Specialty Lines Underwriting: Why aim for profitability 50% of the time?

ACHIEVE PROFITABLE GROWTH THROUGH A COLLABORATIVE UNDERWRITING INFRASTRUCTURE

What is the comparison between an aerial refueling pilot and a specialty lines underwriter? The similarity is that both are hired and trained for highly skilled work. The difference is that refueling pilots actually get to do the work they are trained for 100% of the time, while underwriters get to do what they are trained for, at best, 50% of the time.

Underwriters are paid to balance profitability with risk. Yet what they are required to do within the 24-48 hour turn-around time is collect data from various sources, enter and re-enter the data in various systems and then with the remaining minutes or hours, assess and price the risk. While this is true for underwriters, generally, it is particularly so for underwriters working with a wide range of complex or specialty risks.

This paper explores the opportunities to profitably grow specialty business by rebalancing the utilization of people, process and technology. It highlights a new approach that makes it possible to augment underwriting talent with the data and process necessary to make underwriting decisions, including contributions from claims, actuaries, brokers and expert parties. Collaboration capabilities within a unified underwriting desktop in concert with process automation and robust integration capabilities drive more efficiency than work automation alone. An underwriting infrastructure where speed, risk and return are in balance is the groundwork for more consistency in underwriting profitability and growth.

INTRODUCTION

"A challenging property and casualty market, along with weakening profitability, led to the growth of the specialty insurance market, which is becoming increasingly global in nature with specialty carriers trending in similar lines and facing common issues. The global outlook for specialty insurance is positive for 2014–2018.

The global market size for specialty insurance, in terms of gross written premium, was estimated to be in the range of US$140–180 billion in 2013. The US is the largest specialty insurance market, contributing more than 50% of the overall gross written premium in 2013." [1]

Many organizations are growing their footprint in the generally high-return market of specialty insurance. The opportunity for innovative insurance products and programs continues to be fueled by diversifying risks associated with terrorism, technology, aviation and almost every other newsworthy area. With opportunity, come competition and the race to gain market share. An imbalance in the triangulation of high-risk, high-return and speed to market can compromise profitability.

Specialty insurers and specialty divisions within a general insurer aspire to achieve consistency in stellar underwriting performance, yet they find themselves in positions of trade-offs rather than balance. Speed is compromised by disconnected contributors, disparate data sources and missing capabilities like simple data validation. These dead zones, in turn, get filled with manual efforts of data acquisition via email, redundant data entry and calculations in spreadsheets.

These dead zone fillers are generally not auditable, provide no end-to-end transparency, inhibit rather than encourage speed through collaboration, and do not provide a scalable platform to support new products or fast growing business segments. The costs associated with administration of these manual dead zone fillers continuously eat into growing IT budgets for underwriting.[2] Most importantly, the time required to navigate these dead zones distracts underwriting talent from what matters most – consistency in stellar underwriting performance. This is lost opportunity.

In this paper, we explore a new approach that makes it possible to automate the internal activities associated with specialty lines underwriting while including contributors to the process that are outside the organization's four walls – whether people or systems. By connecting across people, processes, technologies and geography, insurers can achieve the efficiencies they need to keep the triangle of speed, risk and return balanced. Diversification in products does not have to mean increased expense or complexity.

SPECIALTY BUSINESS MAY OUTPACE STANDARD LINES – CAN UNDERWRITING KEEP UP?

Specialty insurance is a fluid market historically reserved for commercial organizations and high networth individuals. As the list of non-standard risks grows, so do the pools of buyers and opportunity for new products. To many, the idea of greater volumes of higher profit business may be outweighed by the fear that more diversification in products means increase in underwriting expense and distribution costs.

Take the business of high networth insurance programs as an example. The cost to underwrite might be considered extraordinary. The underwriter has to communicate across different businesses who are expert in particular products. They receive bits of information in different formats about expensive homes, autos, yachts and aviation assets. They then enter the asset information into various systems that ultimately provide some valuation numbers that are then used by a rating system – spreadsheet, engine or otherwise.

After days of cross-departmental coordination, cross-system data input and a few email exchanges with the Broker, an underwriter has a couple hours left to evaluate the risk. Why would the insurer want to go down market and pick up the median buyer looking for specialty coverage for wind damage or an individual piece of fine art? As the median buyer becomes more educated about their standard coverages or lack thereof, the unwanted exposure becomes an opportunity for the market.

