

Advantage CNA

Actuarial Transformation

Disclaimer

The purpose of this presentation is to provide general information about CNA and its recent internal improvement initiatives. Given the unique nature of CNA strategies, they may or may not be appropriate for use by other organizations.

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Overview

- Background on CNA
- Core Functions Engaged
- Two Improvements
 - Renewal rate change calculation and distribution
 - Role alignment of information management functions and partnerships

Overview of CNA

- **One of the largest commercial lines carriers in the U.S.**
 - Listed on the NYSE with a market capitalization of \$11.5b¹
 - \$6.8b of property & casualty net written premium in 2013
 - Established market presence with more than 115-year history
- **Business mix is approximately 45% specialty lines, 55% commercial lines**
 - Serves insurance needs of over 1 million businesses and professionals across a range of industries
- **Broad-based footprint in chosen geographies**
 - Offices throughout North America and Europe, as well as the Middle East and Asia
 - Long-standing relationships with over 3,000 U.S. brokers and agents
- **Consistent operating performance and a high degree of financial stability**
- **Upward ratings momentum**

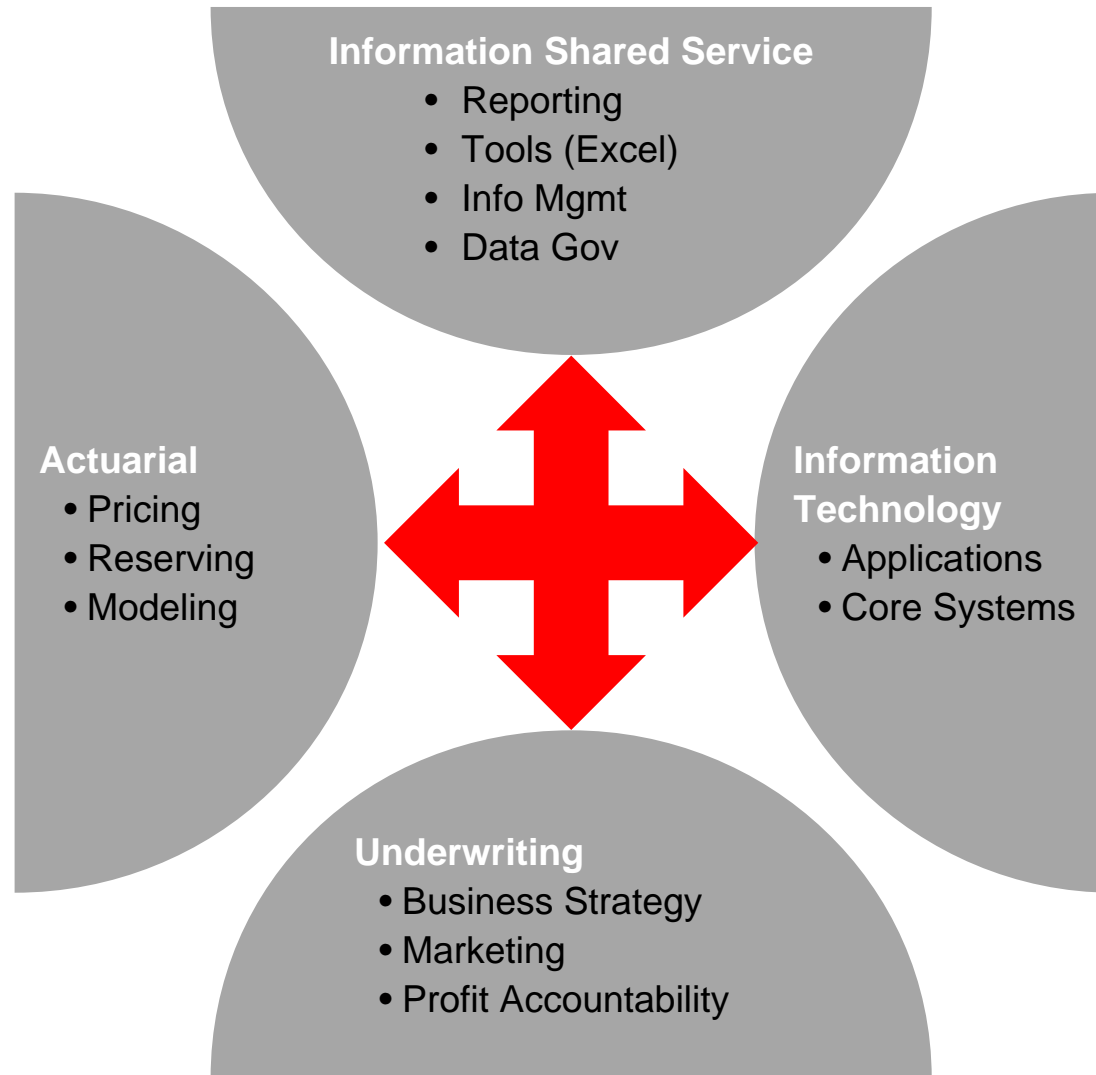
	Moody's	S&P	Fitch	A.M. Best
CNA P&C:				
Financial Strength Rating	A3	A	A	A
Outlook	Stable	Stable	Stable	Stable
CNAF Senior Debt	Baa2	BBB	BBB	bbb
Ratings Upgraded	Jun 2012 ²	Jun 2013	Sep 2013	—

