




Institute
and Faculty
of Actuaries

A1: What constitutes fair use of customer data in pricing?

Wendy Seago, Technical Pricing and Analytics Director, Aviva UKGI
Gareth Howell, Commercial Director, AXA Direct and Partnerships

28 May 2015



Institute
and Faculty
of Actuaries

Agenda

What constitutes customer data?
What does the law say?
What should we do? How should we approach it?
How is the law changing?

eritise
ponsorship
Thought leadership
Thought progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

28 May 2015

Introduction

- We are going to focus in this presentation on data about individual consumers
- Whilst there are also considerations in relation to data on corporate entities, the issues around "personal" data are far more immediate & emotive
- The views expressed in this presentation are those of the presenters.

What constitutes customer data?

- Insurers are likely to hold a vast array of data on individual customers
- This is likely to have been obtained from a number of sources :
 - Personal data provided directly by the customer to the insurer (eg. name, date of birth, address, motoring convictions, etc)
 - Data obtained by the insurer about the individual customer (eg. credit scores, criminal convictions, previous claims, etc)
 - Data obtained by the insurer which can be linked to the customer (eg. postcode geo-demographics)



28 May 2015

4

What constitutes customer data?

- Data is likely to have been obtained from a number of sources (continued):
 - Data which an insurer gathers during the course of their interactions with a customer (eg. telematics data, complaints, claims, web clickstream data, IP address, etc)
 - Open source data (eg. Twitter feeds, etc)
 - Data which an insurer deduces about a customer based on what they have learned about them (price sensitivity, likelihood of fronting, etc)
 - "Big Data" (likely to be included in other categories above)



28 May 2015

5

What does the law currently require?

- The main legislation in this area is the European Data Protection Directive (95/46/EC), implemented in the UK by the Data Protection Act (DPA) 1998
- This states that "Member States shall protect the fundamental rights and freedoms of natural persons, and in particular their right to privacy with respect to the processing of **personal data**".
- So, we need to understand which of the customer data we hold is personal data.
- The law is complex



28 May 2015

6

What constitutes personal data?

- The ICO (Information Commissioners Office) has issued a 30 page guidance note to help you determine whether 'data' is 'personal data' for the purposes of the DPA and the Directive.
- This takes the form of a flowchart, but it is not straightforward!
- I would summarise the essence of the guidance as :

any data items can be personal data if it is
possible to match them to an individual person
(especially if those data items influence decisions
that may affect that person)



28 May 2015

7

What constitutes personal data?

- Using this summary definition, any data whatsoever that is used to price an individual customer must therefore be personal data, and therefore subject to the DPA



28 May 2015

8

What does the DPA require?

The DPA has 8 Principles which can be summarised as follows.
Personal data shall :

1. be processed fairly and lawfully
2. be obtained only for one or more specified and lawful purposes
3. be adequate, relevant and not excessive in relation to the purpose(s)
4. be accurate and kept up to date.
5. not be kept for longer than is necessary
6. be processed in accordance with the rights of data subjects
7. be protected against unauthorised processing and against accidental loss or damage
8. not be transferred to a country outside the EEA unless with appropriate protection



28 May 2015

9

DPA Principle 1

Personal data shall be processed fairly and lawfully. You must:

- have legitimate grounds for collecting and using the personal data;
- **tell people how you intend to use any personal data** you have about them (unless this is obvious), and give individuals appropriate privacy notices;
- where appropriate, **obtain their consent**
- **handle their personal data only in ways they would reasonably expect;**
- **not use the data in ways that have unjustified adverse effects** on the individuals concerned



28 May 2015

10

DPA Principle 2

Personal data shall be obtained only for one or more specified and lawful purposes

- **organisations must be open about their reasons for obtaining personal data, and what they do with the information must be in line with the reasonable expectations of the individuals concerned.**
- **Is it possible to use personal data for a new purpose?**
- Personal data must not be processed for any purpose that is incompatible with the original purpose or purposes.
- Generally you'd need to explain your intentions and give existing customers an easy way to opt out. In practice, you often need to get new **consents**



28 May 2015

11

DPA Principle 4

- Personal data shall be accurate and, where necessary, kept up to date.
- **An expression of an opinion about an individual is classed as their personal data.** You should record whether it is an opinion, and, where appropriate, whose opinion it is.
- The Data Protection Act does not give individuals the right to demand that you delete an opinion about them from your records because they believe it is based on irrelevant information, or has not taken account of information they think is important. However, the record of an opinion (or of the context it is held in) should contain enough information to enable a reader to interpret it correctly.



28 May 2015

12

DPA Principle 6

Personal data shall be processed in accordance with the rights of data subjects under this Act.

