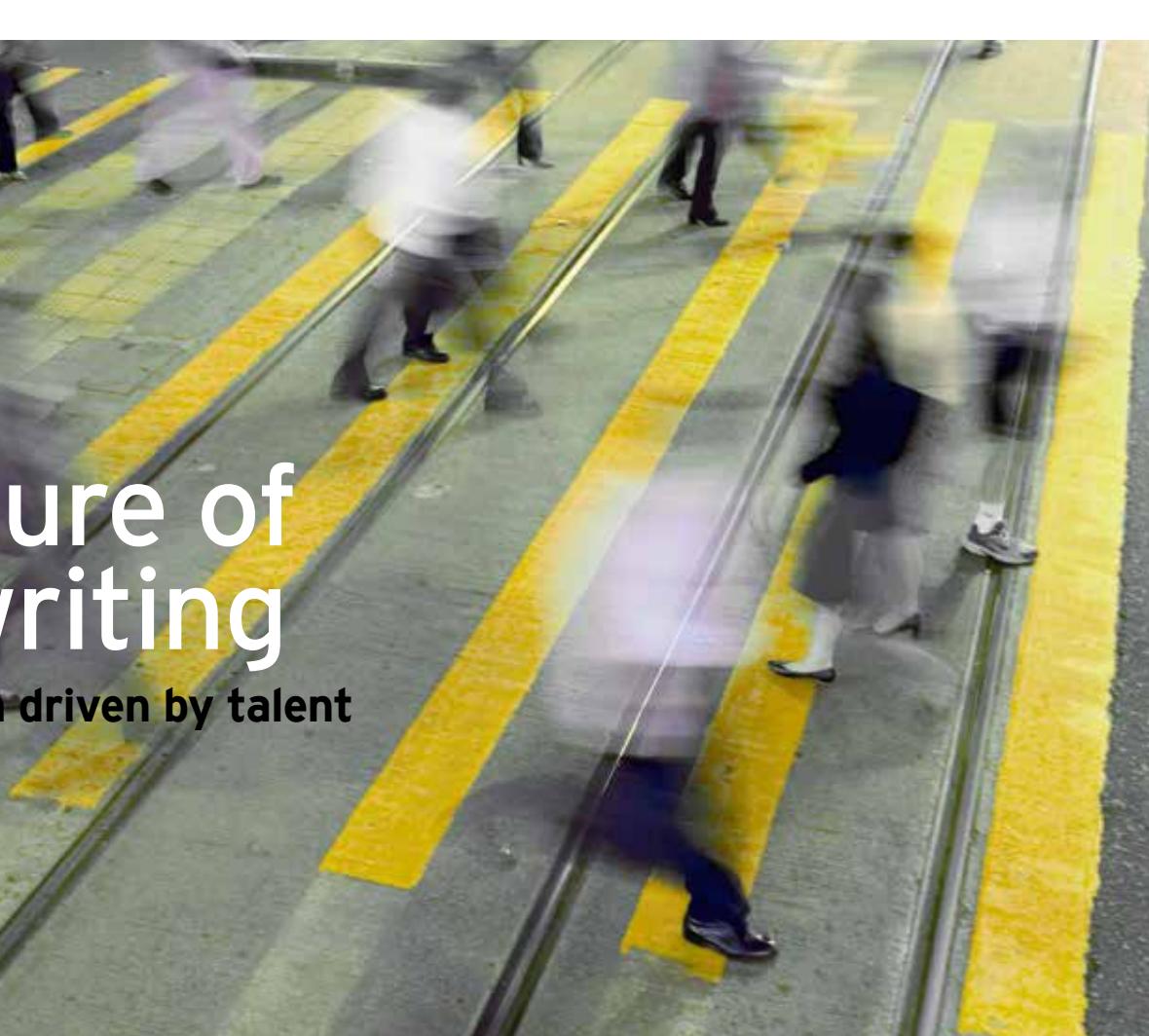
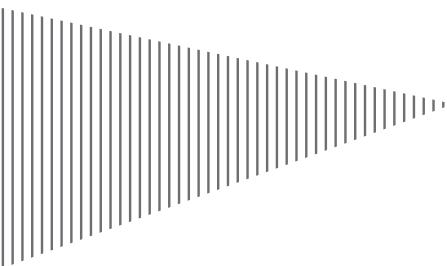


