

Four key capabilities for the future of underwriting

Findings from the EY-CPCU Society underwriting survey



Executive summary

An expanding value proposition for underwriting

As the insurance industry continues to experience rapid and profound change, the effects are being felt across every major function in the insurance enterprise. Against a backdrop of high-profile and far-reaching acquisitions, insurers of all types have made large-scale investments in modernizing their claims and policy and processing platforms.

Increasingly, however, they are turning their attention to underwriting, where an important evolution – even transformation – is taking place. To a significant extent, these investments are driven by the need to enhance customer experiences and enhance digital strategies.

Underwriters are no longer “just” underwriters

But, underlying those drivers is a more fundamental shift that is expanding the value proposition of underwriting and redirecting its essential role in the insurance enterprise. Whereas risk selection and pricing were once the primary activities, today's underwriters are more likely to serve as:

- ▶ Sales executives
- ▶ Decision scientists
- ▶ Customer advocates
- ▶ Innovators

This is good news, especially for insurers looking to succeed in an era of intensifying competition, higher customer expectations and endless pressure on costs. There is clear upside in the evolution of the underwriting function away from its traditional transactional focus toward a more strategic and customer-focused orientation. The business stands to benefit in many ways, including increased sales, more efficient underwriting processes and stronger customer loyalty. More good news: a large majority of insurers recognize the opportunity and have interest in growing their skills and technological capacity to take advantage of it.

However, most insurance companies face considerable gaps between current capabilities and the requirements for a broad-based and high-value transformation of the underwriting function. Further, the path forward varies considerably for individual carriers, based on their unique policyholder base, their predominant lines of business and which of the four emerging underwriting roles is most important to their growth strategies.

This paper will highlight the key findings from a recent survey conducted by EY and the Chartered Property Casualty Underwriter (CPCU®) Society about the future of underwriting and the four key capabilities that have emerged, as well as insurers' plans for investing in them.

About the survey

In 2015, EY and CPCU surveyed more than 1,000 underwriting professionals – including senior executives and managers – to learn more about the changing role of underwriting and strategic investments at their organizations. More than 60 percent of respondents work in commercial lines, and nearly as many work at large carriers. A full 66 percent have been in underwriting for at least 11 years.

Key findings

The survey results confirm an overwhelming consensus that the underwriting function is evolving to become more relationship-based and strategy-oriented. The vast majority of respondents believe that underwriters have additional responsibilities apart from risk selection and pricing. These additional activities include:

Supporting the sales function

Growing the book of business, increasing retention rates, building relationships, lead generation and prospecting

Data science

Data-driven decision-making at the account and portfolio levels, risk insight, profitability analysis, predictive modeling of pricing, and risk evaluation

Customer advocacy

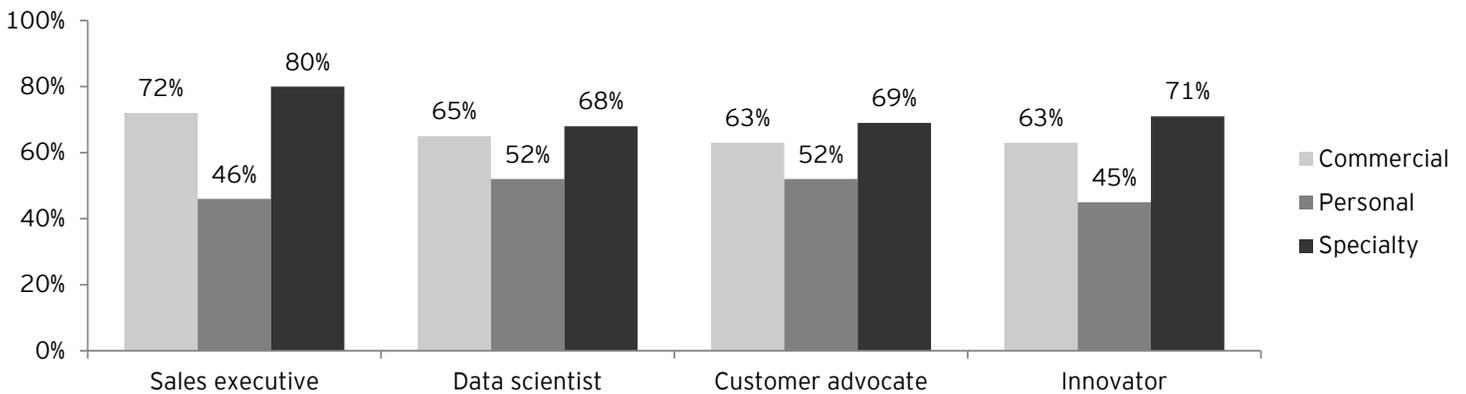
Improving the customer and agent experience, coordinating account services (loss control, claims, education) to mitigate risk exposures and strengthen customer loyalty

