WHITE PAPER

Reimagining Commercial Lines Underwriting Work flow

Empowering Underwriters of the Future with Process Reengineering, Augmented Data, and Intelligent Technologies.

This paper looks at the common problems faced by carriers seeking to augment commercial underwriting workflows as well as industry trends and challenges that are making automation a top priority. We also recommend three critical parameters for consideration when designing a well-rounded transformation strategy.

Trends in Commercial Lines Underwriting

Profitability remains the priority and core concern for the insurance industry, considering competitive pricing and expense pressures. According to the 2020 Insurance Outlook report by Deloitte, non-life premiums increased by close to 3 percent in 2019. And in 2020, they continue to grow. That is higher than the 10-year average of around 2 percent. Here, it is essential to note that P&C insurers are facing lower yields on fixed-income securities, mounting liabilities, and more significant catastrophe losses.

However, they have been growing premium volumes by raising rates. Marsh's Global Insurance Market Index also showcases how commercial policy pricing soared 8 percent in the third quarter of 2019.

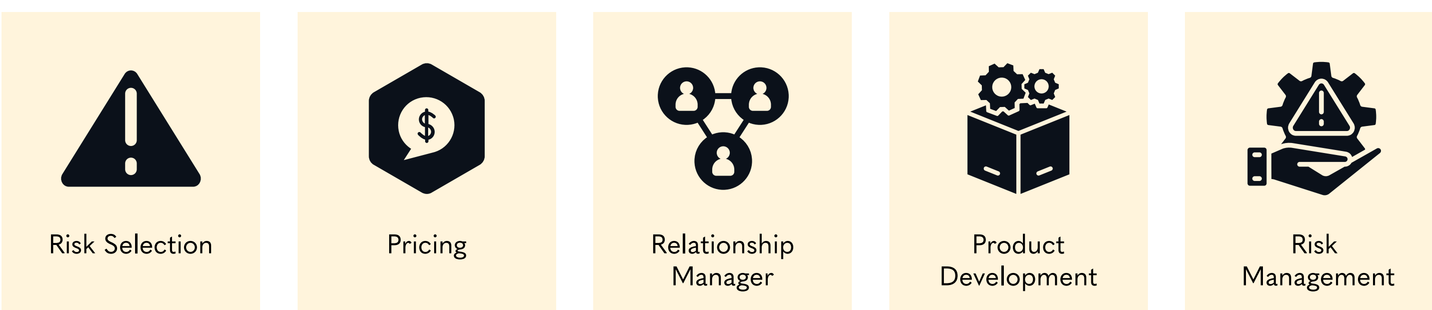
Market experts such as S&P Global Market Intelligence are projecting a fall in underwriting profitability over the 2018-22 period. When we add to that the unprecedented level of global uncertainties on account of COVID-19, we will be in undoubtedly in need of transformation changes to legacy underwriting processes.

The volatility in the market puts an uncompromising level of demand for underwriting quality. Underwriters always need to be unremittingly focused on selecting the right risk and deciding the right price.

Hence, it comes as no surprise that most insurers are concentrating on gaining expense efficiencies using robotic process automation and reducing expense factors through outsourcing/offshoring non-core tasks. Insurers are looking to evolve their traditional business models by investing proactively in digital technologies, bolstering core systems, adding capabilities, and enhancing customer experience using digitalization, AI, and alternative product development.

All these process changes are causing underwriters to see a shift in their roles, as they now take on responsibilities over and above risk selection and pricing to focus on relationship management, product development, and risk management. Underwriters are also seeing a need for more time to accommodate these additional responsibilities.

Responsibilities of an Underwriter



What to Consider

The heterogeneous and complex nature of commercial exposures, the quality of the data needed to support the risk pricing, and scarcity of new talent - all pose a challenge to smooth adoption of new-age technologies. Let us look at reasons why automation of commercial lines underwriting processes proves difficult and discuss trends driving the need for transforming legacy processes.

