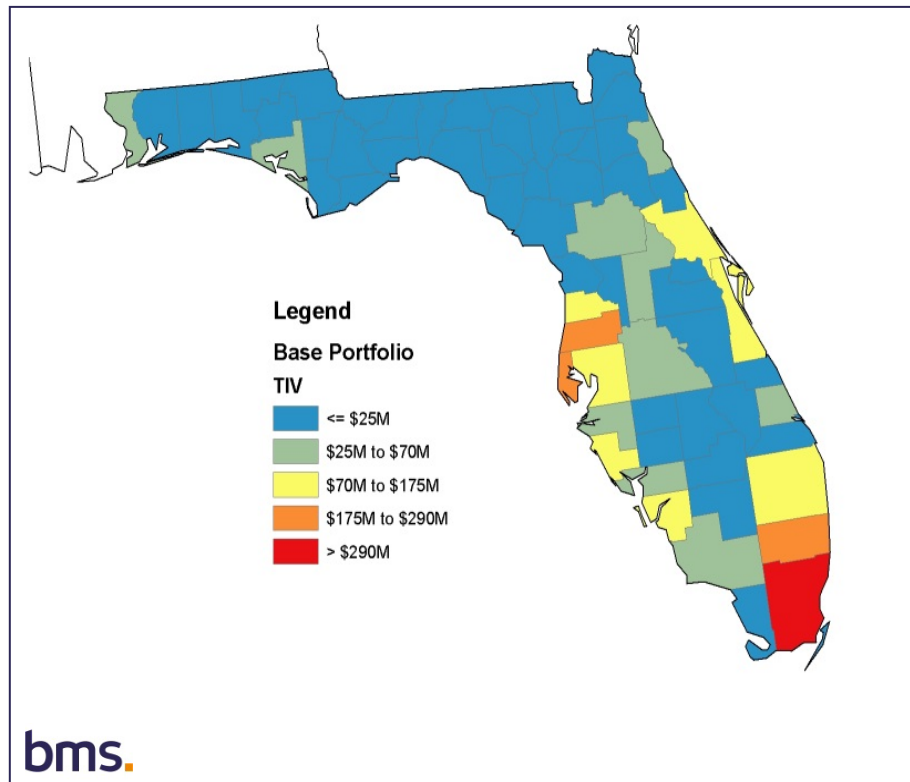
Understanding Your Existing Portfolio

While Senior Styles may be the largest portion of the portfolio, it may be the least profitable.



Evaluating Growth Strategies

Acquisition of a new group of risks can help diversify a portfolio and improve key profitability metrics.



