

Underwriting Processes and Disciplines For **STRONGER** **Profitability**

Experts report on the latest challenges and trends in underwriting.



JEFFREY BEAUMAN

FM GLOBAL

Vice President and Manager of
Risk Underwriting



KELLY GOINS

AMERISAFE

Senior Vice President of
Underwriting



SUSAN KEARNEY

**AMERICAN INSTITUTE
FOR CPCU**

Senior Director of Knowledge
Resources



JOHN BELIZAIRE

FIRSTBEST

Founder and CEO

Insurance innovation starts with solid underwriting. A panel of insurers, technologists and underwriting experts examine the best practices and cutting-edge techniques insurers are using to make their underwriting more accurate and tie those activities to claims, pricing and performance. The best are leveraging these skills to quickly and effectively penetrate new markets and launch products that produce results. This is an edited transcript of the webcast that originally aired in March.

State of Underwriting

MCDONALD: What's the state of today's underwriting? How has it changed and how is it about to change?

KEARNEY: I would have to say, through my years of

experience, the biggest change not only today but as we move forward is the use of technology and the various number of tools that are available at the underwriter's desktop. Another issue is the increasing number of complex emerging issues and trends in the external

Webcast moderators: Lee McDonald, group vice president communications and Marilyn Ostermiller, assistant vice president news, A.M. Best Co. The entire transcript and video replay are available at www.ambest.com/underwriting10.html

Underwriting technology is going to be focused on four areas: Optimizing underwriting processes; automating underwriting throughout the process; building flexible systems; and leveraging the knowledge of senior underwriters.

—John Belizaire,
FirstBest

environment that can significantly impact the insurers' results. So technology is really a key component of what has changed and what's about to change, both current and future, along with the increasing number of complex emerging issues.

BELIZAIRE: Every chief underwriting officer or head of underwriting is looking to find ways to improve their operations. They're looking to find ways to differentiate themselves, increase their visibility, the scale and the discipline of their underwriting operation.

You're going to see a major change as a result of that. You're going to see four major things. You're going to see a huge investment in technology in the underwriting space that's hasn't happened in a long time. That technology is going to be focused on four areas: One is optimizing underwriting processes. The other is automating the underwriting throughout the process. The third would be looking to find ways to build flexible systems. The last is leveraging knowledge, the knowledge of your senior underwriters, and really using that to enhance the process and drive more discipline.

MCDONALD: Kelly, what are you seeing as driving your part of the company?

GOINS: Even with the tools and the resources available to the underwriters today, especially the advances in technology, the main key is to stick to strict underwriting discipline. In the long run, the carriers that develop strong underwriting and adhere to the practices that they have developed, they will begin to see, or continue to see, long-term profitability.

BEAUMAN: I'd emphasize the knowledge of the risk itself. You can make your underwriters as efficient as possible through technology but they really have to understand the risk in order to assure that they've accepted it in a manner that's consistent with the pricing and the terms that they have offered.

Underwriting Pressures

MCDONALD: Let's talk about the actual individual underwriter. I'm wondering if there's pressure. You've got to be conservative enough in your underwritings so that you can keep your losses to within expected results. On the other hand, everything you turn down is something that the company is not selling. So, how's that playing out today?

GOINS: There is a lot more pressure today than there used to be. It's in direct relation to the economy and the low investment returns. Back in the heyday, when we were able to make our money based on our returns, there was not that much attention paid to the underwriting discipline. It has been a rapid change now where everybody in the organization is looking at underwriting for the profitability. Unless you've been a carrier that has developed strong underwriting disciplines and practices, some are probably struggling today. That's one aspect of it.

There is a lot of pressure in that you're overpricing or you're not reacting fast enough. Perhaps the underwriter isn't putting enough business on the books for that particular month, that particular quarter. The underwriters do think about that. If you're fortunate enough to be with a carrier where their primary focus is the underwriting discipline, you have positioned yourself well enough where you can ride out the market changes right now and adhere to your practices and principles. You have the ability and you have the opportunity where you can pass on some risk that some other carriers may be struggling and fighting for, quite honestly, at this point. The pressure is on. It just depends from your perspective what you've done over the prior few years, how much pressure you're truly feeling at this point.

