The future of the Chief Underwriting Officer

Today, in most insurance organizations the underwriting function is fragmented into market segment or lines of business. These profit and loss centers drive demand for product, and technology solutions for their areas. Although this model can encourage internal competition and tactical success, it has also resulted in fragmented underwriting processes, operations, data and systems. As a consequence, insurers are left with IT environments and operations that are costly to maintain and difficult to change. They also lack the resources needed to drive strategic investments.

The world of underwriting is poised for dramatic change. Both Property & Casualty and Life Insurers face similar issues with this fragmented approach to underwriting:

- **Personal Lines:** use different data vendors for similar information across lines of business.
- **Life Insurance:** apply multiline and multichannel strategies while still implementing basic forms of automation.
- **Commercial Insurance:** use different underwriting processes, tools, and systems across each line of business, even for similar functions.
- **Group Benefits:** struggle to ingest submission requests across multiple lines of business and to easily issue integrated quotes.

Insurers don't have to accept this current approach as inevitable or inflexible. Technology, data, and advanced analytics provide the potential to lead insurance underwriting across both P&C and Life insurance sectors to create solutions that are faster, more accurate, and nimbler to customer and market needs.

What's holding the industry back? The structure of most underwriting organizations is prohibiting strategic change. For underwriting to reach its new human and technological potential requires strategic underwriting leadership. The Chief Underwriting Officer is best positioned to lead strategic change.

Today's challenges

The underwriting environment is becoming more complex. Producers, agents, brokers, and customers expect faster and more cost-effective quotes. At the same time, risk evaluation is becoming more complex with new risks, exposures, and data sources. Seen one way, these are risks. Seen another, they are opportunities.

The P&C space has been a trailblazer here on many fronts. A customer can quickly access a pay-as-you-drive auto insurance policy that monitors their driving in real-time, for example. Other parts of the industry are catching up. Many life carriers, for example, are exploring the use of alternative data sources to assess risk and provide faster decisions on less complex policies.

Insurers need to make strategic underwriting investments that will not only improve operating efficiency and underwriting accuracy but also enable them to innovate and quickly adapt to changing market conditions with new products. While lines of business can have strong tactical views, carriers lack the resources to solve these challenges for each line of business separately. They need the speed, scale, and benefits that only come from a holistic enterprise approach to attacking these challenges.

The leadership gap

A lack of centralized, strategic underwriting leadership contributes to its lag in innovation and cost performance compared to other areas of the organization, such as claims and operations. In some organizations we have seen the COO or the CIO attempt to drive strategic change in underwriting, but these efforts tend to be limited to operational sourcing or technology alignment plays. They lack the vision to drive a true strategic direction for underwriting.

The emerging role of the CUO

The CUO role in insurance companies has traditionally focused on maintaining underwriting standards, driving underwriting quality, and balancing capital utilization across the different lines of business. Performing a critical coordination and compliance function, the CUO has not usually been responsible for setting underwriting strategy or driving improvements in efficiency. Instead, P&L owners conduct these activities for their respective lines of business.

This creates a challenge in today's business environment. Truly transforming underwriting with the intelligent tools available today requires a level of commitment and investment that is difficult for a single division to achieve on its own. The tools to improve underwriting tasks have been available for years, but to really achieve the ROI goals, investments need to occur across the divisions, which has been difficult to coordinate and sustain.

If insurers are to become future-ready organizations, the role of the CUO needs to be elevated to a strategic level within the organization. This change will mirror similar transformations seen with CIOs, CFOs and COOs as these roles have evolved from operators to strategic drivers. Underwriting is due for a similar transformation today.

Enterprise strategic agenda

As we see it, in today's environment there are 5 key strategic challenges in underwriting that require an Enterprise Underwriting approach.

1. Underwriting operations

One of the biggest challenges that underwriting faces is how to significantly reduce costs while maintaining or improving underwriting quality. While line of business solutions can yield some benefit, real cost take-out can only be achieved by rethinking the underwriting process and driving innovative solutions that balance process reengineering, sourcing, intelligent solutions, and enablement to improve performance. This is particularly important (and challenging) given changes seen in major risk demographics, which have been accelerated by the COVID-19 pandemic. An enterprise approach to tools like AI and automation have the potential to deliver a 30-40% cost reduction, but it requires significant focus, discipline, and decision making to achieve.

