



# **Automating Underwriting for the Small Commercial Segment**

*Leading Practice Overview*

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# Agenda

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- Overview
- Design Elements
- Best Practices

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- Overview

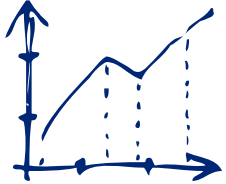
- Small Commercial Challenges
- Introduction to Automated Underwriting
- Automated Underwriting Adoption Drivers for Small Commercial
- Direct Channel Landscape
- Implementation Considerations

- Design Elements

- Best Practices

# Challenges Faced by Small Commercial Insurers

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Carriers are eager to find growth opportunities in a very competitive market and a slowly recovering economy



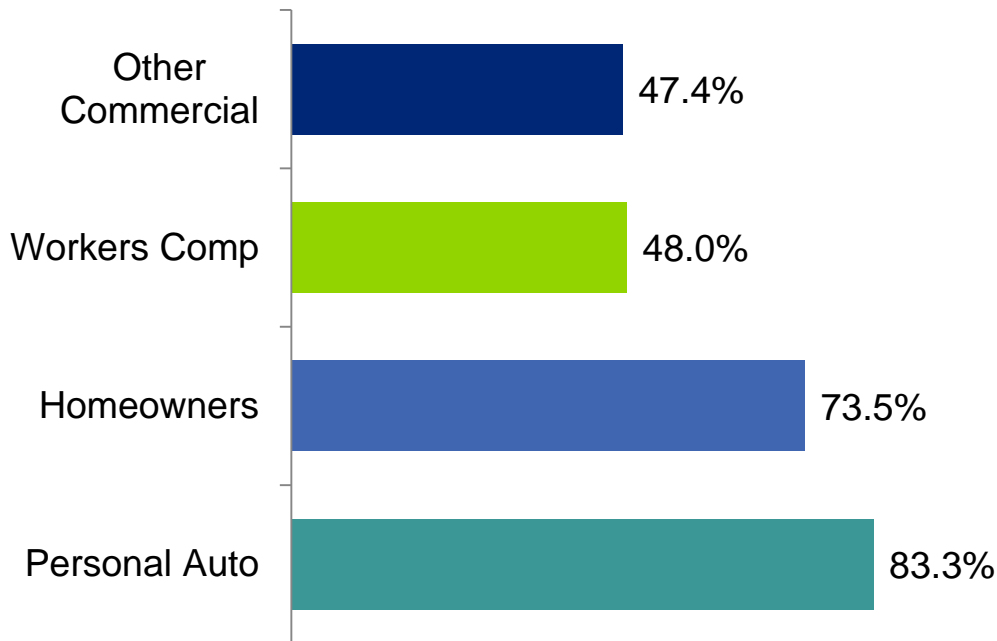
Insurers are trying to effectively reach a new generation of consumers who seek multi-channel and multi-platform sales and service options



Facing relatively low margins, insurers are looking to improve their underwriting, pricing, and claims capabilities, as well as optimize their distribution alternatives and expense ratio

# Small Commercial Carriers are Making Automated Underwriting Investments

## Commercial companies using Straight Through Processing (STP) (by Line of Business)



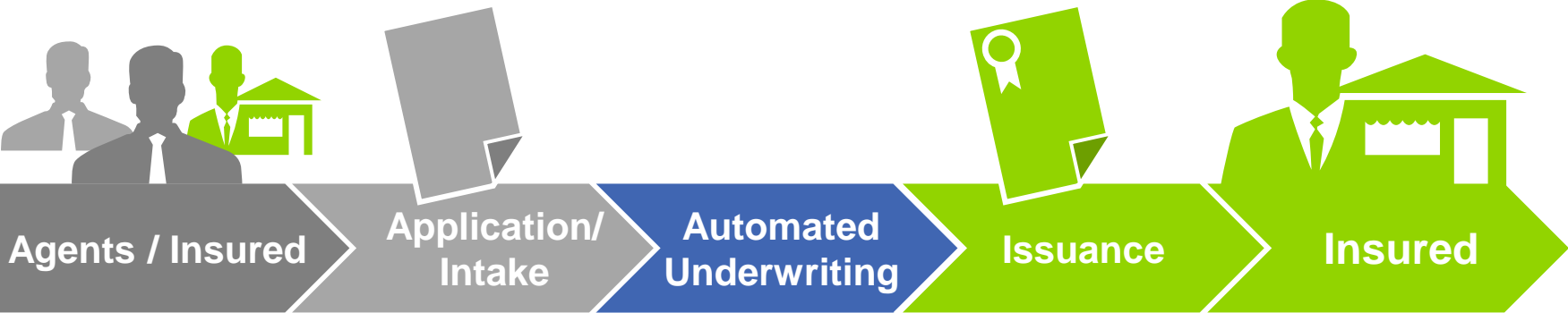
### Benefits of STP include:

