A Commercial Underwriter's Playbook to Automation

Foreword

Insurance underwriting is a critical differentiator between the leaders and the laggards when one looks at it from an operational performance lens. We've drafted this playbook for underwriters who are ready to disrupt, evolve, and drive significant tangible impact across their organization.

Based on our years of experience of partnering with insurers on their business transformation programs, we've seen a consistent thread that emerges out across all of them - underwriting transformation.

For the new age underwriter, cost optimization, portfolio profitability, customer experience, and efficiency stand out as significant success factors. As an industry, insurance has been relatively slow compare to some of the other sectors when it comes to the adoption of digital transformation. Consequently, the existing systems and processes pose several challenges on their way to achieving these objectives.

Excelling on these four fronts requires them to adopt digital technologies like artificial intelligence, machine learning, natural language processing, optical character recognition, robotic process automation, and several other principles like design thinking and legacy modernization.

In this playbook, we will give you a glimpse into how you can embrace automation to solve for a variety of challenges that the insurance value chain throws up as you try to achieve your four core objectives. We'll also list down what are the measures of success of your automation based programs and what are the risks associated with inaction. At last, we provide you a view into how you should build the roadmap to automate and modernize underwriting and how to map that to the underwriting value chain.

Underwriting as the growth springboard

Leading research by McKinsey reveals that it's the operating results that have the most significant impact on the overall financial performance of insurance firms.[1] If we double click on operating results, the loss ratio impacts the operating performance the most. Underwriting, therefore, as a function becomes exceptionally crucial to the success of an insurer. Our observation of having worked with insurers tells us that there are four primary objectives that an underwriter consistently achieves to drive market leadership, and they are:

Reduce costs

Improve UW profitability

Improve efficiency

Simplify customer journeys

1- "From art to science: The future of underwriting in commercial P&C insurance." Retrieved from https://www.mckinsey.com/industries/financial-services/our-insights/from-art-to-science-the-future-of-underwriting-in-commercial-p-and-c-insurance
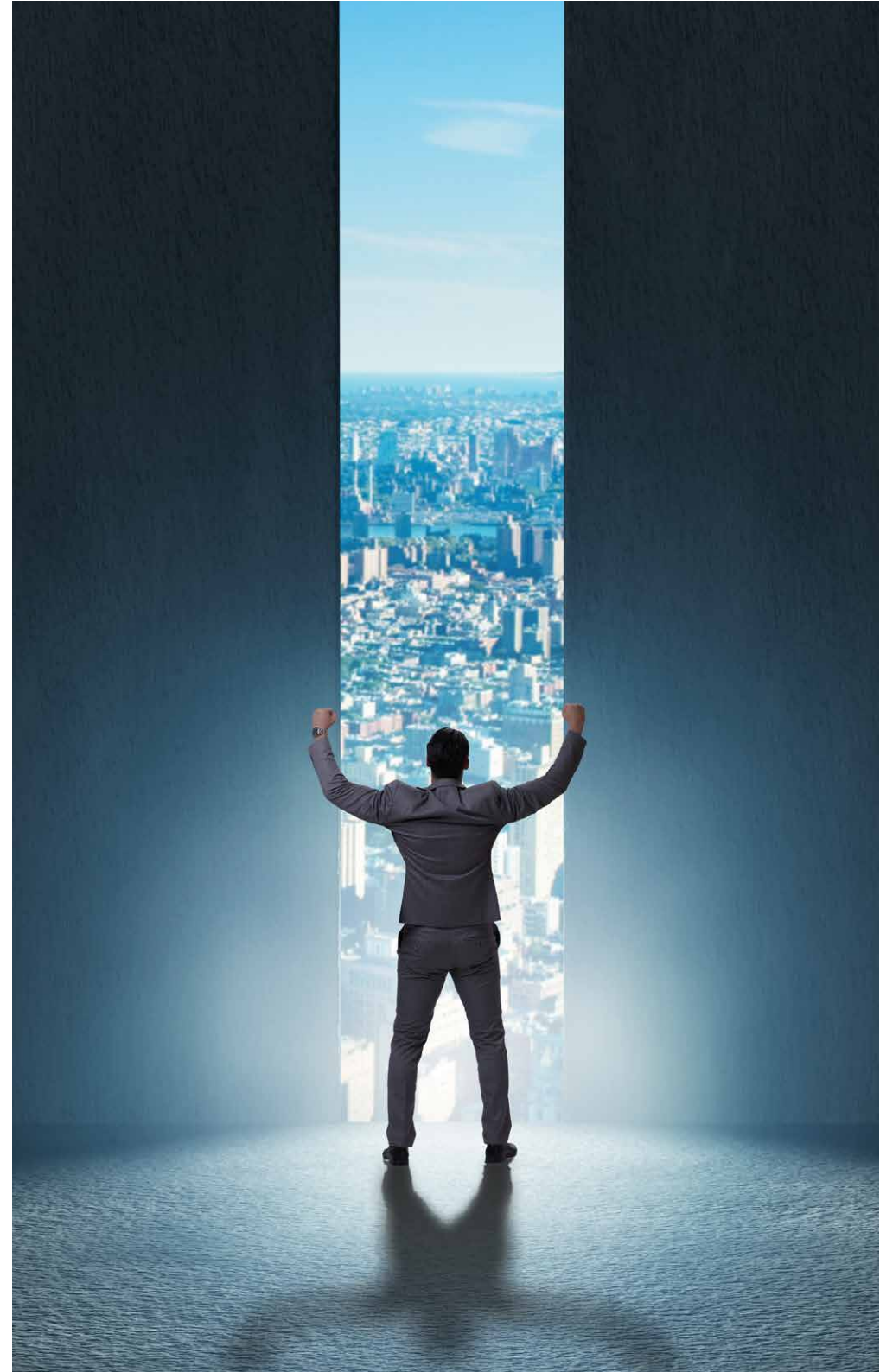
THE UNDERWRITER'S BIG MOMENT