# Insurance



## The future of underwriting

A transformation driven by talent  
and technology

By Gail McGiffin



Building a better  
working world

# Executive summary

As insurers look at large-scale and transformative investments in their front-office capabilities, many are turning their attention to underwriting. Specifically, there is widespread consensus that the role of this central function can – and must – significantly change if insurers are to modernize their operations and infrastructure to meet rising agent, business owner and consumer expectations. This is a historic shift, as underwriting, once considered the very heart of the insurance business, has an opportunity to define its future and regain its central place in the insurance enterprise. Further, underwriting leaders can reposition themselves as higher-profile strategic influencers and decision-makers, roles they have traditionally played, but in which they have lost ground in recent decades.

Within the function, the focus will shift away from internal processes and specific transactions (where underwriters have historically invested their time and energy) and emphatically toward market-facing relationships and sales (around which insurers of all types are re-orienting operations). In this sense, future underwriters will become “masters of many trades,” with a broader portfolio of accountabilities and involvement in more customer-facing processes than they

have today. The changes are being felt most acutely in the small commercial area, though they are influencing the full range of insurance segments.

Increased automation and stronger analytical capabilities are a big part of the story, especially as they liberate underwriters to spend more time on higher-value activities, such as account planning, solution development, agent partnering, and nuanced risk assessment and decision-making. Beyond big data and analytics, however, other powerful technologies – including sensors, telematics, location-based services, semantic web and mobile – promise to dramatically change the way underwriters work and expand the ways they can contribute value to the business.

But thought leaders in the space also view refined skills and new talent as essential variables in the equation for future market success. To some extent, this is an effect of an aging workforce. The insurers that make the most of this evolution will be those that don't neglect or overlook the organizational change management and human dimensions of underwriting transformation. That is, the carriers that can identify the future skills necessary to harness the potential of enabling technologies, and develop the next generation of underwriting talent will give themselves a sustainable edge in realizing the value of their strategic investments in change.

This paper presents a vision for the future of underwriting. More precisely, it describes the role that underwriters will play in the coming years, while also providing a historical context for the evolution of underwriting, and outlines new ways that underwriters will interact with both internal and external constituencies and stakeholders. Lastly, it highlights some of the transformative technologies and talents that insurers will need to thrive in tomorrow's highly dynamic and competitive marketplace.



## A recent history of underwriting

Traditionally, underwriting has been the heart of the insurance business. A case can be made that underwriting is synonymous with the insurance business itself. The industry would simply not exist without the ability to evaluate and accept risk and price and issue policies. It is no wonder, then, that many past industry notables and company executives came up through the ranks of underwriting. As recently as the 1980s, underwriters were viewed as clear leaders, the people whose responsibility it was to put the surplus on the line and define the company in the marketplace.

In recent decades, the path to the insurance C-suite has more commonly run through finance, with significant talent imported from other financial services sectors. The financial areas of the company have risen to greater visibility and power, while the management profile of underwriting has dipped noticeably. On a practical level, finance steadily broadened its scope by becoming more engaged with planning, analysis and strategic decision making across the enterprise. Underwriting, by contrast, seemed to narrow its focus to binary transactional processing and cling to the “art” of the decision-making process. The increasing use of quantifiable metrics and data-driven decision making has been one by-product of this shift.

At the same time, profound technological advancements – especially the advent of predictive modeling – have changed the rules of the game within underwriting. Simple, binary logic for knockout scoring, which was first used for auto policies, was followed by modeling and automated evaluations for homeowners’ policies and, to a more limited extent, small commercial lines. Next came more robust analysis and sophisticated risk-profiling techniques, such as pattern matching. Stronger rules and predictive modeling became so prevalent during the last 5 to 10 years (especially in personal and small commercial lines) that many began to ask if human underwriters would be replaced altogether. By contrast, the middle market and larger commercial sectors, which have been largely neglected and left behind in this technology revolution, are poised to benefit from robust underwriting workstation solutions now available in the market.