BEAUMAN: Our businesses are designed to take risk and find a way to profit from it. So you create that natural tension that exists between the underwriting discipline as well as the needs of the client. If it's done well, what the underwriter is able to do is to find that middle ground that meets the clients needs but still achieve that long-term profit result that they've been established to create. You can't expect to profit from every single transaction that you have with every single client. By definition our job is to find a way to spread those risks. By having the discipline and focusing on that risk but always remembering the needs of the client in the process, the way it will play out on the ground is that it will provide a much better product to the client.

KEARNEY: I look at this from a different angle. In essence, the pressure of producing and how it relates to what the underwriters are getting from an educational and training perspective. The companies are pressuring underwriters to produce more, yet in some

"Our businesses are designed to take risk and find a way to profit from it. So you create that natural tension that exists between the underwriting discipline as well as the needs of the client."

—Jeffrey Beaman,
FM Global

Technology

of the recent studies we've done, the companies aren't really valuing sales training. They're not developing some of the necessary selling skills that the underwriters need to not only build effective relationships with the customers and agents, but to secure new business.

I've seen some pressures from that perspective and in the training component where, if you look at the job itself, and obviously the decision making is an important component, sales has really risen to an additional key competency in this area of underwriting, yet some companies aren't recognizing that and not giving the necessary skills.

Sophisticated Risks

"The last time I checked, I don't think any commercial policy excludes acts of stupidity. It doesn't matter how well we underwrite something, no matter how many tools we throw at it, there are just some things you cannot avoid."

—Kelly Goins,
AmeriSafe

McDONALD: Let's talk about sophisticated risks. Where does automation meet those risks and where doesn't it? How do you write risks like that and get it right?

BEAUMAN: The sophisticated risk represents probably the single area of risk in that component that deals with the loss cost, which is always going to be the largest component of any combined ratio for an insurance company. When you're looking at sophisticated risks you have to deal with the complexities of those exposures. Where underwriters go wrong is they forget their lessons of the past or they haven't fully understood the risks that they're accepting.

As long as an underwriter is able to understand the client's business, how the client makes money, which parts of their business are important to them, which parts of their business are growing, which parts of their business may not be growing, the underwriter should be able to apply their judgment to an individual client and still stay within the requirements of the company.

GOINS: When you're writing extreme risks I think technology can help. It's very important, not only technology but all the resources and tools that are available to an underwriter. Whether that is within their own departments internally, the information they can gain from audits or claims or loss control services, they need to take all the tools available to them to help them make a decision. Unfortunately, even with all the information we have available to us, even the most extreme risk can present problems.

The last time I checked, I don't think any commercial policy excludes acts of stupidity. It doesn't matter how well we underwrite something, no matter how many tools we throw at it there are just some things you cannot avoid. You have to be prepared for the act of stupidity that is inevitably and invariably going to happen to you as an underwriter.

New Tech Underwriting Tools

"You're going to see better communication systems that include collaboration technologies. They are going to allow the distribution channel to have access to information and visibility into the process as quickly as possible."

—John Belizaire,
FirstBest

McDONALD: What are we seeing in terms of technology, automation, some of the emerging tools that are going to change this part of the industry? What do you see?

BELIZAIRE: Well we're seeing some pretty neat things I have to say. No. 1, we're seeing the advancements that have really made the Internet a household name these days, coming to the industry. Companies like Google have been able to make the world's global information available to you at your fingertips. Facebook has really been able to make the globe available to you at your fingertips. If you combine those two things, it's really pointing to what I like to call an Internet operating system, if you will. There's lots of cool technology out there. If you can bring that to the underwriting organization, I might rename it to the underwriting operating system. What you have in that operating system are things like social networking technologies. You're going to see a lot of that emerge. It's not going to look like Facebook but it's really going to help organizations develop more underwriting team approaches to their processes, break down some of these walls and some of the silos around the organization and bring their agents and the distribution channels closer.

You're going to see better communication systems that include collaboration technologies, chat that allows a 30-second question to only take 30 seconds. It's going to allow the distribution channel to have access to information and visibility into the process as quickly as possible. You're going to see predictive models as we talked about earlier, incorporated into the process. You're also going to see things that really drive speed within the organization and much more configurability in the operation. So a lot of new technologies are going to be hitting the market very soon. **BR**