- High underwriting profitability
- Superior customer experience
- High productivity
- Higher efficiency
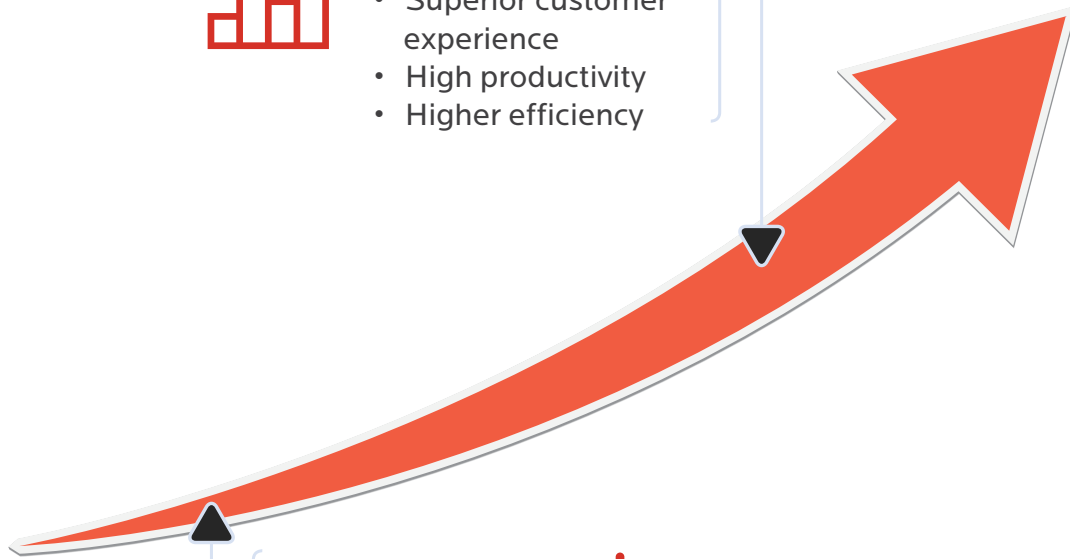
- Low underwriting profitability
- Poor customer experience
- Poor productivity
- Low efficiency

Obstacles
to meeting
underwriter's
full potential

Optimizing underwriting costs

The underwriters are supposed to drive intelligent decisions while evaluating the risk. This decision making requires them to assess several parameters that they collect during the broker submission. Any missing information or data point in the submission delays the submission cycle and decision making for the underwriter. The inability to quickly get access to this data leads to the piling up of several requests.

And, hence a lot of underwriter's precious revenue generation time gets consumed as they solve for incomplete submissions.