So where does that leave us today? And what is the path forward? Powerful new technologies have automated many of the relatively low-value transaction processing tasks so that underwriters are free to take on higher-value relationship building and analytical work. Underwriting can – and should – also more effectively support and engage with the full market-facing ecosystem of insurance operations. Underwriters can add value at every phase and interaction in the account relationship by helping to facilitate sales, for instance, or strengthening existing relationships through creative servicing enhancements.

Looking ahead, it’s clear that their unique organizational position makes underwriters naturally suited to leadership roles within the modern insurance enterprise. They can serve as “quarterbacks” for the organization, coordinating between different functions to ensure that the right accounts are well looked after and emerging risks appropriately managed within a customer life cycle. The opportunity for underwriters to reclaim a leadership role reflects their involvement in and ability to positively influence so many essential tasks.

More practically, insurers must prepare to deal with an emerging underwriting talent gap, as many experienced workers face retirement in the next several years. The increasing investment in underwriting technology is a positive development to help institutionalize knowledge, but the talent impact cannot be overlooked. The optimal return on investment will come through the combination of greater analytical and computing firepower plus nuanced understanding of market risks and opportunities, and the strategic coordination of both front-office and back-office activities in line with market goals. That’s especially true because underwriters are exceptionally well placed to synchronize and guide cross-functional efforts in line with specific customer-related goals.



## Rethinking the possibilities

A clear case can be made that tomorrow's top performers in the insurance industry will have underwriters who play considerably different – and higher-value – roles than those they play today. In fact, future underwriters will often act in ways that resemble other roles. Those roles include:

- ▶ Sales executive
- ▶ Decision scientist
- ▶ Customer advocate
- ▶ Innovator

A multitude of emerging technologies will enable new capabilities across these roles and take on greater importance in the day-to-day life of underwriters. The common denominator for technologies as diverse as sensor-based technologies and semantic web applications is their ability to feed a process of insight generation, as opposed to simple data aggregation or collection, as seen in the examples below. A widening range of models will become "go-to" tools for underwriters.

As they assume these new roles, underwriters will succeed as they gain the ability to use new data sources and interfaces to identify important trends, new areas for analysis, and emerging opportunities and risks. Further, communications patterns will shift; more outreach, information sharing and collaboration will take place via social media and/or mobile channels. That's true for both customer communications and for engaging with agents, distributors and internal colleagues.