¹ As of February 11, 2014 ² Moody's upgraded the debt rating

Customer Segment Focus



Key Functions Involved in Transformation



Renewal Rate Change

- Core metric to measure the change in rate - premium charged per exposure to loss – from the expiring to the renewing policy
- Exposure to loss aspect varies considerably by line of insurance
 - Property: Total Insured Value
 - Workers' Compensation: Payroll
 - Commercial Auto: Power Units
 - Professional Liability: Revenue
- Other factors which should be taken into consideration
 - Limits / Deductibles
 - Handling of new coverages, locations, subjects of insurance added at renewal
 - Changes in underlying exposures (vehicle aging, sprinkler additions, etc.)

Renewal Rate Change – Pre Transformation

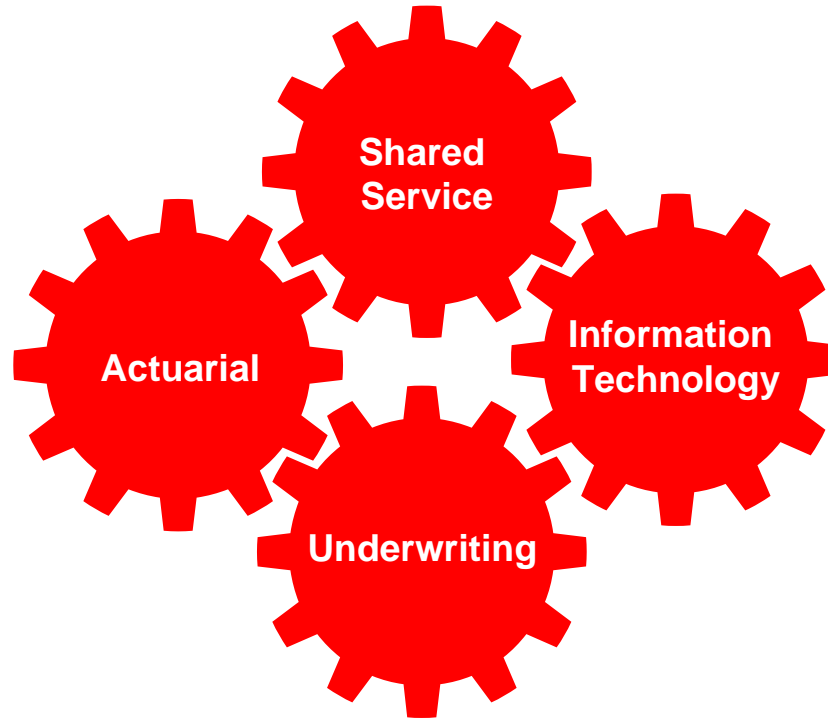
- Heavy actuarial involvement in calculation, data management, storage of results, and distribution of results through excel based reports
- Results not centrally collected at detail level across actuaries
- Material alignment in approach for renewal rate calculation, but opportunity for improvement in standardization
- Timing differences for when results are available across actuaries / lines of business
- In some lines of business a desire by actuaries to improve renewal rate calculation, but inability to get data for such improvement

