

Insurance Market Sentiment Survey

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in association with **Willis Towers Watson**

Survey results captured November/December 2020

Willis Towers Watson 

Mind the (analytical perception) gap

By Chris Varley, Willis Towers Watson

According to this recent Willis Towers Watson/*Insurance Insider* survey, many commercial insurers are generally feeling satisfied and confident about their use of analytics in their pricing, underwriting and portfolio management activities. But are they collectively over-egging just how well prepared they are for the inevitable continuing encroachment of digital trading models?

As context, recent research, notably from Lloyd's, has shown active portfolio management to be a key area of focus for commercial insurers and that, done well, it can be a material performance differentiator.

This focus has taken many forms, from more explicit and detailed financial planning and volatility management to better controlling exposure mix and providing portfolio context and impact analysis as 'decision support' inputs for case underwriters.

Investment in portfolio management can and often does have a positive knock-on effect on pricing and underwriting sophistication, and through our many consulting engagements we have seen a wide range of maturity and capability in these business-critical areas.

A small number of highly sophisticated players, with modern, integrated pricing, underwriting and portfolio management approaches demonstrate how this 'virtuous circle' can benefit the entire operation.

On the other hand, in our experience, the impressive examples are considerably fewer in number than those carriers still working with (some or many) comparatively basic, unconnected and manual systems, processes and data.

The survey was commissioned to build on what we have observed to try and build a more complete picture of the maturity of pricing, underwriting and portfolio

management practice across the marketplace. We had a pretty clear idea of what to expect – a few relatively sophisticated outliers leading a 'pack' with a lot to do.

Differing perceptions

As such, some of the results diverged from our own experience, with the market largely assessing itself to be well on the way to embedding analytics in business as usual.

As an example, more than 83% of survey participants stated they were able to measure, manage and control the quality and consistency of pricing and underwriting decisions 'well' or 'very well', with comparatively few respondents rating themselves as 'poor'. This suggests that some respondents' benchmarks of what is going to provide competitive advantage markedly differ from those we would suggest represent developing best practice. This apparent difference of perspective warrants further analysis and explanation.

Two possible explanations are as follows:

1. The market really has made a significant jump forward with rapid and wide progress in integrating advanced analytics into pricing and underwriting.
2. Many insurers that feel comfortable with how they are cutting their analytics cloth now risk being exposed to digital shortcomings in the not too distant future if they rest on their laurels, effectively leaving a gap between expectation and reality.

From a purely objective point of view, Option (1) is a viable conclusion, although it is somewhat at odds with previous surveys. If that is indeed the situation for the market as a whole, the key will be to capitalise on established momentum to push commercial lines pricing and underwriting to new heights. But subjectively, we have to question what companies that responded to the survey are benchmarking themselves against. If, for example, it's Lloyd's Minimum Standards, there's a strong steer in the second word.

Option (2), whilst viable in the light of contradictory evidence, is difficult to validate against these survey findings. Yet, given our assertion of 'what good looks like', we think this option merits further investigation to inform a personal judgement on the viability of that conclusion. Is there a divide between perception and reality?

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What does 'good' look like?

From where we sit, effective pricing manifests itself within an insurance business as confident, accurate, data-led and timely decisions as part of the wider strategy and business plans.

In order to describe effective pricing, it's important to recognise the close links between pricing, underwriting and active portfolio management and consider the capabilities required to be greater than the sum of their parts.

At a case level, this cohesion results in a transparent, justified and logical calculation of a premium attached to a specific component of cover; aligned to the corresponding contract terms; underpinned by robust analytical insight; and, benchmarked against the wider portfolio.

At a portfolio level, efficient and effective mix management and planning actions across multiple dimensions (e.g. line of business, region, industry, channel) are underpinned by robust analytical insight with a clear link between portfolio objectives and case actions.

We see that, in high-performing businesses, emphasis has been placed on the areas of overlap between these three functional areas and the data and technology capabilities that support them. For example, such overlaps offer:

- **Consistency:** Portfolio segmentation is supported by robust rate strength metrics and the ability to compare core coverage and extension/restrictions provided like-for-like
- **Decision support:** Case underwriters have access to portfolio data benchmark cover and terms from similar risks in the wider portfolio
- **Appropriate sophistication:** Technical pricing pools exposure and claims information from across the whole enterprise (e.g. broad property insight from multiple 'products' that offer property coverage). This information is enhanced by external data enrichment to form robust statistical models that underwriting experts then infuse with their domain knowledge
- **Efficiency, agility and pace:** Data from internal and external sources are seamlessly integrated into a systems environment, removing the need for re-keying and leveraging the enterprise data asset

Consequently, a strategic outlook in respect of the enterprise data asset, a robust enterprise data strategy and technology applications that support analytical operations are part and parcel of making progress in these areas.