## Underwriter as sales executive

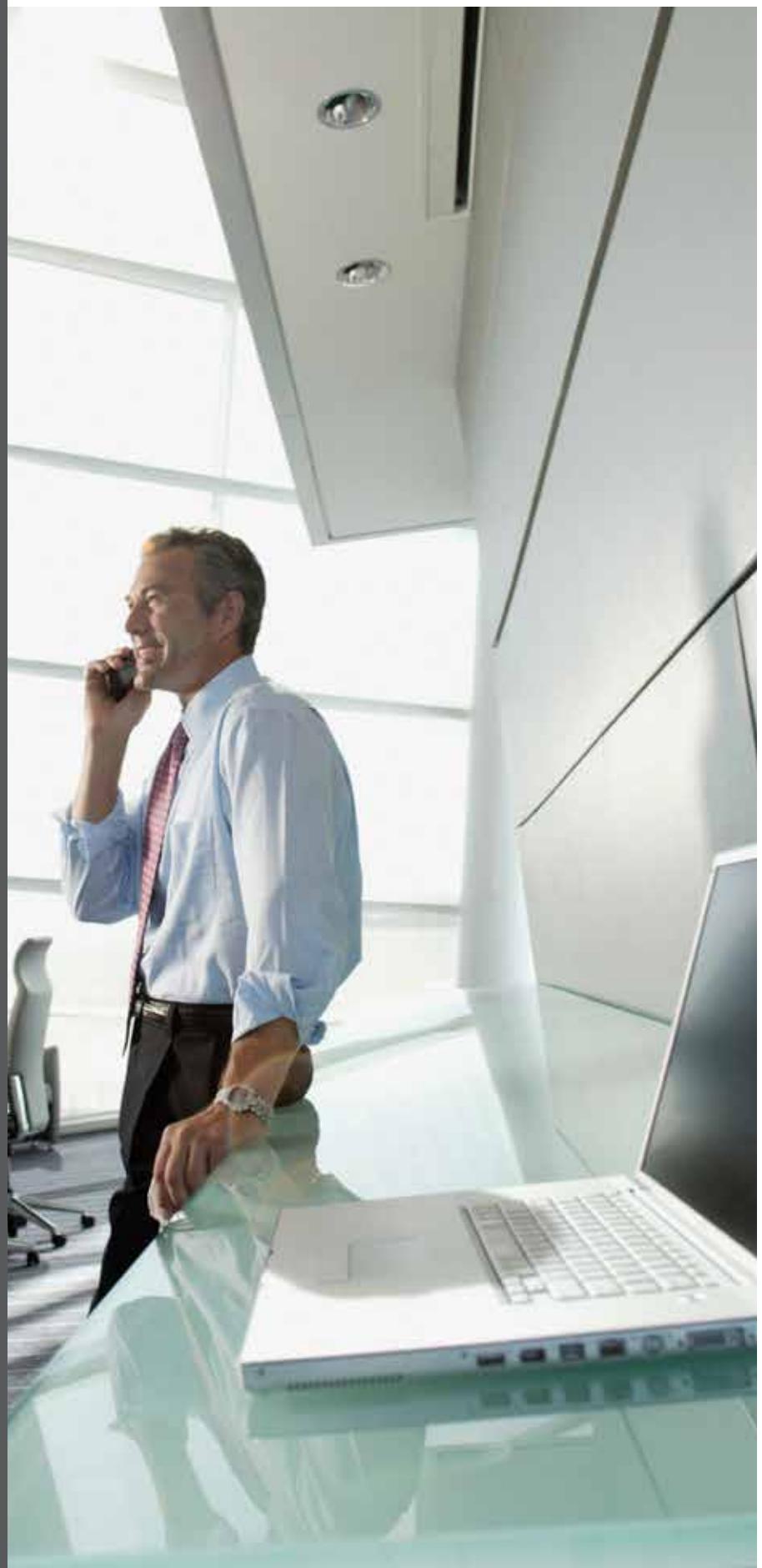
It is not difficult to envision how underwriters can leverage their access to information and "big picture" views of desirable customer types to contribute significant value to the sales process. For example, the perspective of skilled underwriters could improve the quality of lead identification and qualification processes, in that underwriters are well positioned to understand the specific characteristics that mark a good lead. The same insights are useful in shaping promotional campaigns and playbooks for cross-selling, up-selling and account retention programs. In other words, underwriters have expertise that can be applied across the continuum throughout the sales and account servicing life cycle.

As underwriters take on new responsibilities, their performance will be assessed in ways that go beyond conventional measures (such as hit and retention ratios, annualized growth and calendar year and accident year loss ratios) to include more sophisticated sales, service and portfolio metrics. In such a world, underwriters may seek to develop personal brands, and differentiate themselves by, for instance, making themselves accessible anywhere, anytime and through any device, or by publishing value-added content for both potential policyholders and agents.

Looking at the enabling technology, underwriters will rely on integrated marketing and sales platforms (see callout), referencing both internal and external data such as real-time news feeds, social media updates and research. Semantic web technology will apply rules to aggregated data to synthesize and filter the most relevant information and events and minimize the risk of overwhelming users with data. Collaboration will take place through personalized and shared meeting spaces for agents and brokers, underwriters and others. Trends in sales pursuits can be assessed to identify patterns and apply similar criteria to other opportunity areas; benchmarks around risk attributes can be evaluated and leveraged for better pricing elasticity.