Renewal Rate Change – Pre Transformation

- Design / Configure small subset of rate reports

- Gather data
- Define calculation
- Perform calculation
- Publish data
- Troubleshoot
- Manage data and rate metrics

By Line of Business



- Rate / Issue policies
- Automated cycle for production

- Manage with Line of Business
- Rely on actuarial for rate information and adhoc

Renewal Rate Change – Post Transformation

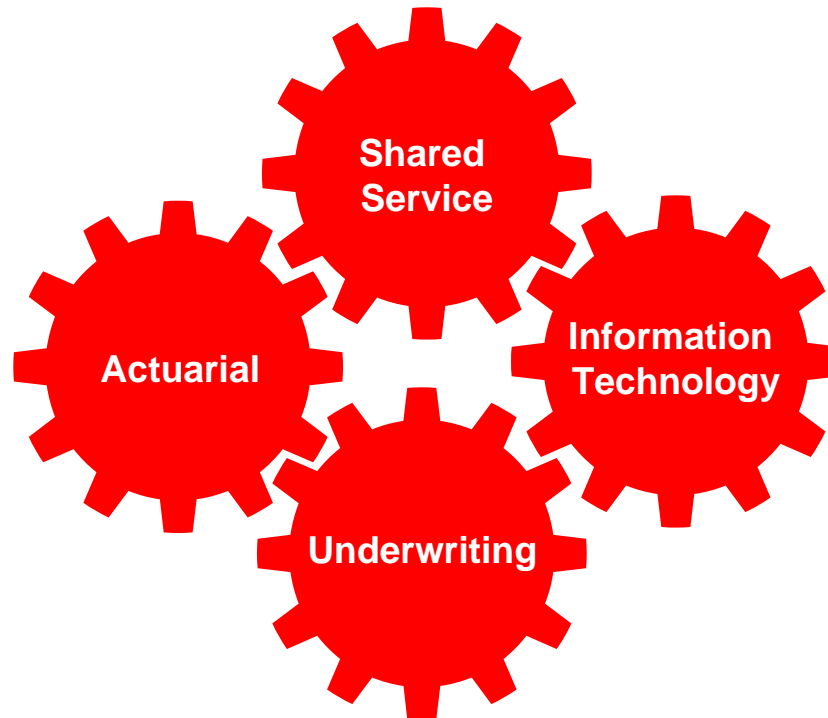
- Renewal rate change calculated as part of policy issuance processes
- Standard definition and approach implemented
- Reduction of over 80% of actuarial time on renewal rate calculation, associated data management, and reporting through automation
- Detailed results centrally aggregated for more power analytics and actionability of information
- Consistent timing of information availability and fully integrated with production, retention, and other core metrics for management

Renewal Rate Change – Post Transformation

- Design / Configuration rate reports
- Troubleshoot
- Handle UW adhoc
- Manage rate data in enterprise warehouse

- Define Calculation
- Troubleshoot as relates to definition
- Partner with IT / Shared Services

Consistent
Across Lines
of Business



- Rate / Issue policies
- Calculate renewal rate metric
- Automated cycle for production and rate reports

- Manage with line of business
- Rely on Shared Service for rate information and adhoc

