



**AUTOMATED UNDERWRITING:** David Dorans, vice president of product consulting and development at Transamerica Reinsurance, said an automation project to reduce overhead resulted in some of the company's best-performing mortality deals.

# Business Upgrade

Software shifts to larger role in commercial lines underwriting.

by Al Slavin

**W**hen it comes to underwriting, John Belizaire admits that his background in enterprise software makes him something of an outsider.

But that hasn't stopped the chief executive and founder of FirstBest Systems Inc. from pushing his company toward what he views as an inside track.

Belizaire's Bedford, Mass.-based software vendor has angled its business strategy toward a growing need for automated underwriting in commercial lines. The company is well into its second version of its Underwriting Management System, which serves as its flagship product.

"We have invested in really understanding the carriers' challenges today in addition to the relationship between the carriers and the distribution channel and some of the pains that they encounter," Belizaire said.

He said the goal is to deepen the

connection between agents and underwriters through such methods as real-time collaboration.

The start-up company was founded in September 2006 with \$7 million in venture capital funding. FirstBest booked its first revenue in 2007, and quadrupled revenue in 2008, according to Meira Primes, FirstBest's vice president of marketing.

FirstBest and other vendors are hoping to capitalize on what one analyst considers to be a growing comfort level with carriers to outsource solutions for the business process. Direct premiums written by commercial multiperil-lines carriers totaled \$35.1 billion in 2007, according to A.M. Best data.

When it comes to underwriting

for commercial lines, technology's evolving role is poised to hasten and improve decision-making,

lighten underwriters' workloads and drive business volume.

"You obviously want to be able to be one of the first two or three that always gets a quote back to the agent," said Ellen Carney, a senior analyst with Forrester Research. "Increasingly that means it has to be a little more scientific, even in the case of commercial lines."

► **The Situation:** Commercial lines lag behind personal lines in automated underwriting.

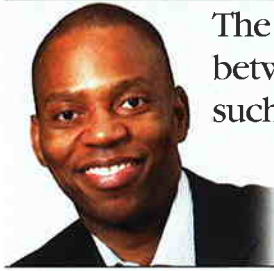
► **The News:** More software vendors are pitching ways to automate carriers' workloads.

► **The Payoff:** Adopting these new methods promises to streamline operations that still drive business volume.

## Leasing Capacity

Carney said more companies are emerging and delivering underwriting software solutions that can be quickly deployed into the marketplace. Carriers are considering three

## Technology



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FirstBest Systems Inc.

distinct issues: defining a successful data conversion; resolving security issues and liability; and whether the application will increase the work-flow pace and response times.

Some approaches are being con-

templated through software as a service, a deployment option that allows insurers to negotiate terms based on actual transactions or other user-based levels.

Carney said FirstBest has been able

to layer in a support mechanism to its underwriting program that addresses agency management, something she ranks behind policy administration and claims management as a concern for carriers. The company targets commercial lines for U.S. property/casualty carriers that have direct written premiums ranging from \$200 million to \$2 billion, according to Forrester Research.

Last October, the ICW Group launched Snap Instant Quote, a Web-based program designed by FirstBest that lets agents instantly quote and bind workers' compensation insurance for

## Less Art, More Science

**I**mproving its private-label market for term life insurance gave Transamerica Reinsurance an entirely new perspective on automated underwriting.

While moving to reduce the program's overhead, the Charlotte, N.C.-based subsidiary of Aegon took note of another cost-saving trend that accompanied an increase in automation. The blocks of business run through its new underwriting platform were among the company's best-performing mortality deals, according to David Dorans, vice president of product consulting and development at Transamerica Reinsurance.

"It really kind of turned our whole logic on its head for what we looked at this thing for," he said.

Dorans said the system paid for itself through operational efficiencies, but he likened those savings to a rounding error when compared to the larger gains in improved mortality enhancements.

The reinsurer is so confident with its system that discounts are offered to cedents who use the company's rules-based underwriting engine.

Celent's insurance practice recently recognized Transamerica's underwriting approach as a model of different technology use. As for automated underwriting, the commercial and specialty line sides still have ground to make up on the personal lines, where volume has fueled growth.

While the gains achieved through automating the underwriting process can marry streams of digital data and ultimately drive business volume through quicker and better decisions, there is still hesitancy in some quarters regarding the loss of a human touch. Donald Light, a senior analyst with Celent's insurance practice, described a certain mindset that he said can still be found in many companies.

"We're talking here mostly about specialty business, or mid- to large-size commercial accounts, where the underwriting people think the only way you can be a good underwriter is to be one for 10 or 15 years," Light said. "So it's a matter of human judgment, a matter of relationships and so on."

Light said technology vendors have become more focused on the underwriting solution. A few specific, technology-driven solutions are now available to underwriting, something

Light said wasn't available until recently. Light also said the demarcation that cordoned off other segments, such as policy administration systems, has lessened as vendors try to incorporate degrees of underwriting functionality. They're being joined by vendors who handle business process management solutions, business rules management solutions and analytics.

"All of them have looked at the underwriting process as an area where they could add a lot of value," Light said.

The increased use of portals for policy submissions has built a framework for increased levels of automation in the decision-making process, thus speeding up the transaction loop.

A straight-through processing approach that minimizes human involvement is only as efficient as its kick-out ratio, a term for the percentage of applications screened out for a human review. While Light cautioned against automating bad underwriting decisions, he said the approach can give senior management a clearer downward view of the underwriting.