## A day in the life of the future sales executive-underwriter

- ▶ Visits integrated marketing and campaign management portal to identify sales opportunities
- ▶ Reviews the results of marketing campaign, targeting specific customer and geographic profiles, and finds a higher success rate for a particular type of account (i.e., industry, program, product)
- ▶ Creates a new interest group – by industry or risk type – using social media and invites target prospects, and develops and publishes a blog post on relevant risk-related trends and new regulations applicable to high-priority sectors
- ▶ Reviews accounts in integrated sales and underwriting portal that have been scored against propensity models to evaluate whether they are profitable and a good fit from a product and service perspective
- ▶ Uses integrated sales and underwriting portal leveraging third-party data (e.g., GPS-enabled building data) and internal data (e.g., policy and claims) to pre-qualify risks and ensure they are cleared for pursuit
- ▶ Runs market-matching models to align the qualified prospect with the best distributor and preferred interaction (e.g., mobile phone)
- ▶ Initiates a video chat with the producer, provides a link to the prospect file, and collaborates on a prospecting strategy and identification of further risk assessment needs



## **Underwriter as decision scientist**

The “analytics revolution” that has fundamentally altered the insurance landscape in the last decade will only gain momentum, with significant impact on and benefits for underwriting. Multiple statistically based models will be used by skilled risk evaluators along with codified, heuristic underwriting rules to achieve new levels of sophisticated analytics and rules-based decision support. This combination will generate value, as enhanced decision making yields improved loss ratios and more focused data utilization enables higher levels of productivity. Lastly, improved risk selection will result, as nuances of risk assessment are better codified into rules and knowledge management tools.

The ongoing evolution of predictive modeling will drive finer levels of granularity in analytical and transactional model development, expanding the underwriting process into the realm of prospecting, sales pursuit, account retention and account servicing. The emergence of new data aggregator services (e.g., customer “data banks”) will support customer data ownership and facilitate insurer access. Managed service models offer repositories, data cleansing and enrichment, and tools to integrate insurer data with third-party data in a secure, cloud-based infrastructure.

Additionally, interactive analytical tools will offer “what if” scenario modeling and information visualization (e.g., geo-spatial, heat mapping, density illustrations). Machine learning will enable continual assessments of data for detection and analysis of anomalies and nuances to improve precision of models and rules. If this sounds futuristic, it is important to note that many of these innovations are being piloted today in the insurance industry and operationalized in other industries.

## **A day in the life of the future data scientist-underwriter**

- ▶ Leaves a meeting with a broker and opens a tablet to review account updates from account teams
- ▶ Reviews a proposal in the integrated sales and underwriting portal and is able to see updated premiums, terms and conditions, as well as notes from the industry and product line specialist underwriters
- ▶ Uses a suite of robust, visually intuitive, interactive analytics to evaluate the underwriting decisions and the quote proposal, and specifically, a product density and predictive model delivers a comparative analysis of this account and the rates, terms and conditions to other similar accounts, then traces the impact on the overall portfolio
- ▶ Receives an additional urgent alert in integrated sales and underwriting portal (based on the carrier’s semantic web solution) informing that a government regulatory agency has issued a safety warning and recall notice regarding a product that the insured manufactures
- ▶ Leverages the semantic rules solution to identify other accounts potentially impacted and then uses a propensity model to quantify degree of damages, and based on these results, modifies the deductibles and limits for product liability coverages and sends a revised proposal to the producer
- ▶ Sees that the agent and insured are both online and initiates a group chat in the account site where they can share a view of the safety warning and the revised proposal, and invites subject-matter experts in the underwriting industry to discuss the recall and impacts to the industry as well as the propensity model results



## Underwriter as customer advocate

As the customer experience takes on new importance, tomorrow's underwriters will help shape the solutions across the network of relationships required to meet higher agent, business owner and consumer expectations. The focus will be on building and enabling a "team approach" to account servicing via collaborative tools. Account servicing will be segmented by customer needs, handling requirements, cost of delivery, type of service and method of service.

Information access will be democratized across the network of account team members and made available through dedicated account sites. When managed effectively, this holistic environment will lead to increased customer loyalty through better solutions which, ultimately, means higher account retention.

