



Underwriting

Automating Underwriting to Increase Direct Sales

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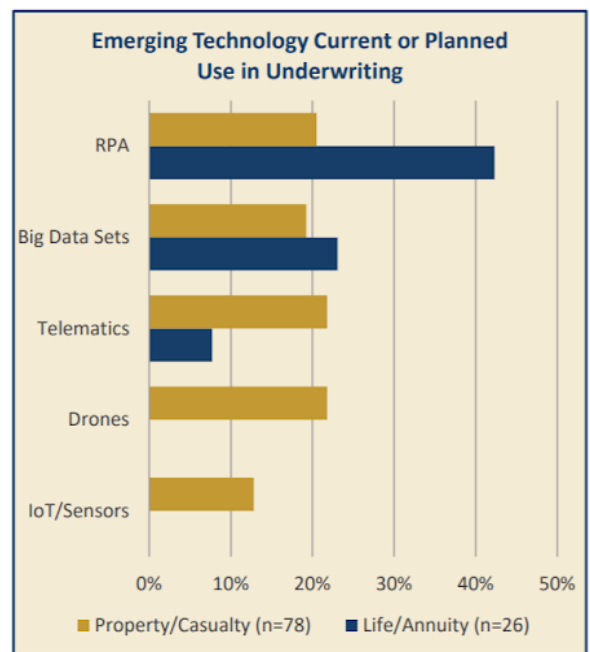
Introduction

Automation and digitalization have impacted most industries, and insurance is no exception. Undoubtedly, the insurance industry is maturing because of customer demand, regulatory compliance, and the presence of digital devices.

Technology in the insurance industry provides innovative tools and services that can improve business operations and enhance customer experience. An amalgamation of Artificial Intelligence, RPA, Cognitive Computing, and Data Analytics technologies in the insurance business help to provide a quality, accurate and hassle-free experience.

The insurance industry has already seen the advantages of digital integration in its day-to-day processes like claims, payment processing, etc. However, the underwriting process still requires a lot of human intervention in its operations. Automation of underwriting would assist the insurer by reducing the time and cost involved, and benefit the insured by enhancing the customer experience.

The graph to the right from Novarica shows how P&C insurance companies are planning to use various technologies to advance their underwriting processes. In this paper, we'll explore the challenges of traditional underwriting, key levers in automating it, how to digitize the underwriting value chain, and the impact this can have on direct sales.



What is Underwriting?

Underwriting is the foundation of the insurance industry. It determines an organization's profitability by ensuring the right kind of terms, conditions, and clauses are attached with the proposed risk, and the appropriate premium is charged. If this risk assessment fails, the insurer faces loss.

The person who performs this job is known as the underwriter. It is their responsibility to apply the best risk management techniques to select and classify the risk to maintain the appropriate loss ratio for the insurer. While charging a lower premium can impact the insurer's profitability, charging higher could result in losing applicants. Maintaining this balance becomes a crucial and challenging process.

The Traditional Underwriting Process

The underwriting process starts with submitting an application for insurance. Depending on the information, it may be processed directly for policy creation or referred to the underwriter for further securitization.

In the securitization process, the underwriter will review the risk. The underwriter may request additional information/ documents from the insured to evaluate the risk, and the application will be on hold. After the information is submitted, the underwriter can accept or reject the risk depending on its anticipated potential losses and the company's underwriting guidelines.

If the underwriter accepts the application, policies can be issued on a standard, substandard, or preferred basis. Depending on the risk classification and underwriting decisions, policies can have higher premiums, limited benefits, additional exclusions, or terms and conditions.



Challenges of Traditional Underwriting

The traditional underwriting process involves a lot of manual intervention. There are many challenges associated with this:

Time

Traditional underwriting requires a lot of time to complete one application as it goes through different stages, some of which require manual intervention.

Availability

Traditional underwriting involves manual interventions to make policy decisions. This requires approvals from underwriters with the required authority. If the appropriate underwriter is not available, this further delays the process.

Documentation

Traditional underwriting demands a lot of documents and information to process an application. This is a tiring task for the insured to arrange documents and for underwriters to manage them.

