

Optimizing an Efficient Underwriting Process with Data and Workflow

Sanford Brown
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verisk
Insurance Solutions

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Meeting with you today are...

Speakers

Sanford Brown
AVP of Product Development
Verisk Insurance Solutions

Sanford is responsible for both the development and ongoing management of commercial underwriting products and services that have helped carriers improve profitability and minimize future risk. Sanford has a significant experience in building, leading, and growing innovative B2B solutions in the financial services space. He has a BA from Syracuse University and an MBA from the Columbia Business School.

Rick Stoll
AVP of Product Development
Verisk Insurance Solutions

Rick is responsible for the development and management of data and analytic products. Rick has over 15 years' experience building, managing, and selling complex digital services – primarily ones grounded in big data analytics. Prior to Verisk, he led innovative product initiatives at Dun & Bradstreet and American Express. He holds a bachelor of science degree in Industrial & Systems Engineering from Virginia Tech and a master of business administration from New York University - Leonard N. Stern School of Business.

Moderator

Fiona Ha, FCAS, MAAA
Actuarial Consultant
Ernst & Young

Fiona's industry experience includes policy administration, system implementation, underwriting and actuarial modernization, reserving, M&A due diligence, pricing reviews and developing pricing tools.



Policy Statement

The policy of Verisk Analytics and subsidiary companies is to comply in all respects with federal and state antitrust laws. With this in mind, we want to mention that during all seminars held under our auspices, this policy prohibits discussion of certain topics. Because we want to avoid even the appearance of an antitrust violation, we go beyond the letter of the law, and we will not discuss any matter that violates the spirit of the antitrust laws or could be perceived as doing so.

A copy of our Policy Statement on Discussion at Meetings can be found at www.verisk.com/statement.

In addition, a copy of CAS Antitrust Policy can be found in your Underwriting Collaboration Seminar program book.

You're searching for solutions to take advantage of a market opportunity.

You need speed and scale to make small commercial policies profitable. But, you can't compromise your underwriting guidelines. Fortunately none of that is mutually exclusive.



Profitability is a challenge

The opportunity is large, and others are profiting.

\$100B* Small commercial direct written premium

11M Small businesses without insurance represent a \$60-70B untapped small commercial market opportunity.

Loss ratios are attractive, but expense ratios can be high.



Small commercial profitability is about efficient underwriting, matching premium to risk, and reducing premium leakage.

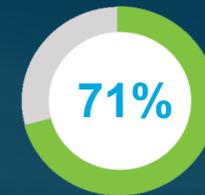
* Small Commercial Insurance: A Bright Spot In the U.S. Property- Casualty Market; McKinsey & Company; 2016





Speed and scale are critical

Businessowners expect immediate responses.



of underwriters lost deals by taking too long to process applications*



of small businesses* are likely to buy online (**under \$1M revenue)

Scale drives profitable growth.



Fixed costs are spread across more premium dollars. Lower expense ratio equals higher potential profit.

* FirstBest Underwriting Efficiency Survey, 2013

Automation supports your UW guidelines.

Your guidelines are only as good
as your data.

50%

Studies show that in
nearly 50% of policies,
the commercial
property rating data is
wrong; early
indications show the
same for small
commercial.*

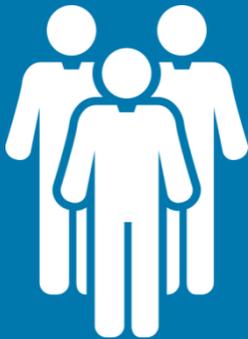
Prefill eliminates misinformation
and powers straight-through
underwriting.

* Verisk internal analyses





What is a small business?



Employees < 100?



Sales < \$6M?

