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Insurance Practice

Underwriting talent: Strategies for property and casualty insurers

Fast-moving market conditions are putting new and more intense demands on underwriting. Updated talent strategies can help carriers meet this challenge.

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November 2021

In property and casualty (P&C) insurance, it is becoming increasingly important to find expert, judicious underwriting talent that can connect information from disparate fields to risks—especially as risks become more complex and the stakes get higher. However, the structure of the underwriting function at most carriers has not evolved to facilitate this work. The loss environment has changed profoundly as catastrophic events have become more frequent[1] and as the economy has become more interconnected. At the same time, technological progress holds enormous promise as a supplement to human underwriting judgment. Effectively engaging with and addressing these trends will require a different kind of underwriting function.

Commercial midmarket, large, and specialty underwriters should become more like hedge-fund portfolio managers. Like hedge-fund managers, underwriters are required to be responsive to fast-moving changes, to combine technology and sharp judgment to distill diverse trends into individual risks, and to oversee often expansive portfolios. The underwriters who do these things best can create an information advantage and, thereby, an outsize commercial impact by focusing their expert judgment on areas of the greatest opportunity.

Insurers that want to counteract quickly evolving risks should update their talent strategies to attract, develop, and retain the best underwriters. This means not only refining the work underwriters do and how they do it but also developing their skills and helping them progress in their careers. Specifically, insurers should systematically support underwriters' learning and development, empower them in their day-to-day work with simplified processes and technology-enabled tools to handle increasingly large books of business, measure performance and link it directly to incentives, and provide career paths that allow underwriters to focus on growing their underwriting expertise while progressing to more senior roles. Carriers that do not evolve will face talent gaps and an erosion of underwriting performance.

Underwriting in an increasingly complex world

Risks across P&C lines are becoming more complex, frequent, and severe, threatening carriers' profitability. This shift makes the work of underwriting more demanding while also raising the stakes. At the same time, low interest rates—averaging 0.5 to 3.8 percent between 2010 and 2021—are putting additional pressure on underwriting performance.[2] In this context, it is all the more important to combine judgment with a sharp eye for data and trends to properly select and price risks.

The risks facing underwriters have also evolved. For instance, litigation in the United States has driven up losses for directors and officers (D&O) coverage in casualty lines, and regulations in the European Union and the United States will likely support continued strong demand for cyber insurance. Even the structure of the global economy has changed: the largest publicly traded companies have grown, with the five largest public companies in the United States growing from a total valuation of $1.59 trillion in April 2001 to a valuation of $8.19 trillion in April 2021.[3] These companies have multinational exposures and increasingly complicated supply chains that contain numerous and diverse risks, including risks related to intangibles such as intellectual property and reputation.

[1] Climate change has driven the increased frequency of catastrophic events. For more, see Antonio Grimaldi, Kia Javanmardian, Dickon Pinner, Hamid Samandari, and Kurt Strovink, "Climate change and P&C insurance: The threat and opportunity," November 19, 2020, McKinsey.com.
[2] Alan FitzGerald, Krzysztof Kwiatkowski, Vivien Singer, and Sven Smit, "Global Economics Intelligence executive summary, May 2021," June 9, 2021, McKinsey.com.
[3] Bloomberg Professional Services database, Bloomberg, October 22, 2021, bloomberg.com.

The changes are not entirely grim. Technological advances promise to fuel underwriting as a science. For instance, the rapidly declining cost of sensors used for the Internet of Things (IoT)—the average cost of an IoT sensor has fallen drastically in the past two decades—will help increase usage and generate more data that can reduce losses. In parallel, image-recognition accuracy rates for computer vision have already exceeded human performance. These tech tools create more—and richer—data points underwriters can use to understand loss potential, approach underwriting in a more analytical way, and supplement their own judgment.

