

> TAKING INSURANCE UNDERWRITING TO THE NEXT LEVEL



Deb Smallwood

Strategy Meets Action Founder

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IT'S A NEW DAY FOR UNDERWRITING AUTOMATION

Imagine if you had visibility into exactly what is happening throughout your organization. Think about being able to “see” all those things that might impact underwriting decisions while the decisions are being made, to look at how the work is flowing and make adjustments where and when they are needed, to watch how pricing is moving sales, to manage events as they unfold, to tweak product parameters based on customer feedback, and more.

Leading insurers are now taking advantage of new technology-based solution approaches that give them visibility and power to control outcomes. They are able to dynamically monitor what’s going on inside the enterprise and in the industry, detect the need for course changes, and then act—all in real-time.

Catalysts for Change

The reality is that today’s insurance marketplace is a tough one. Economic recovery is slow. In many areas of the business, the soft market persists. The investment climate is uncertain at best. Yesterday’s metrics, when a combined ratio of 100 was acceptable, aren’t good enough. External influences are playing an increasingly important role in determining the fate of the industry. Economic and political uncertainties around the world have far-reaching implications. New catastrophic events keep topping the last catastrophe with horrific consequences that reach far beyond geographic boundaries.

There are limited ways to grow and even fewer ways to grow profitably in this type of a market. In times when profitable growth is often dependent on being able to “steal” market share and wallet share from the competition, insurers are paying very close attention to what their direct competitors are doing and where they are investing.

Recent SMA research and analysis¹ shows that insurers are cautiously, but seriously, making significant technology investments aimed at positioning their organizations to take advantage of growth opportunities—particularly those that will occur once the market shifts. Sixty-three percent of respondents

ABOUT THIS WHITE PAPER

This white paper is written by Strategy Meets Action (SMA) and is sponsored by Progress. This is not paid-for research.

The content is based on SMA’s experience, research, and insights in underwriting and emerging technologies.

¹ SMA 2011 P&C Ecosystem Update, May 2011

in a recent SMA survey report they are growing or transforming, up by 6% in one year's time. These study findings indicate that insurers have increased their spending focus over the past year to address agent/broker demands and competitive pressures and to respond to customer demand. They are increasing their investments in the front end of the value chain: in product development, marketing, sales, and underwriting. They are creating operations that will allow them to quickly and profitably scale as the business grows.

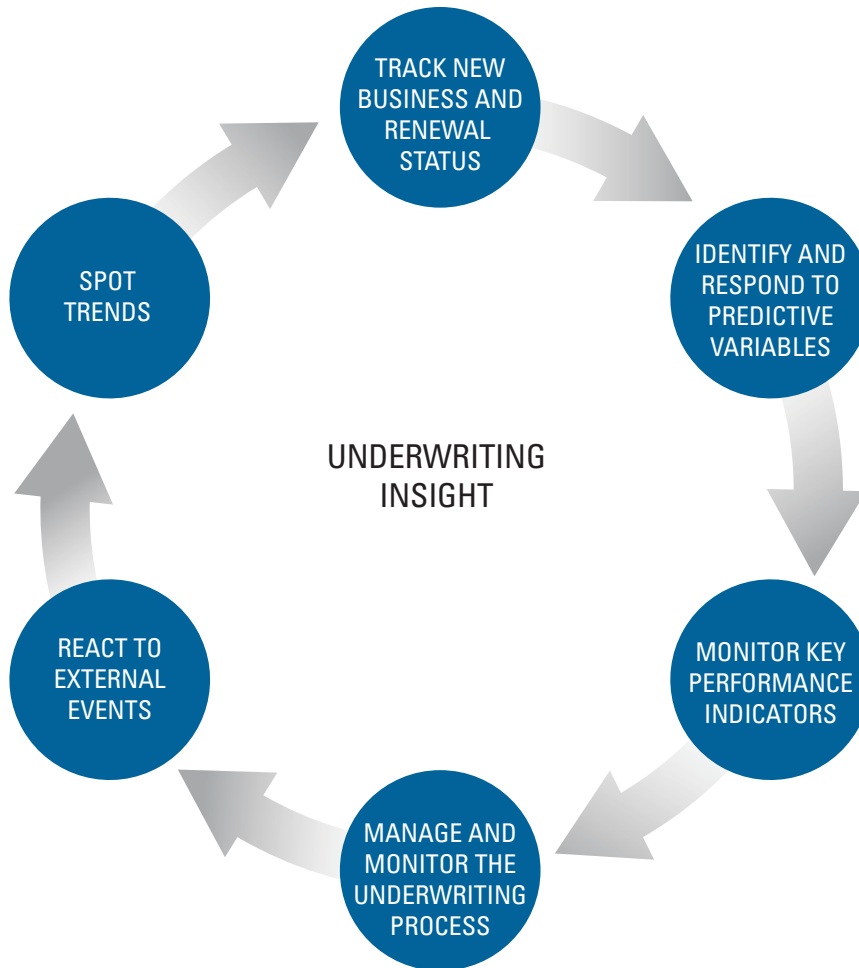
The Case for Advanced Underwriting Automation