SBA definition

NAICS Codes	NAICS Industry Description	Size Standards in millions of dollars	standards in number of employees
Sector 22 – Utilities			
Subsector 221 – Utilities			
221111	Hydroelectric Power Generation		500
221112	Fossil Fuel Electric Power Generation		750
221113	Nuclear Electric Power Generation		750
221114	Solar Electric Power Generation		250
221115	Wind Electric Power Generation		250
221116	Geothermal Electric Power Generation		250
221117	Biomass Electric Power Generation		250
221118	Other Electric Power Generation		250
221121	Electric Bulk Power Transmission and Control		500
221122	Electric Power Distribution		1,000
221210	Natural Gas Distribution		1,000
221310	Water Supply and Irrigation Systems	\$27.5	
221320	Sewage Treatment Facilities	\$20.5	
221330	Steam and Air-Conditioning Supply	\$15.0	
Sector 23 – Construction			
Subsector 236 – Construction of Buildings			
236115	New Single-family Housing Construction (Except For-Sale Builders)	\$36.5	
236116	New Multifamily Housing Construction (except For-Sale Builders)	\$36.5	
236117	New Housing For-Sale Builders	\$36.5	
236118	Residential Remodelers	\$36.5	
236210	Industrial Building Construction	\$36.5	
236220	Commercial and Institutional Building Construction	\$36.5	
Subsector 237 – Heavy and Civil Engineering Construction			
237110	Water and Sewer Line and Related Structures Construction	\$36.5	



Small business market defined

The sheer size and dynamic nature of the small business market represents a significant opportunity.

99.7%

- 28 million small businesses account for 99.7% of all businesses and 54% of all sales in the United States.

8M

- Since 1990, as big business eliminated 4 million jobs, small businesses added 8 million new jobs.

30-50%

- The small business sector in the U.S. occupies 30% to 50% of all commercial space, an estimated 20 to 34 billion square feet.

10-12%

- 10% to 12% of small businesses with employees open and close each year.



Win with small businesses

Success in the small business marketplace requires an approach that blends enterprise B2B and Consumer best practices

Small businesses....

- Believe they're unique
- Don't want to think about insurance
- Are smart
- Behave like consumers, but need business-ready products
- Don't like big corporate America



Therefore....

- Messaging, product, and product delivery must be simple but relevant
- High-volume distribution and support is critical and must be supported with smart data
- Time-informed education