And as a point of reference, more than 70% of survey respondents said they are confident they have a clear, defined and deliverable data strategy to support the objectives of pricing, underwriting and portfolio management. This again strikes us overly optimistic.

Reconciling the results

So, back to the survey results.

We passionately believe that data and analytics effectively deployed to connect underwriting, pricing and portfolio management are key differentiators. Evidence from the recent joint Lloyd's and Willis Towers Watson survey of portfolio management backs this up, as it showed a meaningful gap in results between the best and worst.

These *Insurance Insider*/Willis Towers Watson survey results alone suggest that the market has made more progress here than is evident, certainly to us, on the surface. As advocates and devotees of the use of data in insurance, we have to accept that as a possibility.

But we have to nail our flag firmly to option (2) above. Instinctively, and from our wide exposure to current market practices, we believe some commercial insurers may be creating a gap between perception and reality in what they are ready and able to do with advanced analytics as more business goes digital. ■

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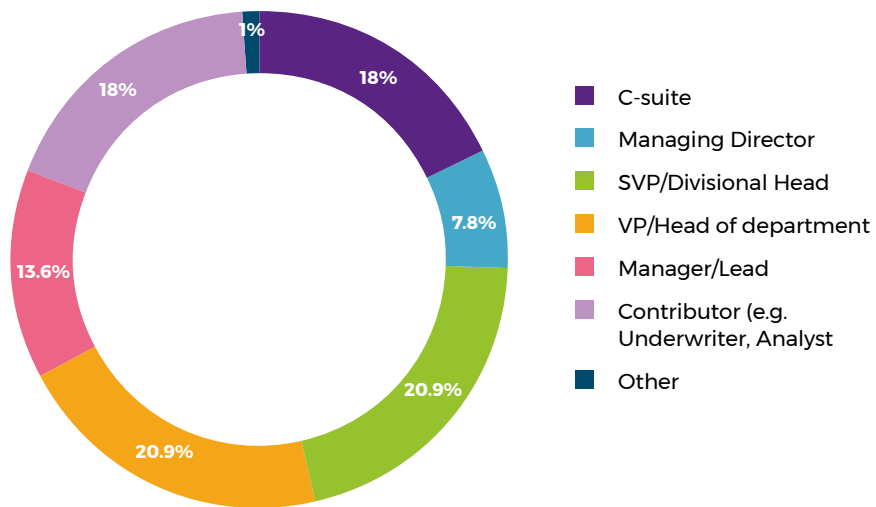
Chris Varley is a Senior Director in Willis Towers Watson's Insurance Consulting and Technology business

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At the end of 2020, Willis Towers Watson and *Insurance Insider* conducted a research study targeted at the global commercial insurance market aiming to identify trends in this sector. More specifically, we sought to gain insights on commercial insurers' readiness to respond to growing disruption in the market as well as barriers to change.

