Next-gen Underwriting: The Case for Continuous Underwriting

Abstract

With increased competition from non-traditional players, reduced margins, and declining customer loyalty, underwriting excellence and pricing discipline have become critical to a competitive advantage. Against this backdrop, insurance players need to embrace a smarter approach to underwriting by adopting continuous underwriting.

Continuous underwriting involves collecting meaningful data from diverse sources before, during, and after the risk evaluation timeframe to extract relevant and predictive insights. It equips the insurer as well as the insured with insights into trends that can lead to a loss event, often enabling them to address the situation in a timely manner. Through this, continuous underwriting provides a powerful opportunity – both in the life as well as property and casualty insurance sectors – to optimize the risk evaluation process and positively influence loss outcomes.

This paper discusses the capabilities that insurance companies require to implement a continuous underwriting framework.

The Next Phase for Smart Insurance

The objective of traditional underwriting is to price an insurance product to provide a profit to the insurer, while ensuring a marketable premium for the agent and the insured. Once the binding and issuance processes are complete, there is no further comprehensive evaluation until it's time for the policy to be renewed.

But today's tough regulatory environment, an increasingly competitive market place, and an interconnected world have driven property and casualty (P&C) and life insurance carriers to rethink their underwriting processes. Traditional ways of working run the risk of being short-sighted and can prove to be a competitive disadvantage.

Many insurers have adopted next-gen practices such as automated work-flows, case management and collaborative underwriting to increase business value.

However, the enormous potential of continuous underwriting is still yet to be fully explored.

Continuous underwriting involves gathering and evaluating comprehensive customer data from diverse sources before, during, or after the initial underwriting decision. It provides a means to constantly and continually track and detect changes in notable risk parameters.

Continuous underwriting, underpinned by the latest technology and rich data, can dramatically improve the risk assessment and management process.

John Hancock Insurance provides its life insurance clients with Fitbits – wearable fitness tracking devices. The company tracks its customers using the Fitbits and offers up to 15% reduction in premiums for its most physically active policyholders. It also offers other incentives, such as Amazon vouchers and discounted accommodations at popular hotels.[1]

Reason # 1: The Fair Value of Data

Until recently, underwriters used application and historical data for risk evaluation. Today, they can fine tune their risk assessment decisions by combining internal data with voluminous third-party data from varied sources, including embedded sensors, satellites, telematics, and location-based and mobile services.

Holistic data from these newer sources of information offer comprehensive insights on customer behavior. These can be used to evaluate risks more proactively, ensure optimal pricing, customize premium, deliver improved customer satisfaction, and drive profitability.

Smart dust (airborne packets of sensors) technology gathers physical object intelligence and bar coding that helps track inventory and movement of objects. It can be used to generate real-time underwriting insights.

Reason # 2: Trends that Warrant Continuous Underwriting

Two key factors drive the adoption of continuous underwriting:

1. Real-time data availability

Insurers have real-time access to a wide variety of data, including news feeds, social media updates, and external research. Integrating their underwriting systems in real time with third-party data aggregators expands their access to data. They can also use advanced semantic web solutions to aggregate and filter relevant data from this vast pool of structured and unstructured data. Real-time monitoring, visualization tools and sophisticated analytics applications that help transform data into actionable insights also effectively enable continuous underwriting.

2. The Internet of Things

Internet of Things (IoT)-driven devices augment underwriting by providing a continuous stream of real-time data including automobile mileage, weather data, location security information, and safety equipment readiness. By consolidating, analyzing, and applying the IoT data, underwriters can get strong evaluative support and realize increased business value.

Reason # 3: The Power of Analytics

Analytics historically have been used to establish rating tiers and to evaluate the risk in a particular segment. However, today analytics are a key enabler for the efficient use of social media-based data in the insurer's workflow. Social media provides the underwriter with 'subjective' data that can be used as another evaluation point. Analytics can help reduce the 'noise' or subjectivity of the data by consolidating from several different sources, correlating data across these sources, and presenting probabilities of true issues that are of interest to the underwriter. This helps institute remedial or preventive actions, improve loss ratios, leverage focused data to further productivity, and codify risk evaluation into knowledge management tools.

Leveraging analytics has wide applications in fraud detection, marketing opportunity identification, and agent incentivization.

For instance, UK-based PruProtect[3] offers an online program called PruProtect Vitality that provides premium refunds, discounts and deals to customers who regularly exercise, eat well, and embrace positive lifestyle changes.