Further, if this data and information flow involves multiple systems (like document management system, policy administration, or email workflow), it worsens the problem. To resolve the massive pileup of submissions, the underwriting departments add more workforce who could have otherwise underwritten more submissions. However, the additional manual effort put in to offset the flow of submissions is never enough and extends the cycle time significantly.

This broken process results in high discontent amongst brokers, and eventually, it hits the insurer's new business or renewal rates, and the cost of acquiring new business increases sharply.

Maximizing underwriting profitability

With limited data and facts to act on, underwriters invariably take significantly high-risk decisions, which results in higher claims payout than what they expected. In such a scenario, there's little that the underwriters can distinguish between submissions coming from good/appointed brokers and the sub-par ones (who are usually wrong at ensuring coherence between their submissions and line of business sought by them).

Further, the inability to manage the massive volume of submissions results in loss of business, which hurts their profitability.

Building superior customer experiences

For most insurers, the key question they ask while making decisions is, 'what's the value in it for the customers?'

There are three ways in which brokers suffer during the submission process:

- Delays in acknowledgments for their submissions and back and forth communication that's done to fix that.

- Rejection of legitimate and fair submissions while manually clearing submissions.

- Incorrect pricing of submissions that leads to unfairly higher premiums for customers who should receive credits due to exposure presented.

Fixing the underwriting efficiency problem

Finally, we discuss how an underwriter's efficiency go down due to various reasons. Any manual effort that can be automated affects these KPIs. Underwriters are not well-versed with disparate document types, which demands them to spend more time spotting the sifting through data inefficiently. Also, it's not easy for them to track submissions coming from multiple sources and systems. There's no smart way to prioritize submissions – case in point, an underwriter must prioritize a submission from a preferred broker whose policy is expiring in a month over another submission that scores low on all these parameters.

The underwriting decision depends on several variables that an AI model can ingest to drive the underwriter's efficiency.

Pragmatic
approaches
to winning in
underwriting

Efficient data management for optimize costs

An easy and impactful way to optimize cost is by reconsidering how one runs data management, especially data consolidation and data hygiene.

There are three ways to execute this strategy:

- Automating submission intake.
- Consolidating data for the underwriter to get a comprehensive view.
- Accelerate underwriting cycle, and flag critical data (e.g., prior loss information, previous carrier information) that's absent from the broker submission.

If the insurance firm can fix these data management issues upfront, these will yield significant gains in terms of saving underwriting costs.

Machine learning modeling to improve profitability

If the underwriter can effectively assess the risk present in a submission, the likelihood of loss goes down significantly. While this is easier said than done, the least insurers can do is to intelligently flag the underwriters of any attributes that accompany a submission. The underwriters can go beyond this and leverage intelligent automation through AI, ML, and process automation to improve their decisions.

By developing a scoring mechanism for all submissions, the underwriter can bring in fundamental changes to their operations that will result in higher clearances, lower costs, and improved margins.

Automated workflows to simplify customer experience

For driving superior customer experiences for the brokers, insurers need to work on two aspects: encouraging regular and proactive communication with the brokers and incentivizing customers with fair premiums as much as possible.

Successful insurers and underwriters automate their email workflows for communications related to pre-defined events like an acknowledgment, requests for additional or missing information, and updates on approval or rejection of submissions.

An insurer can benefit from building AI and machine learning-based models to make decisions and reduce the probability of unfair decisions. With every decision that the model churns out, it incrementally improves the accuracy and precision of decision making. E.g., compare two cases

of P&C insurance – a submission covering a property built in 1980 versus another property that has no history of losses in the last five years. The AI model will ensure the latter is rewarded with a premium credit and thereby delivering better customer experience. Underwriters will miss out on picking these nuances, especially when there's a massive volume of submissions.

Systems integration to improve efficiency and productivity

Underwriters have to deal with a humungous amount of data fed from numerous sources in different shapes and forms. E.g., it might be stored in different file types, can be structured or unstructured, etc. It takes a village to converge all of this data into meaningful information that supports the underwriting decision. In such cases, a smart way to improve the process efficiency and underwriter's productivity is to automate the data extraction process.

An automated system will free up underwriter's bandwidth from high bandwidth – low impact activities like manual data extraction, collation, validation, and decision making.