As an example, Accenture is helping one carrier review its quoting process for group benefits across multiple lines. The carrier currently uses different workflow tools, rating tools, quote generation, and approaches to personnel. No single line of business has the resources, time, or can generate the return on investment to really transform the underwriting process to be faster, cheaper, and more cost-efficient on its own. However, by taking an enterprise approach across the different product lines and market segments, we can create a strategic plan for underwriting that will benefit all the areas with significant savings.

Reengineer

Redesign your UW process to make the best use of UW resources and position yourself for technology and other options.

Intelligent enablement

Evaluate where you can use the full suite of intelligent enablement tools. Don't just pick one tool and think everything is a nail.

Data excellence

Rethink group data and how internal and external data insights and visualizations, especially comparitive analytics, can help the UW to decide.

Intelligent prioritization

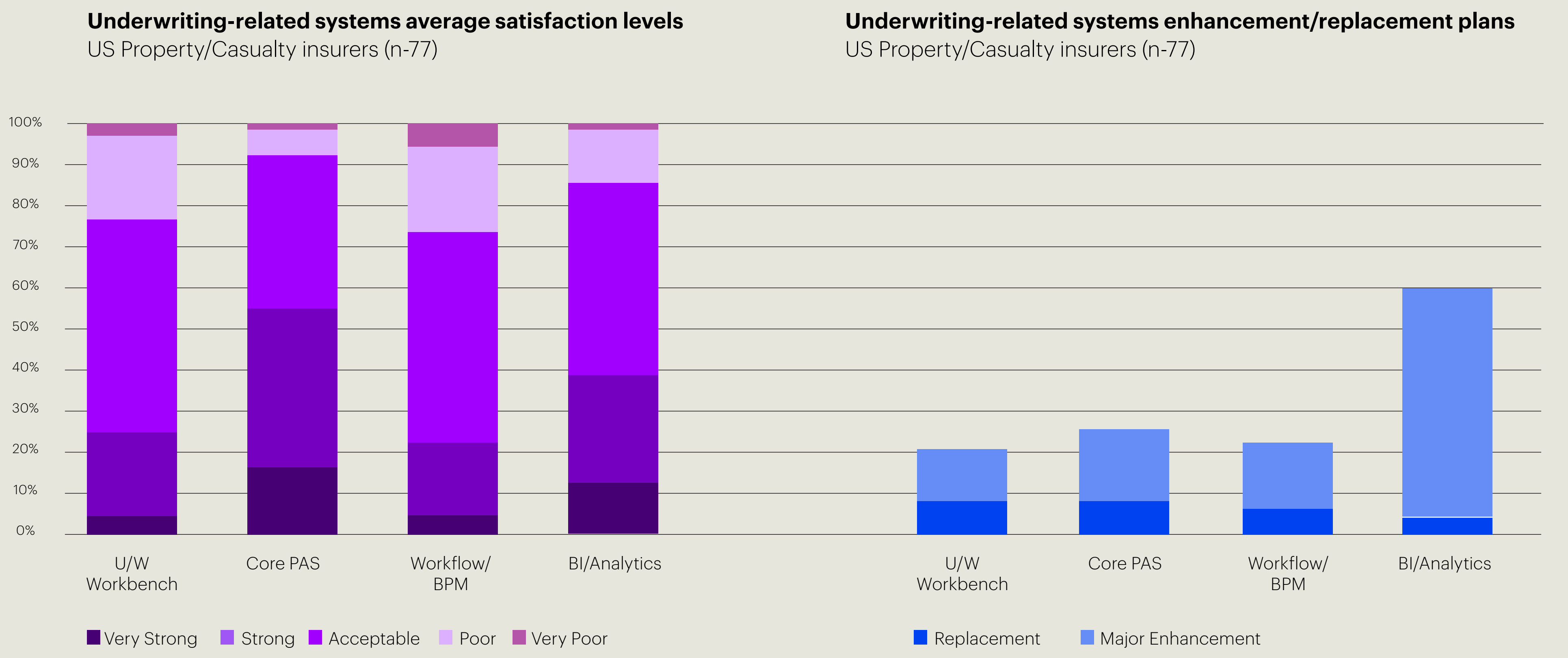
Being able to identify and intercede with customers who are known to be shopping improves win rates.

Managed experiences

Focus on improving the experience and interaction with your distribution partners and customers. Especially during the proposal and close process.