Innovation

Creative problem solving, new product and service development

The role of the underwriter

Figure 1: Agreement on broad definition of underwriting role by customer segment

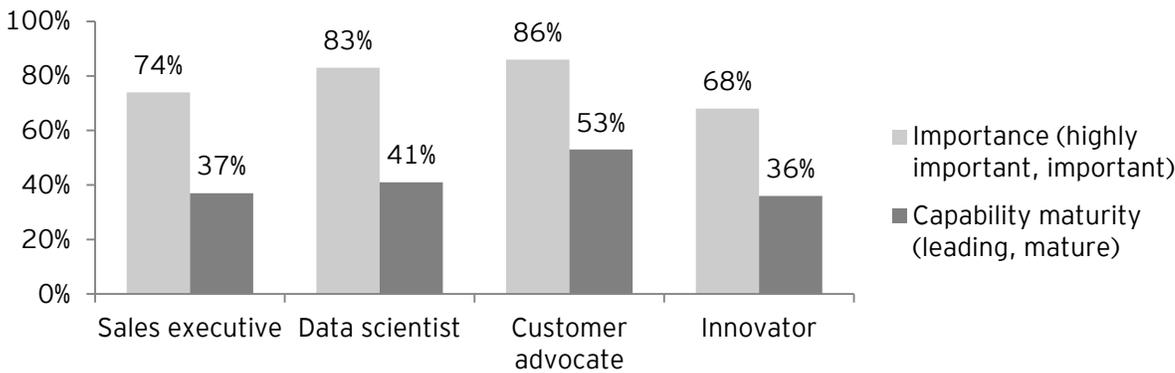


Underwriter skills and tools by role

There is consistency about the importance of these roles overall, especially the customer-facing and analytical roles, which a vast majority of the respondents cited as “highly important” or “important.” But the exact emphasis varies by different segments of insurers. For instance, at carriers specializing in commercial and specialty lines, underwriters are more likely to serve in the sales function role. For personal lines of business, there is preference for underwriters to spend more time in the roles of decision scientist and customer advocate.

Though there is clear and increasing focus on these roles, they also reflect the greatest gaps between current capabilities and those required to advance the function. In fact, when respondents were quizzed about the current maturity level of the current capabilities, tools and skills required to support these additional functions, the picture was grim. The gaps persist for “decision scientist” and “sales executive” functions more than the others. It is worth noting that commercial/specialty carriers face the most prominent gaps in the sales function role. For personal lines, the largest are related to customer advocacy (see Figure 2).