- Decreased response times
- Increased ease of doing business
- Flow rates as high as 75% - 80% in leading small commercial carriers

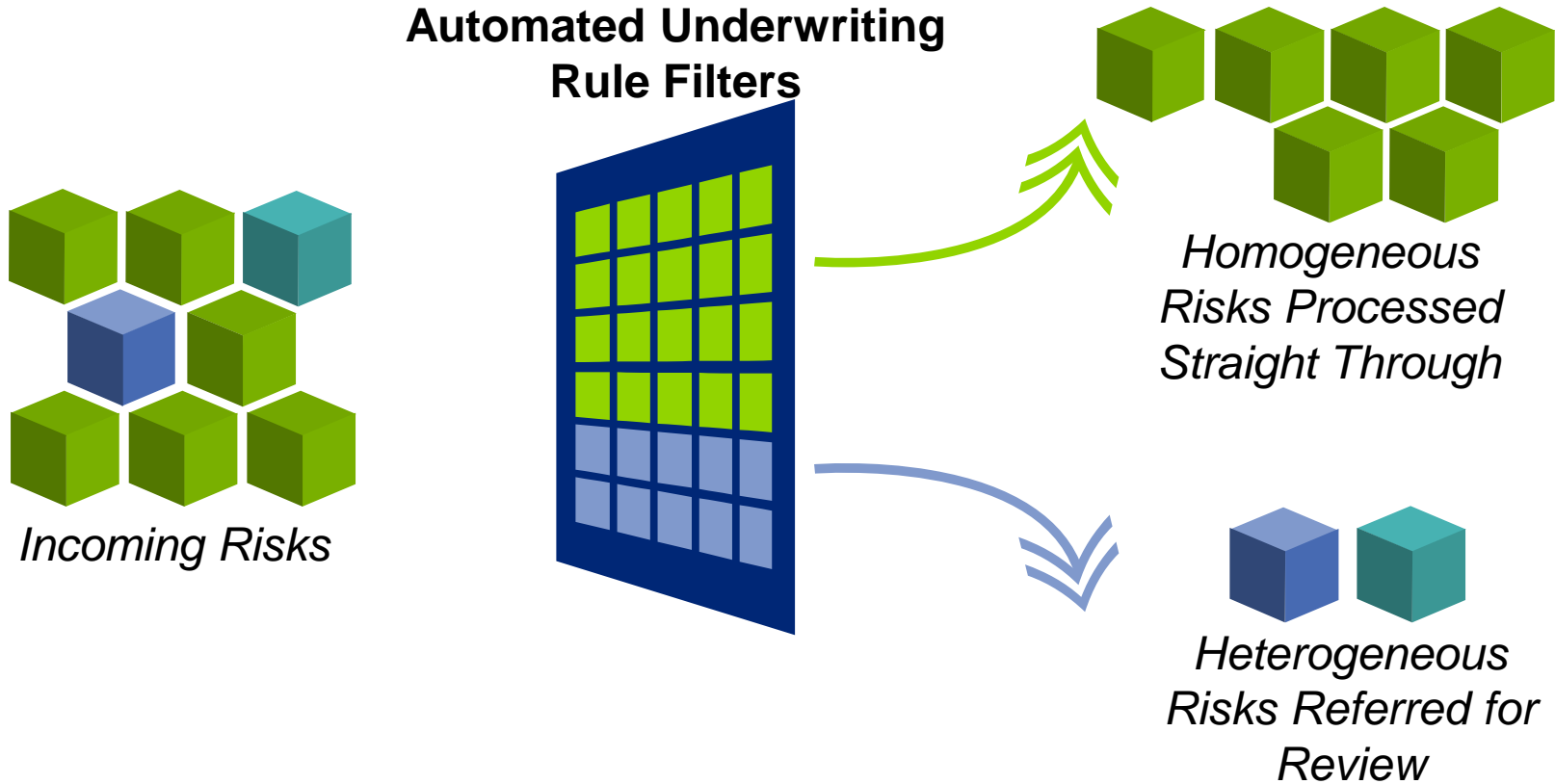
**Streamlined quoting and binding capabilities are essential to support any distribution channel to meet the heightened expectations of agents and customers**

Source: "Underwriting and Policy Management: Summary of Strategic Study Results". Ward Group. May 2011.