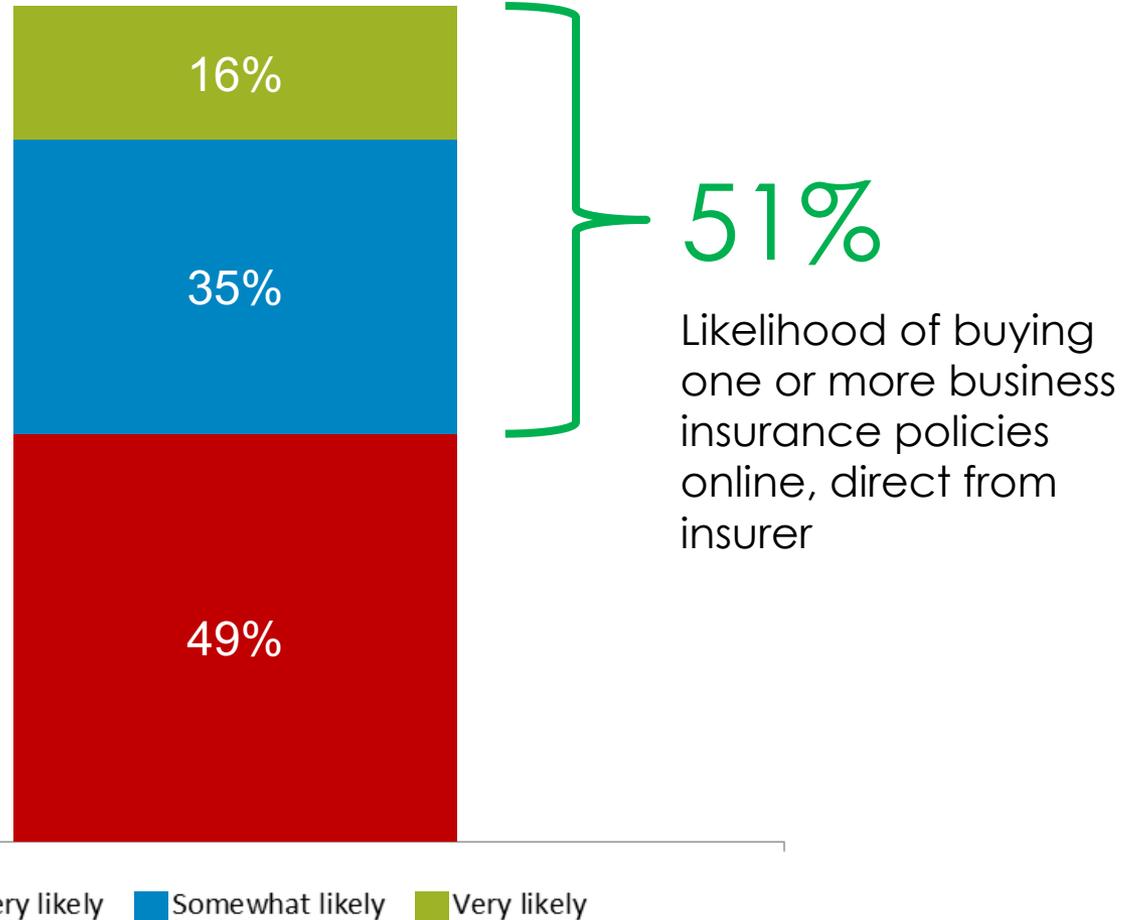


Customer purchasing preference

*“As much as half of the small-business insurance market might be quite willing to buy direct from a carrier over the internet....”**

The industry treats small business owners like big businesses, but small businesses act like individuals.

They expect the same customer experience. The industry must change.



*Voice of the small-business insurance consumer ; Deloitte Development LLC, 2015

So...

What are some of today's challenges with small commercial underwriting?





Challenges with Small Commercial underwriting

Historical underwriting practices can make Small Commercial insurance a losing proposition.

- Current processes are inefficient
- Low premiums do not justify detailed underwriting
- Can require data from standard forms, such as ACORD® forms 125, 126, 127, 130, 160
 - Property
 - General Liability
 - Workers Compensation
 - Auto
 - Professional Liability
- Data is often inaccurate or missing
 - Partially driven by ease of starting a business