There is a clear emphasis on putting the power of technology to work by automating underwriting processes. Not too long ago, automated underwriting simply meant some form of automated workflow tracking and management and possibly some data collection tools. Times have changed, and the state of the possible is profoundly changing the competitive landscape.

Both the art and the science of underwriting, especially commercial lines underwriting, require an awareness of both internal and external influential elements as well as effective management of all the activities involved. The days of being able to apply underwriting expertise using the back of an envelope and a number two pencil are ancient history. The task today's underwriter faces is overwhelmingly complex. The competition is applying precision judgment based on the use of multiple changing data sources, internal and external customer data that is both current and historical and presented via easy-to-analyze illustrations, real-time rules and regulations, and predictive insight. The leaders are able to sense and respond. Without these capabilities, it won't take long for minor mistakes to become major hits on the bottom line. It may not be possible to play a successful catch-up game.

THE DYNAMICS OF PROFITABLE UNDERWRITING

The profitability and/or quality of each and every underwriting decision are rooted in the insight that is available to the underwriter when the accept/reject verdict occurs and the price is determined. The quality of this decision involves a careful balance of customer service, product tailoring and innovation, and proper alignment of price to the risk.



Source: Progress Software

Competitive differentiation today is dependent on having exactly the right information at precisely the right time. Insurers must be able to assess the shape of the business and understand the influence and impact of minute-to-minute changes in market conditions, customer characteristics, new regulations, and rate changes. They need sense-and-respond capabilities that enable them to dynamically adjust risk appetite, operational processes,

marketing campaigns, product emphasis, and risk management. This requires situation awareness that is made possible with computing that lets you monitor, detect, and act.

INVESTING FOR COMPETITIVE EDGE

Over the past few years, insurers have primarily invested in automating the processes around underwriting and policy administration with a goal of straight-through processing for as many transactions as possible. For personal lines, the term life business, and some simple commercial lines, many insurers have accomplished the goal. For more complex lines, the goal remains elusive—not only because there is more judgment required, but also because the processing steps are more complicated and greater in number.

In recent years, investment dollars have been used to apply intelligence to the underwriting process. Insurers are now using data from both internal and external sources to refine decisions. There is widespread use of analytical tools and engines that not only help underwriters make more informed judgment calls, but also help insurers develop more appealing products and services.