Account teams will connect via account-specific sites to share information, collaborate on documents and consult on issues. Information is continually searched, interrogated, analyzed, packaged and delivered to the account team, with the objective of keeping everyone current on the insured's business events and activities. These personalized sites also enable underwriters and others on the account team to deliver real-time advice and expertise through a discrete, customer-centric forum, with the goal of improving risk management and control costs.

## Underwriter as innovator

Underwriters must be in tune with the pulse of the marketplace, both the insurance industry and the industries of their customer. Competitive differentiation comes not only from strong agent and broker relationships, account risk assessment and servicing, but through truly unique insights into industries and buyer preferences. These insights must be codified into products and services tailored to the distinct needs and issues of those customer micro-niches to deliver compelling value propositions to both the agent and the insured.

More broadly, underwriters have much to contribute as carriers seek more innovation in product development, customer engagement and other areas. In developing new products, underwriters can help define the core elements – including relevant rules and pricing frameworks – that are necessary to build standardized product architectures from which tailored offerings for specific market niches can be efficiently launched. Further, they can help determine the most valuable insights from third-party data (including social media feeds and external research) and customer behaviors. These insights will be key to reshaping interactions with customers and agents, as well as the cross-functional, end-to-end processes that must support multichannel environments.

Lastly, underwriters can help insurers figure out the optimal ways to use sensor-based technologies for constant monitoring of customer exposures and real-time pricing and policy term modifications. Such technologies can help optimize insurance protection and "elasticize" premiums. Telematics (driver and vehicle behaviors), "smart dust" (physical object intelligence gathering and monitoring) and bar coding (tracking object movement, inventory) are examples of promising technologies for driving innovation by generating real-time insights.

## Beyond the technology: talent points the way forward

Looking across these roles, it is easy to see how underwriters will need to be well-rounded “Renaissance people” – masters of many trades, not just the one or two practical realms that are the focus today. In other words, as practitioners, underwriters will add more skills and capabilities, most notably in analytics, relationship building and the use of advanced technology. By leveraging powerful models and technologies, underwriters will help find creative solutions, not just find binary answers, and then communicate them effectively to customers, agents and their colleagues. This is the way for underwriters to advance their value in the organization and propel their leadership to drive the future of the company and shape the future of the insurance industry.

As carriers think about the future of their business and the role of underwriting, cultivating the right talent will be as important as deploying the right tool sets. While nearly all companies are engaged on the technology front (thanks to a clear and pressing need for modernization), fewer organizations recognize the importance of raising the next generation of talent that can produce the transformative value that advanced technology makes possible.

