Summer 2019

THE INSURANCE Insider

UNDERWRITING ROUNDTABLE 2019

Art for art's sake?

Given the (re)insurance sector's notorious resistance to change, harnessing technology to aid underwriting excellence has been a slow process

www.insuranceinsider.com

Slow to change

Reading interviews with senior (re)insurance executives, a theme that runs through many is the concept of “disciplined underwriting”.

But what actually constitutes that disciplined underwriting? A group of industry professionals discussed that subject during a recent roundtable in New York, hosted by *The Insurance Insider* in association with AdvantageGo.

The 10 panellists who took part in the discussion were from across the (re)insurance spectrum – insurers, reinsurers and brokers as well as technology providers. These individuals worked in a variety of roles; a few were underwriters, others placed risks on behalf of clients while some worked in the innovation space.

The participants all had different answers to the question posed, and that highlights the complexity of the issue.

One claimed underwriting excellence is all about profitable underwriting, while another said “it’s also about saying no”.

The ability to make informed decisions was another interpretation, with one participant stating that “the key is information”.

The group accepted and agreed that reliable data is key to disciplined underwriting, and the use of such information will grow in importance in the coming years. At the same time, perhaps new and different indicators and data points are the answer to improving underwriting.

However, the group admitted concerns over pushing through wholesale change in the way underwriting is undertaken. As the old adage goes, no-one likes change, and the (re)insurance industry has been slow to embrace technology. Getting it to change the way it underwrites could be a slow and unforgiving process.

While on one hand you have an industry that is slow to push ahead with technological reform, on the other you have technology vendors who do not truly understand the (re)insurance market.

What makes matters worse for those vendors is that (re)insurance is not a single, homogenous entity – there are myriad lines of business and segments, each with their own intricacies and nuances. It should therefore not be too much of a surprise that the market has struggled to harness the technology theoretically available to it.

And further complicating the situation is the buy-in surrounding investment in technology. Companies making a big investment in IT to better understand the data at their fingertips may not see the benefits for a number of years.

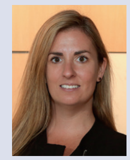
In an industry that places so much importance on quarterly and annual results, the risk of scrutiny from management and shareholders is significant if investment does not start producing results in the near term.

The above only scratches the surface of what was discussed, so read on to find out what the group really thought constitutes “underwriting discipline and excellence”!

Christopher Munro
Associate Editor,
The Insurance Insider

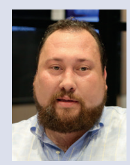
Participants

William Harnett
Deputy COO Insurance & Head of Operational Transformation, Axis Capital

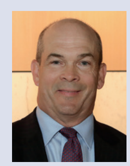


Julia Keenan
Vice President, Underwriter, Validus Specialty Underwriting Services

Jenise Klein
Managing Director, Allianz Global Corporate & Specialty



Christopher Martin
Insurance Innovation, Everest Insurance



Kevin Mooney
SVP, Head of SME Casualty Business, Ascot Group

Jennifer Ronan
Senior Vice President, Underwriting, Acrisure Partner Solutions

Martyn Sutton
Head of US, AdvantageGo

David Wright
Director, North America, Beach

Joe Zuk
MD, Corporate Development & Strategy, Orchid Underwriters Agency

EDITORIAL DIRECTOR
Mark Geoghegan mark@insuranceinsider.com

EDITOR-IN-CHIEF
Adam McNestrie adam@insuranceinsider.com

ACTING MANAGING EDITOR
Catrin Shi catrin.shi@insuranceinsider.com

EDITOR
Laura Board laura.board@insuranceinsider.com

FEATURES EDITOR
Gavin Bradshaw gavin.bradshaw@insuranceinsider.com

COMMERCIAL DIRECTOR
Sajeeda Merali sajeeda.merali@insuranceinsider.com

HEAD OF MARKETING SERVICES
Benjamin Bracken ben.bracken@insuranceinsider.com

HEAD OF STRATEGIC PARTNERSHIPS
Oliver Nevill oliver.nevill@insuranceinsider.com

SUBSCRIPTIONS DIRECTOR
Tom Fletcher tom.fletcher@insuranceinsider.com

SENIOR ACCOUNT MANAGER
Georgia Macnamara
georgia.macnamara@insuranceinsider.com

SUBSCRIPTION ACCOUNT MANAGERS
Luis Ciriaco luis.ciriaco@insuranceinsider.com
Chrishan Tailor chrishan.tailor@insuranceinsider.com