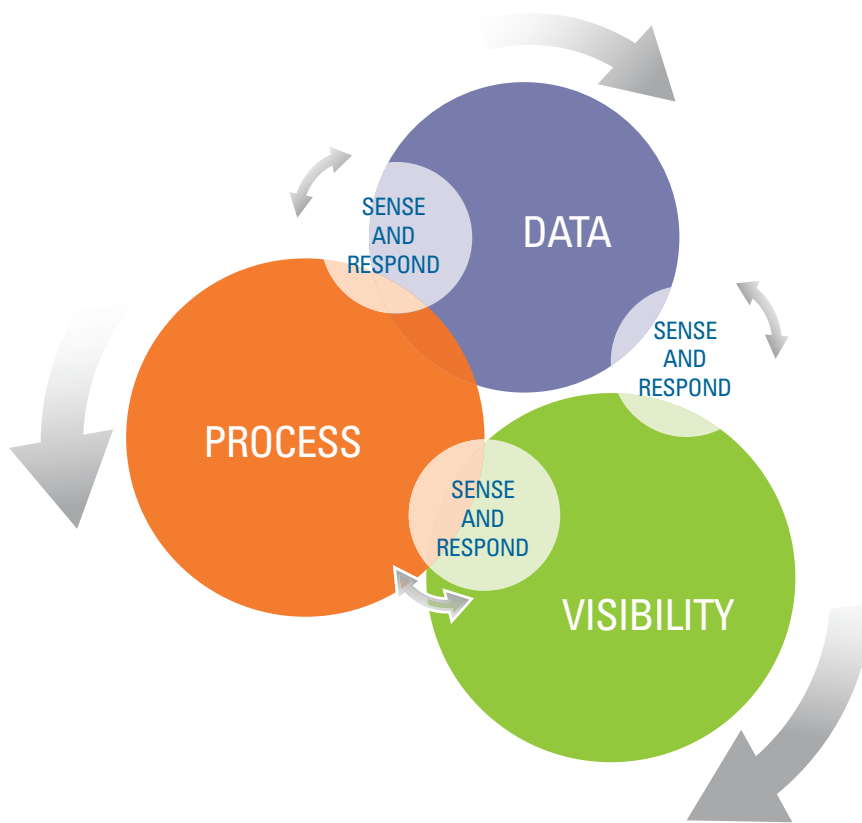
Today, instead of waiting for the market to shift, leading insurers are making proactive investments in the next level of sophistication—investments that sharpen their competitive edge in the short term, reduce operational costs, and build a platform for long-term profitability. New research from SMA shows that insurers are serious about gearing up for this next level of underwriting sophistication and are deploying an operationally responsive environment. Almost 50% of survey respondents representing more than 146 insurance companies report they will increase investments over the next three years in the implementation of capabilities that give them visibility into their portfolio and operations. This level of investment will forever change the competitive landscape.

Technology-based solutions allow insurers to view their entire business across all processes and departments. Armed with insight, it is possible to identify and react to both internal and external events and take appropriate action. Continuous improvement of business processes lets you dynamically monitor and adjust things like underwriting guidelines, new

product offerings, and service-level agreements. Visibility lets you identify and react to variables such as rate evasion, leakage, and churn—all while optimizing customer satisfaction. The benefits accrue across the organization, but are perhaps most measurable in the underwriting area. Insight combined with operational responsiveness translates to more predictable risk selection and better pricing outcomes.

TAKING UNDERWRITING TO THE NEXT LEVEL

Success for insurers in the coming years will require the ability to take informed action instantly. A sense-and-respond capability gives insurers the power to write more profitable business by combining improved risk selection and pricing on the front end and more effective loss prediction, prevention, and control on the back end. There are three fundamental requirements that frame this sense-and-respond capability: real-time visibility, continuous process improvement, and integrated data. The good news: solutions are available today that are able to deliver these required capabilities to insurers.



Source: Progress Software

Real-time Visibility

Real-time visibility lets you see what is happening throughout the enterprise—across distribution channels, underwriting operations, and claims processes—with a lens into resulting financial implications. Operational intelligence can trigger alerts that, when complemented with traditional analytics, let you “see” business events and transactions as they occur. These insights provide understanding about how unfolding events such as competitive moves, natural disasters, and regulatory changes might create opportunities, develop threats, and/or exacerbate inefficiencies. Knowledge is power. Equipped with insights, a sense of what is occurring, and the probable direction of what could happen next makes it possible to take appropriate action.

EXAMPLE: KNOWLEDGE IS POWER

What would sense-and-respond capabilities mean to your business? Imagine a wildfire that is threatening homes. Armed with up-to-date knowledge about what is happening and insight about how events might unfold, you are able to alert policyholders who might be affected with an early warning and provide advice for dealing with the potential dangers involved. At the same time, you are able to alter underwriting rules in accordance with a moving danger zone.

Putting the power of knowledge to work in your organization can help you deliver exceptional, memorable service to your customers while potentially moderating potential loss amounts. The customer who gets extra time to prepare, thanks to your alert, will be grateful. The reminder to grab essential medications and put precious papers and photos in a refrigerator or freezer before evacuating his family and pets to safety will be appreciated and remembered for many years to come.

Operational intelligence can trigger changes to automated underwriting rules and even impact pricing parameters. Visibility capabilities feed self-learning systems, improving productivity throughout the organization and driving better bottomline results. Think about the value of being able to deploy the most needed disaster recovery resource early. What would it mean if you could dynamically adjust workloads and workflows in real-time?