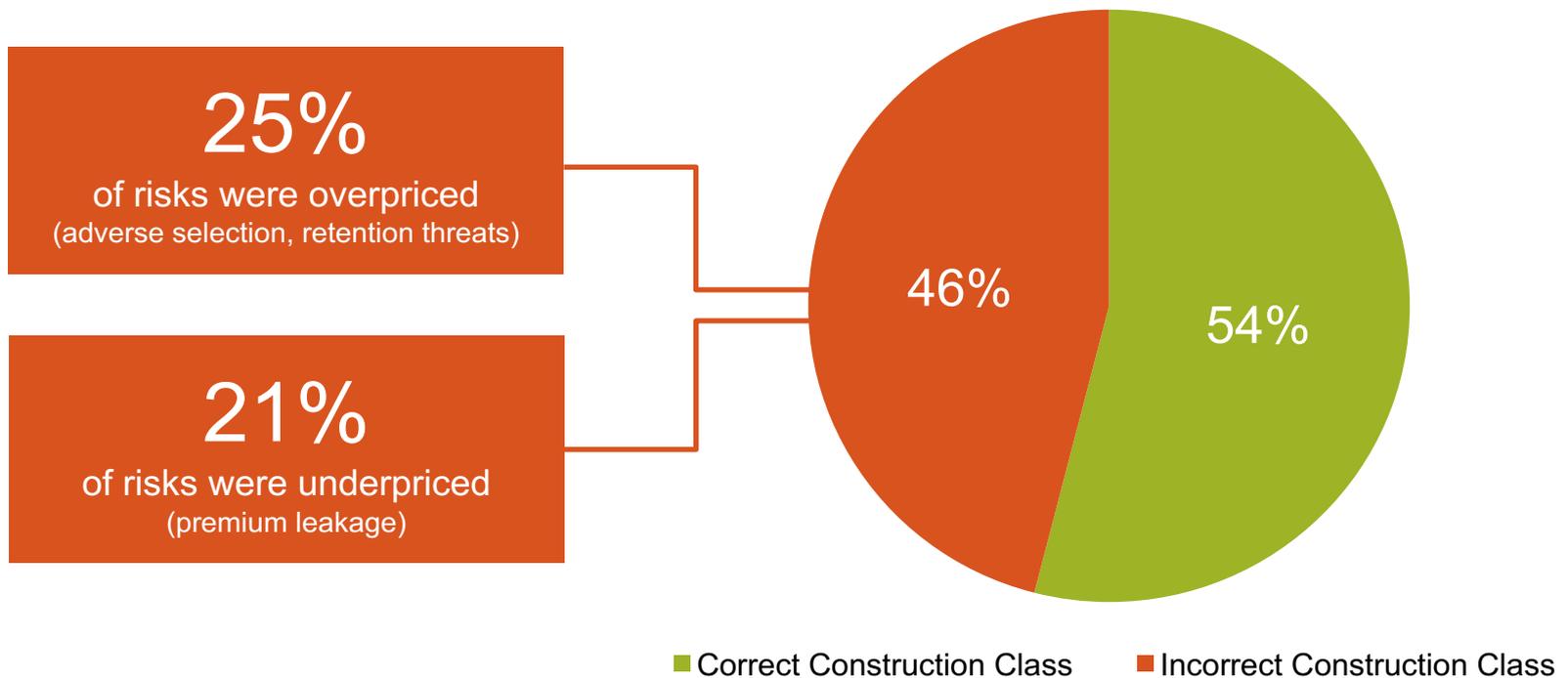




Profitability requires good data

Studies show that in nearly 50 percent of policies, the commercial property rating data is wrong; early indications say the same for BOP.

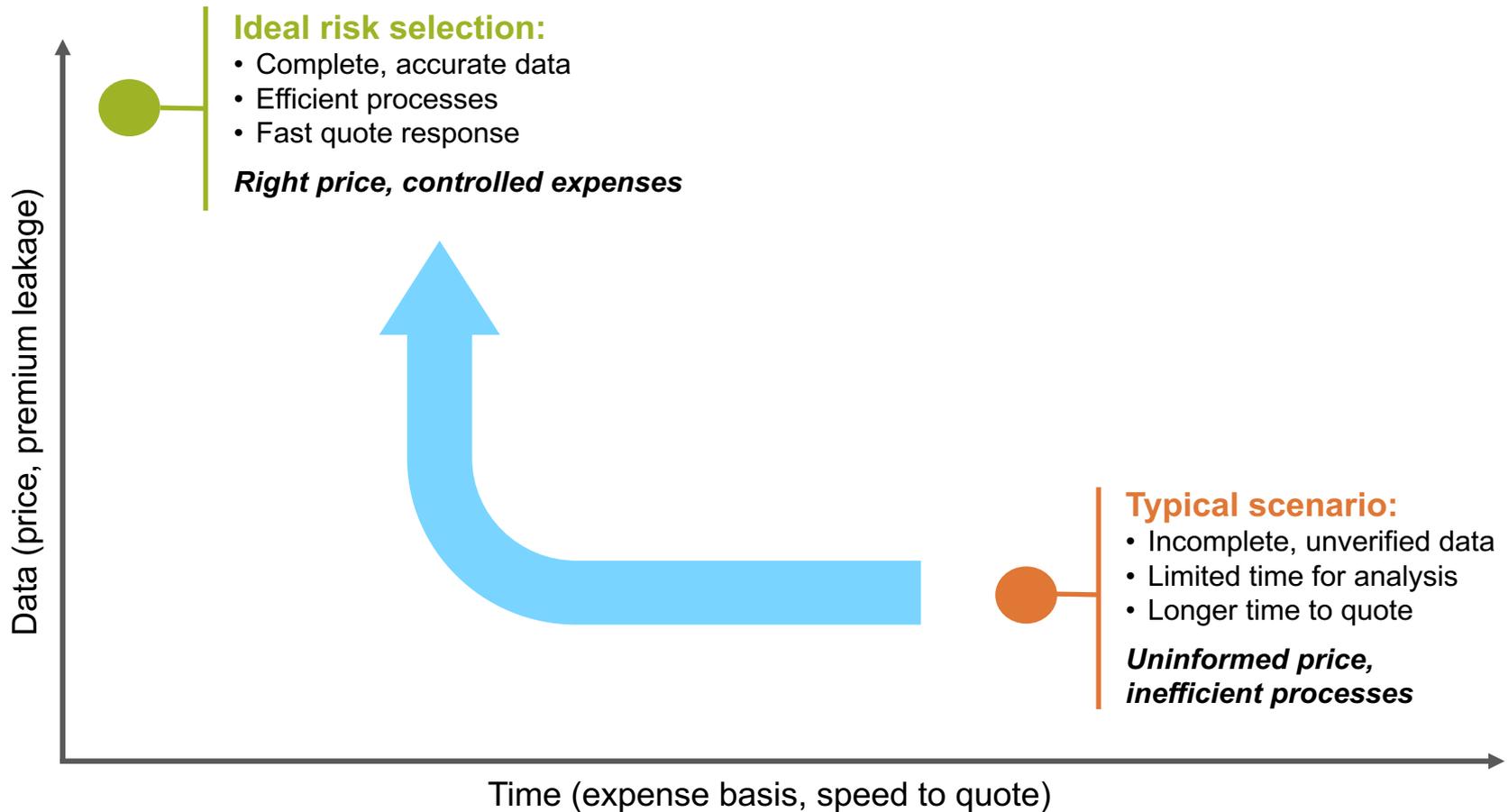
Construction Class for carrier's book of business