Renewal Rate Change – Transformation Approach

- **Sponsorship of Chief Actuary, Information Shared Services Leader, Chief Information Officer, and Chief Financial Officer**
 - Driving change in underlying process of Actuarial, IT, and Shared Services required the appropriate executive sponsorship and engagement throughout effort
- **Clarity of work, outcome, and accountabilities**
 - Full inventory of existing calculations
 - Go forward decision makers
 - Standardized definition for renewal rate change
 - Timelines for execution
 - Go-forward operational model
- **Consistent cadence of status reporting**
 - Weekly for core project team
 - Monthly for executive sponsorship

Renewal Rate Change – Transformation Approach

- **Alignment to strategy**

- Need to evaluate across Customer Segments establishes and supports need to centralize data for metric

- **Openness to new ideas**

- Calculation of rate change within internal IT processes following actuarial rules, but 'hands off' was new way of thinking
- Balance between progress and perfection

- **Transition from Project to Day to Day**

- Project established definition, initial work effort, but integrated and changed day-to-day behaviors, teaming, partnership, contract points

Role Alignment

- Actuarial expertise is highly analytical, valued, and specialized and is applicable to solving complex high business value functions, but is applied also to data management, reporting, and tool building
- Data Management, reporting, and tool building are separate and distinct skill sets from actuarial pricing, reserving, and modeling
- Partnership, transformation, and simplification can yield improvements in cost of operations, quality of information and tools, and usability of tools and information

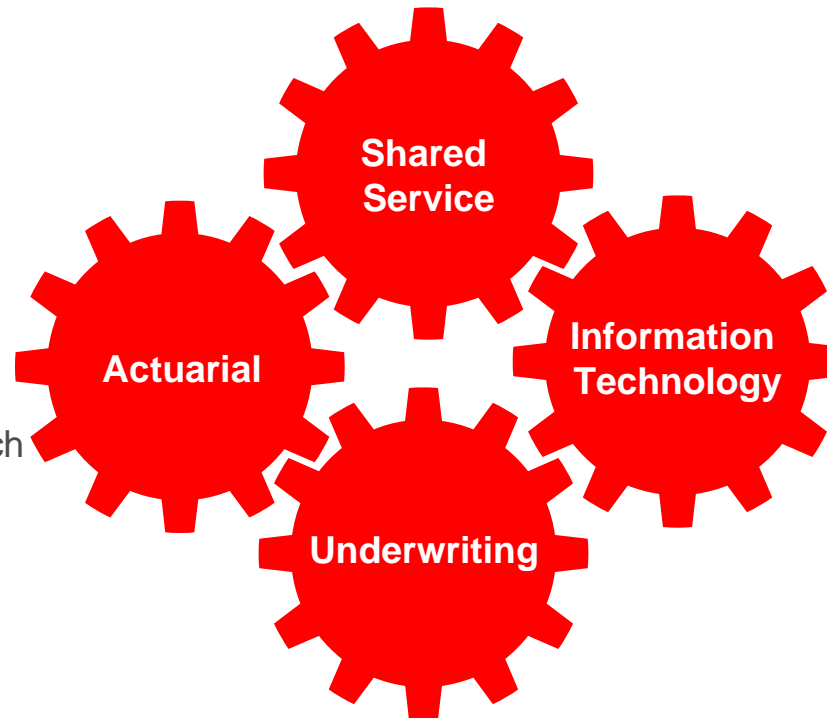
Role Alignment - Pre Transformation

- Main focus is information and tool building activities:
 - Information Reporting where there is formatting, simple calculations, and segmentation of data, but no analytical results
 - Excel tool building for rating and analytical approaches
 - Access database and Oracle database management of information
- Across Actuarial over 100 separate examples of reports, tools, data bases being maintained by actuarial experts ranging from actuarial entry level to associates and fellows
- Lack of clarity across Information Technology, Shared Services, and Actuarial on how to effectively partner