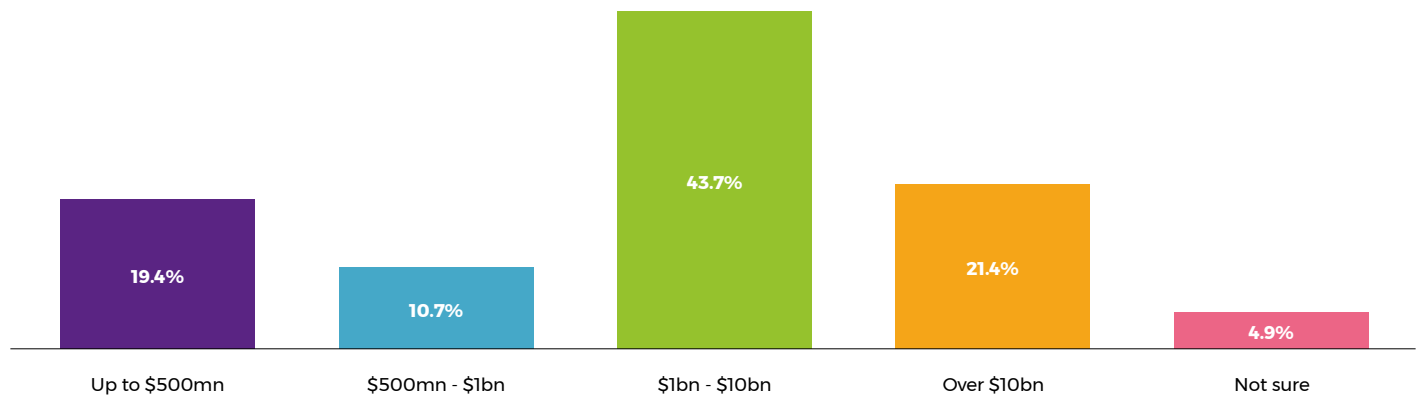
The study consisted of an online survey targeted at mainly senior individuals working directly or indirectly in the underwriting function. We received a total of 206 survey submissions over November and December 2020, and as can be seen below, the majority of survey submissions were given by senior market individuals. Indeed, some 81% of responses were either at manager level or higher. Furthermore, 18% of submissions came from C-suite executives.

Survey respondents by seniority



While the research targeted the most senior individuals at underwriting firms, the survey was open to individuals of companies of any size, so as to get as many different perspectives as possible. The survey was also global – 51% of responses were given by UK professionals, 26% were provided by individuals from the US and the remaining 23% of responses was spread across the rest of Europe and Asia.

Survey respondents by size of company



This report shares the key findings of the research, followed by full aggregated survey results with detailed analysis. For any additional queries related to the survey, please reach out to Chris Varley: chris.varley@willistowerswatson.com

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Survey Key Findings

As outlined in the foreword, the following results suggest that some respondents' benchmarks of what is going to provide competitive advantage markedly differ from those we would suggest represent developing best practice.

Average Duration

■ **Just over 83%** of survey participants said they were able to measure, manage and control the quality and consistency of pricing and underwriting decisions **'well'** or **'very well'**. Indeed, many respondents spoke of extensive data, highly competent employees and sophisticated systems to enable monitoring of this. **No C-suite individuals** chose 'poorly' or 'very poorly'.

■ The majority of respondents were either **'satisfied'** or **'somewhat satisfied'** that their systems environment provides analytical insights to support underwriters to make well-informed and consistent decisions around risk selection and pricing. Many also went on to say that their company is investing heavily in actuarial and analytical capabilities to improve in this area.

■ At the other end, just **4%** were 'very dissatisfied' and **20%** were 'somewhat dissatisfied' with their systems environment. Some individuals said existing data needs to be better used while other participants spoke of the problems of having unused data.

■ Around **71%** of survey respondents were confident they have a clear, defined and deliverable data strategy to support the objectives of pricing, underwriting and portfolio management. Those that were not confident complained of lack of data and exposure capture over a number of years.

Product constraints

■ Some **59%** of our survey participants considered **'product'** to be a **'well-defined'** and clearly understood concept within their business and almost **20%** considered this to be **'very well defined'**. At the same time, just **1%** chose 'very poorly defined' speaking of different definitions across the market and internally within companies.

■ Others said that teams not directly within underwriting may interpret 'product' differently to those in the underwriting function.

■ The majority of respondents thought their organisation's definition of 'product' **does not constrain** their ability to do certain activities such as **launching new propositions, monitoring and managing exposure accumulations and actively managing the portfolio mix**.

Transformation

■ The majority of respondents said that their business was **'unlikely'** to **undergo an underwriting transformation programme** in the next 12 months. However, some of those that chose 'unlikely' said they had already recently completed a transformation programme.