01 Data

Commercial lines underwriters today are exploring the application of real-time data along with proprietary and third-party data to augment risk assessment and pricing But the data underlying the risk selection is still mostly unstructured. Instead of spending their time analyzing complex risks, underwriters are having to expend copious amounts of time in sifting through unclear and unstructured data, handling multiple workflows, and standardizing the data for inputting into pricing tools to derive meaningful insights. Moreover, the data needs to be error-free and accurate for pricing to be accurate and for quotes to be quick. It cannot be outdated, incorrect, or incomplete.

Innovative insurtech initiatives are enabling real-time, proprietary, and third-party data to pave its way to commercial lines. Underwriting needs such data to be of high quality for it to deliver predictive power. The data should also be easily ingestible into the system to offer any real value. Third-party data, such as address records in property insurance, can now be populated accurately and in a standardized manner using a modern geo-location solution. Such solutions employ geo-coding of parcels and buildings (going way beyond street addresses) and have very high fill rates and accuracy.

Driving losses down with data-driven underwriting will require insurers to seek buy-in from policyholders and more data and time to account for the entire policy lifecycle.

02 Complex Pricing Strategies

Underwriting a commercial risk is a complex and non- standard task. Risk pricing itself is highly subjective and dependent on judgment and experience, which an underwriter develops after years of training, skill development, and experiential learning. To appreciate that better, let us look at some examples of how the nature of a business decides coverage and how underwriters need to employ varied pricing strategies when pricing risks associated with a departmental store versus a trucking company.

Retail

General liability insurance protects retail businesses when a customer sues them over injuries sustained on their premises. They are also liable for workers' compensation insurance, which is legally mandated for most companies and helps protect workers when they sustain injuries on the job. Theft, fires, natural disasters, and weather events, with prolonged power outages causing damage to perishable stocks, can also affect both physical stores and e-commerce businesses that store goods in warehouses. Moreover, hackers could steal big using a phishing attack against retail employees. The severity of those risks, the expected frequency of occurrence, and the possible impact of such events, all need to be assessed while pricing policies for a retail business.

Trucking

Auto insurance is mandatory for all drivers, including truckers. Insurance coverage rates for commercial truckers differ based on the risk perception. This assessment gets based on the CA score given to a driver by the Federal Motor Carrier Safety Administration (FMCS) using data like accident and violation history. There are other considerations like a driver's record. A record filled with a number of accidents, tickets, or other violations would imply a higher level of risk. Truckers with lapsed or inadequate coverage present a higher risk level, as do new operators without a verifiable record. Truckers who haul sensitive, expensive, or dangerous cargo present increased on-road risks and require a higher level of coverage.

Apart from coverage requirements, the loss experience would also be very different for retail versus trucking. While a retail store may experience more slip and fall cases, the trucking business will experience load delivery mistakes resulting in claims. Moreover, the claim amounts corresponding to those losses will also be very different. Therefore, the need for unique pricing considerations for each customer is the reason process automation will not be suited to handle end-to-end tasks in underwriting. However, insurers can opt for intelligent automation to manage repetitive tasks and free up underwriters to focus on value-adding tasks, which boosts top-line growth.

03 Need for New talent

Securing and retaining talent in the industry is impacted by the negative opinion of nearly 96 percent millennials towards working in this industry. This Falling preference for the industry is the reason the Bureau of Labor Statistics has long since **predicted** that employment in the insurance underwriter's role may fall by 6 percent between 2012 and 2022, from 106,300 insurance underwriters in 2012 to fewer than 99,800 in 2022. Further, Deloitte expects the retirement of the boomer generation to leave nearly 400,000 unfilled job openings by the end of 2020. As of today, most vacant positions are moderately challenging to fill, with nine of the 11 insurance functions reporting an increase in recruiting difficulty compared to one year ago.

While insurtech adoption takes center stage, many in the current insurance workforce are still unenthusiastic to adapt to emerging technological changes. That is causing a generation- and skill-divide and exacerbating the industry's issues with the talent gap.