Accuracy

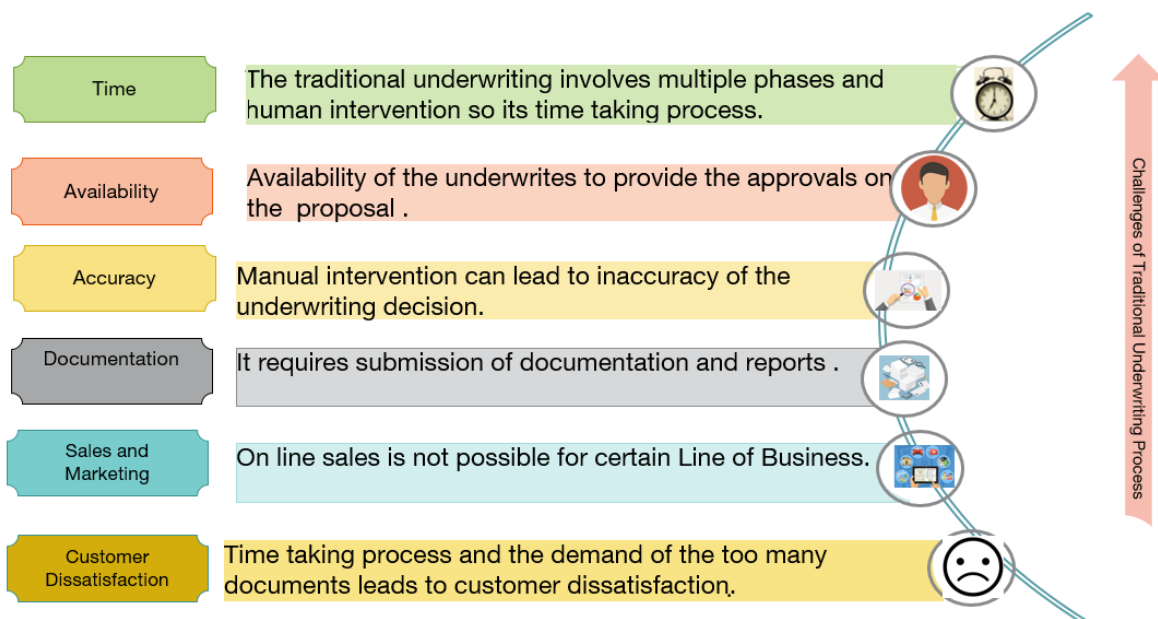
Traditional underwriting depends on the risk evaluation ability of the underwriters. Thus, it can lead to inaccuracy while scrutinizing the risk. Manual underwriting can also lead to biased decisions.

Direct Sales

Manual underwriting is a great challenge for direct sales. Manual intervention to submit reports and documents does not support direct sales. Only simple policies, which usually fall within the insurer's underwriting guidelines, can be considered for direct sales. For complex risk, the applications are processed by intermediaries.

Customer Dissatisfaction

A long evaluation process, the tedious submission of documents, etc., can lead to customers becoming dissatisfied with the traditional underwriting process.



Automating Insurance Underwriting

The lengthy and complicated underwriting process has always been a limitation for the underwriting process, with direct sales seeing the most impact. There is a constant demand to make processes easier so applications can be processed quicker to enhance insurance company productivity and improve customer experience. We cannot stress enough that the implementation of automation technologies can streamline the underwriting processes.

The key involvement of technology here is to evolve and implement innovative tools so applicants' information (personal details, additional claim history, vehicle records, etc.) can be retrieved through third-party integrations. This will bring significant changes to the traditional underwriting process. Applicants' information derived from social media activity will further help collect the behavioral data needed to generate a "smart contract."

The role of technology is not only limited to information/data collection. Artificial intelligence/machine learning will enable quick underwriting decisions using algorithms and rating engines.

As the insurance industry is transforming towards automation and digitalization, the need for technology has already been felt across all the major processes. Insurers have already started using digital platforms for claims. Underwriters are looking for the digital medium to develop a coherent system. Insurers are observing a great shift in the underwriting functions, and companies are open to adapting and implementing the latest technologies to advance the system.