- a **right of access to a copy of the information** comprised in their personal data;
- a right to object to processing that is likely to cause damage or distress;
- a right to prevent processing for direct marketing;
- a **right to object to decisions being taken by automated means**;
- a right in certain circumstances to have inaccurate personal data rectified, blocked, erased or destroyed; and
- a right to claim compensation for damages caused by a breach of the Act.



28 May 2015

13

What should we do? How should we approach it?

- It's not Black and White
- Considerations and questions to ask yourselves....



28 May 2015

14

What should we do? How should we approach it?

1). The Law of Unintended Consequences

- The case studies...



28 May 2015

15

What should we do? How should we approach it?

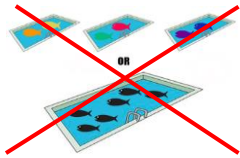
1). The Law of Unintended Consequences

- Your views?

What should we do? How should we approach it?

1). The Law of Unintended Consequences

- My views...



What should we do? How should we approach it?

2). Can it be explained?

- The case studies...



What should we do? How should we approach it?

2). Can it be explained?

- Your views?

28 May 2015



19

What should we do? How should we approach it?

2). Can it be explained?

- My views...



28 May 2015

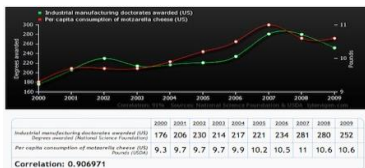


20

What should we do? How should we approach it?

2). Can it be explained?

- My views...



28 May 2015



21

What should we do? How should we approach it?

3). Validity versus Fairness. How to decide what is fair...

- The case studies...



28 May 2015

22

What should we do? How should we approach it?

3). Validity versus Fairness. How to decide what is fair...

- Your views?



28 May 2015

23

What should we do? How should we approach it?

3). Validity versus Fairness. How to decide what is fair...

- My views...



28 May 2015

24

What should we do? How should we approach it?

3). Validity versus Fairness. How to decide what is fair...

Deloitte's Data Nation 2014 report, reported :

- The number of news reports about data breaches exceeded 24,000 for the first nine months of the year – a seven-fold increase on the same period in 2013.
- Consumers in 2014 are more aware than ever that data about them is being collected and used by organisations.
- The public's confidence that their data is being handled securely or analysed for their benefit has remained consistently low for the last three years.
- When consumers don't understand how they benefit, they oppose the use of their personal data and some (38%) will give false information.



28 May 2015

25

What should we do? How should we approach it?

3). Validity versus Fairness. How to decide what is fair...

Deloitte's Data Nation 2014 report, reported :

- Nearly two-thirds (64%) of consumers would be willing to exchange their personal information if it leads to direct benefits in the form of financial savings, product or service improvements.
- Public healthcare providers (60%) and public sector are more trusted to access personal data than insurers, pension providers and investment services (38%)
- Young consumers aged 15-24 are more trusting of organisations' use of data but concerns rise with age.



28 May 2015

26

How is the law changing?

- It is 17 years since the current EU data protection rules were adopted
- New ways of communicating such as online social networks have profoundly changed the way people share personal information
- Cloud computing means that more data is stored on remote servers instead of personal computers.
- 250 million people now use the internet daily in Europe
- Much more data is being created
- In this fast-changing environment, individuals need new safeguards to help them retain effective control over their personal data.

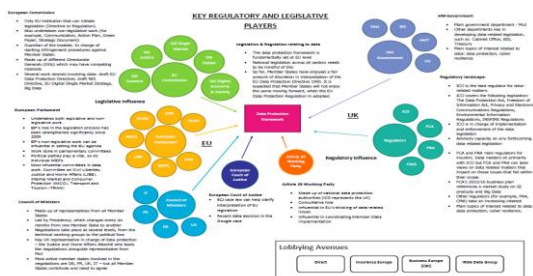


28 May 2015

27

How is the law changing?

- It is expected that new EU Data Protection Regulation will be passed in late 2015, and we will have 2 years to ensure we comply.
- The regulations will apply directly in all member states – no need for national legislation
- It is likely to affect how insurers can use personal data for underwriting & fraud detection
- The rules are not yet finalised. So far the European Commission & the European Parliament have agreed their position. The Council of Ministers are still discussing. Then the three parties need to agree.



What is the European Commission proposing?

Nothing is finalised yet, but some potential areas of change are :

- **Fines** – up to €100m or 5% of annual worldwide turnover
- **Consent to be explicit** & freely given (non objection is not consent)
- **Profiling** requires explicit consent & there may be restrictions on the degree of **automation** (you may need a manual intervention in the profiling process)
- **Right to be forgotten** – individuals can require organisations to delete their data (unless there is a justifiable reason not to)
- **Data portability** – helping consumers switch providers

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.
The views expressed in this presentation are those of the presenters.