# Introduction to Automated Underwriting



# Guiding Principle for Automated Underwriting



**With automation, underwriters to focus on assessing heterogeneous risks instead of spending time on clerical tasks on simpler homogenous risks**



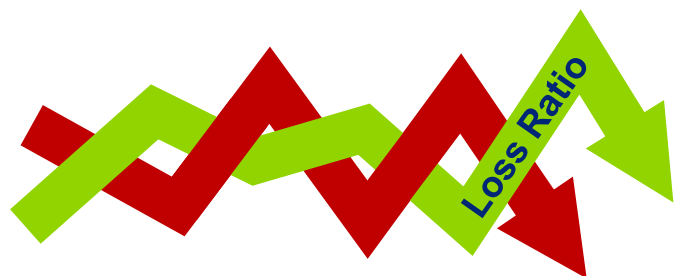
# Automated Underwriting Adoption Drivers for the Small Commercial Segment

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Facilitate growth through better ease of doing business and alternative distribution channels

Signal declinations early in the process to mitigate wasted effort and route referrals to the most qualified underwriter to handle that risk



Improve Loss Ratio through better accuracy and more consistent application of pricing

# Alternate Distribution Channels as Market Disruptors

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## Direct start-ups and innovators

- Direct-to-consumer channels for small commercial insurance are most prolific in the U.K.
- Hiscox and AssureStart direct-to-consumer small commercial start-ups entered the US market in in the last 5 years
- Carriers are upgrading their websites and behind the scenes capabilities to get customers to their sites for quotes, even if they link them with agents

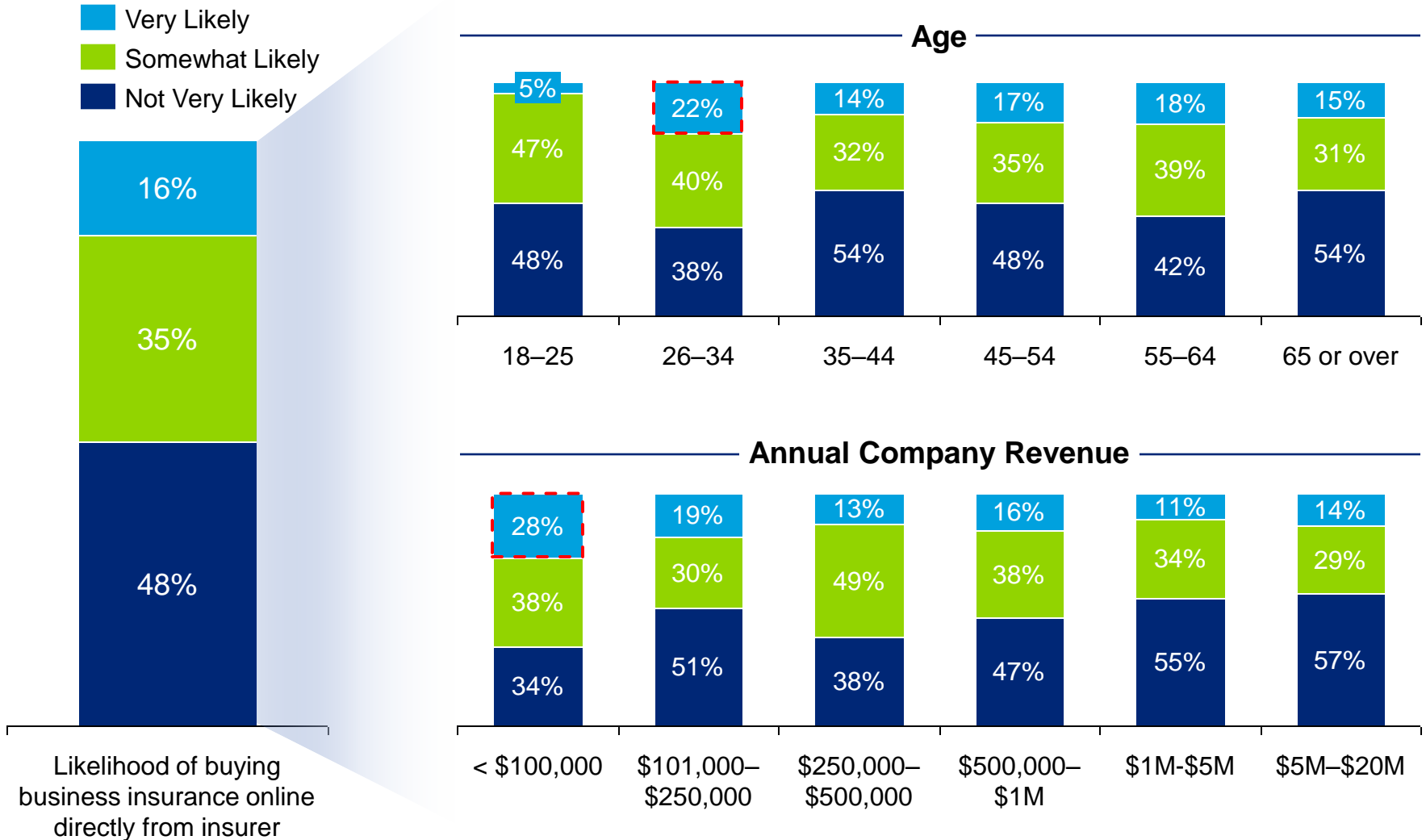
## Aggregators targeting small business

- Online aggregators such as Bolt, Insureon, and BizInsure are playing a more pronounced role in the small commercial market
- Forums for comparative shopping may drive small business insurance buyers to higher levels of price sensitivity and product commoditization