The technology behind visibility capabilities includes modeling, advanced business intelligence (BI) tools, and predictive analytics as well as event monitoring and sensing tools. Using advanced technology, predictive variables can be identified through intelligence applications and then applied in real-time to detect when business processes should be changed or require additional review. To put the information and insights into a format that is readily comprehensible, sophisticated dashboards provide graphs, illustrative images, and trending information—all in easy-to-understand and actionable format.

Continuous Process Improvement

To reach the next level of sophistication in underwriting automation, it must be possible to continuously improve operational processes. As conditions change, processes need to be easily and automatically adjusted to attain business goals and optimize business outcomes. To realize the full benefit of continuous process improvement, it must be possible and easy to move beyond the view of a single process or even beyond a set of processes in one functional area of the business. For example, when an increasing number of claims for bumper repair for a particular car model is detected, then that insight needs to be used to improve processes involving underwriting risk selection and pricing.

The technology pieces at work behind continuous process improvement capabilities consist of business process management software, event management tools and engines, and advanced rules and workflow management applications.

EXAMPLE: PROCESS IMPROVEMENT DRIVES BUSINESS ADVANTAGE

What would it mean to your business if you could dynamically adjust processes across the business in response to changing conditions? What if you could “see” and then capitalize on the exact opportunities that align well with your strategies and strengths?

Consider a situation where the regulations for boiler and machinery insurance are rapidly changing and at the same time your losses are rapidly escalating. With the use of advanced rules and rating engines, you are able to assure compliance. Pricing precision is possible by leveraging actuarial insight and the results of sophisticated analytics about how and where the losses are occurring. In the meantime, business goes on. The ability to take a complete and realistic view of the risk in the context of the current and projected market environment lets you deliver more timely and much more accurate quotes. Insightful intelligence about the market, the customer, and changing conditions gives you exactly what you need to cross-sell and up-sell where appropriate and only where appropriate. The specialized safety engineering knowledge you are able to provide about pressure valve operation and maintenance gives you the advantage needed to close top-quality opportunities.

The ability to continuously tweak single and related processes enables advanced levels of capability throughout the entire enterprise: self-learning applications, sharing of intelligence, insight that drives competitive advantage. Think about the value of being able to automatically learn from claims experience to improve underwriting acumen and to adjust that learning dynamically. What would it mean to your business result if you were able to proactively stem losses? What would it mean to your customers if you were able to help them prevent loss situations?

Integrated Data

The data that forms the foundation of your underwriting structure and pricing is widely recognized as an insurance company's most valuable corporate asset. The real key is to put that data to work for advantage. It must be accurate, timely, and available. The biggest challenge for most insurers is reconciling and integrating the data that sits within applications and departments. In many cases, the data resides in different systems that are unable to talk to each other. Advances in enterprise data management solutions let you see where and how the data is flowing throughout your enterprise. They provide sophisticated tools to improve the quality of the data and give you the ability to manage changes to that data with more speed and less complexity than has ever been possible.

At the heart of integrated data capabilities is an enterprise data platform that has a central hub and integration tools. The technology being used will also include data visibility tools and automated data change mechanisms.