Role Alignment - Pre Transformation

- Consulting as requested on tool development expertise

- Develop Excel tool
- Access / Oracle database development and maintenance
- High variability of complexity and approach in tools / data bases
- Support underwriting data requests



- Engaged on policy, claim changes which required 'front end' changes

- Engage with Actuarial on tool needs, information needs
- Engage with Actuarial on analytical needs such as pricing and reserving

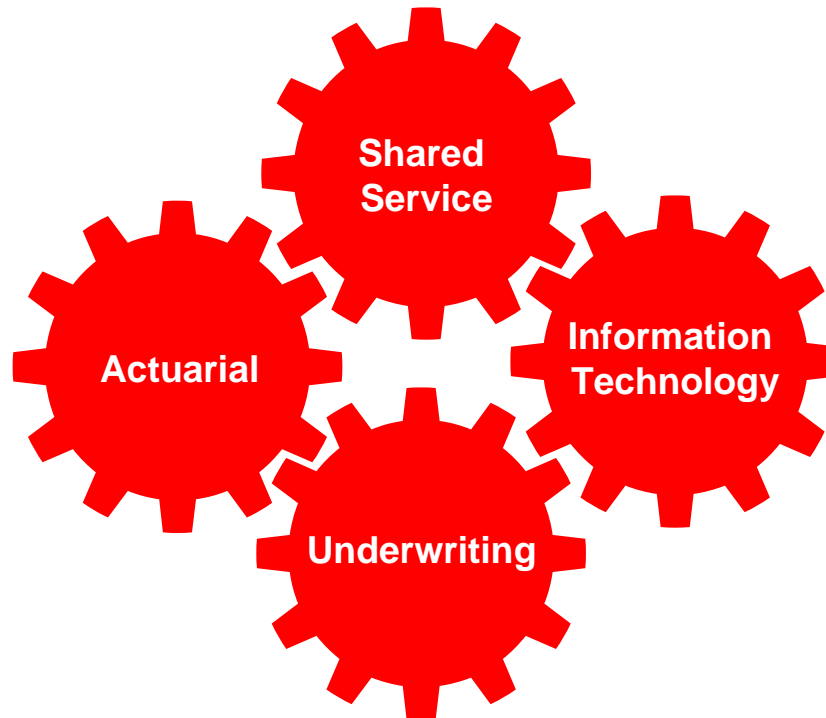
Role Alignment - Post Transformation

- Deep partnership across Actuarial, Underwriting, Information Technology, and Shared Services
- Actuarial focus on analytical and less on information management
- Over 100 reports, tools, databases transitioned from actuarial support and development to shared services
- Development of new complex tools which could not have been built without partnership
- One example is report which required one full actuarial resource to produce and distribute via Excel on a quarterly basis to automated monthly distribution

Role Alignment - Post Transformation

- Lead tool developer
- Consistency across tools and databases

- Lead on requirements, business needs, and analytical design of tools and reports



- Engaged on policy, claim changes which required 'front end' changes
- Engaged on proof of concept and office based tools

- Engage with Actuarial, Shared Service and IT on tool needs, information needs
- Engage with Actuarial on analytical needs such as pricing and reserving

Role – Transformation Approach

- **Sponsorship of Chief Actuary, Information Shared Services Leader**
 - Driving change in underlying process of Actuarial and Shared Services required the appropriate executive sponsorship and engagement throughout effort
- **Clarity of work, outcome, and accountabilities**
 - Full inventory of existing tools, reports
 - Go forward decision makers
 - Go forward operating model
- **Consistent cadence of status reporting**
 - Weekly for core project team
 - Monthly for executive sponsorship
 - Engagement of underwriting as leaders in the operating model at all stages

Role – Transformation Approach

- **Inventory and New Development**

- Existing reports / tools transitioned
- New reports / tools developed to test operating model

- **Dedication to Operating Model**

- Communication of role changes at all hands, staff meetings,
- Case studies utilized
- Leadership engagement
- Recognition of teams which partnered well across organizations