## Multi-line carriers continue to up their game

- Personal lines carriers are looking to up-sell into the small commercial market, and could leverage their existing direct channels
- Major multi-line carriers are strategically building out capabilities that set a high benchmark for service levels, even in intermediated channels

# Demand Exists for the Direct Option

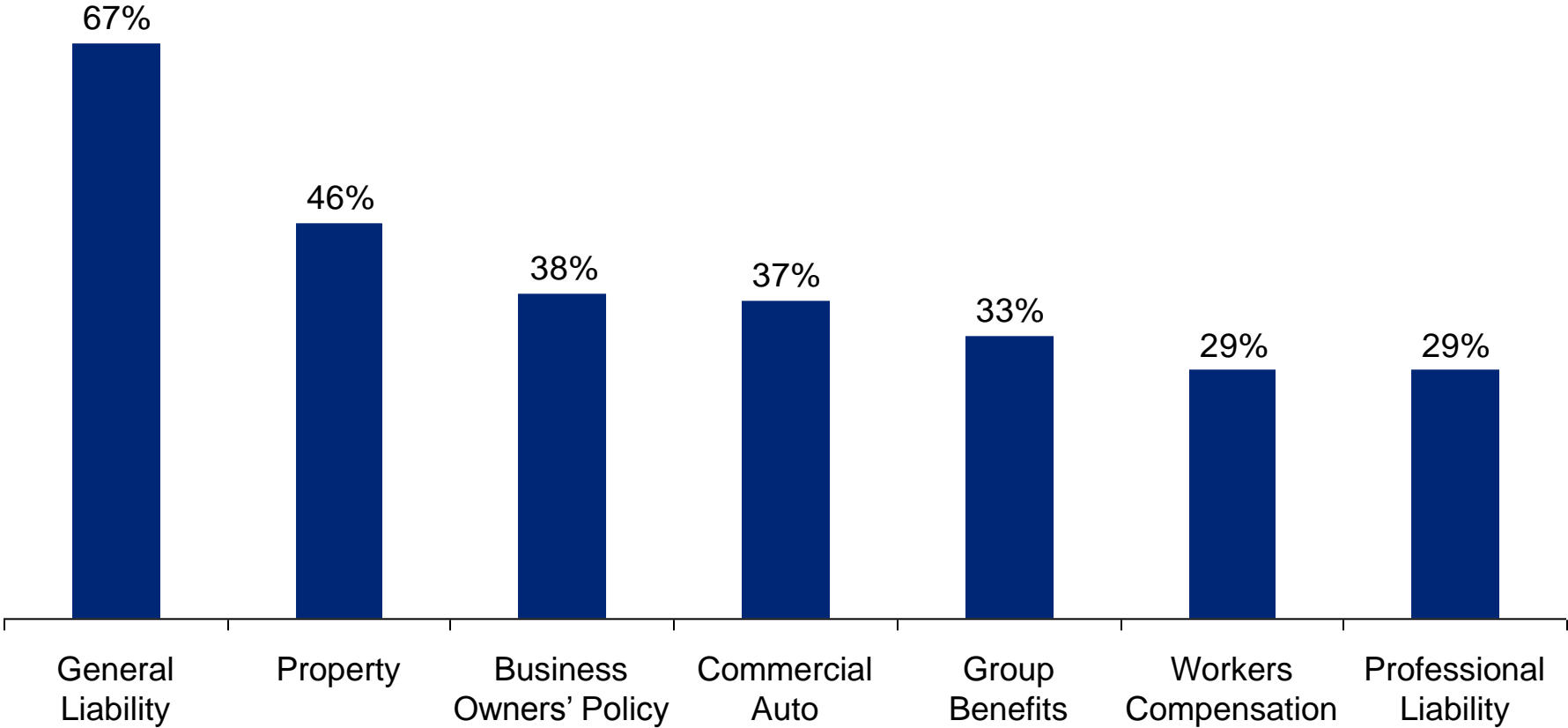


Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013.

# Most Popular Products in the Direct Channel



Percentage of Respondents Very Likely to Buy Online, Directly from an Insurer (By Type of Coverage)

