Time to flip the script

Transforming underwriting within the insurance industry

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The story so far

Digital transformation in insurance is well underway. It's aim: to make policy transactions and the claims process more efficient and convenient, putting the consumer first.

Property insurance has a vast global market and is expected to be more than USD 300 billion in 2025. The industry has been resilient to technology changes, but the dynamics are changing. Increasing underwriting costs and changing customer needs have pushed the industry to innovate and adopt digital transformation. Insurtech firms' rapid rise (CAGR of 10.8%) has shown that it is possible to change. There is an enormous opportunity for the insurance companies who adapt fast to grow sustainably with lower underwriting costs and reduced distrust among customers.

Within the insurance industry, business transformation is currently being led by start-ups and a handful of large firms, who are either disrupting the market with innovative business models or bringing a greater sense of empathy to their interactions with customers. Historically speaking, this latter area is one in which insurers have been seen to lack in, which has made this new focus on providing customer-centric experiences throughout onboarding, acquiring and claims all the more powerful.

Companies are also moving towards hyper-personalization for their consumers; this is being accomplished by defining the choice set for product offerings and designing the environment in which the consumer choice is being made. New technologies are going to play a major role in streamlining key areas of customer acquisition, despite any fear of adoption that might still exist.

Disruption
Disruption is being caused by new business models

Tech
New technologies are currently underutilized

Inspiration
Hyper-personalization is transforming customer decisioning

Empathy
A customer-first approach is gaining traction

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A distrustful business?

There remains a significant opportunity to increase process efficiency, assessment accuracy and user trust.

In the recent past there has been a surge in expenses – particularly underwriting cost compared to net written premium for property insurers. Even industry leaders like State Farm Group, Berkshire Hathaway and Progressive Group noted more than 100% combined ratio. Further, misaligned key result areas between underwriters and other functions such as marketing leads to an increase in pressure on underwriters. To make matters worse, distrust between insureds and most insurers is the default, with many insureds expecting the process to be complex and long-winded. Underwriting becomes even slower if inspections are involved, and oftentimes rejections are void of emotional engagement, leaving the customer feeling aggrieved.
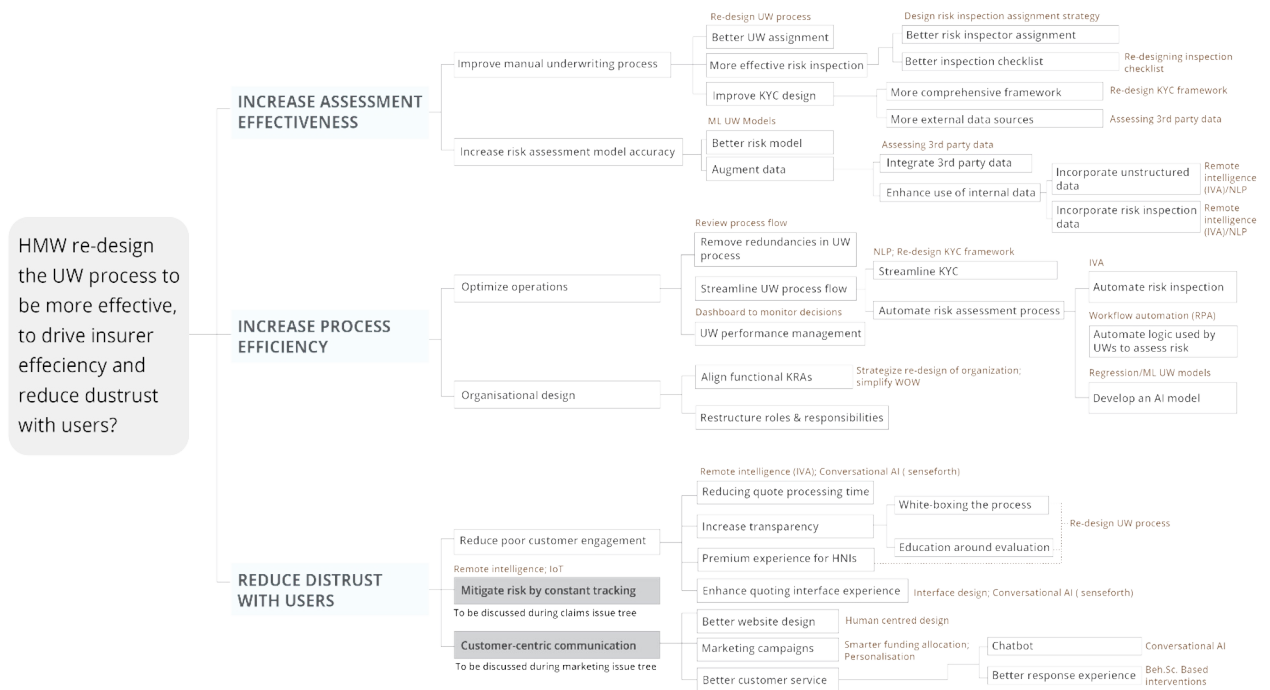
Property underwriting is a costly and drawn-out affair because it is human-led. Know your customer (KYC) is often inefficient, and risk assessment is not fully automated. If there is a need for home inspection, it's costly, subjective, and further adds to the long time taken to assess risk. Meanwhile, this all happens at the insurers' end with little to no transparency to customers, which is one possible reason for the high distrust among users.

