Property & Casualty Commercial Lines Underwriting: The New Playbook

Mounting competitive pressures, the widening reach of digital and changing customer expectations are compelling P&C commercial lines carriers to rethink their operating models, implement direct-to-consumer strategies and revamp their processes. All while reigniting and sustaining profitable growth in the age of digital.
Executive Summary

In the aftermath of the global financial crisis, property and casualty (P&C) insurers faced numerous growth-related challenges that continue to keep executives on their toes. Soft pricing conditions and low interest rates have obliged carriers to focus on managing expenses and improving operations by automating and reengineering business processes and upgrading technology.

At the same time, commercial lines operating models have changed little over recent years. Carriers continue to rely on tried-and-true growth tactics like expanding their risk appetite, adopting aggressive pricing in specific market segments and lines of business, extending their product portfolios, or recruiting new agents. However, we believe the industry is facing significant transformation that will force carriers to understand customer needs across commercial-lines market segments; pursue opportunities in small, midsize, large and specialty lines, and tailor strategies accordingly.

As companies look for new ways to boost revenue and increase profits, managing risk has become paramount. Business and technology shake-ups – the sharing economy, the Internet of Things (IoT) and changing customer expectations – are pressing P&C commercial lines carriers to adopt market-focused strategies that foster growth and step up to the demands of digital business.
Due to changing customer behaviors and expectations, small commercial accounts have become more closely aligned with personal lines. Therefore, carriers should pursue direct outreach to customers and prospects, design and implement multichannel distribution models, and provide a consistent experience at every touchpoint – agents, aggregators and consumers alike – to ensure price transparency, enrich customer knowledge, and provide real-time support for sales and service.

For midsize, large and specialty lines accounts, underwriting teams need to deepen their knowledge and increase their bandwidth to strengthen bonds with agents/brokers and customers. These changes require new operating models; solid underwriting skills; robust digital technologies; sophisticated analytics and modeling techniques; and a high level of automation. The goal is to equip underwriters with 360-degree insights that can yield improvements in areas like account planning, solution development, agent and customer relationships, risk assessment, resource allocation and decision making.

This white paper presents our vision of the future for the P&C commercial lines industry. More precisely, it describes the key growth challenges facing commercial lines carriers, with strategies for fueling profitable growth and realizing true business transformation.
Challenges for P&C Commercial Lines Carriers

Thanks to a recuperating job market and stabilized oil prices, the outlook for economic growth in the U.S. has brightened. Revenues of select leading companies across most industries have grown at an average Compound Annual Growth Rate (CAGR) of ~7%. However, revenue among commercial lines carriers remains significantly below the average (see Figure 1).

Even from a net written premium standpoint, between 2005 and 2015 the overall premiums for the commercial lines industry grew by only ~2% CAGR due to a combination of macro-economic changes and disruptive trends (see Figure 2, next page).

Confronting Lagging Growth


Source: Cognizant analysis of publicly available data
Figure 1

Quick Take

Serving Commercial Lines Accounts

Key imperatives for carriers serving the commercial property and casualty space can be segmented by account size.

Small Commercial
- Develop direct-to-consumer strategies.
- Invest in digital.
- Simplify products and packaging.
- Emphasize price and customer education.

Midsize and Large Accounts
- Change the role of the underwriter – focusing on sales-oriented underwriting and consultative selling.
- Transform the operating model.
- Invest in platforms for pipeline management, underwriting and policy administration, and capabilities around data sciences and artificial intelligence.
Increased Competition

P&C carriers’ capacity to insure has steadily grown over the last 10 years; in fact, it hit a record high in 2014 (see Figure 3), which to some extent can be attributed to newer players. Although the upward trajectory of this trend was temporarily halted during the 2008-2009 recession, the industry continues to add capacity. This has fueled price-based competition, fed companies’ risk appetite, driven expansion into new geographies and markets, and motivated carriers to develop new products and coverages—all challenges that conspire against those seeking to profit from premium growth.