2. Underwriting platforms

Today, we see an evolution in the needs of underwriting. Carriers are generally unsatisfied with their current underwriting systems, workflows, and analytics skills.



Source: Novarica – Research Digest: Underwriting (2021)

Underwriting needs three major capabilities:

1. Rating and quoting solutions that enable it to set up, rate, and price the needed packages for customers.

2. Workflow solutions that can manage submissions, teams, documents, and data through either traditional or straight through underwriting processes.

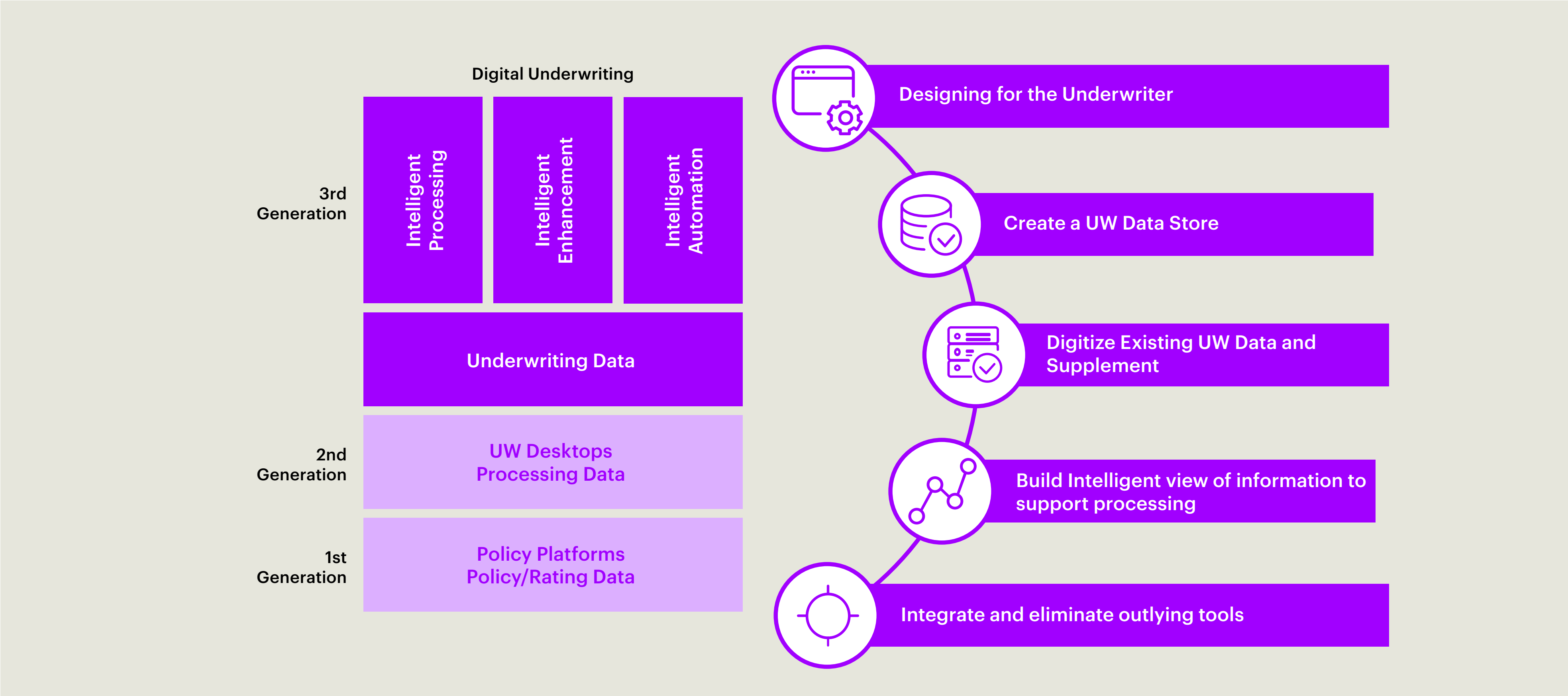
3. Emerging data platforms that can cleanse, supplement, assess, model, present, and automate elements of the underwriting process to drive ongoing improvements.

At a minimum, the underlying platform technology must be cloud-based and flexible with open APIs that easily connect to new data sources as well as provide compute power for AI-based underwriting that will require ever greater amounts of data to build effective predictive models.