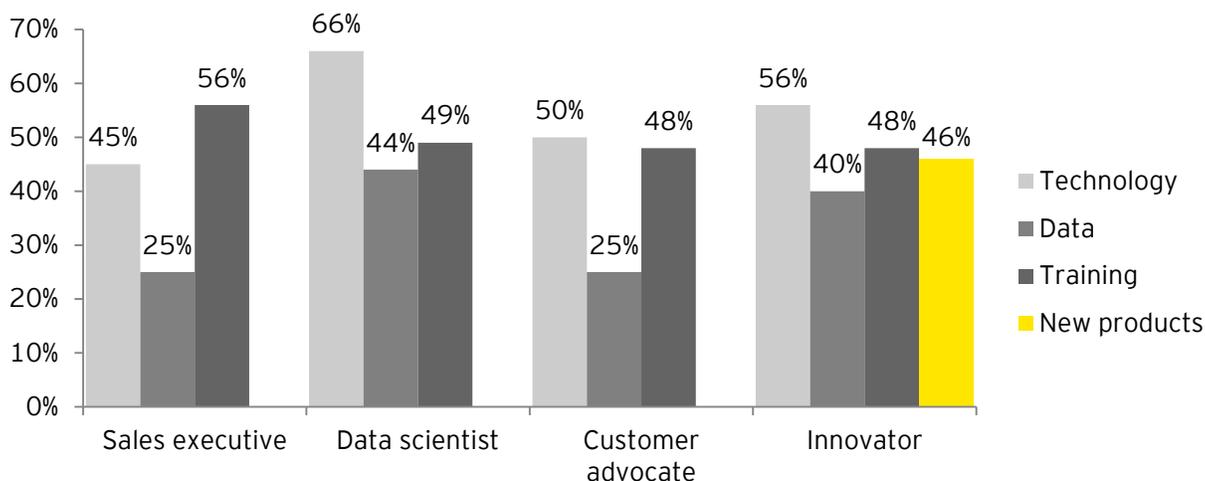
Figure 2: The importance placed on the sales functions for underwriters within your organization and maturity of current capabilities



The way forward with technology and data

The survey respondents made clear their interest in and enthusiasm for expanding and enriching their capabilities, skills and tools to support underwriting transformation in the next 12-24 months. For all types of carriers, the main investment priorities are training, technology and data. Specifically, carriers expect to prioritize training relative to the sales executive role, while technology investments are more critical for the decision scientist, customer advocate and innovator roles (see Figure 3).

Figure 3: Top three investments for underwriting in the next 12-24 months by underwriting role



The underwriter as sales executive

Looking more closely at individual roles reveals specific priorities. Across business segments, sales-focused underwriters can assist in pipeline management, evaluate lead quality and participate in marketing campaigns to increase the cross-sell/upsell opportunities. Thus, carriers plan to direct their technological investments in this direction (see Figure 4).

Similarly, carriers plan to make data investments around customers and industry as a means to increase premium growth and retention ratios by targeting specific customer and geographic profiles (see Figure 5).

Figure 4: Top three technology investments relative to sales and underwriting in the next 12-24 months

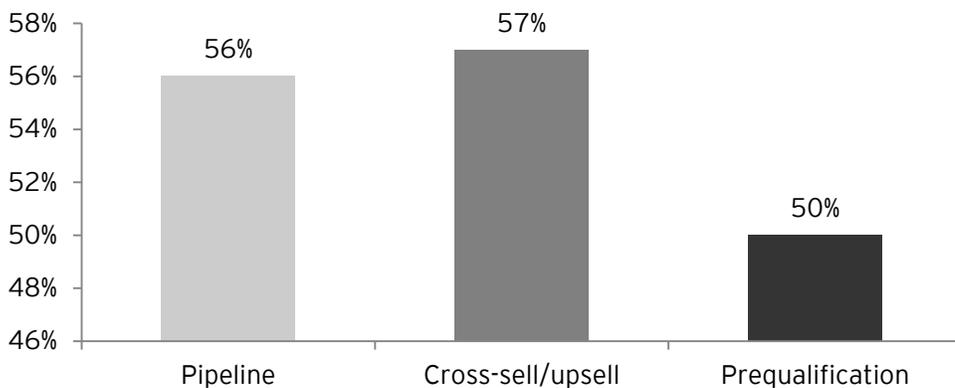
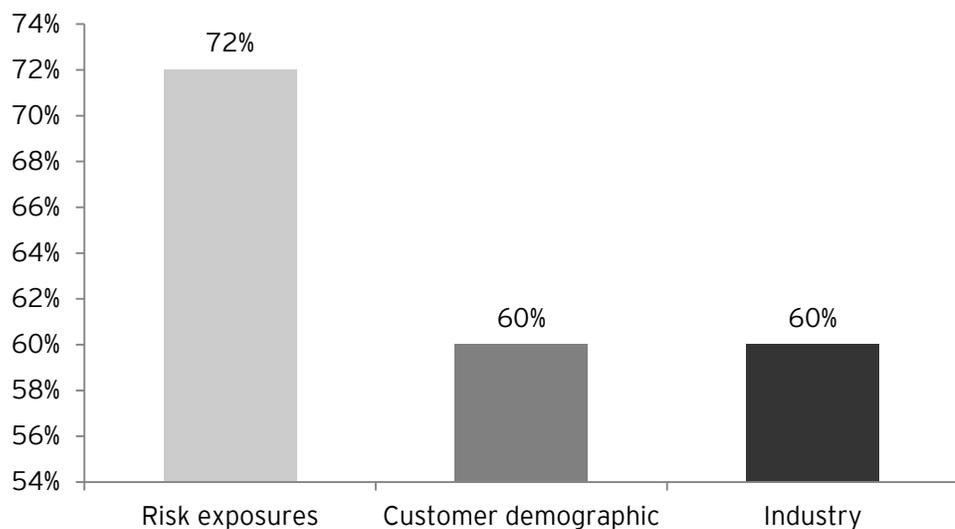