Scaling small commercial underwriting

Profitability can be accelerated with accurate data, intelligent decision making, and scale.





Our recommended approach to small commercial underwriting

Maximize profitability through high-quality data and workflow processes grounded in industry best practices.

- Prefill application with unbiased data
- Verify existing data characteristics
- Leverage newly available data and capabilities
- Apply analytics and expertise to provide actionable analytics





Data quality

A dedicated focus on data quality, grounded in industry best practices

Accurate

- 7M properties, 3.7M of which are site-verified
- 26M businesses, 16M of which are phone-verified
- Trusted third-party partners

Comprehensive

- Wide range of data integrated with thousands of proprietary and third-party data sources
- Granular depth of scope, with data elements carefully selected for all lines of business
- Access to the largest repository of insurance premiums and claims

Current

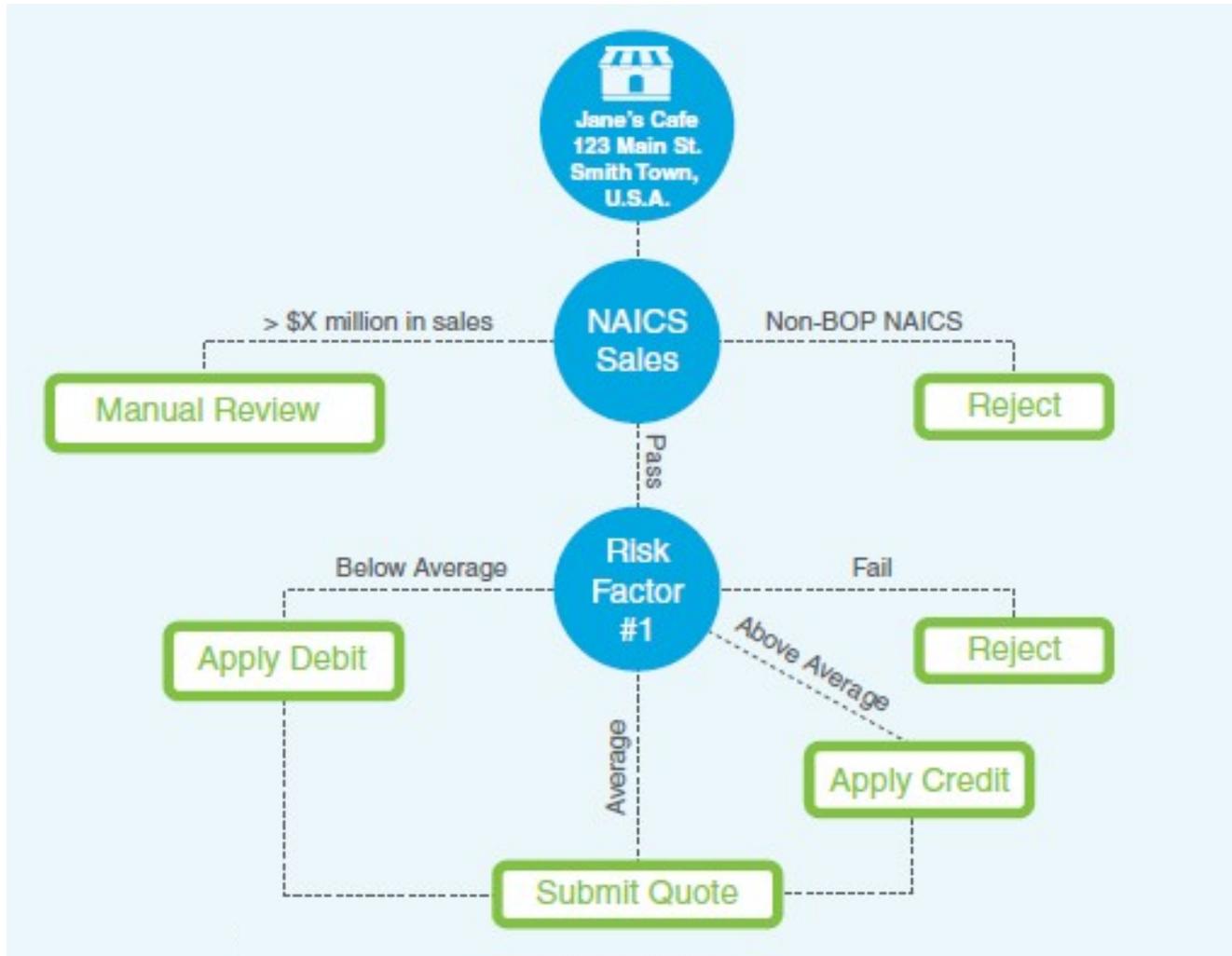
- On-site surveys of 350,000 commercial buildings every year
- 48,000 fire protection agencies evaluated once every four years
- 25 million businesses called every year