The good news is that, once implemented, these platforms have the potential to create a self-reinforcing "virtuous circle" of data.

We see AI emerging in life insurance as carriers seek to improve the buying experience—particularly for younger generations and first-time buyers—by eliminating paramedical exams. Instead, predictive models use health and wellness data, in addition to imputed data from clinical sources, as a substitute for fluids.

For example, one carrier's lines of business developed 92 analytical models to help their underwriters address different segments and products. Each model was unique and while they may have provided insights, poor design lead to minimal use and return. Instead, a strategic enterprise underwriting approach to data, analytics, and model enables a single set of investments and tools to significantly improve underwriting.



Another carrier in the life insurance space leveraged its underwriting platform across several distribution channels, using a multivariate rules engine and automating the evidence gathering process.

This combination enabled straight-through processing, including fast, accurate underwriting decisions, which boosted new business and operating efficiency, freeing underwriting capacity to focus on applications requiring greater discernment.

Other notable examples here include:

- Zurich's implementation of ZCAM, an AI customer analytics platform for distribution networks and underwriters in Switzerland and Italy.
- Mapfre Spain's piloting of intelligent automation and NLP solution to achieve higher operational efficiency in its global risk operations.
- Zurich One-Path's harnessing of AI-driven underwriting to eliminate lengthy manual processes in life insurance.

3. Innovation

The market landscape is one of the biggest changes in underwriting. There are significant changes in both product and distribution as the market fragments into new channels and new product types. Innovation, in part, is being driven by the competitive threat of insurtechs.

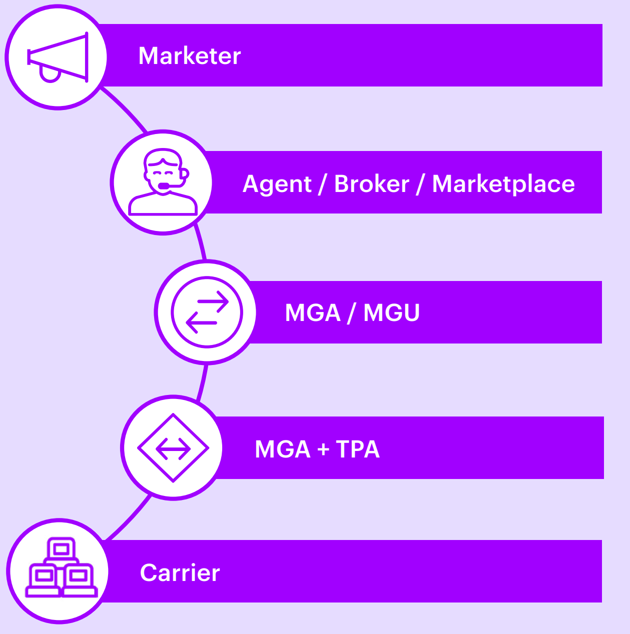
Online brokers and point of sale intermediaries are creating new distribution channels. The boundaries are being pushed even further as OEMs (Original Equipment Manufacturers such as cars and trucks) and OSPs (Original Service Providers such as payroll firms, benefit firms, and other service providers) become sales channels or even competitors.

New sources of data from IoT (Internet of Things – vehicle information, wearables, sensors, etc.) as well as from service providers with unique information on health and wellness, sales, finances, employees, or usage are also creating the opportunity for new, bespoke products delivered through a personalized digital experience. In fact, Accenture research shows 58 percent of consumers aged 55+ say they would share significant data for personalized services to help them prevent injury and loss—an increase of 24 percent from just two years ago.[2]

In aggregate these changes are pushing insurance out of the "Policy Administration Age" that began in the 2000s and into a new era defined by use of third-party data, predictive modelling, and augmentation of existing data.

To be effective at launching and growing new channels or new products, insurers need to use a strategic approach to balance innovation with enterprise resources to best test, learn, grow, or abandon ideas at innovation speed. An enterprise underwriting approach to innovation is a key part of making this a success.

OEM/OSP market plays



4. Responding to the evolving customer

Across the different lines of business and products, customers are changing. The COVID-19 pandemic accelerated digital buying and it is here to stay. But prior to COVID-19, consumers expected a completely digital insurance buying experience on par with that of most online shopping sites.