Strategies to develop and retain talent

The underwriters who are best suited to tackle these broad trends will be able to work as hedge-fund managers do, leveraging data and analytics while applying their judgment to understand quick shifts in loss and pricing patterns. Underwriting leaders should respond systematically and evaluate their talent strategies to attract, develop, and retain the right underwriting talent. An effective learning and development program can ensure that underwriters stay informed about the ever-changing complexities of the market. A simple, agile approach to day-to-day work can free up underwriters for the highest-value activities. An adaptable performance-management system can engage and reward top talent. And career paths that allow underwriters to deepen their technical expertise while gaining recognition and seniority can help retain talent in the long term. These approaches are mutually reinforcing and should be part of a comprehensive talent strategy to keep underwriters from taking their skills to different insurers. (For an overview of the path to a refreshed talent strategy, see sidebar, "Talent strategy road map: Diagnose, design, and implement.")

Talent strategy road map: Diagnose, design, and implement

The diagnose, design, and implement approach can help insurers refine their underwriting talent strategies. Each step involves a combination of tasks.

1. *Diagnose*

— Start by understanding underwriters' feedback on pain points and areas that need improvement. Many carriers fail to seek out the perspectives of underwriters, but understanding their experiences can increase underwriters' acceptance of solutions and changes aimed at supporting them.

— Solicit external feedback about attracting, developing, and retaining underwriting talent from external partners that interact with underwriters—brokers, large direct clients, and reinsurers—as well as from underwriters who are leaving or have left the company.

— Benchmark the company with peers along the dimensions of career-path transparency, performance management and incentives, day-to-day empowerment, and learning and development.

2. *Design.*

— Articulate specific interventions to improve processes and outcomes and involve frontline underwriters in designing the changes throughout the process.

3. *Implement.*

— Use a rigorous change-management campaign to support interventions and improvements. As with any organizational change, how the change happens can be the most important element. Line up sponsors within the ranks of underwriting leadership to support and champion changes.

Underlying all of these steps is a focus on underwriters' needs and wants. Combined with a consistently applied change-management program, an updated underwriting-talent strategy can become a significant asset.

Learning and development

Underwriters' training is typically limited to initial compliance-based training and informal on-the-job training because most carriers do not have defined continuous-education programs. For this reason, robust learning and development programs can be a strategic advantage and a differentiating factor to attract talent.

Continuous learning and development can help underwriters expand their thinking, stay up to date on trends as market conditions evolve, learn to manage larger books of business, and grow their underwriting skills and authority. ("Underwriting authority" refers to the scope of risks with which underwriters are allowed to work.) Underwriters usually develop their skills and instincts through their own experiences and from brokers, but continuous—and systematic—learning and development can help them stay updated on emerging risks and trends, from changing social norms to increased supply-chain complexity. Learning and development curriculums on the latest underwriting and analytic technologies can also inject more science into the art of underwriting.

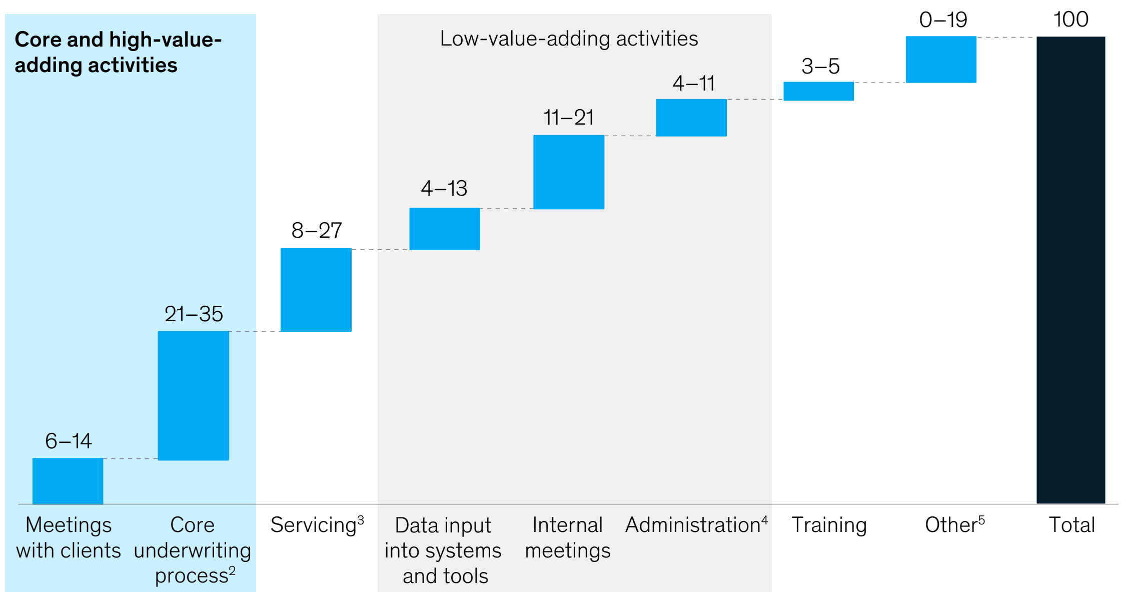
Day-to-day empowerment and simple processes