Figure 5: Top three data investments for sales and underwriting in the next 12-24 months



The underwriter as data scientist

For the data scientist role, technology investments will focus on predictive modeling and underwriting workstation/rules automation, while risk exposure, customer and industry top the priority list for data investments (see Figures 6 and 7).

As underwriters assume these new roles, these investments will help insurers more efficiently and effectively incorporate data-driven insights into their decision processes and leverage robust analytical capabilities to build more precise and predictive business rules. Combined focus on rules automation and advanced analytics has the potential to improve loss ratios and overall productivity.

Figure 6: Top three technology investments relative to data science and underwriting in the next 12-24 months

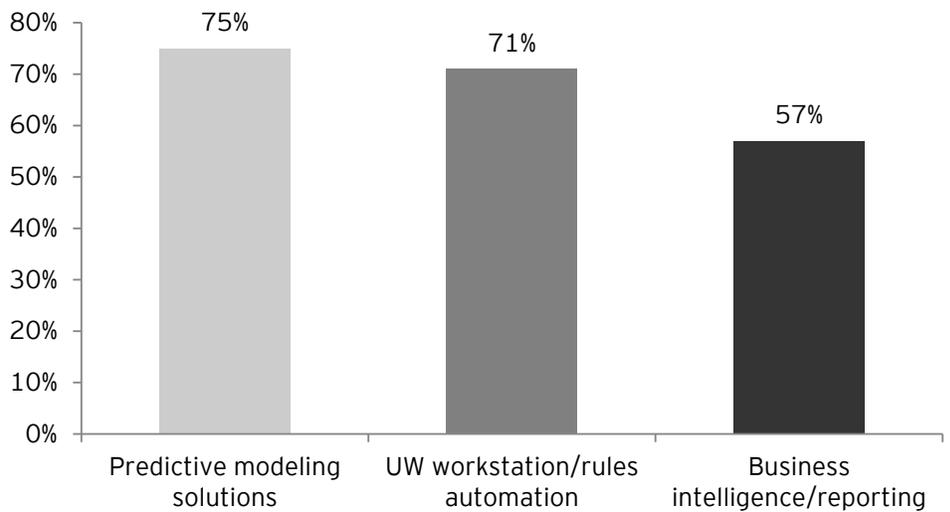
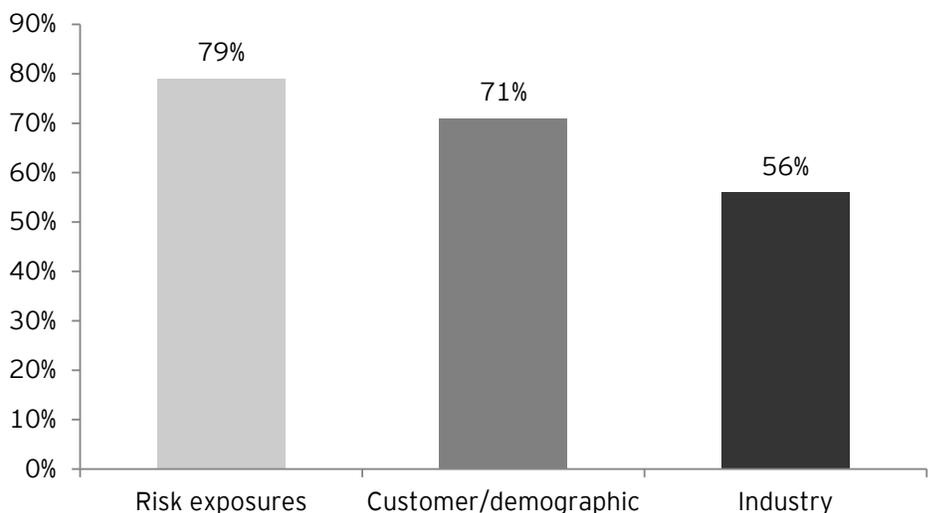


