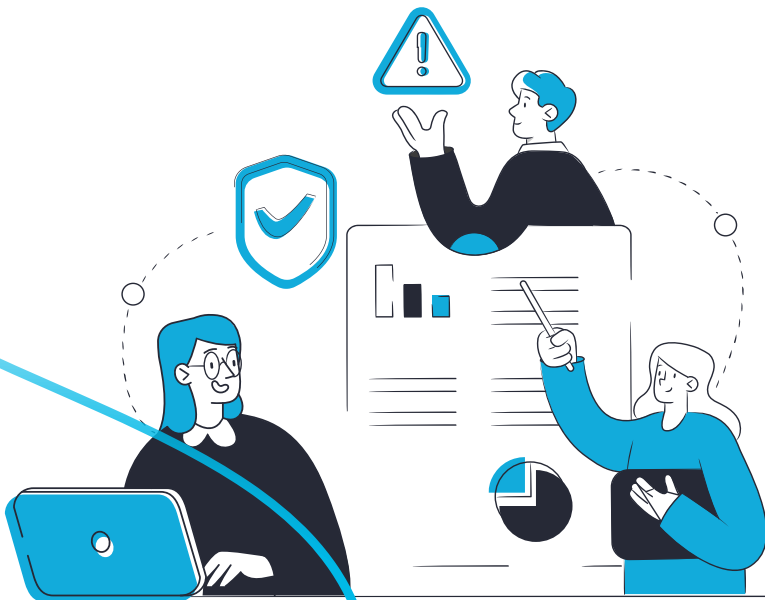Capgemini

JOURNEY TO
UNDERWRITING EXCELLENCE
- AN EVEREST GROUP REPORT

FOREWORD

Increasingly new risks continue to emerge along with new data sources and affordable computing power that allow us the ability to analyze, learn trends, and predict behaviors. The need for hyper-personalized underwriting has taken on a completely new meaning. At the same time, customers are buying insurance via non-traditional channels and are expecting a superior experience at the point of purchase.

How can brokers and agents advise their customers on the right products to cover their risks? How can an industry riddled with age-old systems and processes keep up with this accelerated change and meet the demands of its new customers?

The answer lies in investing in technology and automation to infuse efficiencies in the underwriting process. Leveraging technology for accurate risk scoring, monitoring, and advising customers on the next best action will differentiate carriers in delivering superior customer experiences and identifying growth opportunities.

At Capgemini, we are committed to helping insurers meet the challenges of evolving risk environment and develop dynamic data-driven underwriting capabilities.

We are pleased to present this paper where Everest Group provides insights on how insurance carriers can drive underwriting excellence by intrinsically shifting gears, leveraging next-gen technology, and reimagining internal processes.

This report covers:

- Evolving insurance landscape and implications for insurers in the underwriting function
- How underwriters can drive this change and key building block for transformation
- Role of technology in transforming the underwriting function to sustain the long-term benefits

" I hope these insights will guide you in your underwriting transformation journey."

Kiran Boosam
Go-to-Market Leader.
Insurance, Capgemini Financial Services

Everest Group®

Achieving Underwriting Excellence

Drivers, Challenges, and the Roadmap

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Introduction

Insurance firms are operating in a highly challenging and competitive environment due to low interest rates, pricing pressures, and the emergence of digital-native challengers. A legacy technology estate and the lack of a digital-first distribution strategy have compounded insurer woes, resulting in operational inefficiencies. Thus, insurers are working to accelerate their recovery from the pandemic, while simultaneously focusing on growth and differentiation, to address these challenges. The need to drive efficiencies and agility to respond to evolving customer expectations is further compelling insurers to adopt digital technologies across the value chain.

At the same time, insurers are shifting from a catalog-based product development mindset to a hyper-personalized modular product development outlook to address the evolving needs of today's customers. With the connected ecosystem's increasing maturity and the availability of affordable computing power, insurers are augmenting historical data with real-time, usage-based data from connected devices to underwrite risk in near-actual time leveraging intelligent process automation. As the insurance consumption model evolves and the purchase experience is embedded across other products and services ecosystems, insurers will need to demonstrate underwriting flexibility based on consumer needs. Industry consensus is growing around the belief that underwriting excellence can be a catalyst for improved operational efficiencies and consumer experiences.

In fact, underwriting needs to shift gears and focus on re-imagining internal processes leveraging next-generation technologies, while underwriters need to upskill and manage broader market-facing relationships. Underwriting transformation is even more pertinent for Property and Casualty (P&C) insurers, which are adopting a data-centric approach to establish themselves as risk guardians. They are actively embracing agile principles and building product configurations based on an analysis of real-time data.