HEAD OF MARKETING & ANALYTICS
Lynette Stewart lynette.stewart@insuranceinsider.com

BRAND MARKETING & ANALYTICS MANAGER
Aimee Fuller aimee@insuranceinsider.com

EVENTS DIRECTOR
Sara Donaldson sara.donaldson@insuranceinsider.com

CONFERENCE PRODUCTION MANAGER
Matthew Sime matthew.sime@insuranceinsider.com

EVENTS OPERATIONS MANAGER
Holly Dudden holly.dudden@insuranceinsider.com

EVENTS MARKETING ASSISTANT
Luke Kavanagh luke.kavanagh@insuranceinsider.com

PRODUCTION EDITOR
Ewan Harwood ewan@insuranceinsider.com

SENIOR SUB-EDITOR
Steve Godson steve.godson@insuranceinsider.com

JUNIOR SUB-EDITOR
Simeon Pickup simeon.pickup@insuranceinsider.com

SENIOR DESIGNER
Mike Orodan mike.orodan@insuranceinsider.com

Published by: Euromoney Trading Limited, Level 1, 29 Ludgate Hill, London, EC4M 7NX, UK. **Tel Main:** +44 (0)20 7397 0615 **Editorial:** +44 (0)20 7397 0618
Subscriptions: +44 (0)20 7397 0619 **e-mail:** info@insuranceinsider.com.

Underwriting
Roundtable 2019

Christopher Munro
Where is underwriting excellence most likely to be found?

Joe Zuk
It is typically found within MGUs, programme administrators and carriers where there's a speciality focus or knowledge of a particular class of business. And I'd say also in the inherent knowledge amongst the underwriters that has been developed within the culture of that organisation.

David Wright
Inside insurance companies is the answer. Noting Joe's point there about MGUs, MGAs are certainly capable of underwriting excellence. But in some ways the next question is, what on earth is underwriting excellence? And to me that's profitable underwriting. The word you associate with underwriting excellence is 'discipline', whereby you allow the market to give you opportunities and then pick from among them what you think is going to work. That is essential, of course, but you also need to be able to get those opportunities.

"I like to think of underwriting as avoiding false positives and brokering as avoiding false negatives"

David Wright

Julia Keenan
You think about excellence and it's easy to think about getting bigger, getting better. But I think it's also about saying no. And when you say no, brokers are understanding. If you say yes to things you specialise in, and you do it very well, the 'nos' become a lot easier. When I started at Validus, the thing Ed Noonan stressed to us all was not being afraid to put the pen down. Top line growth is important but if you don't feel good about something, put the pen down and walk away.

Kevin Mooney
It's in the DNA of the culture you're building. We're a new company so we're lots of teams of underwriters together and it has to start from the top down. Yes, discipline is important, but it also has to be about being entrepreneurial and going out and trying to find the business, being creative about how you're going to underwrite and looking for niche opportunities.

It's also about having a flat organisation where the most inexperienced underwriter can go to the most experienced and ask questions and get information. That passing of information back and forth among teams is probably one of the most important things you can do to create a good underwriting environment and culture.

Jennifer Ronan
Underwriting excellence combines the production with making informed decisions using the resources that are out there to ascertain whether you should take on that risk. While it's okay to say no, the role of the underwriter is always to make an informed decision based on the information at hand. And that can come from lots of sources.

Julia Keenan
To your point, certain accounts may, on the surface, appear challenging. However, often these tougher risks can be mitigated via retentions, limit management and strategic use of reinsurance. That said, there are some accounts where no amount of premium makes writing

them worthwhile and these are the ones you should just walk away from.

Kevin Mooney
You spend a lot of your time as an underwriter trying to gather all the right information and validate it. If there's an anomaly – a piece of information that doesn't make sense with all the other documentation you receive – you've got to chase that down. If you can eliminate that, you can spend a lot more time doing what underwriters are really paid to do, which is to determine whether or not it's a good risk and whether you can price for it.