"Technology provides much greater insight and transparency into the set of decisions that individual underwriters make and how they make them," Light said. "And that's something that's very attractive."

Dorans sees an attraction in the ability to electronically aggregate an applicant's personal and medical history with lab values and other third-party sources of information used in the underwriting process.

"When it comes time to make a decision, instead of reading reams of paper images, we present a summary screen with the cogent facts that the underwriter needs to know about the case," Dorans said.

The craft aspect of underwriting still holds importance for impaired underwriting business, such as assigning table ratings for higher-risk individuals or for the high face-amount business that gets into financing underwriting, he said.

"For preferred-risk underwriting, most of the selection really comes down to assessing any deviation of data captured from lab work, para-med histories, etc. from approved underwriting guidelines," Dorans said. "Companies can save a lot of money by using underwriting technology for this business. And they just may be figuring that out right now."



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—Gail McGiffin,  
Accenture

the small-business sector. The system's use of straight-through processing allows submissions to pass through an automated review process.

Belizaire said the company has increased quote production by 25% and reduced policy issuance time by 30%. He said such a scenario can free up a carrier's underwriting staff to focus on more strategic business issues.

"ICW leveraged this to enter the small [workers'] comp market. They couldn't underwrite it profitably by touching it anyway," Belizaire said. "This allows them to focus on the large workers' comp account where there's a lot of complex information in the process."

In addition to workers' comp, Belizaire said FirstBest's commercial auto application has seen activity, and customers also have shown interest in commercial property and general liability applications.

The FirstBest business strategy evolved from research into the col-

laborative relationship between the agents and underwriters, he said. The end result has yielded an underwriting solution that provides a next-generation workstation and streamlines the underwriting process while providing real-time collaboration.

Future applications will allow the carriers to tailor an agent's real-time access to loss/run reports or renewals. The long-term success of this software vendor and others like it will hinge on their ability to compete with much larger companies.

Using technology to drill down on underwriting practices is something that Accenture has been emphasizing to clients, particularly in light of a challenging economy, according to Gail McGiffin, the company's head of global underwriting solutions. She said there's an enormous opportunity for automated underwriting within the mid- and large-market commercial segments, as well as specialty lines.

McGiffin said that four to five years ago, those areas were allergic to technology within the underwriting space. A better appreciation of issues such as work-flow automation, data capture and rules engines have been fostered along the way.

"I think we've definitely evolved, but I think that we're still in the early stage in terms of technology better enabling mid-market to large [commercial] because it's more of an assisted model," she said. "It's not a no-touch model like small commercial where it's exception-based."

### Hidden Liability

McGiffin said she sees a fractured landscape when it comes to system solutions for underwriting, policy administration and predictive analytics. The trend is toward replacing and integrating components, which can complicate the ability to achieve straight-through processing and the efficiencies that result.

Another complicating factor involves the liability involved with projects that are handled by outside vendors. Lockton Associates is encouraging clients to review the aspect of contractual risk transfer with the IT workspace.

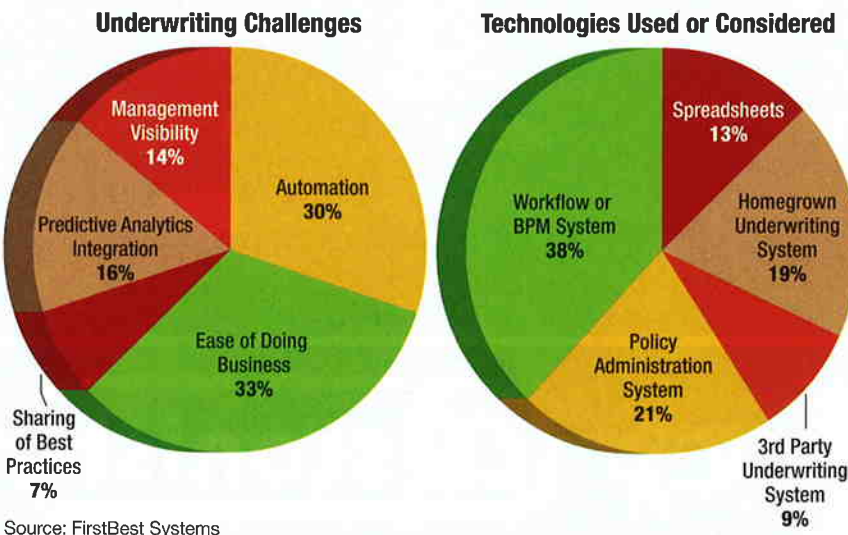
Jennifer G. Smith, a senior client adviser with Lockton, said coverage for the privacy aspect and network security has emanated from the general liability and professional liability programs.

"In many instances the outsourced provider does not have the cash or the insurance to pay them back if there's a breach," Smith said.

"What we're trying to do is back up the client. We're trying to help them understand how to protect their data, to understand their regulatory exposure."

### Driven by Need

Automation and ease of doing business were two key underwriting concerns in a 2007 survey of 300 insurance carriers. The carriers surveyed by The Phelon Group had premiums written of \$200 million to \$1 billion.



### Learn More

#### ICW Group

A.M. Best Company # 02967

Distribution: Independent agencies, brokerage firms, general agents

#### Transamerica Life Insurance Co.

A.M. Best Company # 06095

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