Reduced Investment Income

Due to persistently low interest rates, investment income for P&C carriers continued to fall for the third consecutive year from 2012 through 2014 and is below the pre-crisis peak (see Figure 4, next page). Although 2014 was a good year for financial markets, interest rates have remained at historically low levels post-recession due to efforts to ignite growth and control inflation.
Since insurance carriers typically hold a large percentage of their investment assets in bonds, low interest rates have continued to impact book yields over the years. Consequently, book yields for P&C carriers (net investment income as a percentage of investable assets) have declined by ~80 basis points from pre-financial crisis levels. This is a real concern for commercial lines carriers, since investment income is shrinking as an important revenue source. Although a gradual increase in rates will overcome this issue, it will take longer for insurance companies to realize high yields, since carriers generally invest in long-term bonds. Consequently, they must find other ways to compensate for lower interest rates.

Agents and brokers negotiate with underwriters to get the best coverage for the lowest cost, which shifts attention away from product differentiation to premium cost alone — reducing carriers’ prospects for premium growth.

Product Commoditization in Small Commercial Accounts

For small commercial accounts whose needs are typically less complex, price is usually the tipping point, much like personal lines. Normally, small business insureds don’t perceive any difference in carriers’ products, since the nature of their operations, risk exposures, required coverages and limits are relatively similar. The intermediary-driven commercial lines business model adds another wrinkle, since agents and brokers are evaluated based on the value they bring to customers, which often centers on price. Agents and brokers negotiate with underwriters to get the best coverage for the lowest cost, which shifts attention away from product differentiation to premium cost alone — again reducing carriers’ prospects for premium growth.
Reduced Churn in Midsize and Large Accounts

For midsize and large accounts, carriers typically offer customized products, along with value-added services, to address the complex and unique risks of this segment. Customers tend to stick with their existing carriers, since they generally have a thorough understanding of their customers’ businesses and risk profiles. This “stickiness” is especially relevant when carriers underwrite multi-year policies — making it difficult for others to increase their base and market share and grow new business. This is complicated by the fact that only a few new midsize and large accounts emerge every year. At the same time, large national carriers are considered less flexible when it comes to product and service customization, especially when serving midsize accounts. Regional carriers tend to offer a higher level of customization in this segment, since most are not constrained by rigorous processes. For carriers serving midsize and large accounts, customer retention is the top priority.

Evolving Distribution Models in the Small Commercial Segment

Empowered customers, smart products, new business models, disintermediation and a spate of new competitors are triggering disruptions in the small commercial segment — impacting distribution models and turning up competitive pressure. Small business owners now have digital avenues and options that make it easier for them to conduct their own research and compare multiple options and purchase policies. In some cases, this is the result of their experiences with personal lines, so they expect similar capabilities from their commercial lines carrier (sometimes their personal lines and small-business policies are with the same carrier). Owners of small businesses are now more willing to engage directly with their carrier through digital and other channels like call centers and aggregator websites, as long as they get the lowest price and best coverage. This is possible to some extent if commissions and brokerage fees can be reduced through direct channels, albeit the carrier now has to spend heavily on marketing and customer education.

Independent agents and brokers remain the primary distribution channel for the small commercial segment, although few carriers are exploring multichannel distribution strategies supported by digital investments, such as working with aggregators or providing direct-to-customer Web and call-center channels. Today, business resulting from these channels is relatively small and mostly restricted to the lower end of the small commercial market, which is less complex and can be easily packaged. At the same time, the multichannel model offers significant potential for carriers to grow business in their commercial lines through online sales portals and keep operational costs at a minimum. Hiscox, through its investments in marketing and advertising like pay-per-click campaigns and its online affiliate programs (e.g., CJ Affiliate by Conversant) attracts small-business professionals to its online channel.

Emerging Risks and Opportunities

As new risks and liabilities emerge – fed by business and technology breakthroughs such as the sharing economy, smart products, the Internet of Things (IoT), drones and 3-D printing – new revenue streams surface. Consequently, carriers need to rethink their selling and service models; otherwise, they risk losing business to those that are eager to exploit these opportunities.