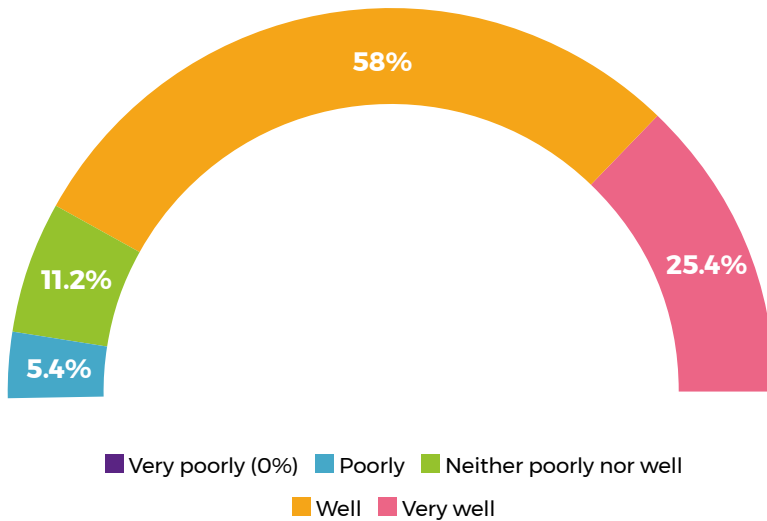
■ For those that were planning a transformation programme, **'improved risk selection and pricing'** was ranked as their top objective while **'improved governance, audit and control'** was at the bottom.

■ Our survey sample were, on the most part, **'moderately confident'** or **'highly confident'** that there businesses are keeping in line with the competition by utilising technology in their underwriting and pricing functions.

■ Just **6%** were **'not confident at all'** while **22%** were **'only slightly confident'**.

PRICING & PORTFOLIO MANAGEMENT

How well do you feel you are able to measure, manage and control the quality and consistency of pricing and underwriting decisions in your business?



Comments left by respondents:

"Tried and tested MI and a robust peer review system with underwriting decisions managed by the Underwriting Management Committee"

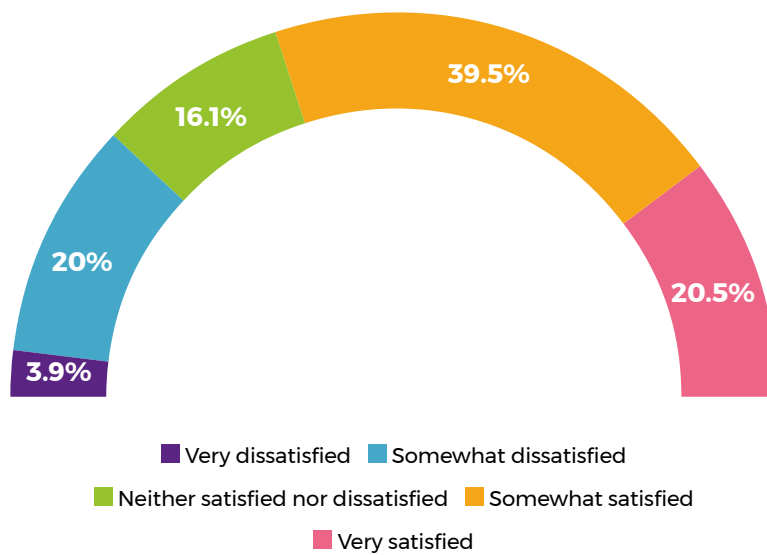
"We have robust pricing models and capture rate change and pricing adequacy on every risk. There is a comprehensive MI reporting suite aggregating this data that is widely available"

"We have a high calibre of seasoned professionals across the enterprise with mature pricing and exposure management systems, dovetailed with rigorous governance that makes sure we are fully conversant and current with all forms of existing and new age risk"

"Whilst we collect numerous metrics, the broad nature of the LOBs we write makes consistency difficult"

"Lack of data and quality pricing, lack of time to carry out thorough risk assessment, including assessment of wordings"

How satisfied are you that your systems environment provides analytical insights to support underwriters to make well-informed and consistent decisions around risk selection and pricing?



Comments left by respondents:

"My company is focusing more on analytic capabilities to give us more accurate and immediate information"

"We have made, and continue to make, a big investment into enhancing our capabilities in this area"

"Confidence around pricing tools can only go so far. But we are heavily guided by sophisticated raters and can easily benchmark risks to ensure consistency. In addition, no material account is quoted without the entire team first discussing it"