In our experience, bureaucratic processes mean that many underwriters spend significant amounts time on nonproduction work, such as data entry (Exhibit 1).

Exhibit 1

Underwriters spend up to 45 percent of their time on activities that add little value.

Time spent on types of activities,[1] %



Note: Figures may not sum to 100%, because of rounding.
[1] Ranges reflect differences in self-reported time use to McKinsey researchers; midpoints of ranges are plotted in chart.
[2] For example, guidelines, authorities, risk assessment, data collection, and pricing.
[3] For example, account management and maintenance.
[4] For example, reports preparation, underwriting quality assurance, and expenses.
[5] Portfolio management and product testing.

To help underwriters focus on high-value work, carriers could transfer some tasks from underwriters to lower-cost underwriting assistants while monitoring and maintaining quality. In Exhibit 2, we introduce seven carriers, labeled A–G; these labels are consistent throughout the exhibits in this article.

Encouraging underwriters and underwriting assistants to share knowledge and collaborate meaningfully can help underwriting assistants perform to the best of their ability and free up underwriters for the highest-value activities. Taking as many low-value tasks off underwriters' shoulders as possible allows them to track and understand the nuances of macroeconomic, political, and even social changes that may affect pricing and risk. This structural support for the science of underwriting—particularly when coupled with updated technological tools and processes—frees up underwriters to practice the art of underwriting and proactively apply their judgment to larger portfolios, operating in a similar manner to hedge-fund managers.

Risk selection that produces positive business results requires consistent ways of working, as well as regular underwriting and quality-assurance processes. Our experience suggests that while most carriers want to work toward that goal, they have not yet determined which pricing factors underwriters should focus on. Current quality-assurance processes are often overly punitive and compliance-centered. They also fail to use results to inform ongoing risk selection and to price skills development for underwriters. Carriers should ask their in-house underwriting experts to use analytics to develop a point of view regarding the factors that are important for different types of risk. This foundational work can then become the basis of the organization's quality-assurance process.

Exhibit 2

US-based carriers could set up their operations to assign low-value tasks to underwriting assistants.

● Applies ◐ Partially applies If blank, does not apply

Operating-model design choice		Carrier A	B	C	D	E	F	G
User-acquisition (UA) manager	Co-locates with underwriting (UW) team	◐	●	◐	●	◐	●	●
	Reports to business units (BU); not separate in operations		●		●	◐	●	
	Reports to UW manager rather than to UA manager							
	Incorporates UW BU performance metrics in addition to efficiency metrics	◐	●		●	●		●
	Provides a clear career path for UW		◐		●	●	◐	●
	Hires for high capabilities		◐		●	●	◐	◐
	Uses junior underwriters to perform UA duties			●				
UW services	Co-locates with UW team							
	Reports to BUs; not separate in operations		◐					
	Reports to UW manager rather than to UA manager							
	Incorporates UW BU performance metrics in addition to efficiency metrics					●		
	Provides a clear career path for UW							
	Hires for high capabilities							

Performance management and incentives

In our experience, many underwriters say they feel a lack of ownership over their underwriting results and that their performance and incentives do not seem to be related. Indeed, we have observed that incentives for performance, such as team bonuses for underwriting, are uncommon. Instead, most insurers we encounter determine bonus pools at the regional or business-unit level. As a result, high-performing underwriters may not get appropriate feedback in the form of compensation.