- The sharing economy: This is a socio-economic ecosystem that taps into under-utilized or surplus resources by enabling consumers to rent or share them for an agreed-upon price. While the sharing economy is just now picking up steam, notable models include ride sharing (e.g., Uber, Lyft), home and office space sharing (e.g., Airbnb, Home Away) and on-demand workforce (e.g., Upwork, TaskRabbit). Growing at a staggering pace from a valuation of $26 billion in 2013, this market is projected to reach $335 billion by 2025. It has also exposed risks and presented considerations that P&C carriers never took into account:
The overlap between personal and commercial insurance due to the use of personal assets for commercial purposes at certain times.

High-frequency transactions of micro-duration (minutes → days → weeks) that require micro-payments and create a new market for on-demand coverages for short periods.

Less control over how assets are used, with a degree of variation between transactions.

The significant reliance on external data for underwriting, pricing and claims, plus the absence of historical data to develop actuarial models.

Traditionally, carriers have shown little interest in writing these risks, in spite of the fact that they can produce new revenue streams for their commercial lines. In the case of on-demand workforce and services, operators would have to purchase insurance coverage for liability, workers compensation, crime and other risks, but only for the duration of the service. The estimated premiums from the self-employed workforce in 2015 was ~$4.7 billion. A greater premium share is expected from this segment because of the anticipated growth in the freelance U.S. workforce → to ~60 million by 2020 from ~53 million in 2015. (For more insight, read our paper, The Sharing Economy: The Implications for Property & Casualty Insurers).

As more people adopt the sharing economy model, commercial lines carriers need to make changes to their product language and claims process to avoid claims leakage, revamp their business models and operations, and launch complementary products to grow revenue.

- **Cyber risks**: Today, businesses of all shapes and sizes are subject to cyber threats. In addition to high-profile data breaches at companies such as Target, Sony and JP Morgan, small businesses are also vulnerable. Due to the nature of these risks, excess and surplus carriers are choosing to offer customized coverage plans. For commercial lines carriers, this is equally important. Breakthroughs such as IoT and smart products will only increase cyber risks and exposures.

- **Technological advancements (IoT, virtual and augmented reality, drones, artificial intelligence, robo advisors and 3-D printing)**: Over the past few years, these technologies have aided and abetted digital disruption and uncovered new exposures. The market size of these individual risks may appear to be relatively small, but they can create new revenue opportunities for carriers that adapt and modernize their product and coverage stacks. These developments are also responsible for changing customers' habits, and compelling insurers to take a second look at their business processes and operational strategies. Most industries are already investing in these technologies to improve worker safety, enhance the efficiency of business operations and processes, and reduce various risk exposures (e.g., driverless vehicles, smart factories, smart mines).

But with these disruptions, liability can shift from the insured to device manufacturers, service suppliers or integration providers, compelling these businesses to evaluate additional or reduced insurance needs. We expect to see some reduction in commercial insurance needs, since the risks related to liability and workers' compensation will be less with the introduction of smart products in various industries. Certain manufacturers, such as Volvo, are taking responsibility for claims resulting from these products (e.g., use of autonomous vehicles) — prompting changes in business strategies that commercial lines carriers need to address. Most carriers have not adapted to these dynamics — lessening their chances of gaining first-mover advantage and achieving the growth that comes with that. In our view, carriers need to quickly join with various players in the ecosystem (manufacturers, service providers and integration framework providers) and customize traditional products that address business disruptions.
New Data Sources

Along with technology disruptions, customer behaviors are changing (e.g., the emergence of the digital customer). Businesses are entering a new era, and data is being used as a competitive weapon to gather important insights and foresights. Newer data sources, such as sensory data, drone images and videos, augmented reality, social media and smart devices, enable carriers to leverage this information to mitigate loss; improve underwriting, pricing, product and service personalization; and enrich customers’ digital experiences. With the enormous amount of data available, customers are looking to carriers to offer innovative services and better pricing.