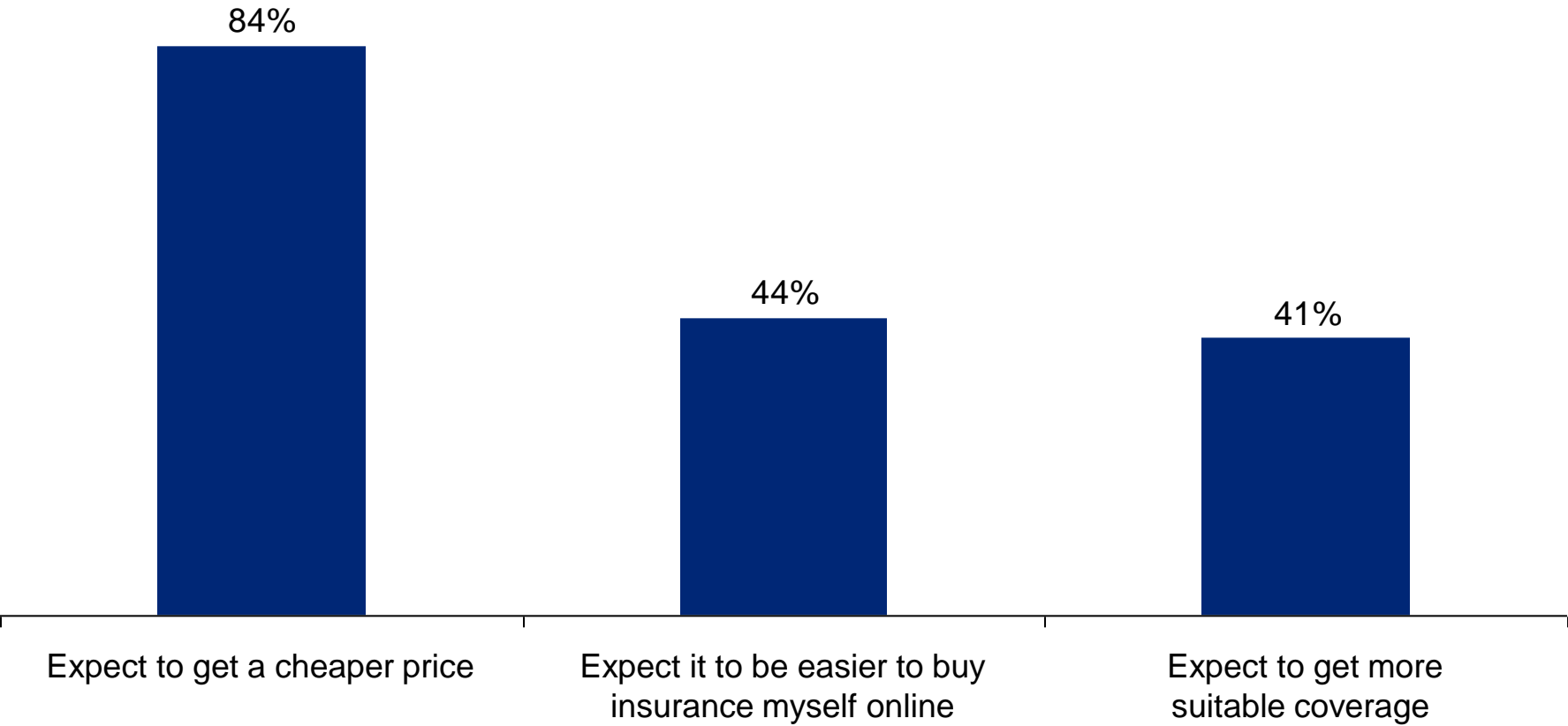


Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013.