An intelligent automation based system can also save underwriter's bandwidth by pooling in data from multiple sources and exchange information with numerous systems at-scale. Let's consider a few examples.

- Integration with rating and policy administration systems ensures data integrity and consistency across the organization and provides one customer view.

- Augmenting existing data with a third party source data.

- Procuring loss history from prior carriers can bring in significant refinements into the underwriter's decisions.

- Further, by setting up business workflow rules, the submissions are routed to the right teams with the right set of flags for appropriate handling. An intelligent rules-based scoring and continuous learning by the AI model direct help the underwriters prioritize submissions that are in the sweet spot for the carrier.

All of these enhancements result in drastic improvements in process efficiency and underwriter's productivity.

Why you must rethink and act now?

Not all carriers have the vision, strategy, and resources to drive this transformation. By choosing not to adopt this transformation agenda, insurers lose out on four major fronts:

1 Ingestion of insufficient and inaccurate data will lead to poor underwriting decisions. This lousy data quality will have significant adverse effects on claims payout, loss ratio, and profitability.

2 Age-old ways of manual operations will result in sub-optimal productivity of the underwriters, which will have a cascading effect on anything and everything they run for the insurer.

3 Poor customer experience due to extended submission processing times and unfair premium management.

4 Higher operating costs that get transferred to customers in the form of higher premiums and subsequent decline in business renewals or new business acquisition. The escalation in costs will also limit the insurer's expansion plans into new regions.

COVID-19 has disrupted underwriting operations like never before. Insurers who relied on manual ways of working will see a significant impact on their premium bookings on both new and renewal business. While they will do all they can to ward off the effects in the short term but the mid to long term, they will take significant hits on their growth and profitability. In worst cases, some of the insurers may have to shut down their businesses and may never recover at all. While intelligent automation was always a board room topic for most of the insurers, this pandemic has forced the insurers to push the envelope on strategic initiatives like these. The earlier they switch to this, the better would be the chances of surviving in the COVID-19 world.
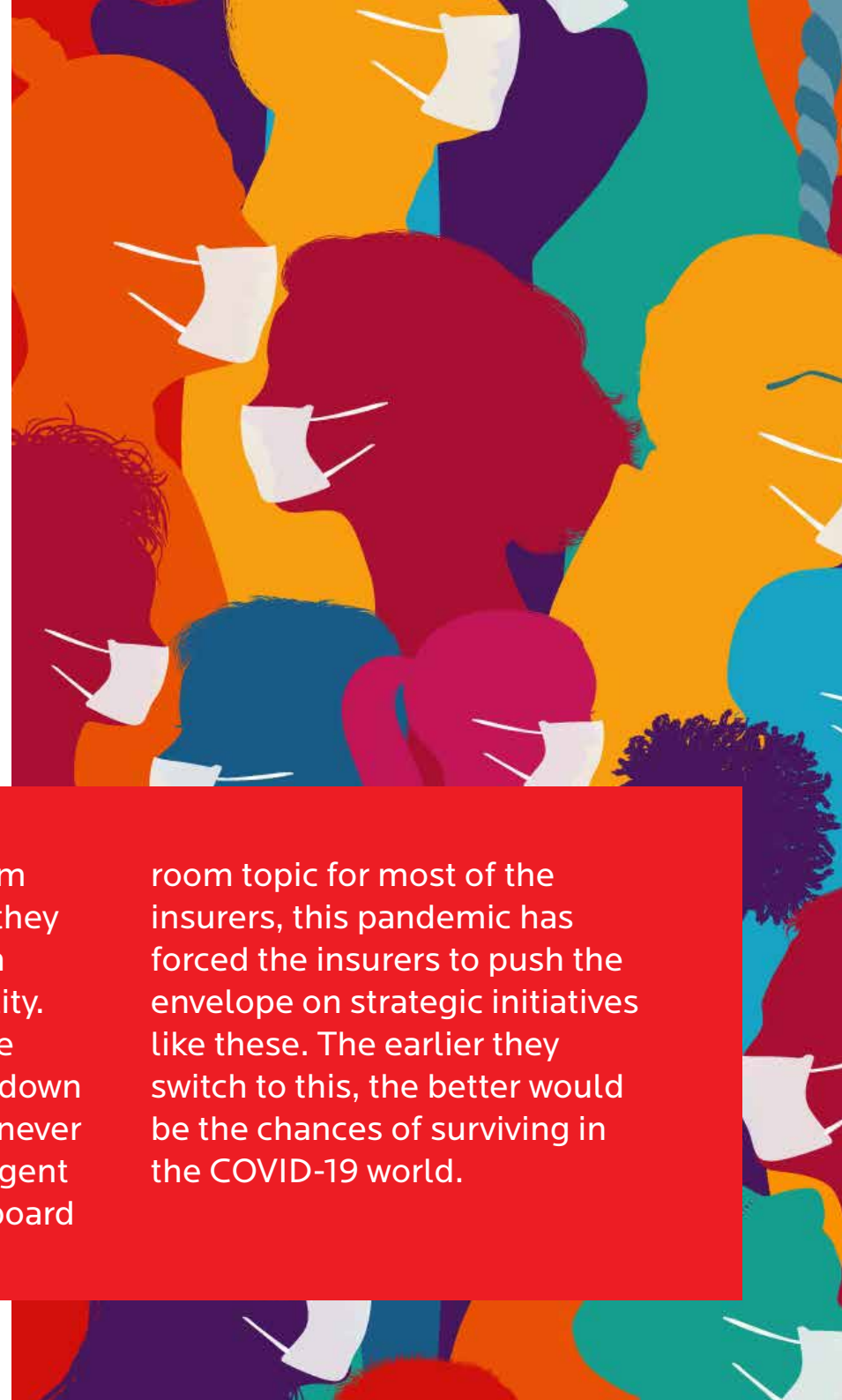
Six benefits for the automation savvy underwriter