Some carriers are leveraging these assets in the personal lines space. Commercial lines carriers are following suit, albeit at a slower pace. For example, some are now writing small commercial policies for restaurants, pubs and bars using third-party data from Yelp and Trip Advisor, which helps when making underwriting and pricing decisions. A customer’s Code Halo, created by their interactions in the digital world, enable carriers to “decode” their needs and preferences. When these digital footprints are combined with Code Halos generated by other sources (i.e., smart devices, geospatial data, weather events, traffic patterns, etc.), the resulting insights can help carriers anticipate risk exposures and price policies commensurate with exposure, and personalize insurance services around loss control and risk. If carriers are not proactive in leveraging these assets, they stand to lose to the competition. (For more on Code Halos and the insurance industry, please read “Building a Code Halo Economy for Insurance”).

In addition to creating (and paying for) new roles (chief data officer, data scientists), carriers should also invest in processes and technologies like data standardization and big data, since the skills and insights resulting from these decisions can transform how commercial insurance products are sold and serviced. The key is knowing what data sources to tap into, which data to analyze, and the means for determining a priori what business insights can be derived from which data sets.

Common Strategies for Commercial Lines Growth

Commercial lines carriers can apply several approaches for overcoming the challenges of growth. Historically, these companies have relied on the following strategies to achieve their revenue objectives.

Broaden Risk Appetite

Commercial lines product managers and underwriting teams collectively set underwriting guidelines outlining risk appetite (e.g., industries to focus on, business types to target), line of authority and products/coverages to sell. These guidelines are shared with regional and line underwriters, as well as with agents/brokers, to identify prospective leads and target segments. Broadening risk appetite opens up market avenues that were not previously considered by carriers, including:

- Offer coverages for newer industry segments that were not on the radar. (e.g., assisted living facilities, durable medical equipment manufacturers and fitness centers.)
• **Present additional products/coverages to existing industry segments.** (e.g., packaging crime, employment practices liability, and cyber coverages with existing business owners’ policies.)

• **Address appetite gaps based on size of the account.** Many carriers that focus on the small commercial segment do not write midsize or large accounts; these companies could increase premium thresholds and look to underwrite some part of the midsize account space or beyond.

**Improve Price Competitiveness**

Customers, especially those in the small business segment, are extremely price-sensitive. Most commercial insurance coverages (other than workers’ compensation and commercial auto) are discretionary; small business owners buy them, but only if they appear to be price competitive. Hence, customers look for a policy that offers the best value.

In a highly intermediary-driven business model where agents/brokers use price as the value proposition, it is very difficult for a carrier to obtain market share and sustain business if they are not price competitive. From a carrier’s perspective, this doesn’t always depend on quoting the lowest premium; it can also hinge on quoting premiums that fall within the range of those from other carriers. Some products, such as workers’ compensation and commercial auto, are more commoditized than others, so the threshold for variance is less.

**Launch New Products, Offer Differentiated Coverages & Expand Geographic Reach**

In addition to increasing their risk appetite and improving price competitiveness, carriers can also launch new products (e.g., drone insurance, cyber liability insurance), offer coverages that help differentiate their business (packaging management liability, employment practices, crime, cyber) or expand nationally or internationally. These actions have allowed carriers to address unserved needs, with the intent of growing their books of business and improving premiums. However, the insurance industry is not known for enabling carriers to gain and sustain a first-mover advantage, since most rely on third-party information sources and market intelligence to determine and understand their competitors’ products, coverages, forms, rate information and rules. Given the relatively short time required to replicate coverages or products, and the fact that the frequency of purchase is one per year or less, competitive advantage gained through products and coverages is difficult to sustain.

Time-tested strategies have their own set of challenges, and carriers are well aware of the consequences. For example, increasing risk appetite requires these companies to step out of their comfort zone. Also, without a thorough understanding of risk types and the skills needed for underwriting and risk engineering, carriers can run into profitability issues. Therefore, it is important for carriers to continually innovate, and turn their attention to executing market-focused growth strategies.