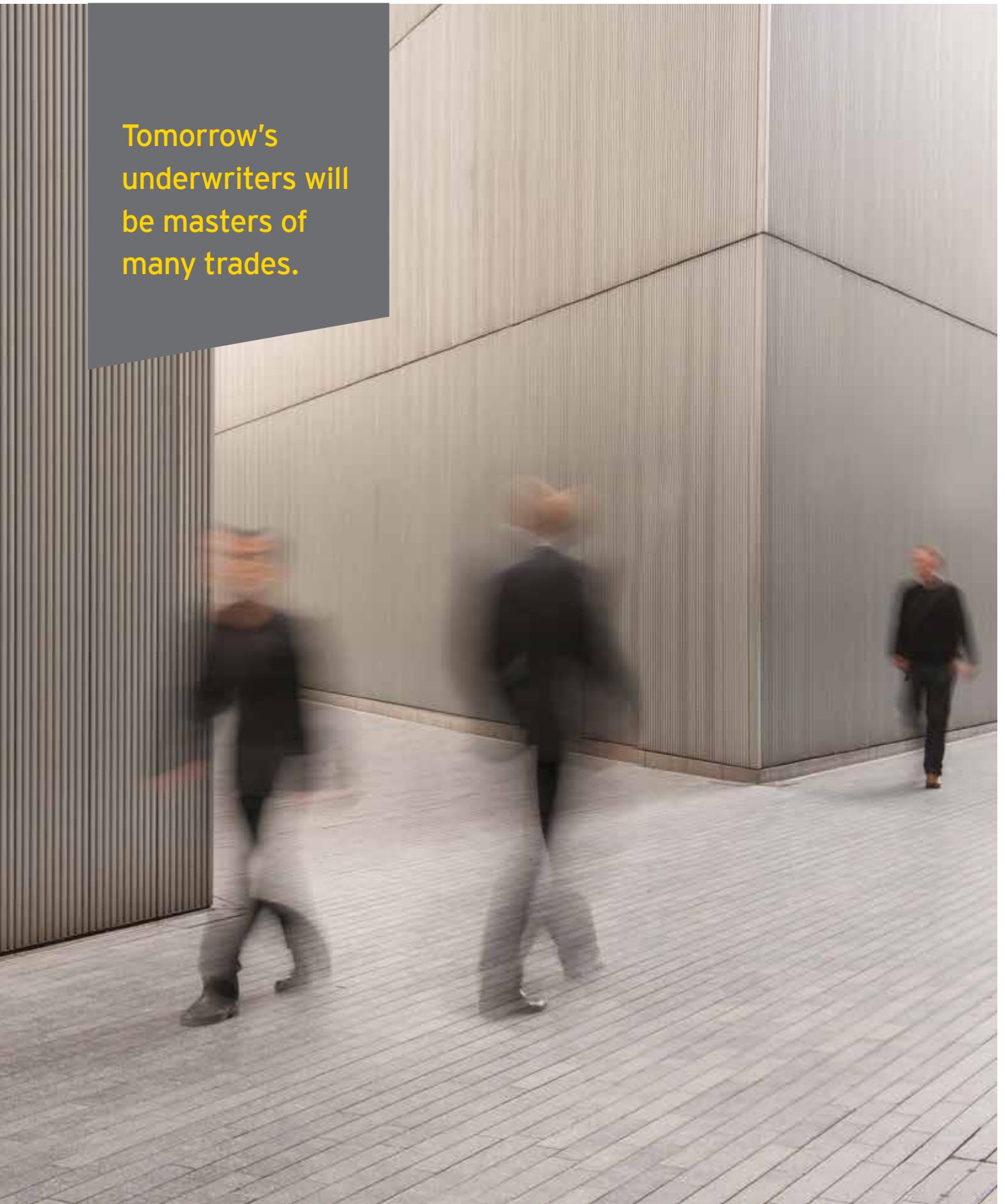
To play different roles in the future, underwriters will need new skills, including:

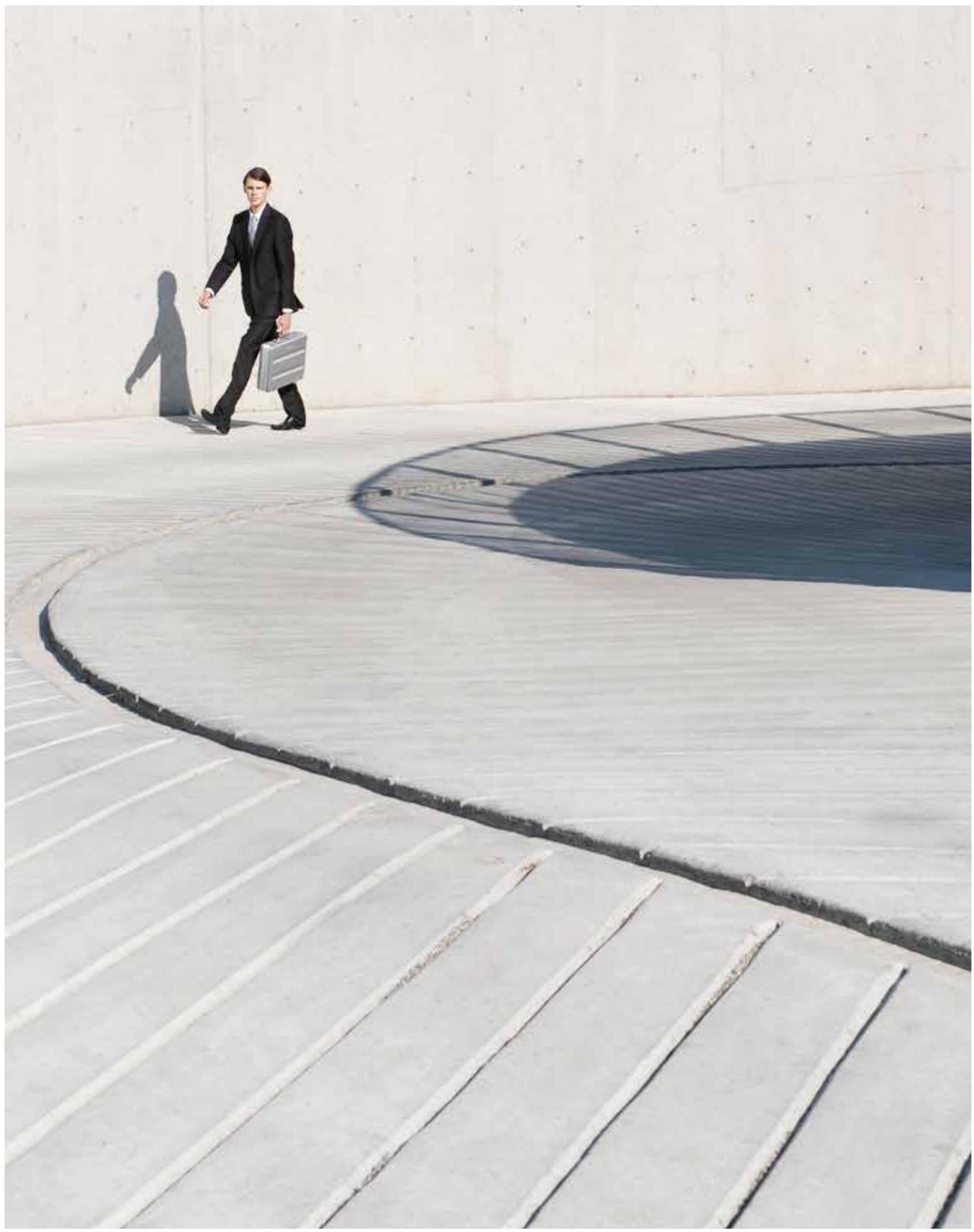
- ▶ The ability to synthesize and analyze a wide range of data (replacing the need to simply gather data), including the ability to absorb and intellectualize new forms of information that may be counterintuitive
- ▶ The cognitive skills to recognize a broader and dynamic context of business rules, as opposed to simple input-output processes
- ▶ The elevation of their technology IQ to leverage the power of greater automation in a way that enables timely insights and more productive time to spend in the marketplace
- ▶ The communications skills to engage a wider variety of stakeholders, and creativity and innovation to participate in new product development and other forward-looking processes

The importance of talent management becomes clear when considering what tomorrow's effective underwriters will look like. More of them may have MBAs and broader business training and education, or perhaps sales or technical skills (e.g., modeling), as opposed to the nonspecific higher education backgrounds that are prevalent today.



Tomorrow's  
underwriters will  
be masters of  
many trades.





# The bottom line

## Future value will take different forms

The future value of the underwriting organization will be in its focus on forging new, and strengthening existing, relationships through the generation of unique insights and creation of tailored solutions for customers that are more granularly defined and segmented. The linear processing required to quote and issue a policy will largely become an afterthought or, to put it another way, be viewed as a basic, non-differentiating deliverable.

Tomorrow's effective underwriters will demonstrate leadership and strategic engagement in areas such as innovation, product development, customer experience

and insight generation. Further evangelism, advocacy and thought leadership will become a more significant part of underwriters' daily jobs than transactional risk assessment, policy issuance and submission intake.

To discuss the "future of underwriting" shouldn't discount the need for near-term action. The advent of powerful new technologies will determine much of that future, but the talent factor must not be ignored. For practical and strategic reasons alike, underwriters have a clear and urgent opportunity to build their own future and also shape the future of the industry as a whole. And, as the saying goes, the future is now.

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