The automation of underwriting processes will have profound implications on the business performance. We list down six ways you will gain from these initiatives both in the short and long term.

1 Higher productivity of the underwriting function through advances in data management and submission prioritization.

2 Nimble and smart operations through straight-through processing and touchless submission handling.

3 Improved loss ratio and increase in premiums (through both new and renewal businesses).

4 Improved customer experiences due to fair premium management and nimble communication.

5 Higher revenues due to improvements in new business acquisition and more cross-selling and upsell opportunities with existing brokers (thanks to fair pricing, right decisions and collaboration).

6 Optimized costs due to a reduction in avoidable claims payout that emanates from risky decision making and a reduction in overhead costs.

COVID-19 has fueled the acceleration of digital adoption in the insurance industry. Insurers who were quick to adopt automation in the pre-COVID era would adapt and respond better to this crisis compared to the laggards. This black swan event is precisely the kind of situation where business renewals, faster underwriting, and touchless claims handling should harness automation and drive business sustainability for insurers. Post COVID-19, we expect a surge in automation initiatives by the insurers. In times like these, strategic initiatives like these would foster symbiotic relationships between the insurers (who need to survive) and the broader community (who need timely and adequate coverage).

Guiding principles to automating your underwriting function

As you start exploring your automation, here are a few guiding principles you can use:

Down select the 'right' process you need to automate. One should not automate anything and everything for the sake of automation. Ensure that the processes you evaluate have these traits: mature, lean, rule-based, repetitive, high volume, and have significant financial implications.

Use automation not just for 'tactical' one-time fix; instead, build a strategic program that comprises process, operations, supportive stakeholders, and financial backing to drive business transformation at-scale and reap long term benefits.

Automation would mean you'd free up resources for underwriters and operations team to work on high impact areas. There's a robust change management program needed to support this enterprise-wide program. Make sure you have the executive business sponsorship to drive company-wide adoption.

Strive to improve your operations, governance, and stakeholder partnerships (internal teams and external partners) to keep the automation programs relevant and useful as per the changes in the business.

Below is a checklist of must do things while you automate broker submissions:

- ✓ Review the existing operations.
- ✓ Identify stakeholders and pain areas.
- ✓ Review the submission volume and sources.
- ✓ Document the as-is and to-be processes.
- ✓ Identify lines of business (not more than two) for the initial rollout.
- ✓ Identify templates for configuration and data extraction (Top three brokers, ACORD forms, loss runs).
- ✓ Define rules for scoring submissions.