# Buyers are Interested if the Price is Right...



## Reasons for Openness to Buying Online

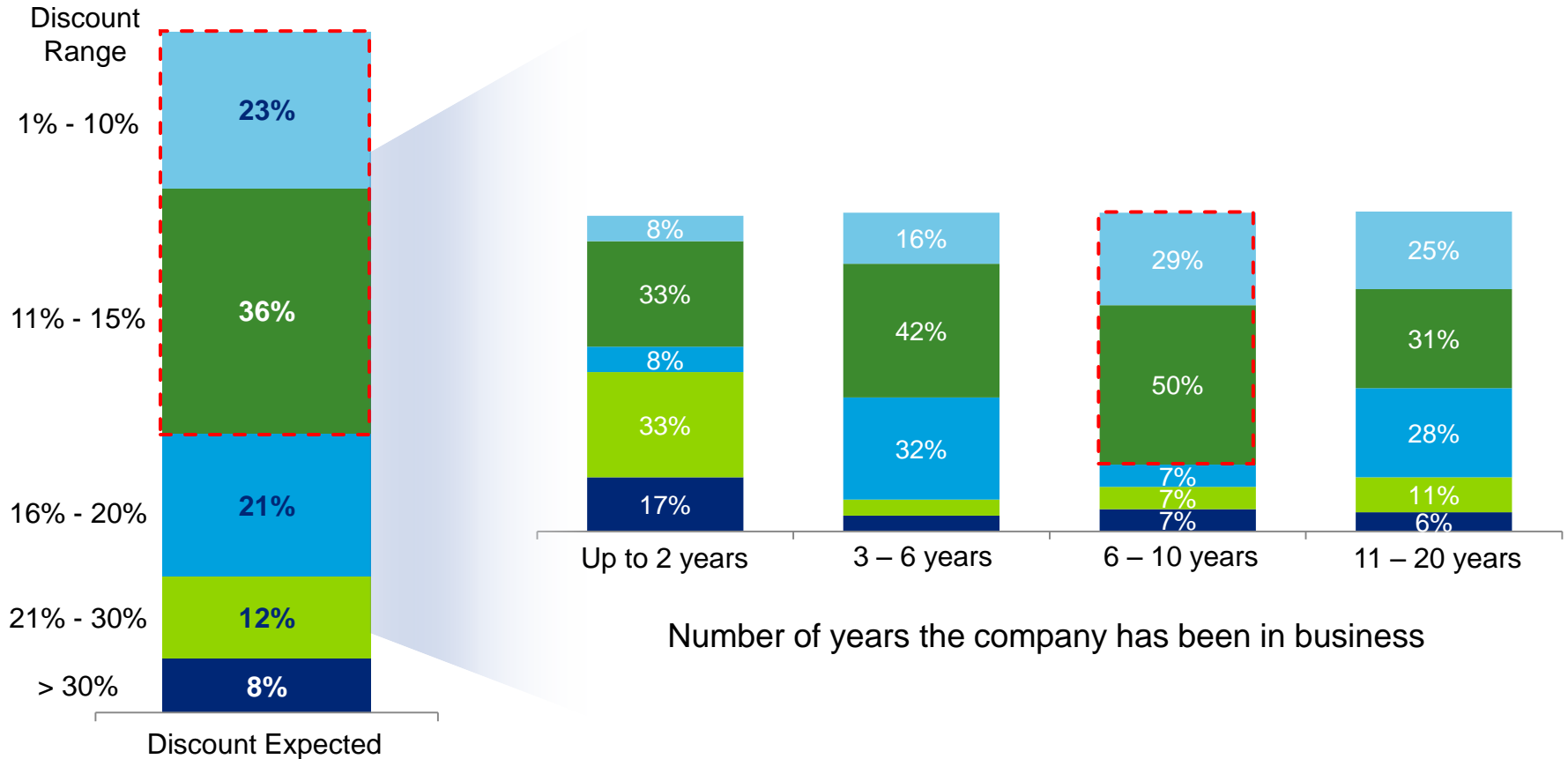


Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013.

# ...But Expectations are Fairly Modest on Discounts



Percentage of premium reduction expected from direct online purchase

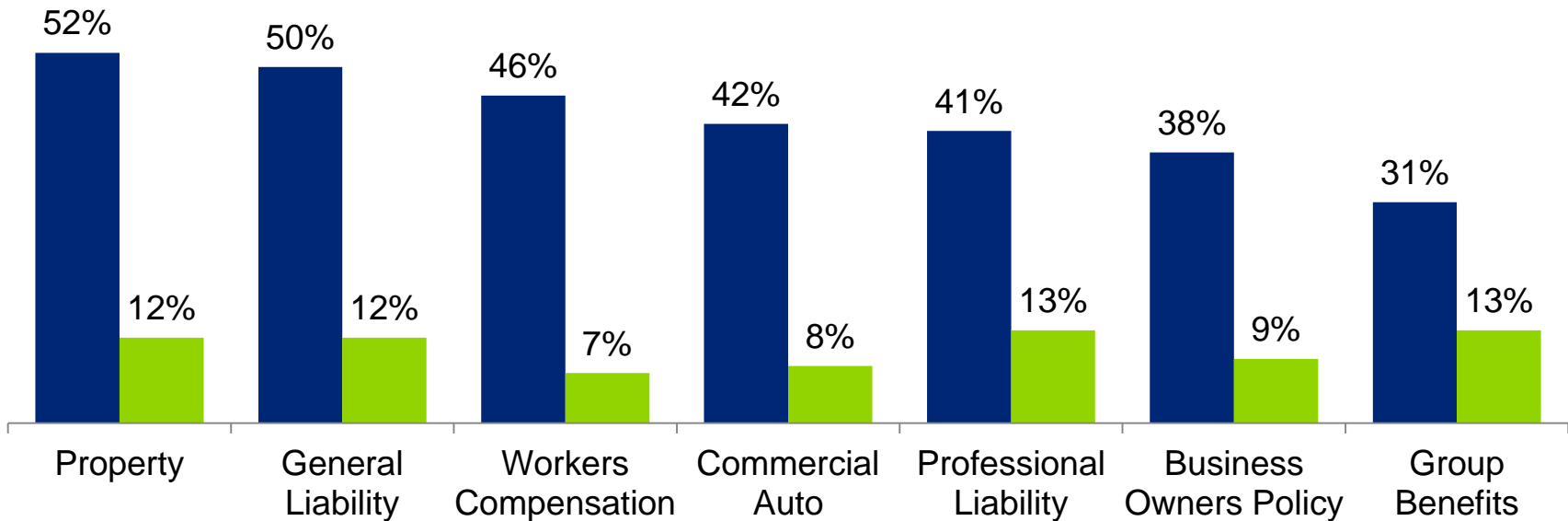


**Automated underwriting can improve margins to provide flexibility in offering discounts**

# Personal Lines Experience as a Gateway for Commercial



Likelihood for buying commercial lines insurance online



Likelihood of buying commercial lines online among those who have bought personal lines online