A high-quality performance-management system can accurately measure underwriting performance and link it to rewards and recognition that can improve retention, especially of top talent. This system should mimic what hedge-fund managers experience by emphasizing ownership and accountability over portfolio performance. A bonus payout scheme that effectively differentiates among underwriters' performance ratings can play an important role in rewarding high performers and conveying valuable feedback (Exhibit 3).

Long-term incentives will also be important in retaining top-performing underwriting talent. However, we have observed that long-term incentives are still typically awarded only to individuals in management positions (Exhibit 4).

Insurers can consider implementing long-term incentive programs that target high performers outside of management to increase retention of rising talent. Access to—and insights from—key performance indicators (KPIs) that are controlled by underwriters, such as the incidence of large losses, can further guide underwriters' performance and learning. The key is to clearly communicate the organization-level appetite for risk in a timely manner and in a way that is actionable for individual underwriters and their teams.

Exhibit 3

Carriers can have different levels of discrimination between highest and lowest performers.

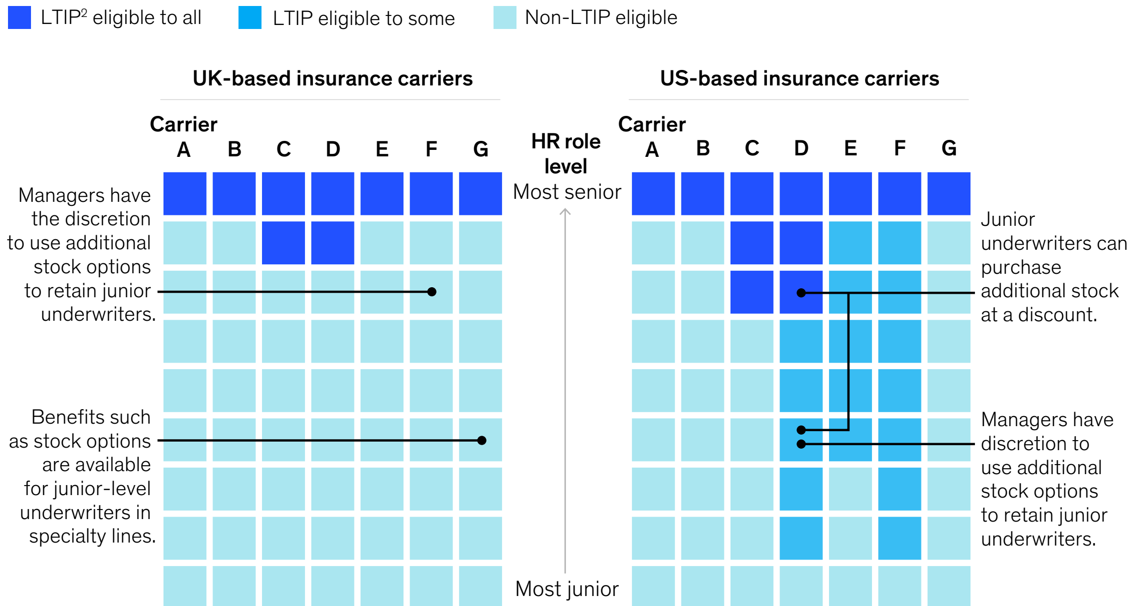
UK-based insurance carriers

Performance management rating (5 is the highest)	**Short-term investment plan (STIP) multiplier based on individual performance**							
	Carrier A		**B**		**C**		**D**	
5	1.85	**5%**	2.0	**10%**	1.5	**10%**	2.0	**10%**
4	1.20	**30%**	1.5	**25%**	1.3	**20%**	1.5	**20%**
3	1.00	**50%**	1.0	**30%**	1.0	**40%**	1.0	**40%**
2	0.50	**12.5%**	0.9	**25%**	0.5	**20%**		**20%**
1	0.00	**2.5%**	0.0	**10%**	0.0	**10%**	0.0	**10%**
Difference between #2 and #4 rating	2.4×		1.7×		2.6×		3.0×	

Exhibit 4

Long-term incentives tend to be available at senior career levels, in management.