- ✓ Define and finalize workflows to handle submission based on type (new business, renewals, endorsements).
- ✓ Identify users and define security permissions.
- ✓ A potential list of integrations (examples below)
  - → Internal – email system, policy admin system, claims system, document management, etc.
  - → External – address validation, sanctions check, etc.
- ✓ Implement and rollout.

To summarize, below we deconstruct how can an underwriter drive the transformation across the full value chain and how that will manifest in key result areas. This encapsulates what you've read thus far in this playbook.

Underwriting Value Chain	Application Received	Completeness/ Pre-Clearance	Data Extraction	Data Enrichment	Application Scoring	Decision
Digital Interventions	Process automation	Business Rules and Automatic email responses	OCR and NLP	Integrations with internal and external system	Business Rules and AI/ML Models	AI/ML Models, Automatic email response
Before	Monitor manually	Manual pre-Clearance	Open every email, documents and type data	Follow up for additional information manually	Look through pile of applications to decide which ones to work on	Inconsistent decisions based on underwriter's judgement
After	Monitor 24x7 automatically	Flags/alerts to indicate information is incomplete to process	Automatic data extraction	Data is prefilled from other systems automatically	Highlights rush applications that match the underwriting criteria	Automatic decisions enables straight through processing
KRAs	Drastically reduces time spent to track incoming applications	Pre-clearance time is reduced and more effective	Better data accuracy and less rework	Informed decisions	Improves Turnaround time on priority applications	Decisions aligned with underwriting guidelines
KPIs to track	SLA adherence	SLA adherence	Person-hours saved	Person-hours saved	Improves Turnaround time on priority applications	Profitability

Three
takeaways
for you

We hope you find this playbook helpful in reimagining your underwriting function. Automation provides a great way to make underwriting efficient, competent, growth catalyst, and customer friendly. We'd leave you with three key takeaways as we sign off. Do reach out to us if you need any assistance in transforming your insurance business imperatives.

1 Embrace underwriting 2.0

Turn your submission handling touchless.
Shift towards remote and paperless processing.
Achieve best in industry underwriting profitability.

2 It's time for man and machines to collaborate

Build your augmented underwriting vision today.
Be consistent in how you take underwriting decisions.
Work on high impact stuff. Let's make underwriting intriguing.

3 Be customer-centric in everything and anything you do

Offer competitive pricing which is best in the industry.
Streamline your communication operations and communicate proactively.
Think of customer journeys and not customer touchpoints.
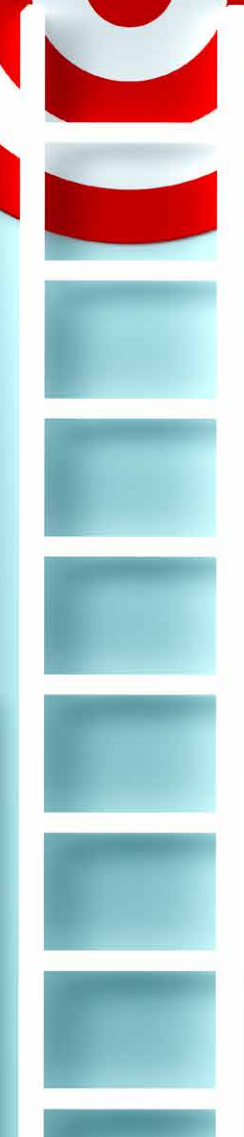
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Milind has extensive experience in consulting, program management, and sales in the insurance industry. He has extensive experience in the financial services and insurance industry. His areas of interest include emerging technologies like IoT, Blockchain, AI, and Machine Learning. At Birlasoft, he also oversees domain solutions and consulting. Milind has a master's degree in computer science and several certifications in insurance (AINS) and management discipline.

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During his career spanning more than two decades Shashank has worked with global financial and insurance giants. He is an accomplished software leader adept in managing and implanting complex software programs involving various engagement models, and he specializes in outcome-based delivery models. He is passionate about innovative thinking and automation and has continuously been working towards the same. Lately, he has been focusing on machine learning and utilizing it to power intelligent automation in insurance solutions.

Insurance to the Power of Digital

Engage with us to drive digital transformation that's real and measurable.

We help insurers improve profitability, optimize costs, and increase customer loyalty by transforming their front to back office through digital technologies, next-gen platform modernization, and driving best-in-class customer experiences. Learn more to know about how we can help you in your insurance business transformation journey, visit:

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