EXAMPLE: INTEGRATED DATA DELIVERS ADVANTAGE

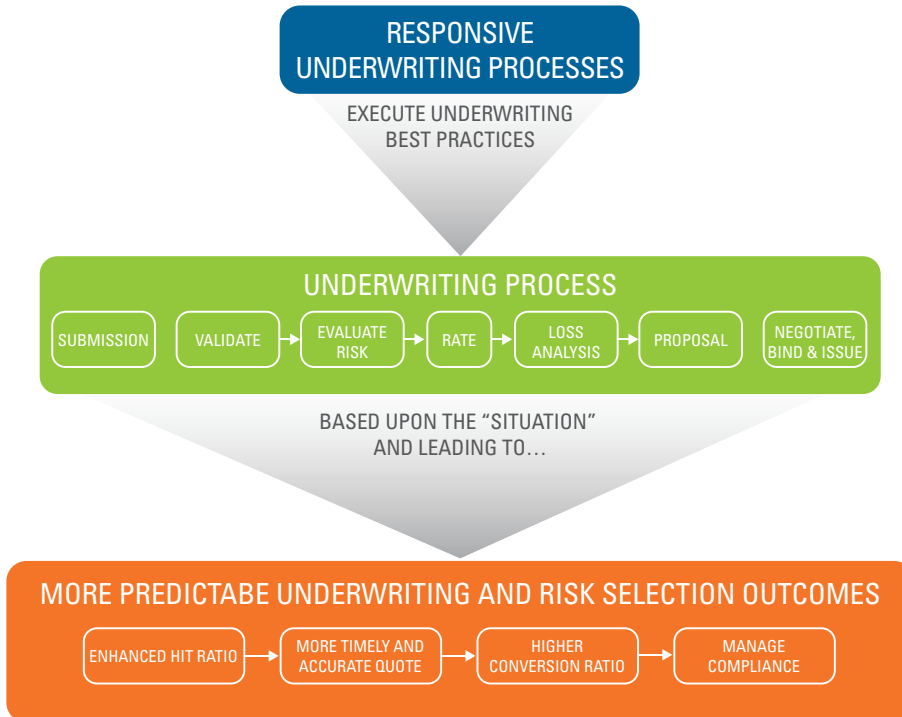
How might your organization benefit if you could use accurate, complete, integrated data? Imagine the power of knowledge combined with processes that are being continually improved—all empowered with integrated data. You have uncovered up-to-the-minute intelligence about the hazards of a new chemical fertilizer in use in one or more of the berry fields in a specific South American country. You are able to alert all of your agriculture policyholders to stop using the chemical immediately. Underwriting systems trigger automatically, stopping all new underwriting where this chemical would logically be used. Distribution partners are instantly notified. Proactive loss mitigation is possible. Policyholders with exposures can be identified. Risks can be minimized, and with fast action, it might be possible to prevent losses. Forecasting scenarios are created for conditions ranging from single crop and timeframe exposure to chain reaction impact. You are able to manage changing conditions with fluid processes and dynamic, complete information.

In a global environment, single source events can have far-reaching implications. Imagine the best case, where only a single crop of berries, in one field, can be destroyed and the soil can be "cleaned" before any damage is done. Imagine the worst case, where many shipments of berries reach many countries and jeopardize human life. The situation compounds when those contaminated berries have been processed and added to cake mixes, juices, pies, and other food products. The exposure escalates and expands exponentially as time passes—impacting and interrupting the flow of business in multiple industries!

Think about what it would mean to your organization to be able to view beyond the immediate threat to the full potential exposure. Would that alter your risk appetite? Would it change the provisions in your contracts? Could it make a difference in how you proactively mitigate risk?

CALL TO ACTION

All insurers are facing choices about how and where to allocate precious IT investment dollars. For those insurers looking for ways to differentiate themselves, an investment in taking underwriting automation to the next level could be just the right choice—one that will provide long-term reward for both you and your customers.



Source: Progress Software

The operationally responsive insurance organization stands to gain clear advantages. Insight coupled with the power to take informed action drives profitable growth. Insurers that are agile and able to quickly respond to the needs and the demands of agents and customers will lead the pack. Speed-to-market drives share and profit. There is measurable reward and peace of mind in staying compliant. The insurance company with the power to sense and respond will stay well ahead of the competition.

There are solutions available in the marketplace today that offer visibility, process improvement, and integrated data. They can be implemented quickly. Many of them will complement your existing systems. Now is the time

to take a close look at the options available. Now is the time to prioritize and plan for the level of underwriting automation that will help you achieve your business goals. The potential payoff is huge for those organizations that are positioned to assimilate the processes and data that enable them to identify and capitalize on the best risks, irrespective of market conditions.

STRATEGY MEETS ACTION



Exclusively serving the insurance industry, Strategy Meets Action (SMA) blends unbiased research findings with expertise and experience to deliver business and technology insights, research, and advice to insurers and IT solution providers. By leveraging best practices from both the management consulting and research advisory disciplines, SMA's services are actionable, business-driven, and research-based—where strategy meets action—enabling companies to achieve business success.

More information on SMA can be found at strategymeetsaction.com.

SMA founder Deb Smallwood can be reached at 603.770.9090 or dsmallwood@strategymeetsaction.com.

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WORLDWIDE HEADQUARTERS

Progress Software Corporation, 14 Oak Park, Bedford, MA 01730 USA
Tel: +1 781 280-4000 Fax: +1 781 280-4095 On the Web at: www.progress.com

Find us on  facebook.com/progresssw  twitter.com/progresssw  youtube.com/progresssw

For regional international office locations and contact information, please refer to the Web page below:
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