In this study, we explore changing market drivers in underwriting and present our views on:

- Rapid changes in the insurance underwriting ecosystem and the foundational elements driving this change
- Potential benefits of underwriting transformation for insurers
- The building blocks of underwriting excellence

Insurance industry dynamics driving underwriting transformation

Changes in the insurance industry's business outlook

Despite being one of the largest global industries, the insurance industry's shift to a digital-first approach has been comparatively slow. The increasing severity and frequency of newer threats related to climate change, terror, cyber risks, technology, the bundling of insurance with external ecosystems, and evolving customer expectations have further increased the complexities for effective risk evaluation. At the same time, there is a growing demand from agents/brokers for faster turnaround time on submissions and access to data-driven insights from the underwriting process to drive competitive advantage. Furthermore, a sizable proportion of the insurance workforce is nearing retirement age.

Technology's growing influence has given rise to a vast and swiftly evolving InsurTech ecosystem. The emergence of digital-native insurance providers has ushered in compelling digital insurance buying and on-demand consumption experiences. These advances reflect the industry's growing appetite for higher efficiency, which should start from reimagining underwriting principles. P&C insurers need to study the data recorded from sensors, aggregated data from public records, and third-party industry datasets to augment their risk assessment capabilities. Technology efforts in this domain will strengthen the pillars of risk-scoring and help insurers automate risk-factor monitoring, taking decision-making to new levels of certainty and speed. Technology giants such as Amazon and Meta (previously Facebook) have also formulated entry strategies into the insurance market, leveraging their vast customer reach and rich data assets. Such firms also have an advantage with advanced analytics and AI algorithms that offer personalized customer journeys.

Insurers should re-imagine their underwriting principles and build differentiated experiences for agents/brokers and end customers. Underwriting transformation needs to happen across strategy, data, technology, and talent. All these elements are interconnected and integral to an insurer's journey to achieve underwriting excellence. The shift in insurers' mindset from insuring loss to ensuring protection and the pressing need to function as risk guardians rather than risk assurers call for an avant-garde approach to investments and initiatives on underwriting transformation.
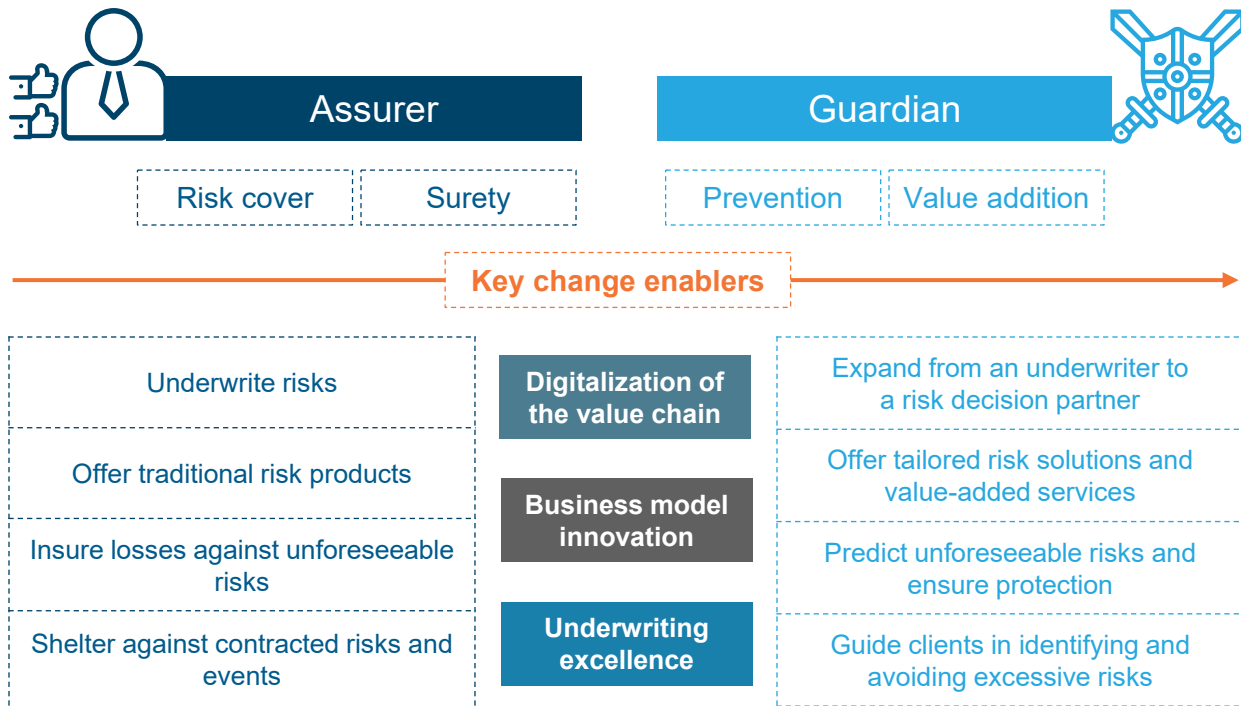
The exhibit below showcases how P&C carriers are setting themselves up to become the risk guardians of tomorrow.