While the specific challenges of coordinating across different businesses and the need to obtain more specific information from a client is different in high networth versus microinsurance, D&O, E&O, etc, the opportunity for profitable growth in specialty is on a steep incline. If we follow the same approach we have with other lines of business, the cost will likely outweigh the return. Buying fit-for-purpose underwriting modules that are used exclusively by the underwriter frustrates the actual way profitable specialty programs come to fruition – which is through collaboration by the knowledgeable. This requires a shift in thinking from a "myopic view for one" to a "collaborative platform for many."

COLLABORATIVE WORK PLATFORM – ENABLING CUSTOMIZED PROGRAMS FOR MANY

Repeatable program customization, while an anomaly in specialty lines, is the key for profitable growth. The specialty market is used to program customization by the very nature of the business. Yet the approach or method of customization is not scalable simply because the technology provided does not support the reality of this collaborative and personalized business.

The industry crossed a critical threshold a couple years back recognizing that a policy administration system cannot double as an underwriting system. Policy administration systems were not designed to be externally facing, nor to run omnichannel, nor to deliver agility. They were designed for the specific purpose of storing the four corners of the data associated with a contract, to serve as a books and records system. They were not designed to capture the information an underwriter needs to assess the risk in the first instance.

More recently, the industry realized that scanning and moving documents around in some sort of folder format did not meet the needs of the underwriter either. Although moving pdfs was faster than moving physical paper and made one pdf available to many rather than one, the data within the pdf was not electronic and therefore not usable. The data needed to be manually entered into one or many systems for digital use.

In essence, the industry is becoming more sophisticated in its articulation of requirements for enablement of repeatable customization. These requirements extend beyond a calculation gadget and include:

- **A collaborative platform** that allows all contributors to work on the same piece of business whether employed by the insurer or not – avoiding time and cost associated with filling in dead zones between people and systems
- **Supporting work anywhere,** allowing all contributors to work on the same piece of business from their mobile device, through portals and their laptop/desktop – avoiding time lags between work and information availability
- **Continuous availability of contextual information** relevant to the client, the business and the contributor – avoiding the need to dig through data in different systems to create context against which we all start work
- **Case management and reports** in order to administer the business with transparency by having at your fingertips: how long, how many, how much, priorities, assignments, activities, due dates & SLAs

- **Work automation** that accommodates all work types whether structured, concurrent or ad hoc – enabling structured freedom to get work done in the most effective & efficient manner including STP when relevant

- **Robust integration** in order to leverage digital data to the max through integrations for data acquisition, use in gadgets, etc

- **One platform** through which many gadgets, tools, systems are exposed – rather than the other way around

Appian meets all of these requirements. Appian provides a single integrated platform that connects people, process, data and devices, built for omnichannel use. With customizable user interface to accommodate clients, brokers, actuaries, underwriters and claims experts. Appian is a software platform built for the purpose of efficient repeatable customization – an enablement for a profitable specialty business.

ONE PLATFORM CONNECTING YOUR SPECIALTY BUSINESS

In its simplest form, the business of specialty insurance is combinations of data, decisions based on that data, and business processes executed as a result of those decisions. It is experts in products, actuarial science, claims and clients working collectively to put a program or proposal together or work on a claim.

The reality is more complex, more challenging to master. The complexity is due, in part, to the technology insurers provide these teams to use to generate profit for the company every day. Disconnected systems, data, people, decisions, and actions hinder optimal business outcomes and increase risk exposure.

The solution is a common platform that accommodates customized programs and specialty challenges. Data and process at the fingertips of each expert contributor reduces work and time lag associated with connecting the dead zones. A secondary gain from a platform built for collaboration in underwriting is institutionalized knowledge that the next team can use in consideration of like kind business – regardless of who participated on the original team. Automate activities when practical and augment with knowledge for the rest.

Add the capability to work anywhere with screens that reflect the same content yet display according to the device of choice - a desktop, a tablet, or a smartphone. Or an Apple Watch. Such a platform accelerates the pace of work, adds actionable intelligence to decision-making and provides radical new levels of transparency. Diversification in products does not have to mean an increase in expense or a loss in profitability.

Appian is that platform. Contact us to learn how we can help your specialty insurance business thrive.

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1. http://www.marketresearchreports.biz/analysis/218799
2. Strategy Meets Action, Research Report 2016, IT Priorities Spending, February 18, 2016