eBook: Underwrite-It

Transform Underwriting to Improve Agility and Profitability

Today's Environment Requires Rules Management, Automated Decisioning, Advanced Analytics, Simulation, and Business-Driven Deployment in a Single Package

earnix

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Executive Summary

The forces in today's macro environment – ongoing inflation, high interest rates, supply chain issues, workforce disruptions, political uncertainty, and climate change, to name just a few – combined with rapidly-changing consumer expectations, have created the need for insurers to reimagine insurance, and to be bold in shaking up their technology *status quo*.

Most insurance customers would be hard-pressed to explain what role underwriting plays in decisions around their policy approval, pricing, and coverage. Underwriting is less visible to them than other elements in the insurance value chain – marketing, sales, pricing, rating, account servicing, and claims management.

Those other functions are not only more visible, but also ahead of underwriting in the transition to an era of Intelligent Insurance Operations, or Intelligent InsurOps, and insurers are increasingly aware that this lag is negatively impacting their business success.

The good news is that insurers now recognize the key role that an upgraded underwriting function can play in increasing agility, capturing new business and driving improved profitability. With that recognition comes an imperative to act, and act now. With new technology, and the assistance of a reliable and knowledgeable partner, insurers can move rapidly to generate improved business results.

This eBook recaps some of the forces driving the need for a fresh look at underwriting, the potential payoffs from modernizing and upgrading the underwriting function, and the technology path that will help insurers maximize the effectiveness of underwriting today and into the future.



Today's Macro Environment

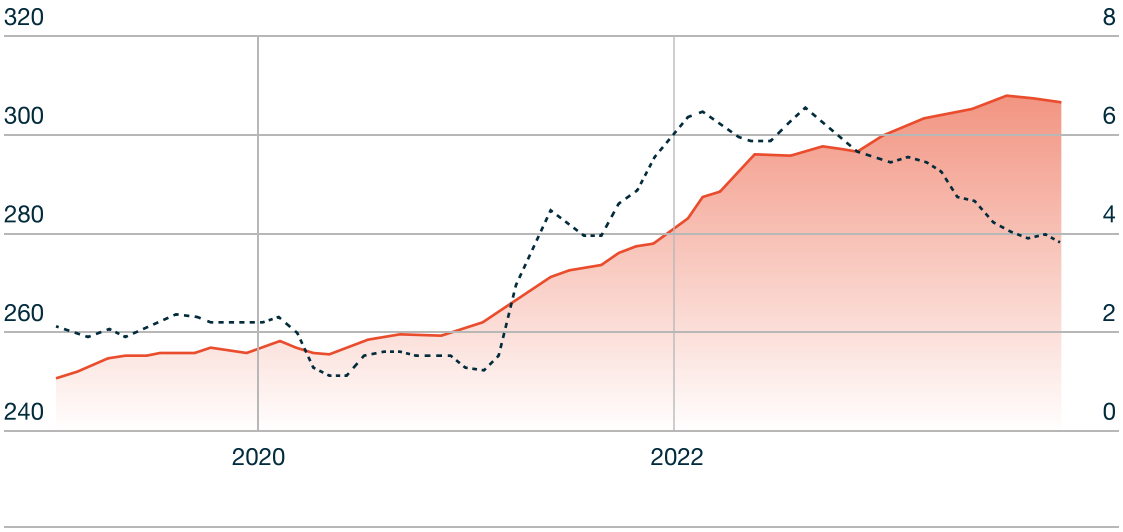
Today's environment presents a confluence of forces insurers have not seen in decades, in some ways a "perfect storm" of conditions with which they must grapple. From the recovery from the COVID-19 pandemic to recent macroeconomic and climate disruptions, many forces continue to cause pain for insurers around the world.

According to AM Best, US property and casualty (P&C) insurers chalked up net underwriting losses of **$32.2** billion in the first nine months of 2023, **$7.6** billion higher than the comparable period in 2022.

Economic Realities

Although actions by the US Federal Reserve and other central banks have taken a bite out of consumer inflation, as seen in the graphic on the following page, price increases for everything from energy to food to household services peaked at 40-year highs not that long ago, and consumers around the globe are still digesting their effects.