EXHIBIT 1

P&C carriers' transformation from risk assurers to risk guardians

Source: Everest Group (2022)

Assurer	Guardian
Risk cover · Surety	Prevention · Value addition

Key change enablers →

Underwrite risks	**Digitalization of the value chain**	Expand from an underwriter to a risk decision partner
Offer traditional risk products	**Business model innovation**	Offer tailored risk solutions and value-added services
Insure losses against unforeseeable risks		Predict unforeseeable risks and ensure protection
Shelter against contracted risks and events	**Underwriting excellence**	Guide clients in identifying and avoiding excessive risks

The urgency to attain underwriting excellence

Insurers today are tapping into low-cost distribution channels and looking to drive efficiencies across internal processes to counter profitability pressures. There is a cautious focus on empowering agents/brokers with multichannel digital tools and solutions that can better identify prospects' needs, contextualize correspondence to strengthen customer relationships, and tap into upselling/cross-selling opportunities. Optimizing the entire underwriting value chain enables such agents to shorten the sales cycle and improve their books of business. At the same time, insurers are also delving into emerging risk segments and leveraging technology to effectively explore cross-sell/upsell opportunities.

However, the current landscape characterized by legacy systems, data silos, and the lack of visibility across the value chain creates many process inefficiencies. Furthermore, the high number of risk profiles and complexities in the technology landscape points to the pressing need for simplification and technology advances in the underwriting function. With increasing maturity of the connected ecosystem and the emergence of cheap computing power, insurers are now augmenting historical data with real-time, usage-based data from connected devices and intelligent process automation to underwrite risks in near-actual time. This also allows underwriters to prioritize high-value activities and focus on more profitable businesses.

Rapid changes in the digitalization landscape suggest that underwriting excellence is no more a choice but a necessity to counter industry headwinds and drive competitive advantage. A successful underwriting transformation program will enable a shift from a one-product-fits-all approach to a customer-centric product development culture. It will also result in role delineation, enable ecosystem collaboration via microservices / API-enabled platforms, and support the customization of business processes with improved Straight Through Processing (STP) rates.

The building blocks to achieve underwriting excellence

Implications of the evolving insurance landscape for insurers

The insurance industry's evolving dynamics mean that manual underwriting, which cannot take advantage of rich data sources and intelligent systems, does not allow insurers to manage the threat of disruption. Insurers need to drive rapid incremental changes to attain process efficiency gains across the insurance value chain, while also bracing themselves for a long-term, multi-stage transformation. This transformation journey should focus on the following aspects to enable a successful underwriting transformation program:

- **Simplify the quote generation and policy bind process:** In the near-term, insurers need to improve Direct-to-Consumer (D2C) experiences at the front-end and adopt digital solutions to pre-fill and extract data from online applications for underwriting. Additionally, they need to build real-time quote generation and automated underwriting workflows for low-risk customers. User-friendly policy illustrations and the e-signature technology for quick policy bind will also help eliminate friction across the customer onboarding journey. Such simplification measures will allow agents to unlock efficiency gains and lead more impactful conversations with leads, rather than getting stuck with filling multiple forms. This transition will require insurers to adopt digital capability platforms that enable rule-based, automated underwriting decisions

- **Modernize the data estate:** A next-generation insurer should focus on building a data-driven technology firm that protects customers. As insurers look to re-design operations for a digital-first world, they should infuse data across workflows to build enterprise-level, data-driven decision-making capabilities. This will require them to eliminate data silos by integrating internal data with third-party datasets, such as industry data aggregators, data generated from sensors, and geospatial data. In addition, data for each customer across multiple ecosystems needs to be stored in a governed data lake, enabling a single view of each customer across ecosystems. This data estate modernization has to be accompanied by the development of focused analytics solutions to process large data volumes for building value-added products/services and minimizing loss ratios. An efficient data ecosystem will augment risk assessment capabilities and drive competitive advantage