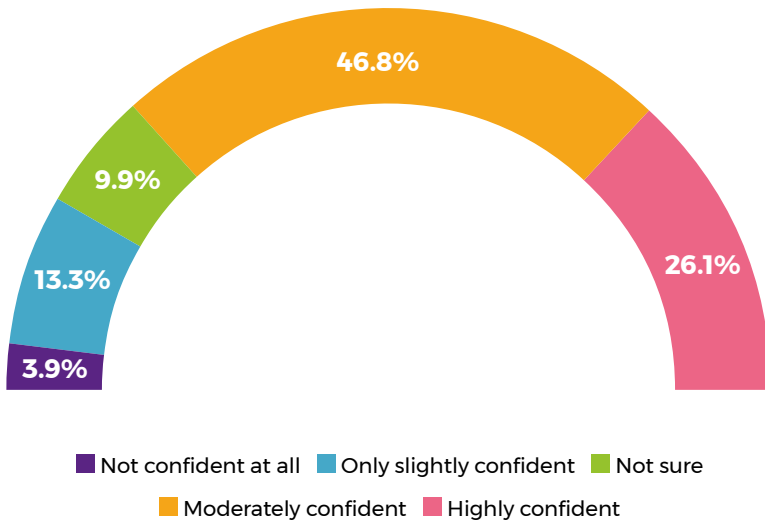
"We need to use our data better but we are rapidly improving at it. We have hugely improved in 24 months"

"The data could always be better and the London market has been poor at pooling data at a more granular level. Hence we have to collect our own data, split it according to our requirements but there is not really enough volume yet to provide truly meaningful outputs. However we do have great pricing support and a thorough understanding in all the constituent costs that need to be included to hit the target returns"

*Please refer to the foreword before taking any action based on these results

PRICING & PORTFOLIO MANAGEMENT

How confident are you that your pricing tools produce a premium based on robust statistical analysis, presented to underwriters in a transparent manner that meets their needs?



Comments left by respondents:

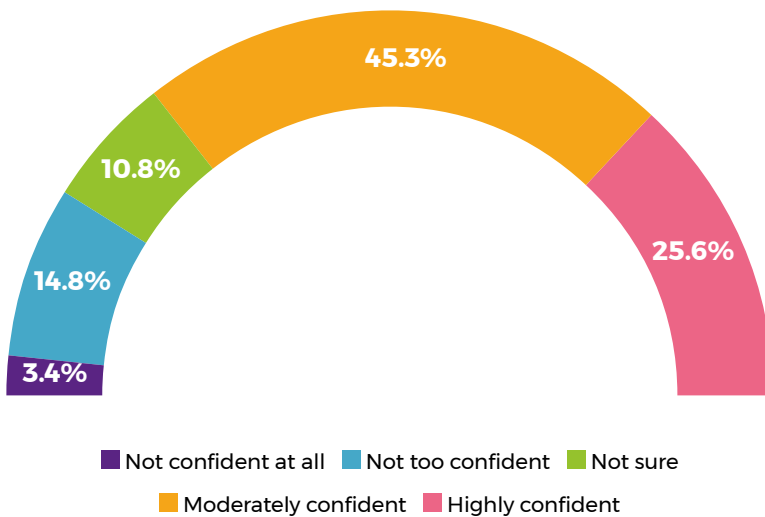
"Our pricing tools are robust tools that are not the final answer but put underwriters in the right direction to develop proper pricing and terms and conditions for such individual risks"

"Our models need to be slick and user friendly and be based on minimal input requirements. Some current models need upgrading which is in process. Again good progress is being made"

"Our LOBs are largely without historical losses so it is indeed difficult to know what the right technical price should be but we maintain in-house pricing tools to remain consistent and use vendor tools for market pricing analysis"

"I don't believe general pricing tools ever do, as they are inflicted with subjectivity. Case pricing is a far more important component of the analysis, and in my view portfolios that rely too heavily on portfolio wide pricing tools tend to underperform as the tools are calibrated to make underwriters competitive or uncompetitive depending upon the appetite at the time"

How confident are you that you have a clear, defined and deliverable data strategy to support the objectives of pricing, underwriting and portfolio management?