Data Analytics, RPA, and machine learning will play a vital role in assessing and classifying risk, and forecasting potential losses. Insurance companies can also suggest customers apply risk prevention/avoidance measures. Digital collaboration in evaluating and pricing policies is poised to be a game changer.

Key Levers in the Automation of Underwriting

The following technologies will play a vital role in automating underwriting:

Robotic Process Automation

Because traditional risk evaluation requires such a long processing time, automating the underwriting process is a logical step. Automatic risk segmentation, rule-driven decisions, smart workflows, and using past history will enable an underwriting program to make smart decisions. The software will be more scalable and cost effective for the customer.

AI will aid the underwriters to scrutinize risk more precisely. Identification of complex risk and pricing would be more accurate with automation. Improved underwriting decisions with less processing time will lead to revenue generation for the insurer and enhanced customer experience.

Block Chain

Inadequate risk details, personal information, and claim history lead to incorrect underwriting decisions. Regulatory compliance, third party payment, and massive data are other big challenges for the insurer.

The introduction of connected devices and data generated through IOT helps insurers acquire the relevant data to provide smart underwriting decisions. The shift to digital transactions is another benefit of the block chain to secure and streamline the process. Third party integration will help gather client records to assess risk and avoid any misrepresentation of the information. Undoubtedly, fraud detection will be a boon to the insurer.

Improved risk identification, past history, and current details will support the pricing of policies. A “smart contract” would include terms and conditions to further assist the insurer.

Data Analytics

Data analytics will completely change the underwriting process. Traditional methods are time consuming because an underwriter must manually review the applicant's information. An underwriter mostly receives unstructured data, which becomes a problem for making accurate decisions.

The power of technology to pin down structured and unstructured information will help the insurer to provide personalized cover and dynamic pricing. Additionally, it will establish or predict any specific risk trend. Data analysis and data mining technologies will streamline the underwriting process by analyzing and pricing risk in less time.

Data analytics will help the underwriter with predictive analysis to make more accurate decisions with the help of historic and present data. It will also play a crucial role in credit scoring and fraud detection.

Cognitive Computing

Cognitive systems are capable of retrieving crucial information from unstructured data in reports and documents. Voice recognition and text reading algorithm platforms will further enhance the process in terms of both accuracy and time.

Because cognitive systems can read images and text, they can read the underwriting manual to support the underwriting decision. The exhaustive capacity of cognitive systems for previous and current regulations regarding specific geography (country, state/province) will ensure compliance.