**Innovative Strategies for Growing Commercial Lines**

The P&C commercial lines industry is undergoing dramatic change. Strategies that carriers have traditionally counted on will not be enough to sustain them.
With distribution models evolving so rapidly in response to changing customer expectations, multichannel distribution strategies and aggressive investments in technology are more relevant than ever in the small commercial market. In midsize and large accounts, carriers are competing hard for “shelf space” from top independent agencies — something that in our opinion underscores the need for a seismic shift in the role of underwriter. In addition to taking care of conventional tasks such as submission management, underwriters are expected to be consultative marketers who excel in relationship management. Figure 5 shows the needs of respective markets that we believe carriers must address.

**Design and Implement a Multichannel Distribution Model for the Small Commercial Segment**

The small commercial space is crowded. Numerous players – large commercial lines carriers, mid-tier carriers, regionals, large personal insurance carriers and specialty insurance companies – are vying for market share, with each pursuing different approaches to drive revenue growth. Traditional carriers are leveraging their commercial insurance expertise and agent/broker relationships while continuing to focus on the small business market. Many mid-tier and regional carriers are looking to increase their product and risk appetite and expand into new regions.

Personal insurance carriers continue to leverage their brand, partnerships and distribution channels (independent or exclusive agents) and are making investments in digital in order to grow their small commercial markets. Some large personal lines carriers have a significant small commercial book, but have not been overly aggressive in this segment. This could change, given that the growth in personal lines is equally, if not more, challenging. Several specialty and new-gen insurance carriers are using their investments in digital capabilities as a bargaining chip when seeking specialized offerings for the small business segment.

Amid this turmoil, the traditional, exclusive agent-broker distribution model has come under siege, and it could be only a matter of time before it is replaced by a multichannel distribution framework made possible by digital innovations — direct-
Due to the enthusiastic adoption of digital, the information gap between customer and agent is smaller, and insurance carriers are starting to make investments in direct sales channels for the small commercial segment. These fall into two primary categories:

- **Real-time quoting and customer education** provides a platform for customer education, utilizing videos and pop-ups. The customer can select coverage types and obtain real-time quick quotes, with the option to purchase the policy. Customers can use their handheld devices to capture pictures and/or videos of their operations, which the carrier can then use to steer them to “best-fit” coverages based on purchases by customers with similar requirements.

- **Asynchronous quoting** involves obtaining information from the customer in person and sending them a quote (through a phone call or e-mail) within a stipulated time period.

This framework comprises:

- **Agents and brokers**: These professionals have served as the dominant distribution channel for selling P&C insurance products in the small commercial market segment. Competition among companies to be an agent’s carrier of choice remains intense — compelling carriers to offer more services to agents (e.g., platforms that integrate with agency management systems and can rate, quote and issue policies easily; social media marketing tools; and support agents to handle requests from insureds). Some carriers are empowering their agents to engage in consultative discussions (pertaining to coverage details and loss scenarios of similar small-business customers in the region to help inform and educate customers). Carriers are also making investments to improve and ensure the consistency of the digital experience across all touchpoints (e.g., rate, quote, issue, account servicing, portals) for their agents.

- **Direct-to-consumer channels**: More and more, small business owners are going online and researching insurance options with the intention of comparing price and coverage options. These customers are increasingly influenced by other industries, such as retail (Amazon, eBay), technology (Google, Apple) and even personal lines insurance (Geico, Progressive). Due to the enthusiastic adoption of digital, the information gap between customer and agent is smaller, and insurance carriers are starting to make investments in direct sales channels for the small commercial segment.
• **Aggregation** has always existed in personal lines insurance. However, commercial lines players are now working with leading online B2B aggregators such as BizInsure, Bolt and Insureon to enable small business customers, agents/brokers and carriers to stake a claim in the digital marketplace. Aggregators are able to match customers with carriers and offer small business solutions from leading commercial lines companies.