Comments left by respondents:

"We are in the process of finalising even more detailed analysis of claims and economic trends which are included in updated rates every 6 months. While there will always be unexpected events, detailed and exhaustive analysis of trends will enable us to react appropriately. We devote considerable resource to this"

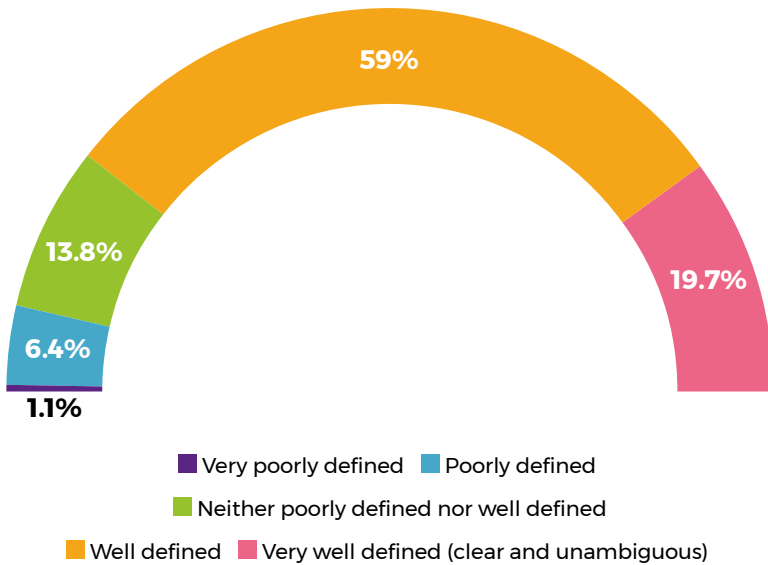
"Significant investment in data warehouse, dashboards and processes will support our pricing and portfolio management over the coming year"

"Lots of data is captured but retrieving and analysing it is difficult"

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PRODUCT CONSTRAINTS

To what extent do you consider 'product' to be a well-defined and clearly understood concept within your business?



Comments left by respondents:

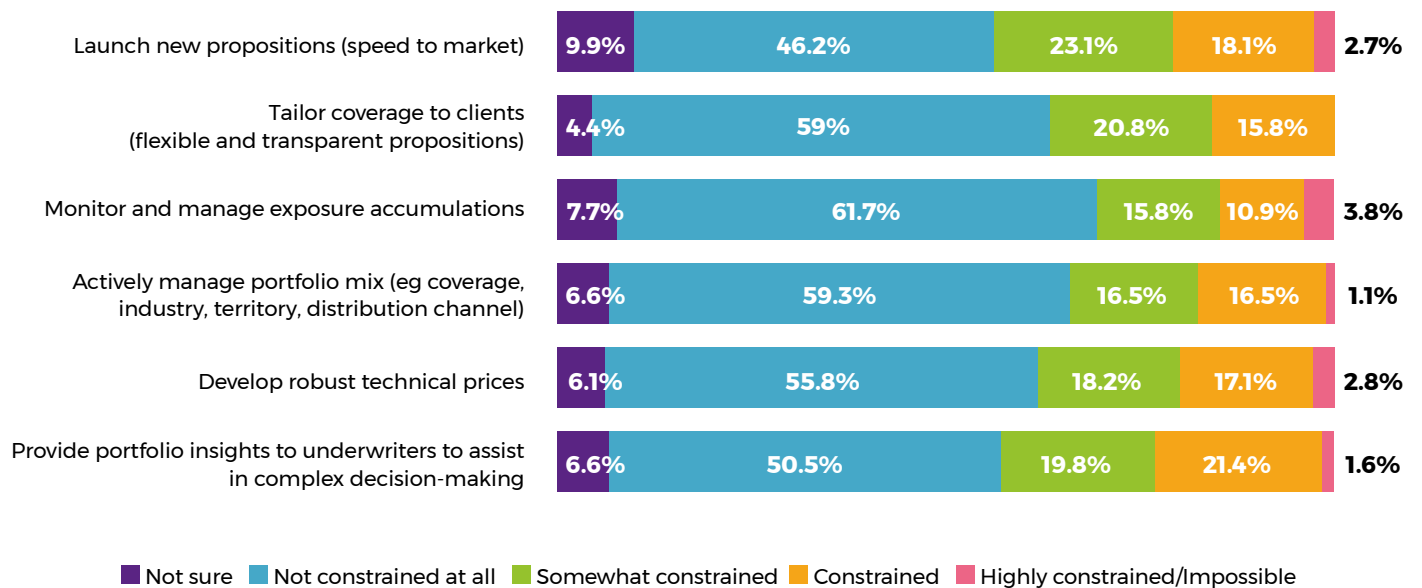
"Small/mid-sized underwriters traditionally view class-wide, working in broad teams, and make clients fit the class instead of developing tailored products specific to client exposures"

"To me it's very well defined but non underwriting teams have different concepts of 'product'"