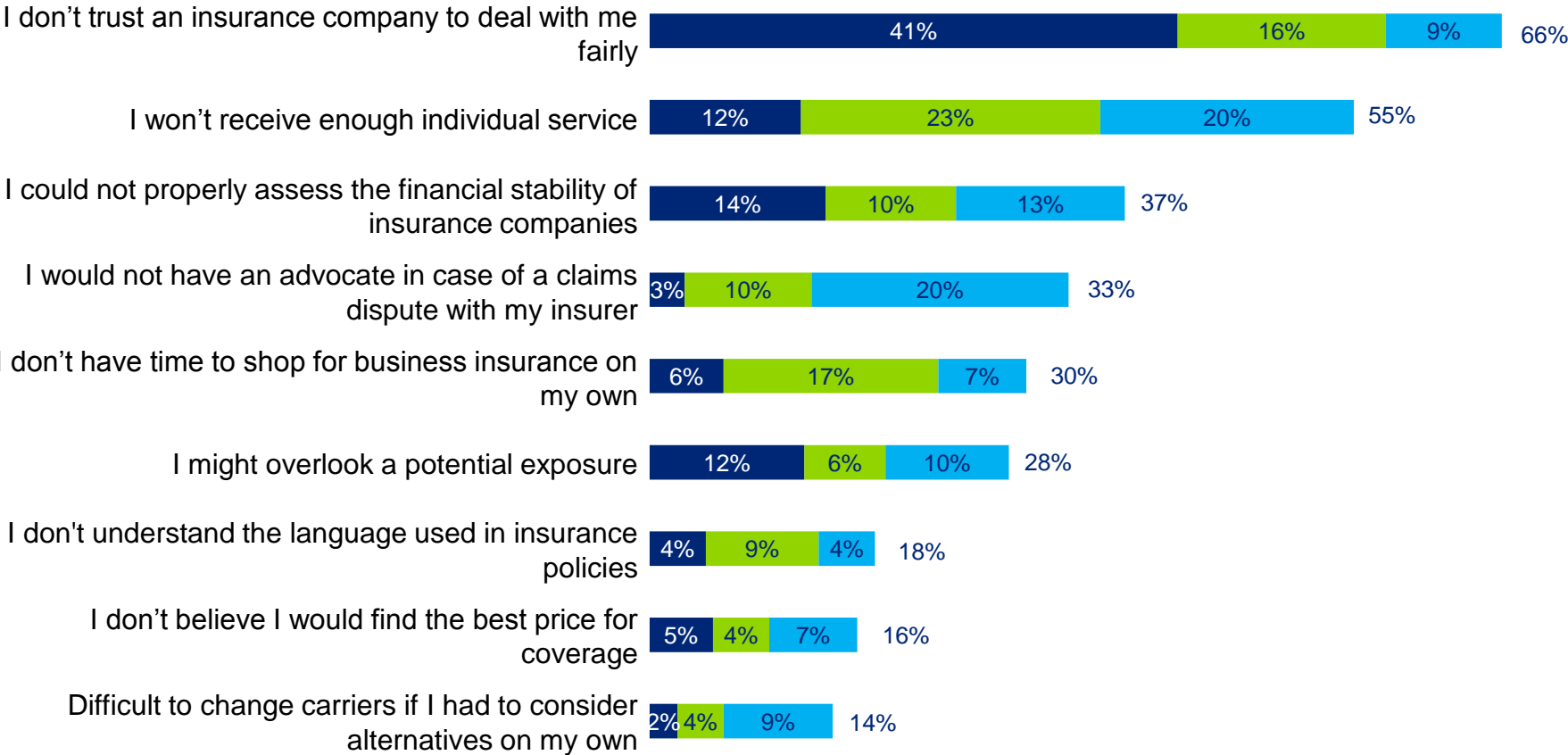


Likelihood of buying commercial lines online among those who have **not** bought personal lines online

# Trust issues discourage direct sales



## Ranking of reasons for those not very likely to buy online, directly from an insurer



Source: Voice of the Small Commercial Insurance Consumer Survey, Deloitte Center for Financial Services, March 2013.