- **Leverage the power of sophisticated Artificial Intelligence (AI) / Machine Learning (ML) algorithms:** Eventually, insurers will need to explore the benefits of cloud-based analytics and in-built AI/ML tools for effective risk assessment and hyper-personalized insurance products, as well as agility in responding to evolving customer demands. Intelligent underwriting algorithms can analyze customer information to create reliable customer profiles and detect risk more efficiently. While traditional actuarial approaches account for certain levels of risk, the use of AI/ML algorithms to build next-generation catastrophe models can help determine

risks emerging from drastic climate changes. Additionally, technologies such as geospatial imagery for property risk analysis and deep learning-driven risk comparison systems can help insurance companies enhance their loss reserve planning, improve risk exposure assessments, and build disaster response in real time

- Re-imagine the underwriter's role: Underwriting has traditionally relied on underwriters' institutional knowledge, backed by extensive manual processes. However, with nearly 25% of these underwriters nearing retirement age and significant technology advances, there is cause for concern about the future of underwriting. Technologies have automated many relatively low-value transaction-processing tasks so that underwriters can take on higher-value product-innovation initiatives. The underwriters of tomorrow should assume a more strategic role in supporting the sales and go-to-market functions of insurance companies, in line with the risks added to their books of business, and bringing in customer-centricity to the core of operations

Reimagining the underwriting value chain for near-term gains

Insurers need to adapt a modular approach to underwriting transformation that breaks down the underwriting value chain and accompanying activities for an evolving paradigm of risks, channels, products, data, and consumer demand, as exhibited below:

Driving underwriting transformation via digital platforms and new data sources
Source: Everest Group (2022)

Reimagining the underwriting value chain

1

Intake: value creation through a low-touch underwriting process and the automation of data collection efforts via technologies such as Optical Character Recognition (OCR), Natural Language Processing (NLP), and computer vision

2

Triaging and segmentation: AI-based complexity scoring to identify potential sales opportunities and to triage the process for capacity management to drive faster Turn Around Time (TAT)

3

Risk assessment: integration of multiple data sources and real-time data aggregation to identify risk patterns and drive hyper-personalization
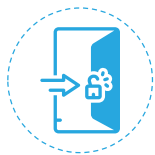
4

Decisioning and pricing: ML and data visualization for accurate pricing, based on data collection practices such as pay-as-you-drive auto-insurance capabilities

5

Quote, bind, and issue: automation of manual documentation efforts for quoting, real-time binding through e-signatures, and virtual assistance, driving faster time-to-market

Intake: The policy intake process needs to be streamlined to make it simple and intuitive. It should extract the submission data via OCR, NLP, and text analytics. There is a need to design simple and short insurance applications that can automatically pre-populate data and minimize the documents that need to be collected.

Triaging/segmentation: Insurers should build capabilities that help identify the likelihood of sale and profitability by leveraging AI/ML algorithms and allow the scoring of submissions for triaging and segmentation. Features such as auto-assignment and capacity management using digital workflow tools will help insurers unlock efficiency gains across their underwriting practices, while allowing accurate submission assignments based on underwriter capabilities.

Risk assessment: This function is expected to experience the highest disruption as insurers start to augment traditional risk models with AI/ML and predictive analytics technologies and apply them on data collected from customer policy forms and third-party sources to accurately identify risk patterns.

Decisioning and pricing: Underwriting of the future will entail aggressive automation and the creation of tailored pricing capabilities based on real-time data flow and AI/ML technologies. Telematics-based use cases, such as pay-as-you drive, pay-how-you-drive, and pay-per-mile, are growing significantly among personal auto insurers. This trend is expected to become mainstream with other insurance businesses too, as they try to drive hyper-personalization and enhance customer experience. Additionally, AI/ML algorithms can help to digitize risk data at scale, providing carriers with the right data at the right time. This will allow portfolio and risk managers to stay on top of new risk dynamics and make more informed decisions on submissions.

Quote, bind, and issue: There is a need to digitize paper files and analog processes through electronic/voice signatures, facilitate the electronic delivery of policy documents by auto-populating quote forms, automate invoice generation, integrate payment gateways with automated payments and reminders, enhance account management capabilities through digital workflow tools, and leverage virtual assistants to build compelling insurance shopping experiences.