"Different companies and even individuals within the same company have varied perspectives/definitions"

"Product is used in a very broad sense. But, it has no specific definition. People in the industry know what they mean when they use the term but it is undefined"

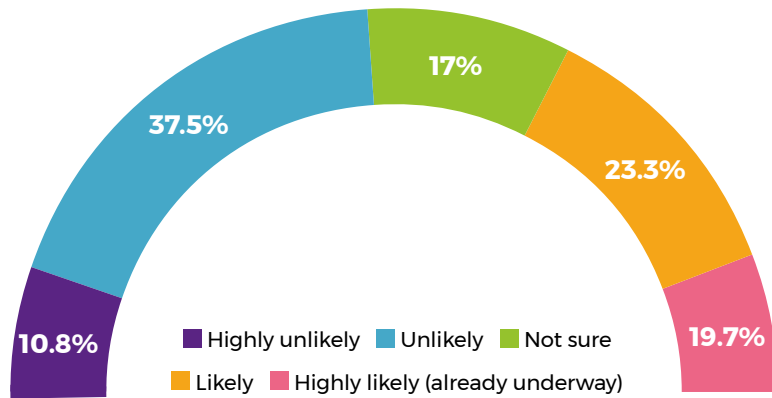
To what extent does your organisation's definition of 'product' constrain your ability to do the following?



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TRANSFORMATION

How likely are you to embark on an underwriting transformation programme in the next 12 months?



Comments left by respondents:

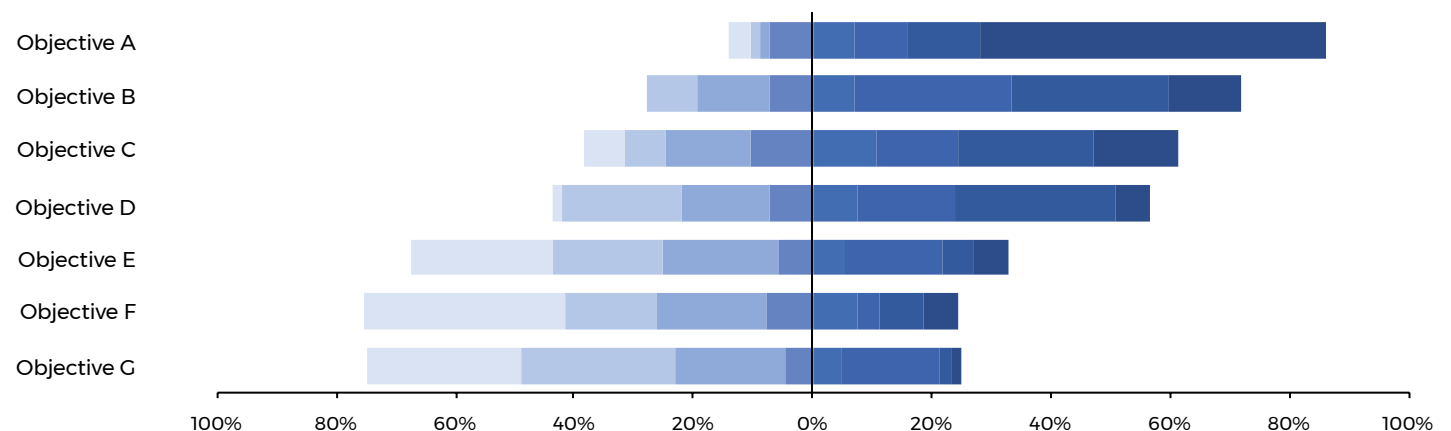
- "Recently completed implementation of a new target operating model"
- "Revised underwriting post Covid-19 along with the introduction of new products"
- "Completed an underwriting transformation over the last 24 months. Now the change will be pace, incremental and constant"
- "Our transformation program has been underway for two years and continues to evolve"
- "This is already underway with a data warehouse and other systems changes expected"

If you are current on or are planning on embarking on an underwriting transformation programme, what is your main objective? (Rank in order of importance)

Objective	Overall rank	Score
A. Underwriting effectiveness - Improved risk selection and pricing	1	344
B. Underwriting efficiency through task orchestration and process automation	2	277
C. Underwriting effectiveness - External data enrichment and case decision support	3	258
D. Greater agility and granularity in portfolio management practice	4	235
E. Replacing obsolete or outdated technology	5	174
F. Adapt to new ways of working post-Covid	6	151
G. Improved governance, audit and control.	7	150

Overall scores are generated using a weighted calculation - if a respondent places an objective as their first choice, that objective receives seven points while a respondent's second choice gets six points, third gets five points etc.