Leveraging Continuous Underwriting

Continuous underwriting can deliver insights across the insurance value chain and the entire industry spectrum. Examples of this applicability include:

- Equipment breakdown insurance
- Ocean and/or inland cargo insurance
- Life insurance
- Property and casualty insurance

In addition to analytics, organizations can exploit the full strategic benefits of continuous underwriting by investing in the following key capabilities:

- Embracing automation
- Institutionalizing knowledge

"About 19.5% of the (underwriting) workforce was 55 years old or older in 2010, and such workers are expected to account for about 25% of the workforce by 2020," according to a collaborative study conducted by the Disability Management Employer Coalition (DMEC) and Cornell University's Employment and Disability Institute (EDI)[4]

- Tapping into social media data
- Ensuring continued engagement with customers

AllLife,[5] provider of life insurance to individuals living with HIV, and life/disability insurance to diabetics in South Africa, offers insurance based on patient adherence to medication and effective collaboration with healthcare providers to ensure sustained wellbeing. The company also monitors policyholders' progress, sends alerts on possible health concerns, and encourages them to lead a healthy life through regular testing and anti-retroviral medication.

- Building collaboration and interconnectedness
- Using machine learning in underwriting systems

Create Value with High-Performance Underwriting

Continuous underwriting helps insurance carriers build long-term relationships with technology-savvy customers who value automation and are open to sharing information across channels.

But even as insurers begin to test underwriting models that leverage non-traditional sources of data such as wearables and social media, it is imperative that:

- Appropriate systems are implemented to reward customers who provide such data and safeguard their privacy.
- Insurance products are dynamic and flexible enough to allow policy terms to change as continuous data is obtained and assimilated.

Conclusion

Real-time data availability and the proliferation of Internet of Things (IoT) are the two primary enablers for continuous underwriting. Analytics is the lens through which the data can be better understood, trends identified, and strategies suggested. There are a number of strategies that an insurer can follow to acquire and leverage continuous underwriting capabilities, including process automation, knowledge transfer, social media data extraction, collaboration with customers, and machine learning. These capabilities, carefully implemented, can lead to increased underwriting performance with enhanced value for insurance customers.

Ultimately, continuous underwriting empowers customers with greater control over their policies and better value for their money while driving profitability for insurers.

References

[1] New York Times, Giving out private data for discount in insurance. April, 2015, accessed September, 2015 http://www.nytimes.com/2015/04/08/yourmoney/giving-out-private-data-for-discount-in-insurance.html

[2] Financial Services Council, Transforming Underwriting and Claims Management Practices, published 2012, accessed December 2015, http://www.fsc.org.au/downloads/file/awards/FutureLeaders2012_LifeInsurance_KimCohen.pdf

[3] VitalityLife, Rewards, Get rewarded for being healthy, accessed December 2015, https://www.pruprotect.co.uk/rewards/

[4] Disability Management Employer Coalition, DMEC and Cornell Study: Employers Concerned About Aging Workforce, But Not Prepared to Manage It, published August 2013, accessed December 2015, http://dmec.org/2013/08/06/dmec-and-cornell-study-employers-concerned-about-aging-workforce-but-not-prepared-to-manage-it/

[5] AllLife, Insuring the uninsurable, accessed December 2015, http://www.leapfroginvest.com/portfolio_company/alllife/

About The Author

Thomas Rubenacker,
Property Casualty Domain Lead, TCS

Mr. Rubenacker has 30 years of experience spanning business and technology consulting. His consulting expertise spans strategic planning, process reengineering and modeling, IT portfolio assessment, IT blueprinting, project and change management, IT quality assurance, use case modeling, and business architecture.

About TCS' Insurance Business Unit

With over four decades of experience in working with insurers globally, TCS delivers solutions and services to help insurers meet rising customer and agent expectations, address non-traditional competitors, manage low investment yields, and drive growth in emerging global markets.

TCS has built an unmatched track record in enabling insurers to transform, enhance business agility, improve operational efficiencies and increase customer engagement, while ensuring regulatory compliance. Seven of the 10 world's largest insurers and more than 100 insurers globally partner with TCS.

Our state-of-the-art Innovation Labs and Global Solution Centers, and cutting-edge solutions and technologies set clients apart from their competitors.
We leverage the combined expertise of our industry-trained and certified (including LOMA, LIMRA, CPCU, etc.) consultants to support the entire value chain for Life, Annuities and Pensions, Property and Casualty, Health, Commercial and Reinsurance companies.

Contact

For more information about TCS' Insurance services, visit:
www.tcs.com/insurance

Email: global.insurance@tcs.com

Subscribe to TCS White Papers

TCS.com RSS: http://www.tcs.com/rss_feeds/Pages/feed.aspx?f=w
Feedburner: http://feeds2.feedburner.com/tcswhitepapers

About Tata Consultancy Services Ltd (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled, infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at www.tcs.com

TCS Design Services I M I 11 I 16