Figure 7: Top three data investments for data science and underwriting in the next 12-24 months



The underwriter as customer advocate

The underwriter as customer advocate is focused on delivering a better experience for agents and customers, coordinating account services and generally seeking opportunities to mitigate risk exposures and enhance customer loyalty. As such, carriers will be investing in agent portals on the technology side, with data investments focused on claims, loss control and social media (see Figures 8 and 9).

Insurers are focused on these areas because they relate to important customer interactions and continual risk insight which can reduce loss potential and improve accuracy and timeliness of policy servicing. This can enhance account profitability and promote greater agent and customer loyalty.

Figure 8: Top three technology investments relative to customer advocacy and underwriting in the next 12-24 months

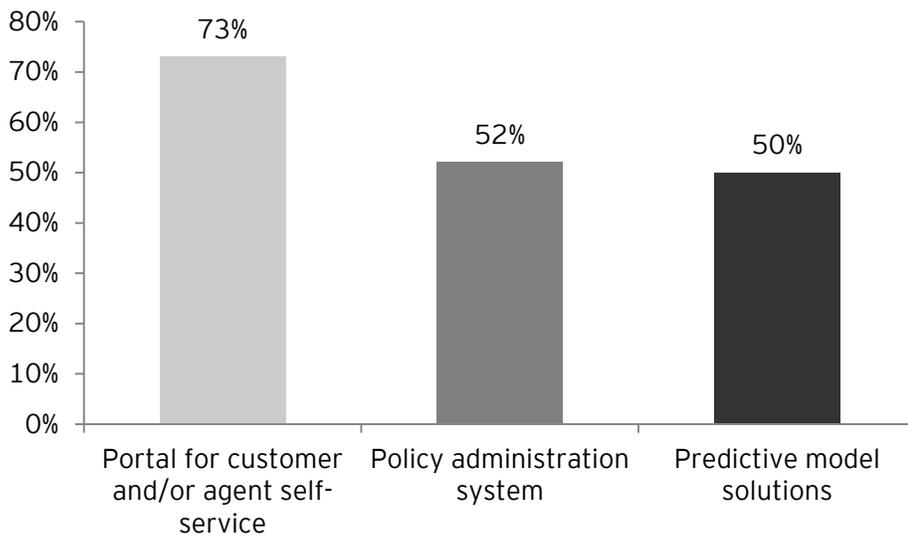
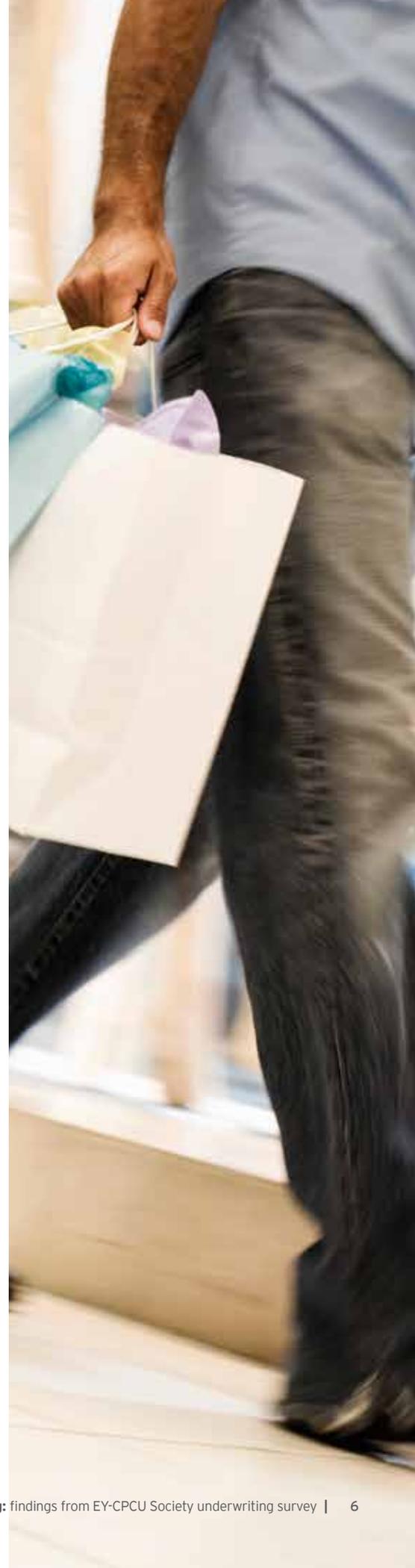
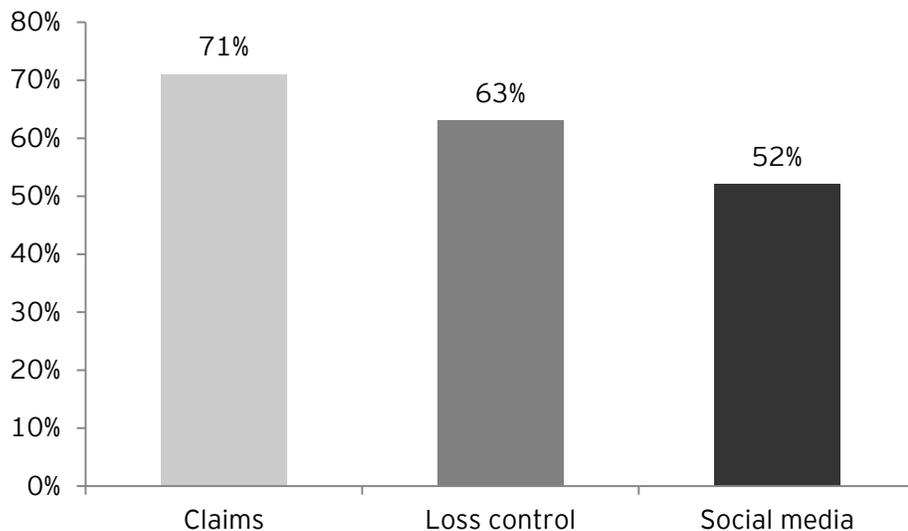


Figure 9: Top three data investments for customer advocacy and underwriting in the next 12-24 months





The underwriter as innovator

With respect to innovation, technology investments are likely to focus on business intelligence, predictive modeling and agent portals. Carriers are also interested in investing in data related to risk exposures, customer and industry. Collectively, these investments will help carriers gain insights into industry and buyer preferences and tailor offerings for market niches (see Figures 10 and 11).

Figure 10: Top three technology investments relative to innovation and underwriting in the next 12-24 months