Actionable

- Analytics leverage unique data sources plus outstanding engineering, actuarial, and underwriting expertise
- Seamlessly embedded within customer workflows



Straight-through underwriting can support best practice guidelines





Premium calculation

- Business profile
- + Business insights
- + Property insights
- + Neighborhood insights
- + Loss history

***The right price for
the right risk***





Step 1: Confirm basic firmographics

Industry and exposure prefill validates primary underwriting criteria.

Name & Address



Business name: **Johnson General Contracting**
Address: **123 Oak St**
City: **Cleveland**
State: **OH**
Zip: **44105**

Industry: **1520 (General Bldg Contractors - Residential Bldgs)**
employees: **10**
Sales: **\$1,000,000 - \$1,500,000**



NAICS accuracy

40-50% of 2-digit NAICS is typically classified incorrectly

- Information on 26 million businesses
- Supported by manual verification
- Targeted currency of 6 months, with 24 month max



OR



A recent study showed over 80% of businesses classified as local delivery (NAICS 48411) are actually long distance trucking companies (NAICS 48412)



Step 2: Business insights

Objective measures of management competency identify the “x” factor likely to correlate with business safety.

<u>Metric</u>	<u>Criteria</u>	<u>Action</u>
Hours of operation	Open after midnight	Decline
Credit score	< 500	Decline
Year started	2014 or later	Manual review
OSHA violation	≥ 1 not yet closed	Manual review
Restaurant inspection severity score	>75	Manual review



Management competency indicators like credit score can raise a red flag

Agriculture company located in Northern California

Management Capabilities

- OSHA since 2005
 - 57 total OSHA violations
 - 15 serious OSHA violations
- Recently fined \$39K by OSHA for failure to train employees in proper safety procedures, as well as neglecting to keep work areas free of obstructions, resulting in a loss-of-limb injury to one of its workers

Workplace injuries leads to fines for Company XYZ

There will always be some level of risk in every task that is undertaken. However, many employers can take simple precautions to greatly reduce the risk of **workplace injuries** for their employees. A recent investigation conducted by California's division of the Occupational Safety and Health Administration claims that a one company could have prevented, or at least reduced, the harm one of its employees suffered in a recent accident.