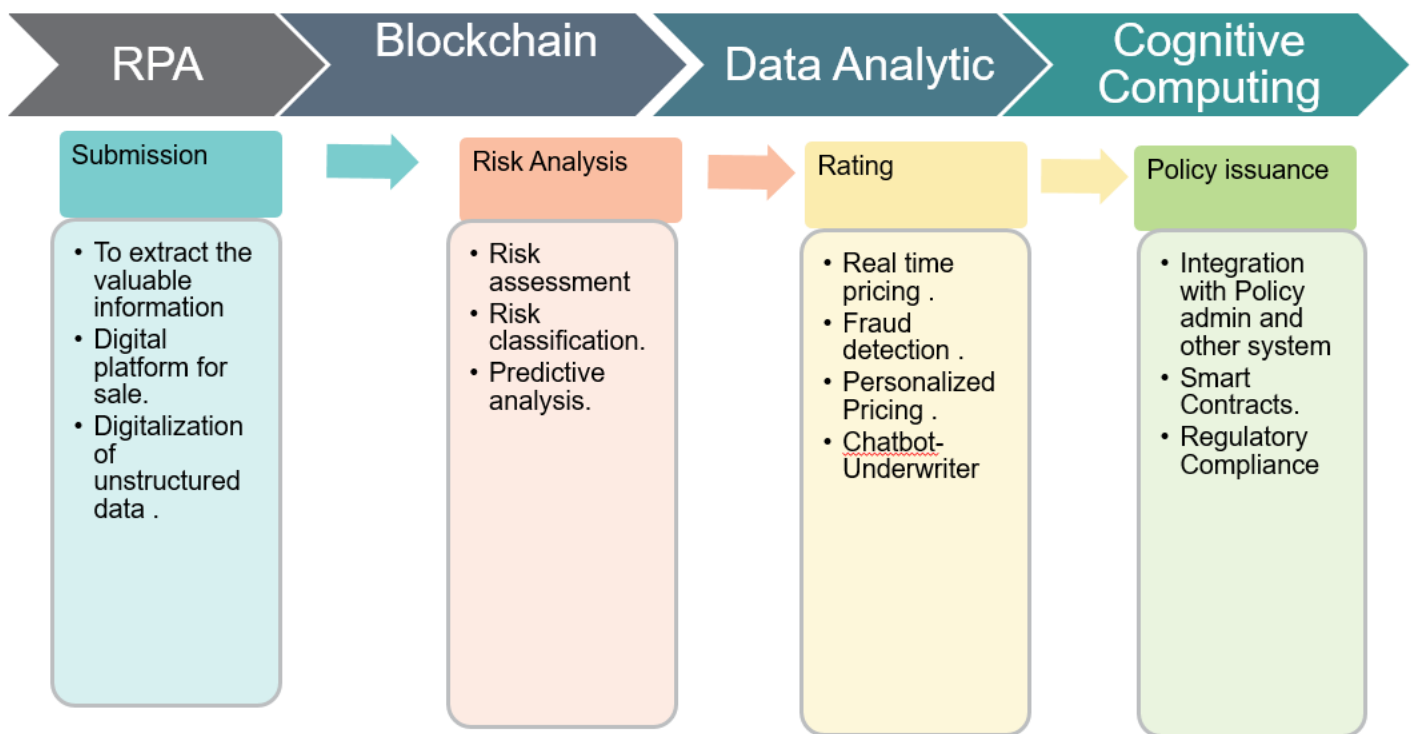
Innovative products like usage-based/subscription-based insurance are the result of cognitive computing systems.

Digitization of the Underwriting Value Chain

Currently, underwriters are working hard to select and price policies appropriately to maintain organizational profitability and remain competitive in the market. In this scenario, automation of the underwriting process is very beneficial.

Automation of rating engines, business rules, and data-driven decisions has significantly improved the productivity and accuracy of the underwriting process. From submission of application to policy issuance, automation has changed the entire underwriting value chain.

The following image shows how every part of the process benefits from automation:



Value Addition from Automated Underwriting

Automation has significantly impacted the underwriting process, first by enabling the insurer to be competitive in marketing by offering policies with competitive prices and smart contracts. It also enables the insurer to react and adapt effortlessly to changing marketing trends by easily incorporating regulatory and business rules into an existing system.

Some of the key benefits of automated underwriting are below:

Speed

- Reduced overall underwriting processing time by eliminating manual tasks.
- Visible impact on turnaround time for quote and policy issuance.
- Cognitive computing will help the insurer read reports and information submitted by the insured. An automated application would be intelligent enough to make policy decisions in line with company underwriting guidelines and speed up the underwriting process.

Cost Reduction

- Reduction in staffing needs and operation costs by eliminating manual tasks.
- Cost reduction in acquiring new customers and retaining existing ones.
- Predictive analysis has significantly reduced time spent on risk classification.

Accuracy

- Improved underwriting practice to evaluate and price risk.
- Data analytics has significantly increased the accuracy of underwriting decisions.
- Data analytics has helped the insurer include new risk into the existing process.

Real Time Pricing

- Real time data has empowered the insurer to make decisions regarding real time pricing.

Profit

- Increased sales with reduced costs.
- Profitable underwriting.

Customer Satisfaction

- Online policy purchase for complex risk.
- Time reduction has increased customer satisfaction.
- Underwriting decisions derived from data analytics have eliminated biased decisions.
- Fewer or no documents required has enhanced customer experience,