Jenise Klein
The key is information. As others have said, an underwriter's job is to make decisions based on the information at hand, and the more information you can get into the hands of an underwriter, the better decisions they can make.

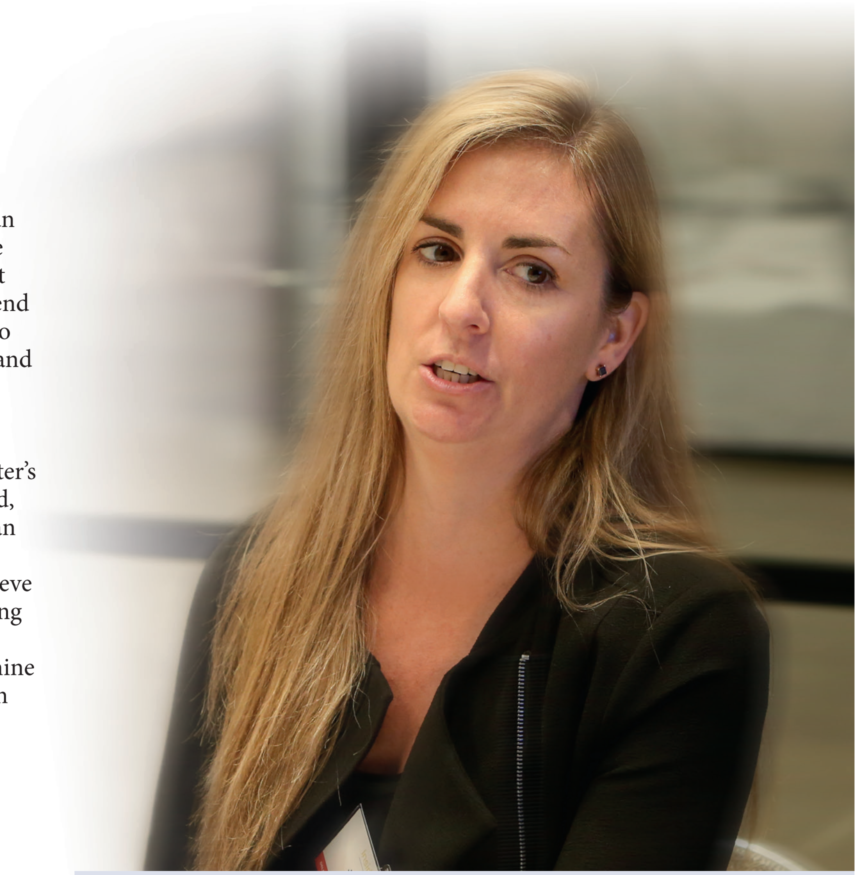
So a key component of achieving or continuing to achieve underwriting excellence is not only the ease and the timing with which you can get the most relevant and up-to-date information into the right hands, but also the ability to mine and draw conclusions from a broader pool of information which may drive deeper risk insights to enable better underwriting decisions.

David Wright
I like to think of underwriting as avoiding false positives and brokering as avoiding false negatives. So, with the underwriter, the worst deal is the one you shouldn't have written and you had at the door. Obviously, a lot of true positives are good because that's how you make your money, but those false positives will blow your company up. In some ways, underwriting excellence can be found, depending on the marketplace, where there is brokering excellence. That allows both sides to play their roles to the benefit of the customer.

Kevin Mooney
From what I've seen managing online platforms, 10 years ago I'd go to bed at night and worry that maybe 30 or 40 percent of the stuff I wrote really wasn't what I thought it was. For example, they told me they're a carpenter and they're really doing steel erection. Now, with the technology that's available, the third-party data validation, that uncertainty is probably down to 5-10 percent. So then it goes down to your point about distribution, about trusting your partners and picking the right partners to do the business. It has to be a collaboration between the brokerage side and the carrier side, and there has to be that trust on both sides.

William Harnett
The way things are going, it's no longer just the accuracy and validation of third-party data, it's the cross-correlation of that data with other previously uncorrelated – maybe even behavioural – metrics that drive certain models and algorithms that will result in the score.

Kevin Mooney
We're looking for all that stuff now. So we're going through the data and asking – what underwriting indicators we never looked at before could be the silver bullet? And we know it could be something that completely changes the way we underwrite our books of business.