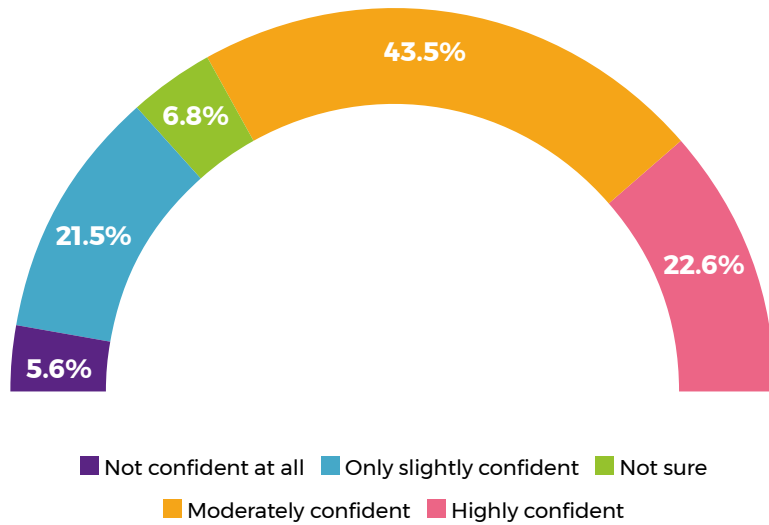
See below for the rank distribution - higher ranks have darker shading while the lower ranks have lighter shading.



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TRANSFORMATION

Are you confident you have the necessary capability and capacity in your business to keep pace with the competition in utilising modern technology in your underwriting and pricing functions?



Comments left by respondents:

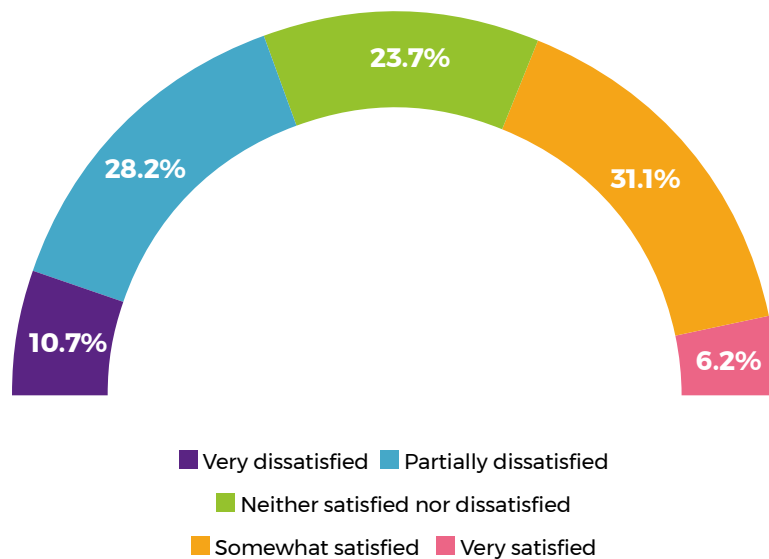
"We now have a data science team of four working on linking pricing, aggregation and analytics"

"We have invested in a bespoke underwriting portal that will equip us well in distribution, however other parts of the business are struggling to justify the upfront cost of investments in behavioural analytics and IoT/telematics when there is currently no tangible evidence of predictive capabilities and therefore improved performance. It remains too great a leap of faith at this stage"

"Yes, but not in all lines of business. Some areas of investment will not be justified due to the scale of our business in certain products and thus will take a back seat in effort and exposure"

"Somewhat restrained by legacy systems"

How satisfied are you that your underwriting process is efficient and that you are maximising the opportunity for automation and straight-through processing?



Comments left by respondents:

"Underwriting process is as far along as possible back end processing needs improvement"

"Placing platforms generally do not create much speed efficiency. 20 years after these systems were talked about, they still cannot communicate, seamlessly, with insurers' mainframe computer systems"

"We don't have a straight through process but make good use of outsourcing to assist"

"Our systems are a mix of immature and modern. More work is needed, but that is work in progress"

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