If the status quo continues, rising underwriting costs may lead to decreased capacity of insurers to take even slightly risky homes and remain profitable. Underwriters will have an increased burden, and homeowners will move to companies that meet their demands. Further, a lack of good underwriting practice will lead to many homes being uninsured. This highlights the necessity of transformation throughout the underwriting process.

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Bringing user-centricity to the forefront

Depending on the objective, there are several routes that the enterprise can take to improve customer satisfaction and trust. The figure below is a useful mapping exercise that will help improve organizational change.
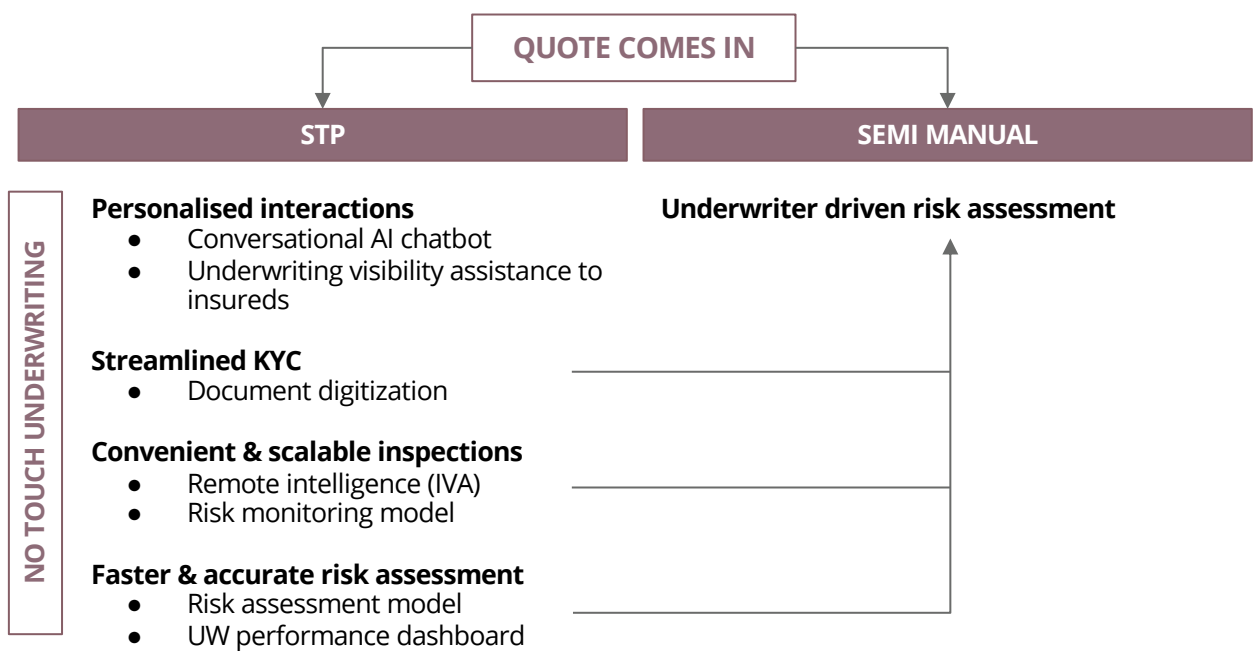

HMW re-design the UW process to be more effective, to drive insurer effeciency and reduce dustrust with users?

INCREASE ASSESSMENT EFFECTIVENESS
- Improve manual underwriting process
  - Re-design UW process
    - Better UW assignment
    - More effective risk inspection
      - Design risk inspection assignment strategy
        - Better risk inspector assignment
        - Better inspection checklist — Re-designing inspection checklist
  - Improve KYC design
    - More comprehensive framework — Re-design KYC framework
    - More external data sources — Assessing 3rd party data
- Increase risk assessment model accuracy
  - ML UW Models
    - Better risk model
    - Augment data
      - Assessing 3rd party data
        - Integrate 3rd party data
        - Enhance use of internal data
          - Incorporate unstructured data — Remote intelligence (IVA)/NLP
          - Incorporate risk inspection data — Remote intelligence (IVA)/NLP