In 2012, a 34-year-old woman was an employee at Company XYZ. She was working on a sweet potato harvester. According to reports, the woman's leg became pinned between a piece of the machinery and a pole as the driver attempted a turn. As a result, several bones in her foot were crushed. Although she was airlifted to the hospital, part of her leg required amputation.

In the investigation that followed, OSHA alleges that Company XYZ had violated several health and safety standards. Its report alleges, for example, there was no way to signal the driver of the harvester to stop in the event of an emergency. Witnesses to the accident reportedly had to throw clumps of dirt at the driver to get his attention. The organization has suggested almost \$40,000 in fines against the company as a result of the accident. According to reports, the company plans to contest the fines.

While the investigation and allegations against the company will hopefully prevent similar incidences, this woman's severe workplace injuries have likely significantly impacted her life. California state laws, however, require employers to provide workers' compensation coverage in the event of such an incident. Such coverage will likely compensate the woman for her medical bills, including a prosthesis and physical therapy, as well as lost wages as she recovers. While she is entitled to this compensation, others have found it helpful to seek additional assistance obtaining full and efficient compensation.



Step 3: Property insights

Site verified property characteristics effectively match risk to price.

<u>Metric</u>	<u>Criteria</u>	<u>Action</u>
Presence of sprinkler	No	Apply debit
Construction class	1-4	Apply debit
Number of stories	>5	Manual review
Year built	Before 1945	Manual review



Step 4: Neighborhood insights

Neighborhood characteristics can impact risk for property and liability.

<u>Metric</u>	<u>Criteria</u>	<u>Action</u>
PPC	>7	Reject
Crime score	>8	Reject



Step 5: Loss history

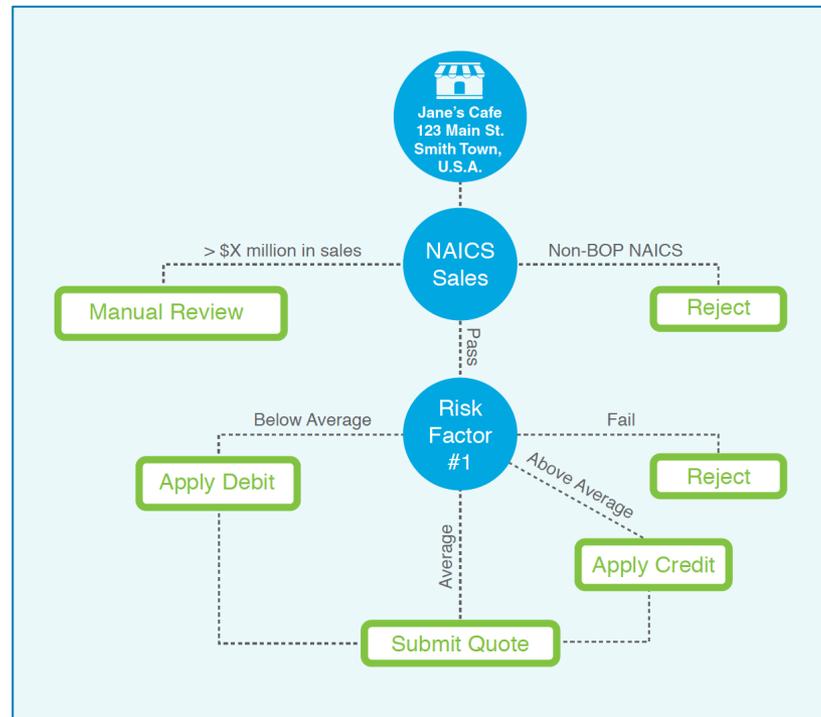
Prior loss history is a strong predictor of future claim behavior

<u>Metric</u>	<u>Criteria</u>	<u>Action</u>
Claim frequency	>1.0 claims per \$1M exposure	Manual review
Claim severity	>\$50,000 average paid loss	Reject



Start thinking big!

- The small commercial economy is big, growing, and changing
- Customers want change
- Innovative tools to help facilitate this change are here
- Winning in small commercial means increased revenues AND profits!



Thank You!

