Integrating the value of data in the underwriting process

An underwriting point of view

Highlights:

- Insurers should assess their current data collection capabilities to determine whether they create efficiency or improve access

- Insurers need to improve their strategic underwriting domain by aligning their data with their business strategy, by delivering in a timely manner, and by leveraging both across the enterprise

- Insurers need to develop a culture of educated exploration

Recently, IBM conducted a study on data and information and how they are applied in the underwriting process. We uncovered a wide range of disparate practices in the industry, ranging from the use of telematics and complex algorithms to risk selection keyed to underwriter intuition.

Analytics and big data are the sentinel change agents of a transformational environment, precipitating a shift in traditional underwriting roles. The ability to compete and profit in this new environment will come from aligning these new roles to improve the effectiveness of integrating data into the underwriting process.

Accordingly, insurers are transforming themselves through the following:

1. Managing the collection of data
2. Integrating data insights into the underwriting process
3. Data and innovation in the underwriting process
4. Funding underwriting improvements

Managing the collection of data

Despite improvement in data collection and consumption practices, in many cases, transactional underwriting decisions remain reliant upon an underwriter's intuition. We note that insurers are looking to leverage the experience and knowledge of experienced underwriters by capturing their information in a consumable format to be shared and integrated with the underwriting process.

A case study in this area revealed a large commercial carrier who developed a rules-based tool that pushed relevant information to the underwriter during the account underwriting process. Decision support is provided regarding like risks, exposure analysis and whether the risk falls within "profit/win" parameters. The collective information has become an increasing repository of intellectual capital.

To address the challenge of managing data delivery to their underwriters, insurers should assess their current data collection capabilities to determine whether they create efficiency or improve access.

Integrating data insights into the underwriting process

Gaps in the alignment of data and the underwriting process occur when data is not linked real time to underwriting activities. Insurers need to improve their strategic underwriting domain by aligning their data with their business strategy, by delivering in a timely manner, and by leveraging both across the enterprise.

Our case study in this domain focuses on a carrier delivering real-time data to improve performance. Underwriters are provided with their personal metrics, reminded of key sales points and given the ability to generate predictive adjustments to risk scores by modifying risk factors. The growth in large amounts of data has begun to result in a more predictive risk management environment. This is driving a demand for more proactive products and necessitates a cultural change within the traditional underwriting approach.

Companies must be prepared to objectively study the structure and function of their underwriting processes and organization, and realign to move from merely collecting, validating and simplistically using data to a much more active structure that allows for more of the insights to be obtained and acted upon in as broad a manner as possible.

Data and innovation in the underwriting process

We have found that many companies believe they possess a level of innovative uniqueness in their underwriting expertise (in a particular segment or sub-segment of the market). Historically, niche underwriting expertise has provided a competitive advantage, but with the emerging era of big data, such advantages have begun to erode.

Insurance industry leaders are now taking increased strategic risks and employing technological experimentation to drive innovation. Companies are moving to a more robust analysis of risk attributes and applying a more dynamic approach to their evaluations, gaining insights that allow them to be aware of the changing aspects of risk ahead of the market. A leading example in the marketplace include Progressive's 'Snapshot®' tool (which electronically records driving patterns for a vehicle). This program enables Progressive to obtain an enormous amount of information to consume, analyze, and apply.

To get to innovative applications of data, insurers need to develop a culture of educated exploration. Insurers first need to assess the ease, level and timeliness of getting the 'right' data into the underwriting process. Data maturity comes through experience and rewards those who are willing to take the risk.

Funding underwriting process improvements

Many property and casualty insurance companies place underwriting transformation at or near the top of their list of strategic initiatives. Yet, companies are faced with maintaining legacy systems that consume most of the available funding.

There are two paths that insurers can take to address the challenge of funding. The first is to streamline and reduce redundancies in the underwriting process. This can be accomplished through the use of underwriting workstation tools that provide the opportunity to eliminate much of the low-value add work that many underwriters still perform. The second path is to take a component-based approach. Core activities are identified, differentiators are determined and business priorities are assessed. This helps determine the focus areas for funding.

Conclusion

The tolerance for underwriting cycles has passed. In the future, the practice of underwriting will be driven by the interaction of data within underwriting, pricing, exposure analysis, claims and renewal processing. The role of the underwriter is evolving to include the capability to leverage and access intellectual capital, mature data, and real time metrics.

The sophisticated underwriter will learn how to channel this new "guidance," not to avoid risk but to craft profitable solutions. Further, the intellectual capital developed over the years through traditional underwriting methods will be "mined" such that the empirical experience of the underwriter is not lost in the new underwriting model.

IBM.

Authors

John Anderson is a Senior Managing Consultant in the IBM Global Business Services Insurance Strategy and Transformation Practice. He has over 30 years of experience in the property and casualty industry having worked for the Chubb Group and Zurich North America prior to working for IBM the past three years. He can be reached at *jcanderson@us.ibm.com*.

Carl Sherzer is a Senior Managing Consultant in the IBM Global Business Services Insurance Strategy and Transformation Practice, focusing on core insurance processes and systems. He has over 32 years of insurance and consulting experience, with an emphasis on operational improvement, new product and program launches, strategic planning, research and development, and management information reporting. He can be reached at *carl.sherzer@us.ibm.com*.

David Notestein is an Executive Consultant in IBM's Global Business Services Insurance Strategy and Transformation Practice. He has over 25 years experience in insurance and banking focusing on delivering financial and analytical solutions for complex financial enterprises. He can be reached at *danotes@us.ibm.com*.