Three Tenets of Process Transformation in Underwriting

Undoubtedly, underwriting decides the quality of business that's taken on by a carrier. Acing at underwriting is the only way for an insurance carrier to outperform the market - both in terms of customer experience and risk reduction. Automating commercial underwriting processes is fraught with challenges, but insurers committed to building profitable businesses need to undertake that task by adopting the right strategy. When carriers base the transformation on the following strategic levers, they can achieve the expected returns on investment (ROI) on transformation initiatives with minimal hitches.

01 Process Improvement and Re-engineering

Before undertaking to automate underwriting processes, we recommend the re-engineering of business processes. To achieve this, a carrier will need to make the following process changes:

- Adopt simpler processing steps, screenings, and easy hand-offs across the process.
- Reduce the number of steps - from application to quote-up to policy production.
- Design customized products reducing their complexity and adopt an innovative PAS.
- Gain the ability to quickly configure/clone new products, rates, and business rules.

Given the complex nature of a commercial risk evaluation process, instead of looking at ways to spend less time in analyzing a risk, efficiencies can be brought in by trying to identify processes that may be eliminated altogether. For instance, by building a decision support model that can help to filter bad risks likely to be declined, and then working only on submissions that have a higher probability of getting bound, underwriters can free up bandwidth. That will enable them to scale up their business quickly, and yet focus on managing and pricing risks accurately.

02 Digital Intervention

An underwriter's experience and judgment will always outweigh automation in pricing commercial risks, which come with their unique complexities. Adopting automation supported by artificial intelligence and machine learning to automatically collect data from various sources, clean it, and offer actionable insights will significantly enhance decision support for the team of underwriters working towards implementing a robust pricing strategy.

An intelligent automation system helps automate underwriting using a business rules engine, rating engine, and business process management tools. It makes insightful decisions that help improve business performance. Carriers should keep in mind the following when adopting intelligent automation:

- Incorporate expert decision algorithms and integrate data from multiple sources.
- Derive real-time decision support for technical pricing as well as portfolio management.
- Automate a few repetitive tasks like reviewing an application to determine its acceptability.
- Ensure its conformity to underwriting guidelines using machine learning techniques.

To maintain a profitable book of business, while contributing to a growing market share, commercial insurance underwriters need to strike a balance between quality and speed to market. Efficient risk selection and accurate pricing will depend on distinctive insights gathered from the data available in the submissions, augmenting it with internal and external data, and determining new and robust factors to help predict losses.

03 Strategic Support

With underwriters playing broader roles and getting involved in portfolio steering, capacity optimization, and product design tasks, they have less time to build a relationship with brokers and clients. To make their roles less challenging and ease pressures, they need to seek strategic support to deliver on their roles and multi-task effectively.

To achieve that, insurers could bring in an expert technology provider to quickly adopt an automation solution while ensuring business continuity and cost-effectiveness. Further, carriers can engage specialized workers offering independent services and outsource a portion of their tasks, which is not extremely sensitive, thereby reducing expense factors. They could also focus on recruiting tech talent from startups or sister industries, such as banking, which have seen rapid digitalization, ultimately streamlining the integration of next-generation technologies across the underwriting value chain.

Conclusion

By following the three tenets described in the previous sections, commercial insurers can ensure the success of their underwriting transformation projects, getting them to yield a higher ROI as a result of lower turnaround times on quotes, better risk selection, and more accurate pricing. They can plan to turn targeted digital interventions into long-term solutions using a baseline and continuously monitoring, managing, and improving processes and performance going forward. With in-depth process studies, a prudent digital strategy, and bolstered change management and governance processes, insurers could make the three tenets an integral feature of their operations across functions. Those transformation initiatives will help insurers meet the expectations of a tech-savvy policyholder base that demands quick, flexible, and smart solutions always. It is safe to say that the expected improvements to policyholder experience through enhanced business-technology alignment will lead underwriting operations into the future of intelligent automation.

About the Author

Rachita leads the underwriting services team at Xceedance. She has extensive experience in the insurance industry, working across functions, including analytics, underwriting, pricing, product development, quality control, and marketing. She is a Chartered Property Casualty Underwriter (CPCU), an Associate in Reinsurance (ARe), and is certified in Risk Management by The Institutes.

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