> "Top line growth is important but if you don't feel good about something, put the pen down and walk away"
>
> **Julia Keenan**

William Harnett
But is there a question in terms of embracing that culture from an underwriting point of view? Is there a willingness and openness, especially getting into the specialty space, to utilise third-party data?

Julia Keenan
We also underwrite to a large degree to the quality of the senior management and board of directors. A key advantage for me as a D&O [directors' and officers'] underwriter is the ability to meet with representatives from the company we are potentially insuring. You can't replace that completely with data and technology.

Kevin Mooney
The culture has to be there to be willing to look at new ways of underwriting. A lot of times we don't question the dogma of "This is how we've always done it". I can't tell you

"The overarching issue here is that we're running businesses in a capitalistic industry that competes, often in terms of price. We don't collaborate"

Joe Zuk

how many times I've looked at a file in which I have maybe 40 sheets of paper and I might look at two – the rest is just useless information. There are a lot of areas we can go into, and we can start asking different types of questions that will help us get better indicators of whether it's a good risk or a bad risk.

Jenise Klein
That's why information is so important, and not just from a third party – simply having more information doesn't necessarily make one better. It's how well one can access that information, mine it and feed it back through the organisation to inform future decisions.

Kevin Mooney
The thing with technology is that even the smallest companies have a digital footprint. If a hot dog vendor here in New York City has to get a licence it's done online, so you can look them up and see if there's complaints against them. If they don't have a digital footprint, that's scary. They have gone out of their way to wipe themselves off the internet. Those are the risks you really need to be concerned with.

Jennifer Ronan
The AI piece is evolving but in-depth conversations need to happen between technology companies and carriers to convince carriers and brokers of the validity of the data being presented with the technology, and where this data comes from. In my carrier role, I've had conversations with AI companies and this has been the reason I didn't adopt the technology – lack of validity of the third-party data.

I also feel there is a gap whereby technology companies need to learn more about insurance products, terminology and regulation, and insurance carriers/brokers need to learn more about the technology. It's the merging of the experience and skills of both that is the key to success.

Martyn Sutton
We also have to reflect how the industry has changed. Thirty years ago, 80 percent of what was insured was tangible. Now, it's flipped – 80 percent is intangible. So it's easy to get a building report or a vessel report, but how do you deal with D&O? How do you deal with all the casualty lines that are there? We've got to bring that from non-structured data, we've got to bring it from non-traditional sources. Do we go to Facebook? Do we go to LinkedIn? Do we start pulling in stuff and then use AI to interpret what we see on those to deliver a result?

Kevin Mooney
The thing that amazes me about this industry is that we all do things in completely different ways. And at the end of the day, we all have to collaborate. The question InsurTech should be focused on is, how do we get all the systems to talk to each other? We've built all these systems but nothing collaborates with anything else, nothing talks.

The biggest, scariest thing in the world for any carrier – and I'm sure you guys have gone through this – is when you buy somebody else. Now eight systems turn into 16 systems. I know everyone is focused on AI but anybody who can figure out a way to create some type of middleware whereby everything can communicate with everything else is going to be the Steve Jobs of this industry. That's the secret.

Julia Keenan
Usability of technology is crucial. If underwriters do not find the systems useful – if they don't like them – they will find a way around using them. Then what good are they?

Jenise Klein
The system is only as good as the user interface. Making it easy for people to use the system – to get information, to make decisions quickly – ultimately frees that resource up to be doing more and/or thinking more strategically about things such as analytics, and looking across verticals for information that could help drive better decisions. That's when things start to get really interesting, when you can start drawing conclusions from all your data across all lines of business and breaking out of a siloed universe.

Christopher Munro
That's a nice segue into the next question. Are there

solutions that aren't being used, though they would benefit underwriting, because the usability isn't there?

Christopher Martin
Are there solutions that we haven't tapped into yet? Yes. The problem is that most traditional technology vendors have no idea how commercial insurance works.

Even a lot of the InsurTech companies will run a pilot and then really struggle to be able to capture all the information you actually need. Because if you're a commercial underwriting platform, you have so many lines of business and classes of risk and types of insureds. Then you get to specialty and the complexity grows. The tech platforms just don't know how to automate the intricacies of the policies and processes of commercial insurance yet, but they seem to be dedicated to trying to solve the puzzle.

