

Insight

Data and the Art of Underwriting

The best organizations have learned to balance predictive analytics with underwriting judgment.

Exponential advances in technology are providing more data today than ever for our industry. The most forward-thinking carriers are committed to mining this data treasure trove to create innovative models and gain insights that improve risk assessment, underwriting and pricing. Data models within online quoting systems and multivariable pricing models provide underwriters tremendous new resources to guide them and help carriers gain competitive advantages, as they strive for target returns and sustainable market positions.

Yet, there is evidence that an overreliance on data can have an adverse effect, overwhelming the potency of underwriting expertise and leading to unintended outcomes and less predictability. The best organizations understand that they create unique advantages by balancing the use of data models with underwriting judgment.

Underwriting always has included a balance between “art” and “science,” blending insights from historical trends with individual risk exposure and control assessment. The advances in predictive analytics and exposure modeling have enabled many companies to strengthen their underwriting capability.

The issue is that, while we have more data and tools than ever, we also have more opportunity to misuse or misapply them, and create unintended swings in underwriting and pricing outcomes. Our business is a dynamic one, with many factors creating constant change in profit challenges and opportunities. Looking in the rearview mirror with sophisticated models needs to be balanced with forward-looking analysis.

Recent developments in commercial auto serve as a reminder of the dynamic nature of our business. Several years ago, this was one of the most profitable lines in our business. Fast forward to today and commercial auto is one of the most challenged lines



By
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based on dramatic changes in pricing levels, as well as loss severity trends.

What happened? Many companies employed the use of predictive analytics and multivariate pricing while there was a fundamental shift in bodily injury severity trends. The net result was that some carriers experienced a dramatic swing in profitability, despite the utilization of sophisticated data models. The companies that were equally focused on emerging trends and historic loss patterns outperformed because they took a balanced approach.

Property lines and the industry's efforts to respond to changing weather patterns provide another good illustration. Most carriers, big and small, have taken significant actions on property micro-concentrations to improve their underwriting performance and reduce earnings volatility. They used internal and external exposure models to better identify accumulations, improving their pricing precision and their ability to spread risk. Carriers that overemphasized new property exposure models created a

lot of churn in the market and put significant strain on their agency distribution. The better carriers balanced the utilization of these imperfect models with the broader application of their underwriting strategies to ensure sustainable, profitable growth.

As some carriers move aggressively toward low-touch models that place heavy emphasis on predictive models and pricing segmentation, agents increasingly are experiencing less predictability and stability in underwriting appetite and pricing. Furthermore, agents are seeing large variances, particularly in new business pricing, that often lead to future corrections. The result is an elevated level of remarketing and operational strain, which ultimately impacts customer satisfaction and retention.

Carriers that will win in this market understand these implications and are actively seeking to balance their data models and underwriting, and are working with their agents to ensure sustained mutual success.

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