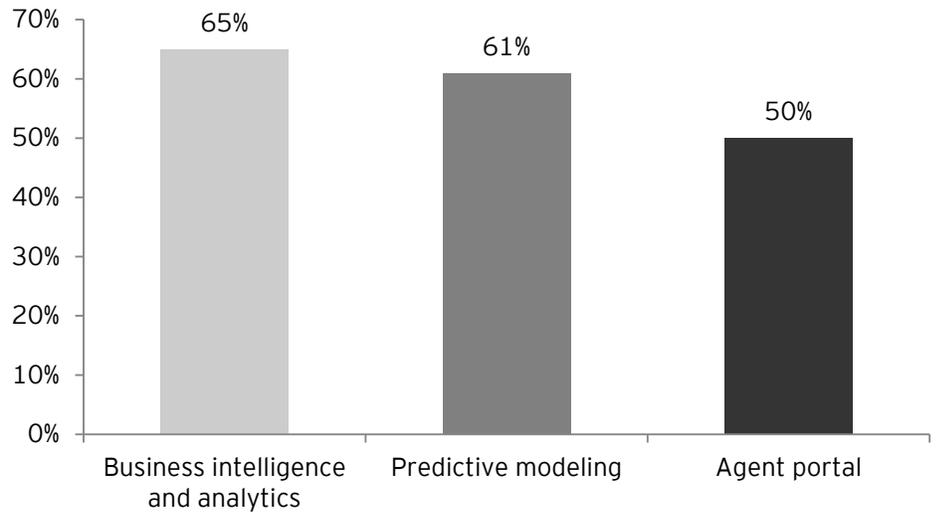
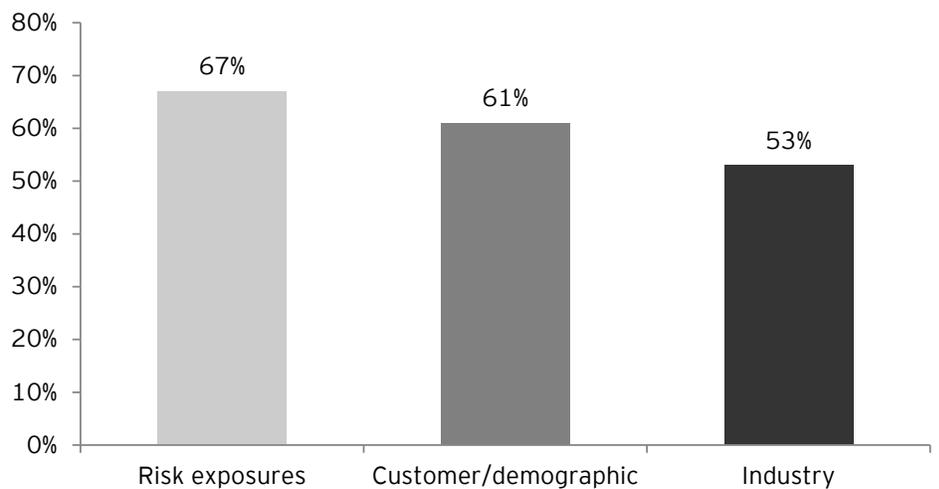


Figure 11: Top three data investments for innovation and underwriting in the next 12-24 months



Bridging the skills gaps through talent and training

A strong talent pipeline and robust training capabilities are critical if underwriting's expanded value proposition is to be sustained. In other words, survey respondents recognize that true transformation of the underwriting function requires more than just data and technology investments. The shifting roles also necessitate considerable training and "upskilling" in specific areas, such as communication and relationship building.

These so-called "soft" skills are necessary for underwriters to contribute more value on the customer-facing and human side of the business. But more advanced analytical skills and technological know-how are important, too, especially relative to the increasingly data-driven nature of future underwriting work.

The survey results revealed a number of emerging trends, including:

- ▶ During the next 12-24 months, the top hiring priorities are for generalists, product specialists and segment specialists. Therefore, the majority of training efforts will also focus on these areas.
- ▶ The majority of hires are expected to be millennials and members of Generation Y.
- ▶ Carriers expect to hire mainly from college campuses and other insurance companies, though carriers specializing in personal lines are more open to hiring from outside the industry.
- ▶ Training will be delivered on the job, as well as through a combination of internal classroom settings and internal web-based sessions.

The bottom line

As insurance companies look to upscale their underwriting capabilities and cultivate new skills in their underwriting units, they must recognize the unique transformation challenges they face. Some of these challenges are related to the profound nature and extensive reach of the changes to come. Conventional wisdom has long held that underwriting is at the core of the insurance business. Its evolution to incorporate other critical functions – from sales and customer advocacy to data science and innovation – means that underwriters in the future will be well-positioned to contribute greater business value to their companies. In that sense, the future of underwriting looks bright.

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