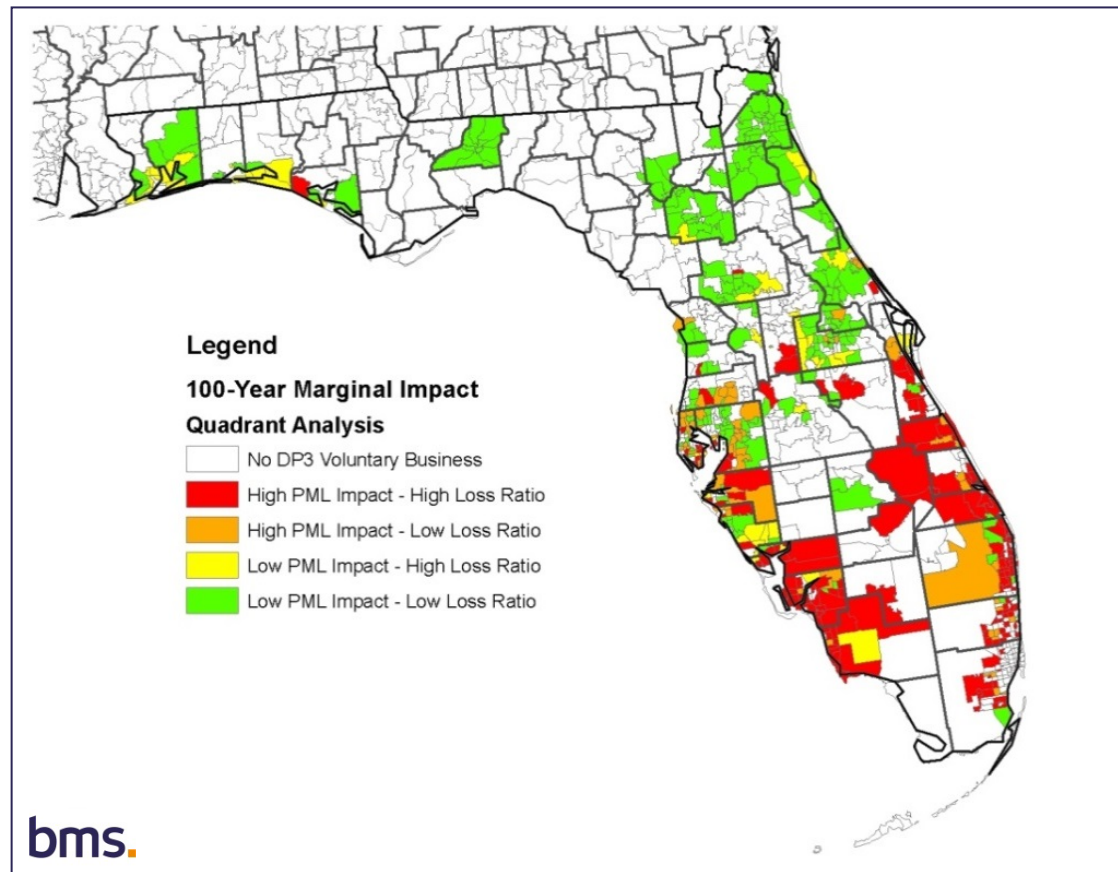
Evaluating Growth Strategies

PML analysis demonstrates positive risk and profitability impact.

Long Term Hurricane					
Probability of Exceedance	Return Time (Years)	Current (000s)	Projected (000s)	Change (%)	
0.01%	10,000	\$610,882	\$647,613	6.0%	
0.10%	1,000	\$311,327	\$327,317	5.1%	
0.20%	500	\$246,576	\$257,654	4.5%	
0.40%	250	\$191,875	\$199,420	3.9%	
0.50%	200	\$176,312	\$183,015	3.8%	
1.00%	100	\$133,723	\$138,381	3.5%	
2.00%	50	\$97,531	\$100,558	3.1%	
4.00%	25	\$65,983	\$67,779	2.7%	
Limit (000s)		\$3,186,633	\$3,827,361	20.1%	
Premium (000s)		\$40,127	\$42,274	5.3%	
Risks		38,978	41,153	5.6%	
Average Annual Loss		\$11,199,550	\$11,519,284	2.9%	
100 Yr PML:Premium		3.333:1	3.273:1	-1.8%	
250 Yr PML:Premium		4.782:1	4.717:1	-1.3%	
Vulnerability (AAL per 1k TIV)		3.515	3.010	-14.4%	
AAL to Premium		27.910%	27.249%	-2.4%	

Evaluating Growth Strategies

Optimization directs efforts to most profitable business, but...



Evaluating growth strategies

...attaining this business is only part of your success. The key is your ability to retain this business over the long term.

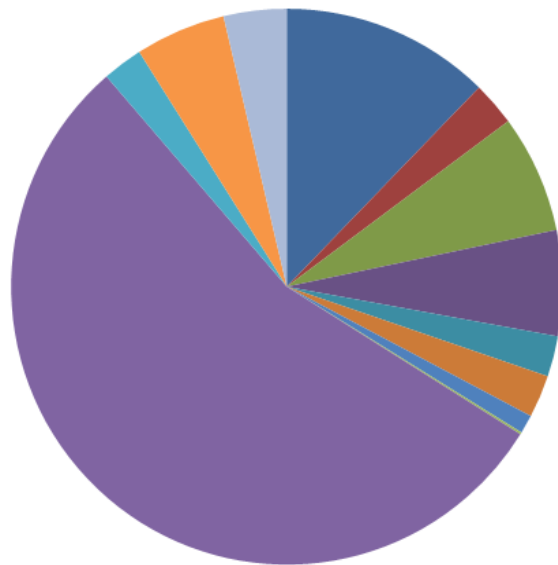


Can this be achieved?