Level[1] at which employees become eligible for long-term variable compensation



[1] Grade-level equivalent across companies, matched by position type.
[2] Long-term investment plan.

Transparent career paths that allow underwriters to grow within the discipline
Underwriters at many insurers must navigate legacy organizational structures with career paths that are opaque, depend on tenure, or rely only on filling open positions. Many insurers wait to hire or promote underwriters until there is an open position, often because of entrenched cost-saving strategies. Tenure requirements also constrain underwriters' progression at many insurance companies, with minimum years of service at a given seniority level required before someone is eligible for promotion. And while most insurers have developed formal assessments of competencies for promotions and career progression, some insurers still lack formal links between performance ratings and assessed competencies and promotion, which can be problematic in a function that has a direct impact on carrier performance. The result is talent churn, as underwriters perceive that moving to a higher-level role at a different company is easier than getting promoted at their current organization. Different organizational structures across business units or lines of business often add to the confusion (Exhibit 5).

Many expert underwriters are also forced into managerial roles to advance in their careers, but management requires a different skill set than risk selection and pricing (Exhibit 6).

In our experience, not all expert underwriters want to be managers, but most underwriters want to advance in their careers. This is particularly important for expert underwriters with strong technical skill sets, who are likely to be especially valuable because they are adept at using technology to manage complex risks. To facilitate these experts' career development and—crucially—retain them, leaders should create parallel career tracks for managers and nonmanagers. Experts who choose not to pursue management roles should be able to take on roles that allow them to share their knowledge and experience throughout the organization.

Exhibit 5

A typical underwriting career path progresses through four to six levels before reaching management roles.

Levels in underwriter (UW) career path

XX Average number of years in role before promotion

UK-based insurance carriers

Carrier	HR role level: Most junior					Most senior	CEO	Number of seniority levels
A	Associate (2–3)	Assistant vice president (AVP) (2–7)	Vice president (VP) (3+)	Director (5+)	Managing director (5+)			5
B	Administrative support (2–3)	UW (3–6)	Senior UW (3+)	Deputy LOB head (2+)	LOB head (5+)	Segment head		6
C	UW assistant or trainee	UW (1–2)	Senior UW (3–4)	Assistant vice president (AVP) (2–4)	Vice president (VP) (1–3)	President (LOB or segment head) (4+)		6
D	UW assistant (2+)	UW (2+)	Senior UW (3+)	UW manager (2+)	Line-of-business (LOB) head			5
E	Assistant UW (3+)	UW (3+)	Senior UW (3+)	UW manager (3+)				4
F	Trainee or junior UW (1–2)	UW (3+)	Senior UW (2+)	Team lead or regional UW manager (2+)	Segment head or regional executive			5