Julia Keenan
From an underwriting perspective, and having been an underwriter my entire career, it's about how you capture data and how you get the data without having the underwriters physically input it. Because I'm an underwriter, I'm reading it, I'm making a decision in my brain – I don't want to re-enter it in six places. That's where the key could be – the usability and the data capture, and how you get underwriters to do it; or who can do it for them.

Kevin Mooney
It's not mature technology yet. We looked at OCR [optical character recognition]. We interviewed and saw demos from 20 OCR companies. It's the hot tech right now but it's not mature enough. It's at a really basic stage and what has to happen is a lot of these companies have to buy each other up and start to combine technology to get where you want.

Joe Zuk
We're dancing around the overarching issue here, which is that we're all still running a business in a capitalistic industry that competes, often in terms of price. We don't collaborate on a centralised database as an industry to try to get to some kind of stability or consistency in pricing.

David Wright
There is actually a very dark possibility here, which is that we don't know what we're doing. Underwriting is not a self-aware process.

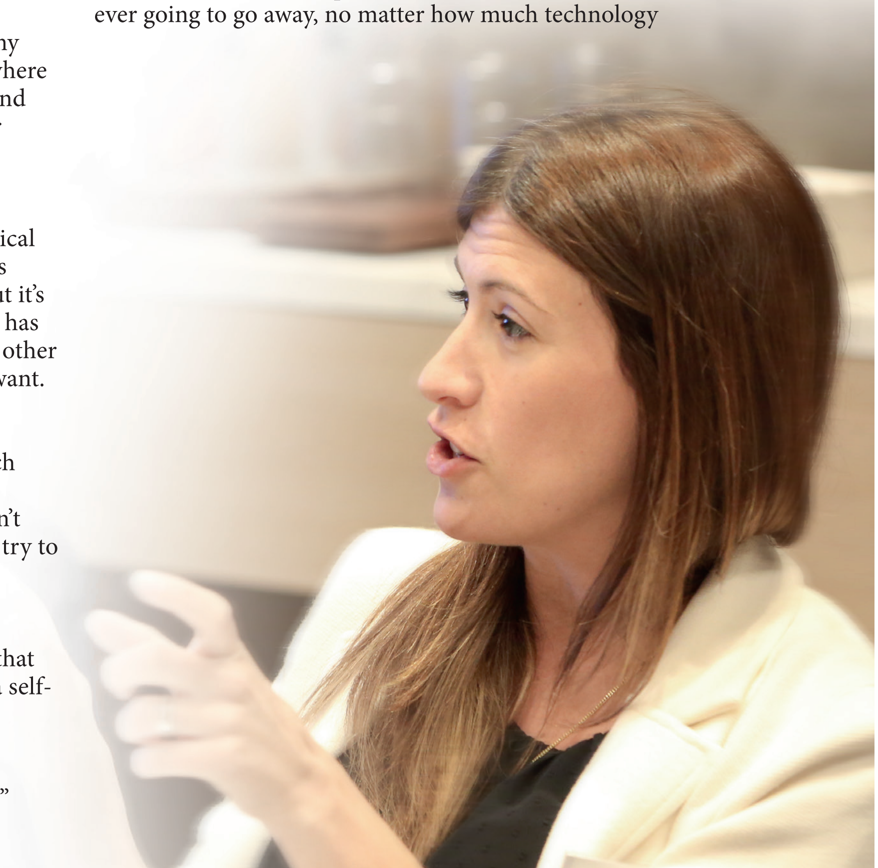
Kevin Mooney
I've had young underwriters say "How do you do this?" And it's like no other industry in the world. You can know a lot of theory but applying that in reality is something else. It starts out as a science but then it turns into an art when you meet the client. You ask yourself – do they seem right, does the office seem right, does everything click, is there something in your gut that seems wrong about this? And then it's just gut feeling that I don't want to write this one. It's that one I keep pushing back on the other side of my desk. And that's the art part of it, knowing when you want to stay away from something or you want to jump on it because you think it's a good opportunity.

David Wright
It's a deeply human process. Does this person know what they're doing? These are the key questions you're trying to solve in underwriting. It's a social science.