Evaluating Growth Strategies

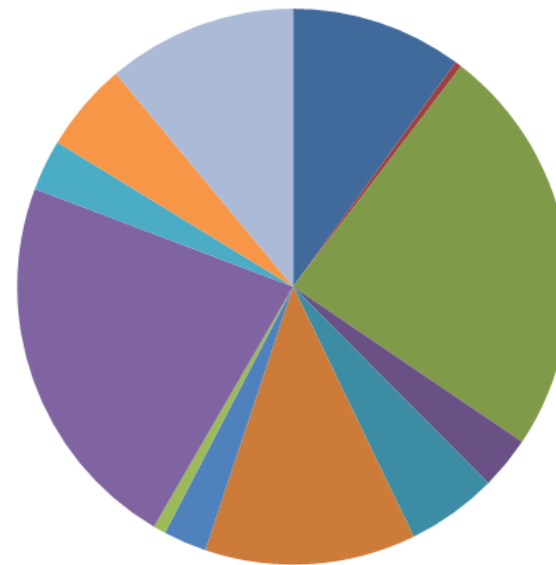
Demographics can provide insight into your new customer base.

Current Portfolio



- American Quilt
- Factories and Farms
- Family Portrait
- Global Roots
- High Hopes
- High Society
- Metropolis
- None
- Scholars and Patriots
- Senior Styles

Prospective Portfolio



- American Quilt
- Factories and Farms
- Family Portrait
- Global Roots
- High Hopes
- High Society
- Metropolis
- None
- Scholars and Patriots
- Senior Styles

Evaluating Growth Strategies

Several differing factors across demographic segments:

	Senior Styles	Family Portrait	High Society
Socioeconomic	\$17k - \$64K	\$16k - \$70K	\$82k - \$170k
Demographic	<ul style="list-style-type: none"> - 49.5 average age - No children - Home owners (may be in communities) 	<ul style="list-style-type: none"> - 31.1 average age - Married with young children - Home owners (urban or suburban) 	<ul style="list-style-type: none"> - 42.8 average age - Married with teenage children - Home owners in affluent neighborhoods
Preferences	<ul style="list-style-type: none"> - Read daily newspapers - Watch TV news and talk programs - Belong to various clubs and fraternal orders; participate in charities - Tend to shop at discount stores versus department stores - Golf cart or Buick 	<ul style="list-style-type: none"> - TV and internet as key news sources - TV watching more family focused (Disney, Cartoon Network) - Activities driven by children in the household - Shop primarily at discount stores and occasionally at department stores - Typically own mini-vans and/or SUVs 	<ul style="list-style-type: none"> - TV and internet as key news sources - TV watching is more limited than other segments and primarily new, drama, and educational programming - Exercise frequently and active in community organizations - Shop at department stores and upscale retailers - More likely to drive luxury vehicles