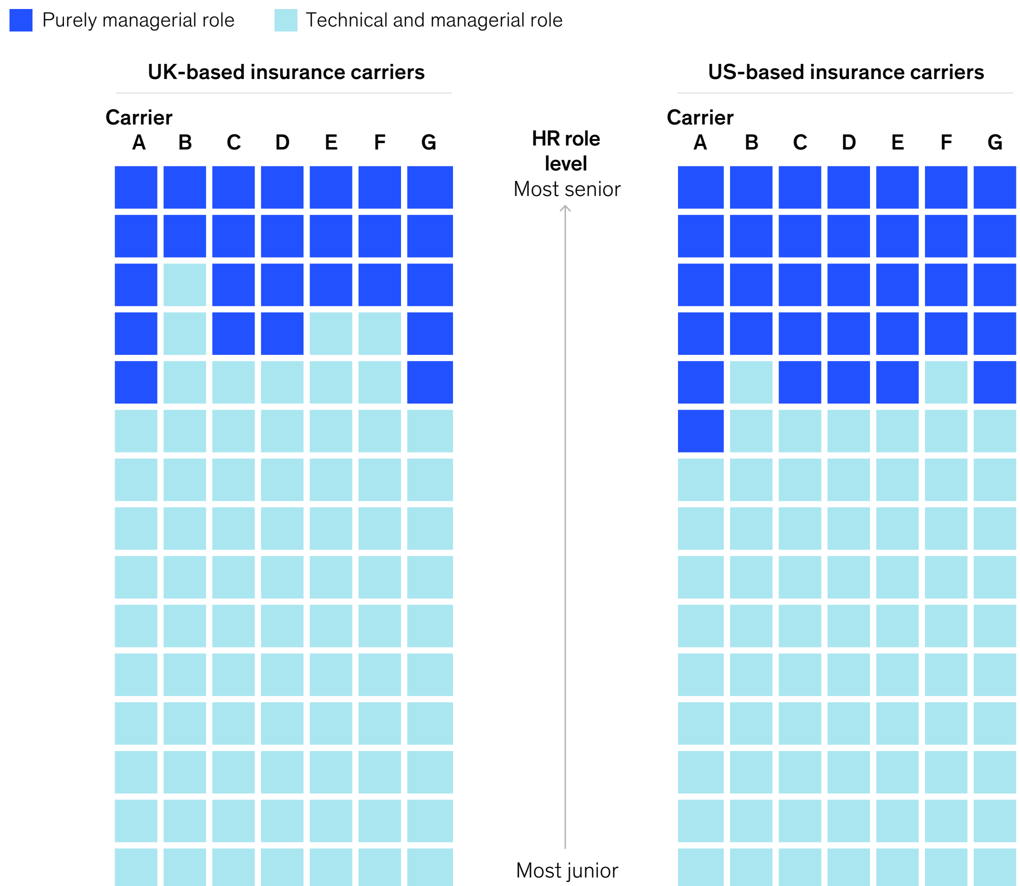
US-based insurance carriers

Carrier	HR role level: Most junior						Most senior	CEO	Number of seniority levels
A	UW trainee (1–2)	UW (2–8)	UW specialist (2+)	UW team manager (5+)	UW Line-of-business (LOB) head				5
B	Associate UW (2)	UW (2–3)	Senior UW (2–3)	Regional UW manager (2+)	Assistant vice president (AVP) (2+)	Vice president (VP) (3+)	Executive VP		7
C	UW trainee (2–5)	Assistant UW (2–5)	Class UW (3+)	Business-group leader					4
D	Trainee (2+)	UW (2+)	Senior UW (2+)	UW manager (2+)	Business-unit (BU) head				5
E	Associate UW (3+)	Account executive (3+)	Account executive officer (3+)	UW director (3+)	Managing director				5
F	UW trainee (1)	UW (1–5)	Senior UW (1–5)	Executive UW (2+)	Assistant vice president (AVP) (2+)	Vice president (VP)			6
G	UW trainee (1–2)	UW (2+)	Senior UW (3+)	UW team manager (3+)	Business-unit (BU) head				5

Exhibit 6

Progression to high levels in nonmanagerial technical roles is not often possible.

Underwriter career path



A comprehensive approach to underwriting career paths includes creating clear underwriting roles, a competency-based promotion system, transparent expectations at each step, and continuous progression for nonmanagerial underwriting experts. Career paths should also cover a variety of underwriting roles, including production, portfolio, and operations underwriting.

Underwriting has always been strategically important, and we believe that it will only become more so. P&C leaders can unlock underwriters' productivity by supporting their development and letting them function as hedge-fund managers do, with expansive portfolios. The prize is an outsize competitive advantage.

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The authors wish to thank Luka Chomich, Daniel Garza, and Josue Ulate Chinchilla for their contributions to this article.

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