Kevin Mooney
The thing with my platform is I will not put a broker on our system unless I have a face-to-face meeting with them. If it's somebody out in Montana and I've never met them, I'm not putting them on my system because I don't know who they are. I have to physically meet them and do an extensive deep dive before we will allow them to do that.

Julia Keenan
But then, are we resisting technology with that?

Kevin Mooney
No. This is a relationship business and I don't think that's ever going to go away, no matter how much technology



"The system is only as good as the user interface. Making it easy for people to use the system ultimately frees that resource up to be doing more"

Jenise Klein

"This is a relationship business and I don't think that's ever going to go away, no matter how much technology we throw at it"

Kevin Mooney

we throw at it. If we eventually come to some AI bot underwriter, you still have to have a human behind the scenes. One of the things I've learnt doing this, with four platforms now, is at the end of the day the brokers want to know they can pick up the phone and call someone; a human being they can speak to about something that's in that grey area, that just doesn't fit.

Jennifer Ronan

So I have a question for our technology panel participant. Martyn – do you find it hard to sell underwriting technology solutions to companies that have been around forever? Within the carrier itself, it can be hard for an underwriting team to convince the CEO to invest in new technologies, especially if the company has been around for years. It's also much easier for newer insurance providers entering the space to embrace the latest technology as it is expected as part of their initial launch, and a competitive advantage.

Kevin Mooney

InsurTech is such a buzzword right now. If you're not involved with it you've got to go back to your board of directors and explain why. So the CFO and the CUO are buying the product, but there's no buy-in from the end users. So they buy this product, they think it's really great and they give it to the underwriters and the underwriters say – it doesn't work.

Martyn Sutton

There are so many discrete solutions out there. And as companies of the scale that you guys are operating on, you want all of that. So we've got to bring in all those components and deliver them in a way that brings it together cost effectively, and shows the value in a way the CFO's going to sign off on.

We're not trying to be all things to you. We recognise you're going to come to us with a great pricing engine you've developed in-house, maybe for a particular line of business, or you've got a third-party pricing engine for another territory or another line. What we have to do is bring that all together and deliver it in a way that's easy to consume and obviously helps you to make better decisions.

The other point I'd make, which is an old one but it's still true, is that we're way beyond ease of use. I've always talked about ease of use and, yes, 99 percent of the reason people don't use stuff is they don't think it's easy to use or, more importantly, they don't see they're getting value from it. Or they're not adopting it for competitive reasons. Flood is pretty easy these days, for instance. There are vendors out there now that will give you five-metre resolution, really heavily detailed stuff. But the market still writes to Fema [Federal Emergency Management Agency]. I've spent years going out and saying "Look at this," and they say "Yes, but we got a quote from someone who is writing to Fema and guess what, I've got to compete with them." My argument is "Well, at least you know."

Julia Keenan

I would imagine that a start-up that needs to scale quickly will be more adaptive to new technology, because without scale you can't support loss. At the end of the day, that's how we make money. You bring in more than you pay out and you manage your expenses wisely.

Joe Zuk

Market share doesn't always mask all though – your parent company is a case in point.

David Wright

Another thing is that most new ideas are stupid. So the reason why innovation sits in start-ups is because it's a lot less costly for a start-up to try something that looks like a good idea and fail than it is for a big insurance company to wipe out a $1bn balance sheet.

That observation underpins quite a lot of the frustrations in the marketplace – big companies are conservative, they're slow to move, they're very disciplined. Well, yes, because there's a lot at stake. There's a reason they're disciplined – that's how they stay alive for 100 years. Let the start-ups figure it out, let the MGAs figure it out. And there's a huge distribution of underwriting results among MGAs. I've been part of very good MGAs and I've been familiar with some

really bad ones where you look like you have an innovation but really it's just a mask for pricing indiscipline.
So carriers are right to be conservative and careful with their capital. The claims tail takes years to figure out if something works or not.

Christopher Martin
One approach to innovation is defining incremental, specific improvements – whether they are partnerships, implementations or investments. Yes, the ideal of innovation is taking a huge swing and knocking it out of the park, but that might not be applicable for the commercial insurance space. It's not about just growing a capital base, or just expanding lines of business and loosening underwriting standards by putting more capital at risk on lines where we don't really know who has the pen, or what they're doing. So there's a nuance in the market; how you're looking at the innovation side. Start-ups and are looking for capacity to prove their value to their VCs, which often locks up investors for years. There is a bit of a symbiotic relationship to get it right through each channel.