# Agenda

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- Overview
- **Design Elements**
  - Automated Underwriting Steps
  - Types of Rules
- Best Practices

# Typical Underwriting Steps



**Eligibility & Triage**

**Product & Coverage**

**Predictive Risk Scoring**

**Rating & Pricing**

**Risk Assessment**

Determine applicant class

Decide if class is eligible for any product / coverage

Specify available coverages and coverage levels based on selected product and insured characteristics

Use Advanced Analytics to generate a score that predicts relative risk of the insured

Apply rate rules to calculate objective premium followed by subjective pricing adjustments

Enforce Underwriting Guidelines, including predictive model score based actions



# Eligibility and Triage Rules

## Description

- Based on the carrier's broad underwriting appetite
- Typically considered "non-negotiable" conditions
  - Risks not meeting these conditions will be automatically declined
- Generally only asked during the new business process
  - Used in Renewal process if exiting certain classes / risk type
- Can also be used to determine risk class by asking a series of questions instead of single yes/no or class selection question

## Typical Outcomes

- Decline Applicant
- Continue with automated underwriting process

## Example

If number of employees > 20, then decline



# Product and Coverage Rules

## Description

- Defines eligible coverages and limits based on class and other risk characteristics
- Leading practice is to implement these rules within the electronic application portals, where the system disables selection of ineligible coverages and limits
  - Portal based product/coverage rules can reduce complexity of the automated underwriting process
- Underwriters are generally precluded from overriding the product and coverage rules

## Typical Outcomes

- Coverages or limits that are not allowed for the risk are not offered
- Mandatory coverages or minimum coverage limits are automatically added
- Applicant is prompted to update limits/coverages as selections are not allowed based on product architecture

## Example

If the class code is a “Bar”, then must include Liquor Liability coverage

# Rating & Pricing Rules



## Description

- Rating rules for automated underwriting are the same as traditional rating derived from base rate plan
- Subjective discounts can be recommended based on predictive model score and additional factors
- Level of automation varies based on the desired application requirements of subjective discount factors

## Typical Outcomes

- Rated Manual Premium
- Final recommended premium to be charged to the insured
- Referral to an underwriter if policy parameters fall outside of those included in the pricing rules template



# Risk Assessment Rules

## Description

- Applies underwriting guidelines using automated rules to assess risk
- Assesses combinations of policy attributes such as class codes, premium levels, risk scores etc. to highlight potential risk areas for underwriter review
  - Uses table driven structures to determine if coverage levels and insured values align with risk scores
- Can also be used to identify risk areas that are less critical and may require post-issuance actions, such as loss control surveys

## Typical Outcomes

- Referral to underwriter for pre- or post-issuance review
- Allow policy to be processed straight through

## Example

If risk is located in high risk windstorm area, and the total limit of coverage for each covered location > X, and construction type is Y, and risk score > Z then refer to underwriter for pre-issuance review

# Agenda

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- Automated Underwriting Drivers
- Automated Underwriting Rule Types
- **Best Practices**
  - Common Barriers and Potential Solutions
  - Design and Implementation Considerations
  - On-going Maintenance Considerations

# Common Barriers in Implementing Automated Underwriting

## Barriers



Lack of enabling technology is the most common barrier to adoption



Mixed profitability results for carriers that have adopted straight through processing is a deterrent



Cultural acceptance of automated underwriting can be hard to achieve

## Potential Solutions

- Include automated underwriting implementation during core system initiatives
- Create a framework of enabling technology around legacy systems using components such as business rules management system

- Combine automated underwriting with predictive models
- Use Business Intelligence and Analytics to monitor rule performance

- Include an effective change management plan during automated underwriting implementation
- Focus underwriters' time on evaluating complex risks



# Design Considerations for Automated Risk Assessment

## Rule Complexity

The need to compare a large combination of policy characteristics should be balanced with ability to create and maintain such complex rules

## Exception Based Rules

Designing rules to refer/decline undesired risks provides more control and reduces complexity, compared to designing rules that only allow desired risks to pass through

## Rule Variables

Additional policy elements tested in risk assessment rules should ideally not be used in the predictive model or rate plan, or tested for levels where model or rating factors are already capped

## Risk Score Application

Automated rules can help enforce automatic decline of unacceptable risk scores and review of other high scores, thereby removing underwriter subjectivity

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**Combining Predictive Model scores with Automated Risk Assessment rules is the key to maximizing Automated Underwriting benefits**

# On-Going Maintenance Considerations for Automated Risk Assessment

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## Rule Performance

Implementing dashboards to monitor on-going rule performance (e.g. number of referrals per rule) is critical to balancing high automation rates with prudent risk assessment

## Change Simulation

Any changes to the rules should be simulated on existing book, and even declined/non-renewed policies to assess disruption and validate expected results

## Business Intelligence

On-going business intelligence analysis and dashboards can help identify policy elements that should be added / removed / modified from risk assessment rules

# The Future of Small Commercial Market

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## Strategic

- STP will become prolific in the industry as the market leaders set the benchmark for near instant response on quotes for homogenous risks
- STP will begin to bleed up into the low end of the middle market, particularly if predictive models are also in use

## Product

- The advancement of STP into the specialties arena will continue, with D&O, E&O, and EPL being the likely starting point for most carriers
- Specialty coverages will continue to be built into the BOP and small commercial package and be processed via STP
- Use of business intelligence to manage rule sets and mine data, identifying how STP is driving profitability

## Technology

- Integrated rules engines are currently the primary solution to handle the complex rules required for STP
- Increase in use of off-the shelf policy administration solutions that can handle some of these rules without a separate rules engine component

# Contact Information

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