INCREASE PROCESS EFFICIENCY
- Optimize operations
  - Review process flow
    - Remove redundancies in UW process
    - Streamline UW process flow
      - NLP; Re-design KYC framework
        - Streamline KYC
  - Dashboard to monitor decisions
    - UW performance management
    - Automate risk assessment process
      - IVA
        - Automate risk inspection
      - Workflow automation (RPA)
        - Automate logic used by UWs to assess risk
- Organisational design
  - Align functional KRAs — Strategize re-design of organization; simplify WOW
  - Restructure roles & responsibilities
    - Regression/ML UW models
      - Develop an AI model

REDUCE DISTRUST WITH USERS
- Reduce poor customer engagement
  - Remote intelligence (IVA); Conversational AI (senseforth)
    - Reducing quote processing time
    - Increase transparency
      - White-boxing the process
    - Premium experience for HNIs
      - Education around evaluation — Re-design UW process
    - Enhance quoting interface experience — Interface design; Conversational AI (senseforth)
- Mitigate risk by constant tracking
  - Remote intelligence; IoT
  - To be discussed during claims issue tree
    - Better website design — Human centred design
- Customer-centric communication
  - To be discussed during marketing issue tree
    - Marketing campaigns — Smarter funding allocation; Personalisation
      - Chatbot — Conversational AI
    - Better customer service
      - Better response experience — Beh.Sc. Based interventions

A new underwriting process will rely on increased assessment effectiveness and efficiency, with reduced user distrust.

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Rewriting the process

Using data, AI, process redesign and user-centricity to create a low-touch underwriting system.

There are several solutions available to help underwriters during quote processing, but the drawback is that they are seldom in a cohesive framework. At Fractal, we are designing a new product that brings all of the solutions together in a modularized fashion, enabling comprehensive yet easy access to separate modules.

A new underwriting system (see figure below) can augment underwriters, with the product able to do no-touch underwriting. Our product can leverage conversational AI and visibility assistance for personalized interactions with customers during acquisition. Additionally, it can streamline KYC using document digitization to come to understand customers in an efficient and objective way. The risk monitoring model and remote intelligence can do automatic inspections at a small cost, minimizing the burden on underwriters. Further, the information from inspections can be leveraged to enhance the risk assessment module so that decisions on whether to accept or reject a quote can be made with greater certainty.

QUOTE COMES IN

STP | **SEMI MANUAL**

NO TOUCH UNDERWRITING

Personalised interactions
- Conversational AI chatbot
- Underwriting visibility assistance to insureds

Streamlined KYC
- Document digitization

Convenient & scalable inspections
- Remote intelligence (IVA)
- Risk monitoring model

Faster & accurate risk assessment
- Risk assessment model
- UW performance dashboard

Underwriter driven risk assessment

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Deliver 100X impact

Implementing this system can immediately bring down underwriting cost and improve overall efficiency, leading to 100X impact.

Introducing a low-touch underwriting system will evolve the roles of underwriters and homeowners. Underwriters will be able to focus on specific cases that need their attention. They will also be able to leverage the product's output in enabling them to make data-driven decisions. Further, an efficient underwriting process will have fewer data points to be collected from homeowners reducing their cognitive load.

It will also directly benefit the insurer by providing sustainable growth by creating efficient and effective experiences for both digitally-savvy and high net-worth customers. Customer trust will also be fostered by providing visibility assistance and education around the evaluation process.

Conclusion

The advent of COVID-19 has accelerated what was already an inevitable digital transformation throughout the insurance industry, however, no insurance company has completed this transformation. Digital underwriting with high segmentation, targeting and positioning is the first step towards the new age of insurance, and the first companies to do so will have the greatest impact. If you want to stay ahead of your competitors, reach out to us today.

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fractal dimension

We believe complex problems need to be looked at through multiple lenses simultaneously to be grasped. With the new lens new dimensions emerge, thus making complexity more evident and solvable.

How is Fractal Dimension set up to do it?

- We identify complex and unstructured problem themes in the industry that are relevant. We invest in building expertise and a dimensionalized point of view around it.

- We engage clients via 'slow-thinking' workshops and co-creation jams to curate our perspective for their problem. We invest in architecting an end-to-end state-change program.

- We partner with client teams at Fractal to deploy cross-functional solutions and support them in helping clients realize value ROI.

Want to find out more on how our approach can help your business?
Reach out today at dimension@fractal.ai

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Enable better decisions with Fractal

Fractal is one of the most prominent players in the Artificial Intelligence space. Fractal's mission is to power every human decision in the enterprise and bring AI, engineering, and design to help the world's most admired Fortune 500® companies.

Fractal product companies include Qure.ai, Crux Intelligence, Theremin.ai, Eugenie.ai & Samya.ai.

Fractal has more than 2,300 employees across 16 global locations, including United States, UK, Ukraine, India, and Australia. Fractal has consistently been rated as India's best company to work for, by The Great Place to Work® Institute, a 'Leader' by Forrester Research in its Wave™ on Specialized Insights Services, Computer Vision & Customer Analytics and as an "Honorable Vendor" in 2021 Magic Quadrant™ for data & analytics by Gartner.

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