US Consumer Price Increases, 2019–2023



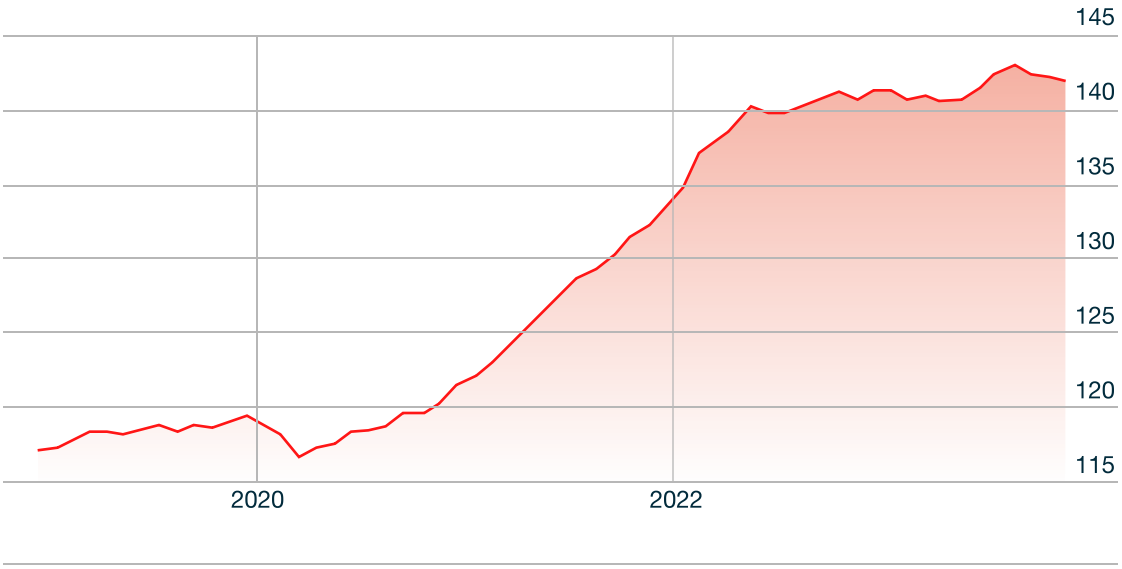
US Consumer Price Index (CPI) | tradingeconomics.com

For insurers, some areas of the economy have an even greater impact on their financial performance, as they must cover losses by replacing or repairing such items as building materials, automotive parts, industrial equipment, and the like.

With supply chain issues, labor shortages and transportation glitches, increases in the Producer Price Index have been even more pronounced than the CPI, and are lagging the CPI in moving toward moderation.

Consider the following graphic:

US Producer Price Increases, 2019–2023



US Consumer Price Index (CPI) | tradingeconomics.com

Insurers are negatively impacted by this aspect of inflation, as they must cover repair and replacement at costs higher than anticipated when policies were originally written.

For example, despite rate increases, US auto insurers have suffered ongoing profitability issues for the past two years, as cost increases persist due to general inflation, supply chain issues, and shortages of repair and replacement labor.



Accelerating Market Demands - The Need for More Personalized Digital Experiences

Driven by their personalized digital experiences in other industries such as retail, insurance customers and producers expect nothing less from the insurance vertical. This is especially true of customers and prospects in the prized younger demographics, many of whom are entering the prime years for home ownership, more expensive cars, and starting families, all key decision points for insurance coverage.

End customers have come to expect highly-personalized, proactive, timely, and simplified interactions with their insurers. If they don't find those experiences with their current insurers, they will seek out new providers.

As EY puts it: *"Insurers must leverage data and analytical capabilities while rethinking the value chain so they can respond to producers and customers in ways that recognize their context — that is, taking into consideration their unique circumstances at any given moment — and respond in an empathetic and relevant manner.*

"We call this hyper-personalization, and it is at the forefront of the digital transformation of the customer journey. Importantly, this is not limited to sending out marketing offers. Hyper-personalization is about enabling personalized, contextualized interactions across sales, marketing, underwriting, servicing, and claims."

The good news is that insurers recognize the critical importance of personalization in their customer interactions.

The bad news is that personalization objectives remain largely unfulfilled.