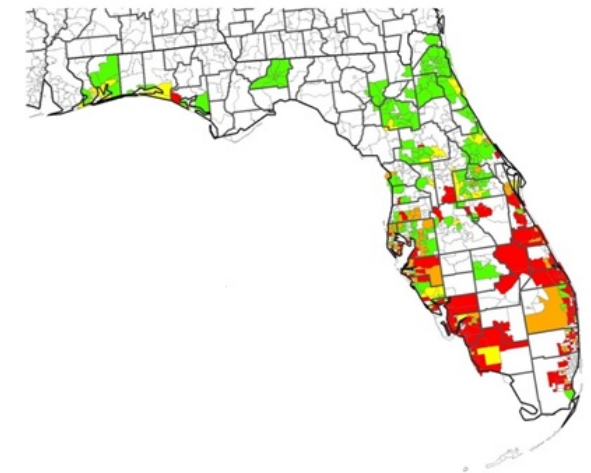
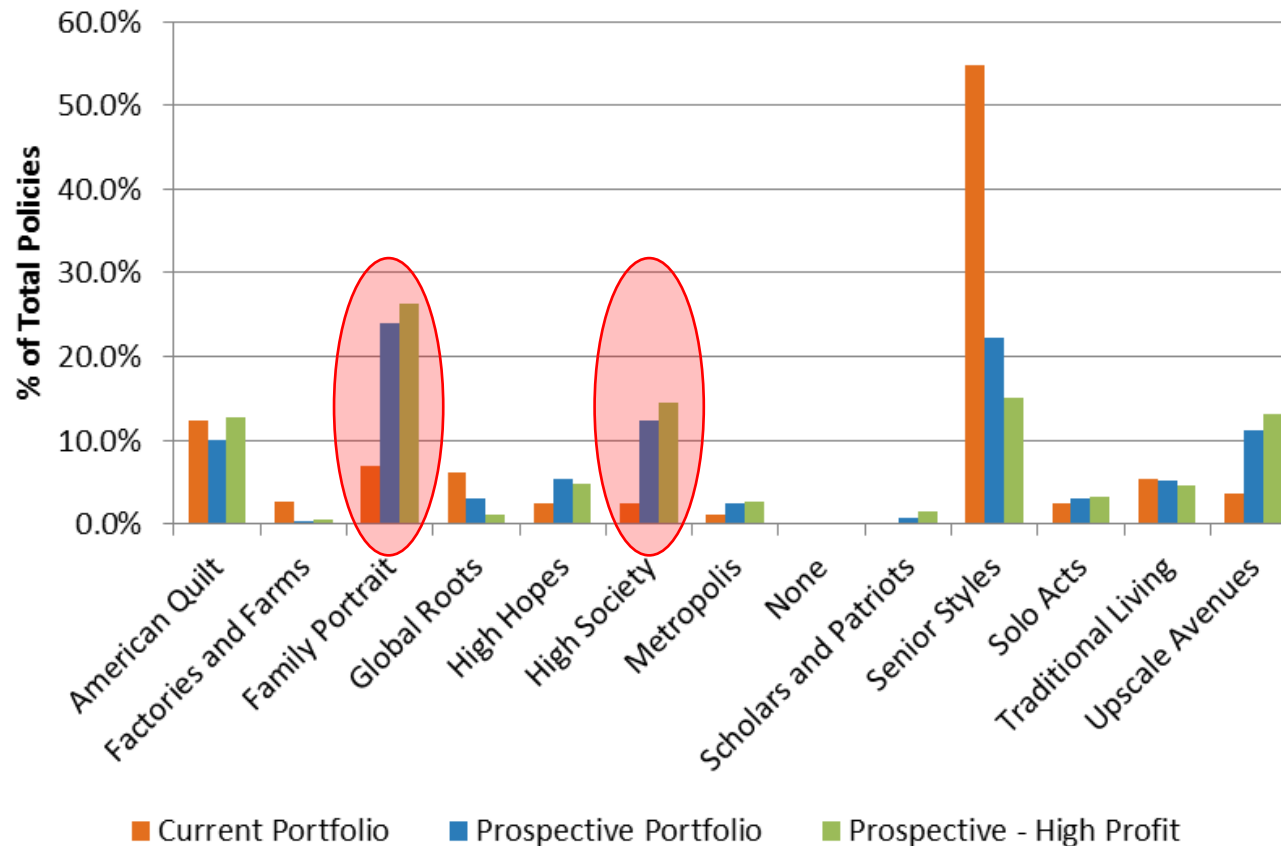
Evaluating Growth Strategies

Key questions regarding new portfolio:

- Does the current product offering meet the needs of the new customer base?
- Do rates match risk and budget expectations?
- Do current marketing strategies reach new customers in the most effective way?
- Is the current agency force adequate to properly service the new business and are they well equipped to meet the needs of new types of customers?