Christopher Munro
I presume it takes quite a while to see some of the benefits of this. It's an investment you're making but you won't necessarily see the benefits in a year or two. It could be much further down the line. Do you think that can be a struggle for buy-in?

Julia Keenan
With new technology there is a large expenditure up front, and it may take five years or more to see if the spend is worthwhile. And even then, it is hard to tell if the benefit is from the technology or from a change of strategy. Or was that change of strategy influenced by the technology?

Christopher Munro
And you're reporting quarterly, so that's another issue. If your expenses are high because you invested in something, your expense ratio is high because you made a big investment and you're not yet seeing benefits from it.

Kevin Mooney
It comes down to Moore's Law. Technology is getting faster and better. But the initial investment is only an initial investment. You have to maintain it. That means you have to spend money on top of money. It's not like you're going to get a solution and then underwriters go and make me money on this thing. It has to be continually evolving. If you want third-party data, you're paying for the licence every year. That's a cost that continues, and if it expands and you build out from 100 sources to 1,200, that's a lot more money you're paying. All those things add up. How do you maintain that system? We start with 100 users and now we're at 1,000. You may have problems because your infrastructure can't support that much traffic so you've got to spend money on that. Those are things nobody talks about when you're making an investment. When you get involved, you've got to know you're in it for the long haul.

Christopher Martin
It comes down to whether your organisation wants to be a first mover or a fast follower, and how you strike that balance.

Jennifer Ronan
It's hard to manage the effect of InsurTech on the underwriting space, because effectively you're trying to write profitable risks. Unless you're operating two profit centres simultaneously, one with the technology and one without, and watching the loss ratio for both, you can't measure the effect in the underwriting space. You have to feel that basically it gives you better information to make more informed decisions and trust you're going to write more profitable business.

Julia Keenan
If your loss ratio is going to be the same with or without new technology, does it help improve your expense ratio? That is where the benefit potentially is, in the near term, without being able to actualise the data for loss information on longer tail lines. Does the technology make you more

"Unless you're operating two profit centres, one with the technology and one without, you can't measure the effect in the underwriting space"

Jennifer Ronan

"99 percent of the reason people don't use stuff is they don't think it's easy to use or they don't see they're getting value from it"

Martyn Sutton

efficient, does it cut down on other expenses, or does it replace something else you're spending money on?

Martyn Sutton

You're absolutely right. When you ask a vendor how to get stuff signed off, the tangible stuff is easy. I can reduce a couple of FTEs [full-time employees], I can retire a solution and so on. When you get into the more fuzzy stuff like driving top-line growth or improving the loss ratio, it's much harder to gauge. And even if you are measuring it, how much is attributable to the system versus the change in strategy or something?

As much as we can sit here and talk about the huge amount of legacy still in the insurance industry, there is an embracing of technology now. Something we haven't talked about is all the people who are about to retire. There's a whole new bunch of people coming up. What's their mindset going to be about technology? The younger generation doesn't mind talking to a bot, whereas if I'm going to report a first notice of loss and the first thing I hear is "Hello, I'm a computer," I hang up.

Kevin Mooney

So you have to offer various solutions. But to your point about innovation, it has to be in the culture. You can have the CFO and the CEO create a great technology but when they put it in the hands of an underwriter who doesn't want to change because they like doing it the way they do it, you couldn't move mountains to get them to do the things you want.

If they don't buy into it from the get-go, or they don't have a reason to want to make the change, they're not going to do it.

Jenise Klein

One of the things we haven't really touched on directly is the concept of culture, change management and the impact changing technology has on our industry. Throughout the channel, not just in our organisations but down to the individual policyholders, there are cultural aspects and change management aspects to consider when looking to implement technology solutions.

Just in this room you have very different preferences when it comes to interacting with technology, and when you think about that spectrum in the context of your customer and employee bases, it begs the question – how do you keep up with or ahead of the technology curve while delivering the best customer experience possible in the most effective way.

Christopher Munro

So, to conclude, there is no one-size-fits-all solution!