Traditionally, aggregators and carriers gather as much information as possible as part of their underwriting and policy-issuance processes. However, today’s aggregators are able to simplify applications for specific business segments within defined thresholds, and partner with multiple carriers to develop integrations with carriers’ policy systems, receive real-time quotes, and bind and issue policies instantaneously. For example, Coverwallet, an online aggregator, gives customers the option to skip their application questionnaire. They can upload, e-mail or text the top page of a current or previous policy paper and the aggregator will prefill the application. Coverwallet also offers a smart digital wallet to help small commercial customers manage their policies.11

These online B2B business models present an opportunity for new carriers to get a fair shot at submissions, and for smaller agencies to more easily access additional carriers. We believe that the majority of submissions that aggregators obtain today are those that are difficult to place, and would typically go to excess and surplus (E&S) lines. Only time will tell what types of risks are placed with aggregators, and which of those will be successful.

• **Alternate distribution channels:** Affiliations can be a major alternate distribution channel. In this scenario, carriers set up mass marketing programs in partnership with industry trade groups or other organizations, thereby obtaining exclusive access to target prospects. Carriers can either underwrite through one of their leading agents as a programs business, or sell directly to members of the affiliation groups. Some carriers partner with their peers to sell multi-coverage policies or to refer out-of-appetite opportunities. Bundling services with payroll providers is also gaining traction, especially for small commercial workers’ compensation policies.

As carriers develop a well-rounded multi-distribution channel, those that sell both personal and commercial lines should leverage the customer, account and loss information they have within their personal lines division to aggressively market to small business owners. Adopting a multichannel distribution strategy aimed at profitable revenue growth in the small commercial business segment requires carriers to consider the following:

> **Change the operating model:** The sharing economy and other business disruptions are blurring the lines between small commercial and personal lines. Small commercial customers demand the same experience they receive from their personal lines carriers. However, most carriers keep their small commercial accounts tightly coupled with the rest of the commercial lines’ organization – making it challenging to take advantage of cross-sell opportunities with personal lines customers. With small commercial accounts increasingly moving towards a low-touch model, carriers should work to ensure better integration between their personal and commercial lines business units. Specialty lines is another business unit that is usually kept separate from commercial lines. With small commercial customers increasingly demanding specialty products such as employment practices liability, crime and cyber, and errors and omissions (E&O) coverages, some large carriers are responding by packaging these products from multiple business units to individual customers. Most often, it is easier for a regional or midsized carrier to package these policies, since the boundaries between commercial lines and specialty groups are not strongly defined.
Hence, it is imperative to align all dimensions of the operating model (i.e., organizational structure, people, processes, technology, and partnerships). Integrating these assets will make it easier for customers and agents/brokers to interact with the carrier. Carriers need to up-skill operations from a traditional service center to a sales and business center, and invest in core platforms such as product, policy, underwriting, and claims.

- **Simplify products and packaging:** In the age of digital, carriers need to simplify their insurance products, including coverages and application forms, to drive straight through processing. This is vital, especially for carriers adopting a direct-to-consumer model. Simplified products eliminate the need for customers to rely on agents/brokers to answer their queries/concerns. Carriers should also look at packaging specialty coverages (e.g., crime, EPL, cyber, E&O) with core commercial lines policies (e.g., BOP, commercial auto, commercial property, liability, workers’ compensation) to assuage customers’ concerns about coverage gaps.

  Traditionally, carriers ask agents a lot of underwriting questions, and agents typically answer them on behalf of the customer. However, in a direct-to-consumer model, carriers will need to tone this down and make it easier for customers to complete applications forms. They will also need to analyze their information needs while designing their questionnaires, and rely on third-party data rather than expecting prospects to answer all of the questions.

- **Resolve distribution channel conflicts:** The evolving distribution landscape poses challenges to carriers in terms of channel conflicts. Carriers should develop strategies for accurately determining customer ownership in cross-channel business scenarios, and design a commission-sharing strategy to ensure that all sales participants receive their fair share of commissions. For example, carriers typically decide which channel owns a new business submission. This can get complicated if a request was initiated through the direct channel but was bound by an agent. How to split the commission is a tough question for many carriers. They should be able to capture all customer transactions and interactions across multiple channels (e.g., call center, mobile, web, agents) and multiple sources (e.g., browsing history, call logs, chat) to create a single view of the customer. Carriers should also build a culture and ecosystem that promotes data sharing and collaboration between channels to enable account rounding opportunities, and promote cross-selling and up-selling with fewer conflicts across channels.