From a business customer perspective, distribution partners are consolidating and exerting more influence on carriers' operations and underwriting. With this shift, carriers are focusing on designing strategies that make it easier to do business with major partners. Some examples of these changes could include centralizing intake (pushing towards a single door of entry), improving turnaround times, and driving towards consistent policy servicing. The CUO should be leading these initiatives and designing operating models to ensure that across P&L lines partner experiences are consistent, while not eroding operational efficiencies and the bottom line.

From a consumer perspective, digital channels are becoming more common as buying habits change. Consumers want seamless integration across channels as well as trust in return for the data they share. A recent global survey from Accenture found that 49 percent of consumers are willing to share more personal information with their insurer in return for added benefits or a more personalized service . Purchasing insurance direct is starting to move up stream from personal lines and small commercial to more complex products. It's also moving to new streams where consumers are already present, such as wellness apps. With the increased adoption by customers, CUOs need to be involved in allocating investment dollars to help push products to direct channels of distribution. The CUO will play a pivotal role in aligning products from different P&L lines to the distribution channels, which will help improve returns on investment, as well as, deliver a more consistent customer experience.

5. Data

Data represents both a significant opportunity and challenge. Historically, underwriting resembled an iceberg—a small amount of information on the surface requiring underwriters to ascertain the size, complexity, and risk that reside below the surface.

Today, the problem is reversed. On the surface, there are massive amounts of new information and data sources available, like the fish looking at a vast sailing ship. It sees a small portion of the hull with no perspective on the extent of the entire ship.

With an overwhelming supply of sources and types of data, P&L owners tend to stick with what they know:

- A small business carrier knows that 30% of its industry codes are wrong, but is reluctant to rock the boat by implementing a change.
- A marine carrier has the potential to know exactly where the cargo will be placed on the ship, but is worried that level of information will change their pricing approach.
- A property carrier doesn't want to use new industry flood maps, preferring to wait and maybe build their own.
- A life carrier continues to rely on traditional medical and motor vehicle data as well as and fluids to assess risk despite a flood of new data from wearables and wellness apps.

Selecting, evaluating, and integrating new data sources into underwriting is difficult. Although interest in and use of big data is expanding, still only around 30% of insurers are currently fully leveraging it for underwriting, and actuaries are still wrestling with building effective models in many cases.[3] But carriers who have done it are outperforming peers. To be successful, carriers need an enterprise underwriting approach and technology strategy to drive constant data evolution.

For example, risk engines today and into the future will integrate with a broad range of data sources beyond conventional Medical Information Bureau, Motor Vehicle and Electronic Health Records. Each request for data comes with a fee that's repeated every time an application is processed, even for an update to the same application. These all present opportunities to reduce cost and redundancy. Many North American carriers are already using platforms like the Accenture Life Insurance & Annuity Platform (ALIP) to eliminate redundant data pulls and speed up policy turnaround times.

However, technology on its own is not the whole answer. Consider how consumer behavior has changed since the digital revolution. Technology needs to become more personal and human-centric, especially in areas of the industry that are digital laggards, like life insurance. (There is an irony here. What could be more personal than life insurance?) Technology fundamentally can help carriers address human behavior in a more personalized way.

Additionally, the regulatory landscape will impact data and how it's used. From data privacy to antidiscrimination, regulations are evolving as new data sources emerge.