In Earnix's most recent Industry Trends Report, based on interviews with 400 insurance leaders worldwide, while personalization continues to be a clear priority, only **7%** say that they have fully executed their company's personalization strategy.

Clearly, insurers have much more work to do, must continue to keep their sights set on impacting how they present themselves to customers and prospects, and how they close business in a way that keeps end customers engaged.

Internal Imperatives

In that same industry survey, **34%** of respondents say they believe that increased collaboration is a top driver of innovation, coming in third on a list of all their workforce strategy priorities.

Despite seeing the importance, more than two-thirds of executives believe that their team members either collaborate "rarely or never" (**8%**) or only "on an ad hoc basis" (**65%**). This can be a severe impediment to success across critical functions.

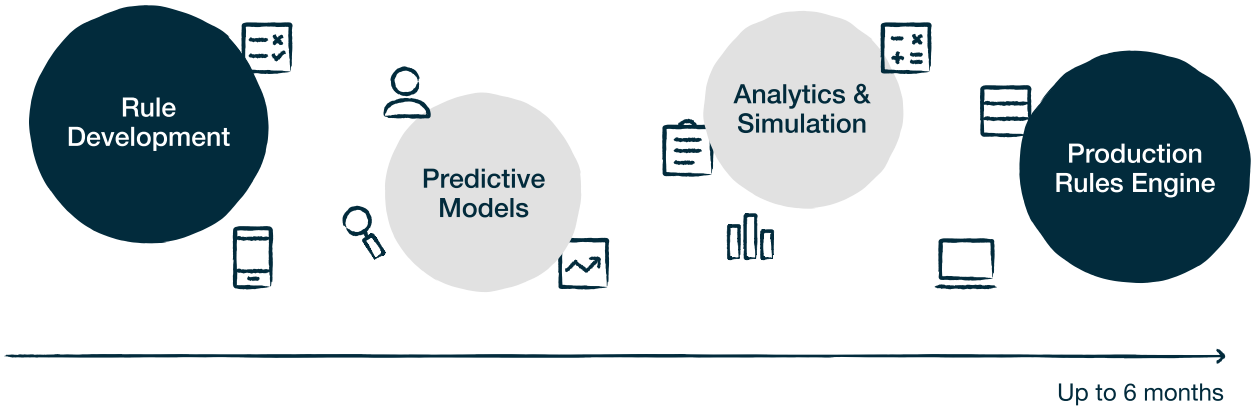
While functions such as rating and pricing have been modernized, underwriting in many insurers remains largely untouched. As a result, insurers are missing out on a key opportunity to integrate underwriting more fully into workflows and to move customer-facing interactions at a higher velocity.

While in no way suggesting that underwriting modify or abandon its traditional role and values – governance, risk management, fiscal responsibility, etc. – there is a recognition that underwriting could play an expanded role in making the business more agile, in accelerating customer acquisition, and in improving profitability.

The Severe Limitations in Today's Approach to Underwriting Automation

As with any business function early in its digital transformation, underwriting's first step forward comes in the form of automating repetitive tasks, to improve the efficiency of basic underwriting activities. This first step helps free up underwriting professionals for more value-add work that can contribute to the bottom line.

The way that underwriting rules are developed and deployed today is a major culprit in limiting the function's speed and effectiveness. In pre-transformation insurers, the process of implementing a new underwriting rule typically looks like this:





The biggest problem, of course, is that these rules are based on history and some amount of intuition. As they say in the financial advisory business, “past performance is no guarantee of future results.” By the time market changes are recognized, and the new rules are formulated and put in place, using them is like looking in the rearview mirror to see what traffic up ahead is doing.

In general, the process lacks flexibility, takes too much time, and the multiple handoffs increase the probability of errors creeping in, which in turn requires additional review, simulation, and validation before putting a new rule into production.

From an infrastructure standpoint, the final deployment all too often takes place on internal (on-premise, or “on-prem”) systems, limiting the ability to update rules quickly or expand capacity in a timely manner, and is therefore fraught with the potential for conflicts with other systems.

The process also places undue demands on adjacent functions, such as pricing and rating, on the data scientists who work with underwriters, and on IT staff, who are tasked with constantly re-interpreting rules and then testing, implementing, and managing them.