Evaluating Growth Strategies

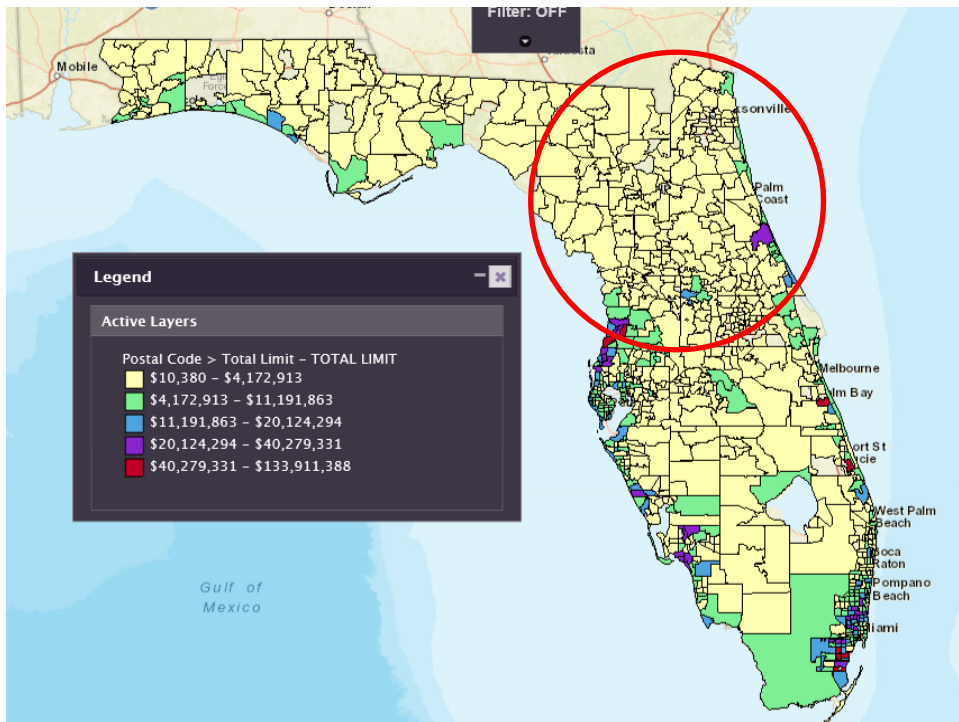
Retaining most profitable business may have material impact to several operational strategies.



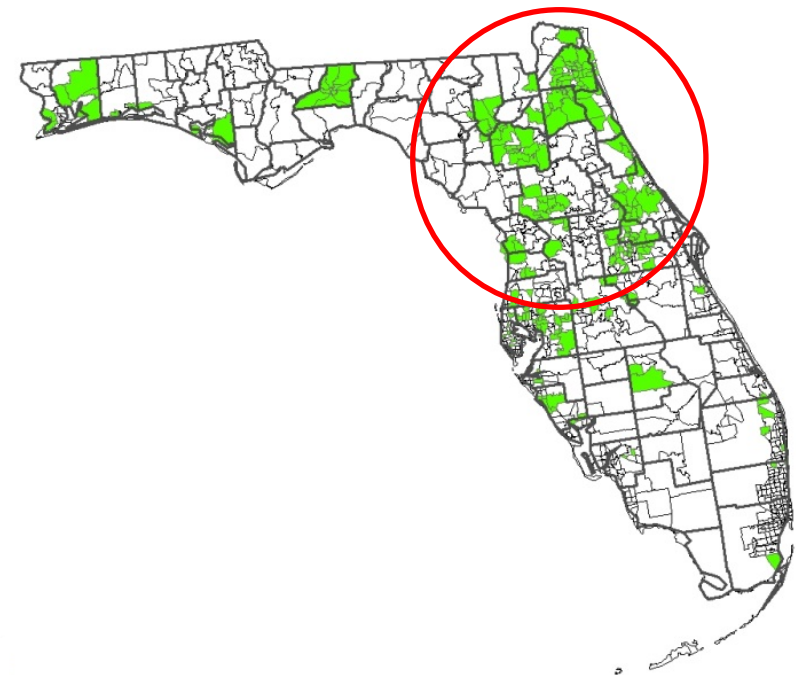
Evaluating Growth Strategies

Given current exposure, agency force may be inadequate to service new business.

Current Portfolio



Target Profitable Business



Evaluating Growth Strategies

Is there additional organic growth potential?



Summary

- It is critical to understand your current portfolio
 - Exposure concentrations, profitability metrics and hazard information will always be necessary for success
- Demographics data can inform profitability and growth strategies
 - Attaining new business is only part of your success; the key is your ability to retain this business over the long term
 - Allows you to ask key questions of your current business

Summary

- North American population will see many changes in coming years which will change insurance needs and the target markets
- If insurance companies are going to succeed in attracting new customers, they will need to learn about the ideals that shape the new market
- Geospatial data and demographics data can provide a competitive advantage and aid in making more informed decisions

Thank you

Demographics Data: Knowing the Characteristics of Existing
and Potential Policyholders

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