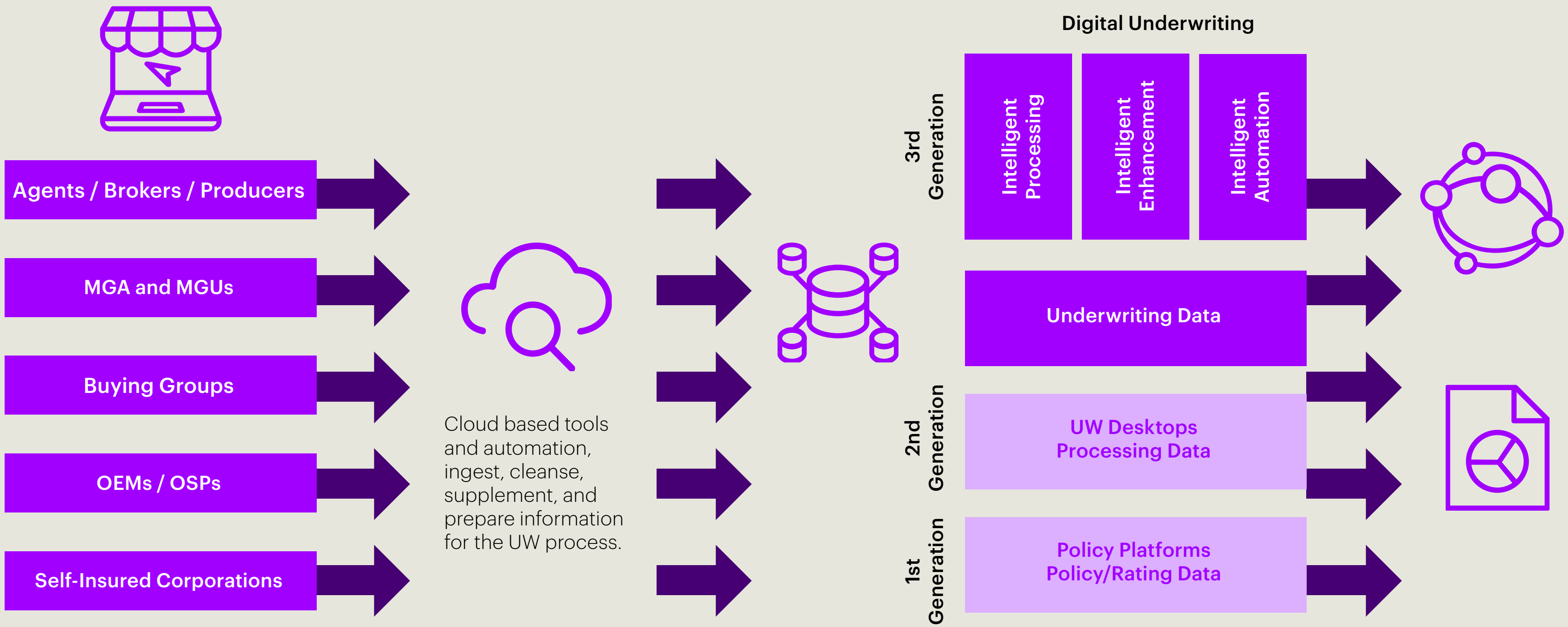
The CUO is once again uniquely positioned to set and drive this agenda.

The way forward

The need for a strategic enterprise approach to underwriting is clear. Insurers can achieve underwriting performance, expense and profitability goals, by shedding the current distributed approach and its costly inefficiencies. Accenture has identified three steps that CUOs can take to transform underwriting at a strategic level.

AI vision for underwriting

With imagination and focus, underwritting can realize the value of human + machine in underwriting.



Cloud based tools and automation, ingest, cleanse, supplement, and prepare information for the UW process.

The vision starts with considering the full possibility for insurance products and distribution. Emerging markets with new data disrupt traditional boundaries integrating insurance into broader customer solutions.

Third generation underwriting solutions combine modern platforms with big data to provide analytics, insights, data, and automation at the points of need in the underwriting cycle leveraging the best attributes of Human + Machine.

Using AI, data, analytics, design and imagination; new experiences are created across the value chain improving sales and collaboration experiences.

Consistent use of data, analytics, and insights drive enhanced efficiency and improved UW outcomes.

Ecosystems and partnerships create new selling and servicing interactions leading to increased sales and retention.

1. Alignment

Align your vision with the C-suite and gain their support to drive enterprise change in underwriting. P&L ownership in the segments has a long focus. Make the business case for a more strategic approach to underwriting, and as the first step to building it, you want to lead an enterprise evaluation of underwriting capabilities and opportunities.

2. Diagnostic

Conduct an enterprise diagnostic. This can involve a single issue such as expense or profitability, or a holistic review of all five strategic areas outlined above.

The diagnostic will provide an enterprise view across underwriting to identify strengths and opportunities that support a strategic vision for addressing the challenges and setting the new direction.

3. Vision

Finally, set a strategic enterprise vision for underwriting. The vision can encompass an array of issues or focus on a single strategic area. The goal is to match a plan and business case that will achieve the vision using small incremental steps aimed at building the concept and gaining support.

This playbook describes similar strategies and approaches used by CFOs, CIOs, and COOs to become more strategic. Now is the time for the Chief Underwriting Officer to do the same and drive transformational enterprise change required to capture today's underwriting opportunities.

If your company is ready to drive an Enterprise UW Strategy, Accenture is ready to help with diagnostics, platforms, and ideas for you to consider as you help set the future direction of underwriting for your company.

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