**UNDERWRITING**

# Establishing a Robust Credit Analysis System to Support Underwriting for Surety Insurance Products

Subject matter experts from Xceedance partnered with a global insurer to set up a credit analysis practice, effectively supporting the underwriting process for surety insurance and boosting underwriters' capabilities.

**XCEEDANCE**

## THE PROBLEM

The client – a global insurer – was looking for a partner with an in-depth understanding of the surety insurance business and sound construction sector knowledge, especially the industrial accounting practices and relevant ratios used for financial analysis across geographies.

The client needed an effective credit analysis system to streamline the underwriting process for their surety insurance products.

Additionally, adapting to various underwriting styles across regions was one of the primary challenges. While the US region was more project-focused with more significant data availability and sound surety regulations, others followed a more limit-based funding process, working solely on financial statements with limited recourse options.

# THE XCEEDANCE APPROACH

At the outset, Xceedance formed a highly skilled team of subject matter experts. With proficiencies in surety insurance and having performed detailed financial analysis for corporations, the team benefited from the addition of aspiring CFAs/fresh post-graduates for data support.

The team then worked closely with the client to understand their specific requirements and develop comprehensive credit analysis templates for assessing the qualitative and quantitative credit risks of insurers (focused on the construction sector).

Further, Xceedance customized templates to suit data availability for different geographies. The team collaborated to convert subjective underwriter decision matrices into standardized financial models, enabling peer portfolio comparisons. They leveraged visualization techniques to better present model building blocks and the outcomes.

**Some essential tools used throughout the developmental process included:**

› A third-party data aggregator to automate and expedite data imports for public-listed accounts and develop benchmarks for the specified sectors, helping with classifying ratios (above average, average, below average).

› Excel modeling techniques to consolidate the drivers for credit analysis, including, but not limited to, solvency, operating performance, liquidity, and management track records. Additionally, widely used z-scores were embedded into the model to aid decision-making based on credit risk parameters.

› A standard Microsoft Word template for sharing results to suggest critical risks along with details around each of the factors including, but not limited to, construction sector nuances, such as overbilling/underbilling trends, related party contracts, contract completion status at the project level, and subcontracting of projects.

# THE RESULTS

The enhanced credit risk assessment capability significantly boosted underwriters' confidence. It enabled them to tap new business opportunities by leveraging the capabilities of the Xceedance team for high-quality, centralized credit assessment.

**Key benefits delivered to the client included:**

› Up to 30 percent overall reduction in turnaround time for new business quotes for surety

› Robust global template with a standardized process for each region

› Portfolio-driven approach for the surety business

› Independent, unbiased assessment of accounts, enabling senior management to develop quality portfolios

› Cost and time savings on data-oriented tasks

› Adoption of industry best practices, such as portfolio monitoring on crucial accounts and exposure management

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