Technology's role in elevating underwriting standards in the long term

Insurers need to simultaneously focus on a long-term transformation program to augment value chain-specific gains and build a multi-year strategy that includes a strategic underwriting excellence agenda. If insurers are to become future-ready organizations, underwriting needs to be at the forefront of a transformation program that unifies multiple organizational facets as part of a single, centralized initiative. This transformation agenda should involve the following steps:

1	2	3	4
First, insurers need to build a robust data strategy that breaks data siloes and applies strong data lineage principles to ensure higher transparency and data quality. Additionally, insurers need to foray into the data ecosystem and create capabilities to analyze data in almost real-time	Second, insurers need to design activities across the underwriting value chain for agility, configurability, scalability, compliance, and resiliency	Third, they need to codify the new processes in cloud-enabled workflow engines that are insight-driven and leverage predictive and prescriptive analytics models	Last, insurers need to use the power of APIs to seamlessly integrate with other core and front-office systems to have a unified platform-first approach to underwriting

To realize this four-point transformation agenda, underwriters should adopt intelligent automation to deal with challenges in assessing unstructured data on complex risks, such as life, casualty, cyber security, and climate change. They should start AI-/ML-based development of forward-looking algorithms to predict loss and drastically reduce the time required to process core information, allowing more time to engage with customers. These AI-based solutions will also enable underwriters to deal with large application volumes and issue policies at speed. Low-touch underwriting is now a reality because of the range of solutions that can be implemented, right from submission intake to quotes issuing. Insurers need to re-design their processes to introduce standardized procedures, such as automated application completeness assessment, data collation, and quality assurance, among others.

At a broader level, insurers also need to think about the right Target Operating Model (TOM) to support this transformation journey. There is an acute demand-supply gap for specialized IT skill sets and the lack of a mindset to drive continuous improvements. Hence, it will be vital to build the right leadership layer and a delivery engine with KPIs tied to innovation to scale such initiatives at speed.

Best-in-class organizations have started building advanced data analytics capabilities that can ingest different data templates, process real-time data, and generate business value in terms of increasing new business premiums and achieving high customer retention. Carriers are re-imagining risk assessments by tapping into third-party datasets, such as government, location, industry, and personnel data. While large carriers are ahead in their data engineering journeys, small and midsize carriers are in the nascent stages of building their underwriting transformation roadmaps. To achieve market differentiation, carriers need to develop risk engineering technology stacks that can enable efficient statistical model development and ensure continuous improvements that account for any macroeconomic changes.

Conclusion

The business case for embarking on an underwriting excellence journey should be backed by an enterprise need to drive competitive advantage by improving risk selection and offering superior, personalized customer experiences via:

- **The efficiency agenda:** Building low-/no-touch underwriting processes with high STP capabilities will drive cost savings and better experiences for employees as well as customers
- **The experience agenda:** Enhanced risk engineering capabilities will facilitate tailored products and value-added services at speed, enabling better customer retention

Insurers need to realize technology's potential in driving underwriting to achieve gains. Technology can bring the much-needed speed and scale, as well as data-driven risk assessment, to truly transform the insurance industry. For the same reason, insurers need to think beyond digitizing operations and near-term gains to thrive in a hyper-competitive industry. They need to formulate a forward-looking vision of underwriting transformation to future-proof their businesses.

Insurers should build cross-functional business and technology teams to drive this transformation and ensure stronger business-IT alignment and enhanced agility to respond to evolving market dynamics. The goal should be to achieve the vision via small and rapid iterations. Insurers should start with an enterprise diagnostic to identify the key strengths and opportunities that will support this strategic vision, address the challenges, and set in the new direction.

Furthermore, insurers should regard underwriting excellence as a continuous journey rather than an aspirational target state. In the near term, it will help eliminate inefficiencies and provide compelling customer experiences; in the long term, it will serve as a backbone to underwrite emerging risks and drive business growth. As the external environment changes, insurers will look to add newer and emerging risks to their books of business. There is a need for insurers to think beyond traditional risks and aim to become risk preventors by underwriting newer risks effectively and protecting their profitability from unforeseen occurrences.

Everest Group is a research firm focused on strategic IT, business services, engineering services, and sourcing. Our research also covers the technologies that power those processes and functions and the related talent trends and strategies. Our clients include leading global companies, service and technology providers, and investors. Clients use our services to guide their journeys to maximize operational and financial performance, transform experiences, and realize high-impact business outcomes. Details and in-depth content are available at **www.everestgrp.com**.

About Capgemini

Capgemini is a global leader in partnering with companies to transform and manage their business by harnessing the power of technology. The Group is guided everyday by its purpose of unleashing human energy through technology for an inclusive and sustainable future. It is a responsible and diverse organization of over 325,000 team members more than 50 countries. With its strong 55-year heritage and deep industry expertise, Capgemini is trusted by its clients to address the entire breadth of their business needs, from strategy and design to operations, fueled by the fast evolving and innovative world of cloud, data, AI, connectivity, software, digital engineering and platforms. The Group reported in 2021 global revenues of €18 billion.

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