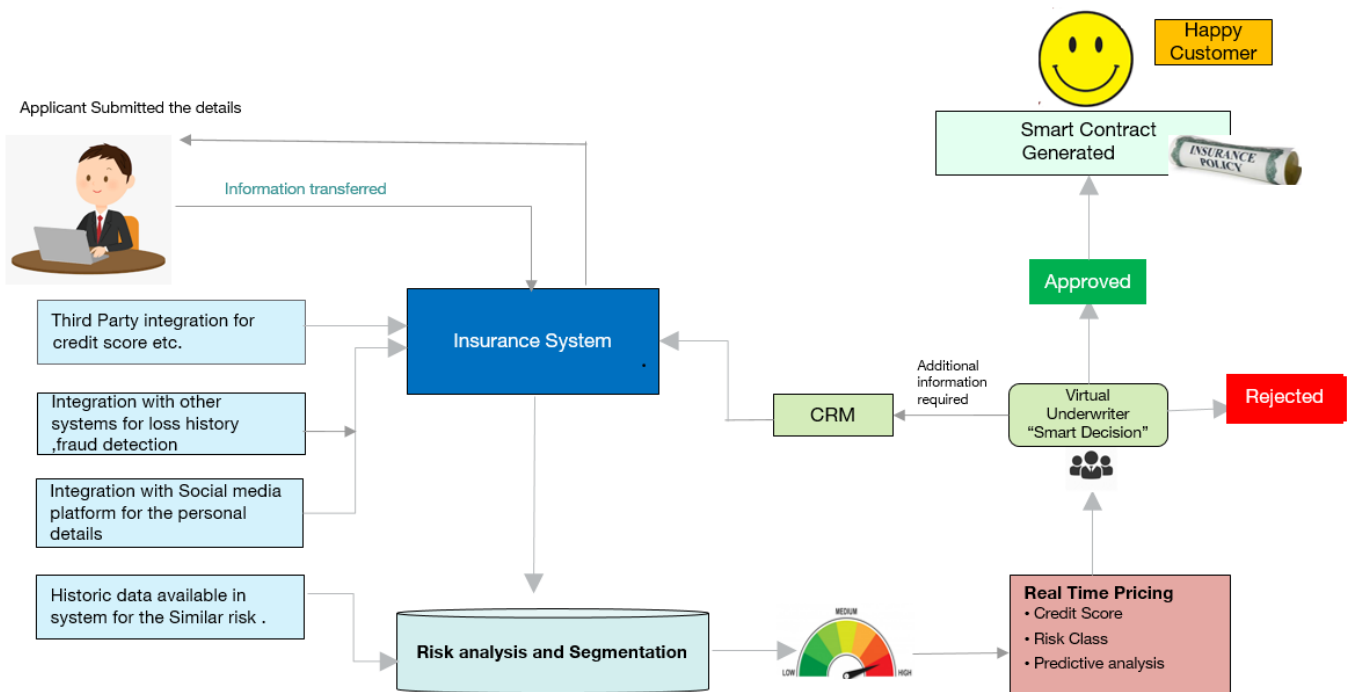
Impact on Direct Sales

The internet has rapidly become a normal part of life and people are well equipped with technology. Today's customers want online platforms to be straightforward and transparent, and they shop for products that meet their needs. Digital ecosystems and platforms are paving the path for direct sales in the insurance industry.

The recent shift in consumers using digital channels to buy insurance policies has motivated insurers to accelerate their use of online products. Automatic underwriting will play a catalyst role in this segment. Automated software will be intelligent enough to accept customer information and deliver immediate decisions. This will bypass the need for an intermediary to process applications. Minimal document requirements will be a relief for the millennial customer.

When human intervention is removed, faster processing times are possible. The availability of applicant data will enhance underwriting statistics and lead to accurate decision-making, which will increase direct sales and enhance customer experience. The information submitted by customers will be enough to process and tailor policies. This will certainly boost direct sales for insurance companies.

Direct Sales with Automated Underwriting



Confidential

Conclusion

Digitalization and automation of the underwriting process using the latest technologies will bring remarkable changes to the insurance industry. However, the future of underwriting after technology integration has yet to be explored. The insurance industry is still in the process of identifying which of these technologies will fit in the underwriting value chain and offer the maximum benefit for streamlining the process.

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About the Author

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Priyanka Chaturvedi works as a consultant at GlobalLogic. She has over twelve years of experience in the insurance industry working with the latest technologies and implementing them for her clients. She specializes in developing and managing next gen solutions for the insurance industry.

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