- **Provide marketing and customer education:** As small commercial carriers embark on multichannel distribution strategies, significant efforts and investments will have to be made in customer education and marketing to create product and brand awareness. The mass marketing approach, tried and tested by personal lines carriers, is one option. Marketing through social media, affiliations and trade associations are other ways commercial lines carriers can build awareness and enhance their reputation among prospects. A huge amount of third-party data is available, which can be used by carriers to create targeted marketing campaigns. However, they will have to educate customers on coverage requirements, and create tailored claims scenarios from specific industries to further inform customers.

**Improve the Sales Effectiveness of Underwriters in Midsize and Large Accounts Commercial Lines Segment**

When it comes to midsize and large accounts, commercial lines underwriters have traditionally focused more on risk evaluation and pricing rather than sales and revenue generation. Although they work closely with agents and brokers, sometimes
account managers maintain those relationships, and engage in agency planning and relationship management activities. At the same time, account managers have very limited, if any, underwriting authority, and very little understanding of the complex labyrinth of products and coverages, hazards and exposures required to support agents and brokers, particularly in large accounts commercial insurance. In midsize accounts, some carriers have tried to overcome this with a “flow-based approach.” In these cases, new business is handled by one set of specialists, while renewals are handled by another set of specialists in business service centers, rather than in traditional field offices.

From an “ease of doing business” perspective, agents and brokers prefer to work with a single point of contact with the industry expertise, product knowledge and underwriting authority needed to offer consultative support and recommend the right coverage. To address this issue, carriers should design an operating model that includes underwriters at stages where they add the most value – not only in new business sales, but across the servicing spectrum.

In our view, the best solution is to develop a digital, sales-focused organization where the underwriter has the necessary skills – product, coverage, industry knowledge, underwriting authority and sales – supported by digital capabilities such as analytics, and access to third-party data and artificial intelligence. This model allows insurers to:

- **Adopt a consultative selling approach:** This permits underwriters to work closely with the agent/broker to determine a customer’s risk exposure and coverage requirements, which can vary even in the same industry. Most often, it is necessary to develop tailored solutions with the highest probability of selling.

- **Improve responsiveness and speed turnaround time:** A sales-focused approach requires underwriters to work closely with agent/broker partners, and move underwriting decisions closer to the agent/broker. This can improve agent/broker responsiveness, expedite decision making and enable seamless communication.

- **Enhance cross-sell/up-sell yields and deepen client relationships:** This encourages underwriters to improve their sales skills in order to identify pockets of opportunities, such as untapped coverages or services, and their suitability for customer needs. In this way, underwriters can structure and quote a program that corresponds with the carrier’s risk appetite.

We believe that by improving the sales effectiveness of underwriters, commercial lines carriers with growth ambitions are better positioned to increase their books of business in mid-size and large accounts without negatively impacting loss or expense ratios, and with a steady stream of opportunities for growth. The following operating model changes can help create an effective, sales-focused underwriting organization:

- **Build a balanced performance-management system:** Historically, underwriters’ performance evaluations were based purely on underwriting metrics. However, shifting to a sales-oriented underwriting model necessitates changes in performance management (encouraging sales-oriented communication skills, building underwriting expertise and refining portfolio management). Premium growth,
cross/up-sell yields and service volumes should be considered when setting key performance indicators to track and evaluate underwriters. Building a sales-effective underwriting organization is contingent upon creating, sustaining and growing underwriting expertise over time – allowing underwriters to demonstrate value to their broker partners and insureds. Revamping performance management underscores how underwriters’ roles have changed, and provides the motivation to align behaviors and outcomes with management’s intended direction.