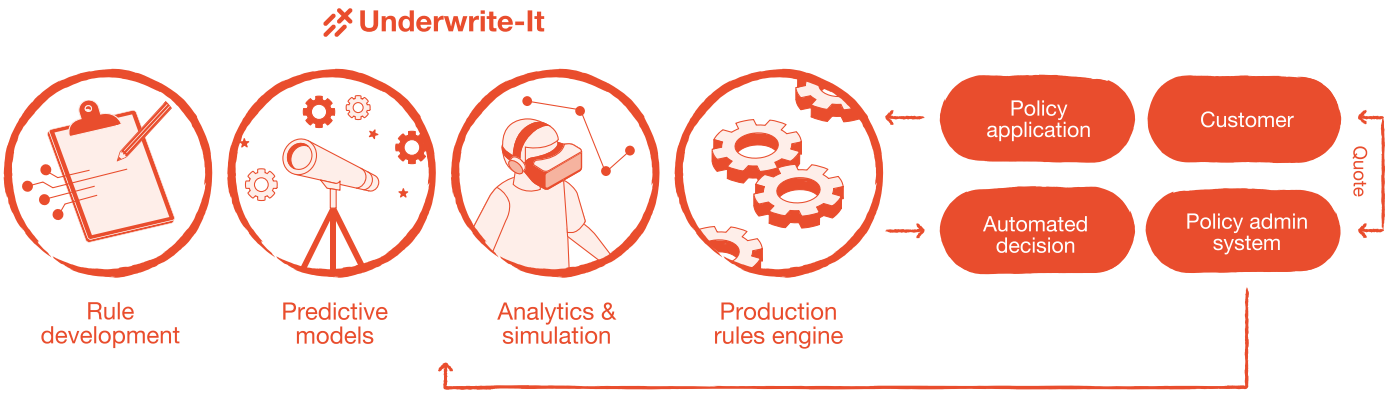
Transforming the Underwriting Decision-Making Process

What is needed is a shorter but just as effective and secure process in which intermediate steps are rendered unnecessary by advanced simulation techniques. These techniques employ machine learning (ML) and artificial intelligence (AI), making the development and deployment of new decision rules a process of continuous improvement and nearly real-time implementation.

These modern systems are also implemented in the cloud, in a software-as-a-service (SaaS) configuration, making them easily updated, infinitely expandable, and more readily connected with complementary technologies, both internal and external, through application programming interfaces, or APIs.

The bottom line: Focusing on new ways to automate underwriting processes can turn underwriting from a potential bottleneck into an agile, nimble, and flexible partner in meeting the needs of the market and the business, enhancing the organization's ability to handle change now and into the future.

Transformed Underwriting Rule Process





Increasing Underwriting's Value-Add

Making underwriting more efficient is just the beginning. Deloitte has posited that underwriting professionals need to evolve to become "exponential underwriters." This requires that insurers further upgrade their underwriting capabilities and employ advanced technology and expanded data sources.

When Deloitte spoke with Chief Underwriting Officers (CUOs) or their equivalent insurance business leaders, they uncovered three major imperatives needed to modernize and upgrade underwriting to meet the demands of the market and the business:

01

Moving from hindsight to foresight – underwriting, of all the customer-facing insurance functions, is the one still based primarily on analysis of historical data, the application of personal and institutional experience, and the use of outdated and overly complex rules-based systems. We've seen how relying on historical data and analysis can limit reaction time in underwriting, and the need to update or eliminate rules-based systems in favor of those developed with ML and AI.

02

Upgrading underwriting by **applying more science** in support of the human-driven art of the function. Today, it is clear that underwriters need to be able to prosper in both of these areas. They also need to focus on agility and flexibility - using their experience and judgment to manage portfolios, maneuver within a dynamic market, maintain broker and client relationships, and ensure that coverage and pricing remain realistic in a market with growing competition.

03

Incorporating new inputs, risks, and flexibility into underwriting decisions. They cite the explosion in work-from-home (WFH) and its blurring of the lines between business and personal lives; sensors everywhere and the Internet of Things (IoT) providing a vast array of new data on risk and performance in real time; and, evolving-by-the-millisecond cyber risks and threats, among others.

The latter two measures rely heavily on validating and upgrading data sources, both internal and external. Internal data may include data from sales and marketing activities, customer reactions to changes in pricing and rating, and servicing and claims information. External data could involve everything from climate models to sensor data from insured vehicles to the latest cybercrime statistics.



Legacy Systems - Stubborn Barriers to Realizing Underwriting's True Potential

Legacy systems remain a barrier to modernization across the insurance landscape, and can be particularly limiting in strategies to transform underwriting. Three legacy systems effects are often cited by industry executives as the most daunting:

Lack of Flexibility

Lack of flexibility is often recognized by insurance and IT executives alike as the key limiting factor in dealing with legacy systems. On the “outbound” side, this lack of flexibility limits their ability to present customized offers and to connect with business partners (delivering embedded insurance offerings, for example).

Internally, inflexible legacy systems slow the development and deployment of new applications that would help propel the business forward. Outdated systems are also notoriously expensive to update and maintain, all for no great business benefit – they are merely allowing organizations to “run in place.”

Lack of Experienced Resources/People

As IT and other “baby boomer” staff age and retire, they are not being replaced with younger workers, since those younger workers do not have “legacy skills.” These younger workers are steeped in modern technologies, and have a desire to work with state-of-programming paradigms, workflows, user experiences (UX), and SaaS/cloud-based deployment.

Slow Time to Market

When you combine a lack of flexibility and lack of applicable talent, you have a guaranteed recipe for slow time to market, which in turn leads to other business shortcomings related to competitive position, revenue expansion, and profitability.

Underwriting modernization is a prime opportunity to replace or augment legacy systems to address a multitude of legacy limitations.

Earnix Technology to Modernize and Upgrade Underwriting

Fortunately, Earnix has a solution that can tackle the hurdles insurers face in today's underwriting landscape, and vault carriers and their underwriting teams ahead of the competition.

Underwrite-It™

Underwrite-It™ uniquely combines the key capabilities of rules management, advanced analytics, simulation, and business-driven deployment in a single solution.

Price-It™

Tightly integrated with Earnix Price-It™, Underwrite-It™connects underwriting and pricing in a seamless, collaborative process that results in better overall decisions and improved business results.

Benefits of Earnix Underwriting Technology

Underwrite-It fully automates underwriting decisions and manages all underwriting rules in one place, enabling underwriters to update rules and models without burdening IT.

Combining the standard rules-based underwriting approach with advanced machine learning (ML) and simulation, Underwrite-It improves time-to-market and decision precision in analyzing potential underwriting changes, delivering newfound agility and profitability:

01

Smarter Underwriting Decisions

Combining the standard rules-based approach to underwriting with advanced machine learning delivers better results.

02

Greater Business Agility

Managing all rules in one place creates a “single source of truth” that enables underwriters to update and deploy rules and models independently – all while maintaining complete transparency and rock-solid governance.

03

Faster Decision-Making

Fully automating underwriting decisions achieves straight-through processing and yields faster decisions for applicants, improving the customer experience (CX).

04

Easy Management of Underwriting Rules

Table-driven and tree-based underwriting logic makes even complex logic readily accessible to business users, making rules more manageable.

05

Deeper Understanding of the Impact of Pricing and Underwriting Changes on the Portfolio

Compare underwriting strategies and use pricing data to simulate how model and rule changes will affect KPIs and forecasts (e.g., profitability, loss-ratio, written premiums, etc.).



Summary

Now is the time to move forward with modernizing and upgrading underwriting in insurance. The technology now exists to make underwriting more efficient, to make it more engaged in the quest to provide a better customer experience (CX), and to tie it more closely to other customer-facing functions such as pricing and rating.

The benefits are many, the technology path is there, and underwriting can be on its way to helping capture new business, beating the competition, increasing customer satisfaction, and driving improved profitability more readily than ever before.

Start modernizing and upgrading your underwriting function today with Earnix.

Explore Underwrite-It →

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Earnix is the premier provider of mission-critical, cloud-based intelligent solutions across pricing, rating, underwriting, and product personalization. These fully-integrated solutions provide ultra-fast ROI and are designed to transform how global insurers and banks are run by unlocking value across all facets of the business. Earnix has been innovating for insurers and banks since 2001 with customers in over 35 countries across six continents and offices in the Americas, Europe, Asia Pacific, and Israel.