- **Create a skills-development program:** Most organizations have instituted structured training programs for novice and experienced underwriters. However, the transition to a sales-oriented underwriting model requires companies to expand skills development. In addition to the analytical skills typically required of an underwriter, a new skills-development program should focus on consultative skills, such as identifying the unique needs of the customer and recommending customized coverages based on those requirements; communicating the carrier’s unique value proposition; emphasizing the benefits of the solution (e.g., reduced total cost of risk) and pointing to risks associated with implementing new-gen technologies such as IoT. The program should also include training in relationship management, sales and communication skills; provide insights into cultural differences; and the hiring of experienced underwriters to improve the overall quality and expertise of the underwriting team. As digital technologies gain traction, the nature of risk changes – compelling underwriters to build the capabilities needed to evaluate new risk exposures and educate customers accordingly.

- **Develop a sales and underwriting platform:** While small commercial carriers have made timely investments in rate-quote-issue (RQI) capabilities to standardize and improve efficiency through straight-through processing, midsize and large accounts have been very reluctant to do so. As a result, their technology environments are populated with disparate systems for pipeline management, underwriting, pricing and policy administration.

This blurs the view of the book of business and hampers the ability to make meaningful inferences across accounts. Apart from capturing and managing information on leads and prospects, policies and exposures, carriers’ technology platforms should enable comprehensive underwriting; integrate with pipeline management and policy systems; produce insights for further analysis; allow self-learning from prior transactions, and prioritize work requests based on previous wins and financial analyses. As a result, sales-focused organizations can track growth and profitability across products, industries, business segments and geographies – backed by systems that provide advanced analytics and modeling capabilities and afford actionable insights to underwriters. These platforms should also offer the flexibility to configure and optimize business processes – allowing underwriters to abandon activities that add no value.

**Looking Ahead**

As carriers begin their transformation and tackle the associated challenges identified throughout this white paper, they should perform due diligence by answering several fundamental questions (see Figure 7) around the future operating model, and develop a sound strategy and roadmap for execution – factoring in the differ-
ences between small commercial, midsize and large accounts.

By making meaning from the digital information that surrounds organizations, people, processes and things (Code Halo thinking), P&C commercial lines carriers can develop more effective, hyper-personalized products and services that drive profitable growth. We believe it is critical for carriers to start developing and executing these initiatives to ignite and ensure long-term success.

Note: Code Halo™ is a registered trademark of Cognizant Technology Solutions.
Footnotes

1 Annual reports of companies and Cognizant’s analysis of 10-year CAGR growth across industry segments.


4 Ibid.


9 “Volvo: We will be responsible for accidents caused by our driverless cars,” ibtimes.co.uk, October, 2015, http://www.ibtimes.co.uk/volvo-we-will-be-responsible-accidents-caused-by-our-driverless-cars-1523260/.


About the Authors

Agil Francis is a Principal/Director within Cognizant Business Consulting’s Insurance Practice. He has 12-plus years of management consulting experience in the insurance industry, where he has advised senior executives on strategy, operations and technology issues across sales/marketing, distribution, underwriting and claims. Agil can be reached at Agil.Francis@cognizant.com | LinkedIn: https://www.linkedin.com/in/agil-francis-86322537.

Gauthaman Krishnamurthy is a Senior Manager within Cognizant Business Consulting’s Insurance Practice. Gauthaman specializes in the P&C industry, and has 11 years of experience in business consulting and program management – advising clients on operations and technology issues across marketing/distribution, underwriting, policy administration and claims. Gauthaman can be reached at Gauthaman.Krishnamurthy@cognizant.com | LinkedIn: http://www.linkedin.com/pub/gauthaman-krishnamurthy-ains-api/4/1b/b83.

Aldrin Aloysius is a Manager within Cognizant Business Consulting’s Insurance Practice. He specializes in the P&C industry, and has nine years of experience in business consulting and program management, advising clients on operations and technology issues across underwriting, policy administration, claims and distribution. Aldrin is also a CPCU. He can be reached at Aldrin.Aloysius@cognizant.com | LinkedIn: https://www.linkedin.com/pub/aldrinaloysius/15/909/945.
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