



International Insurance Society (IIS) Webinar

The Role of the Chief Underwriting Officer

Video/Podcast Transcript

Josh Landau: Hi, this is Josh Landau, the president of the International Insurance Society. Thanks for joining us today. Today we're here to talk about a new thought leadership piece. The Future of the Chief Underwriting Officer presented by Accenture. As most of you know, Accenture is a global Professional Services company with leading capabilities in digital, cloud and security. Joining me today from Accenture is Michael Reilly a director of Insurance Underwriting Community practice, and Kym Gully, Product Strategy and Development Lead for Accenture Life and Annuity Software. Michael and Kym, thank you for joining me today. Why don't we kick right off into it and why don't you tell me a little bit about why you wrote the white paper?

Michael Reilly: Thanks Josh. First of all, very happy to be here and very excited to talk about this topic. When we started to look at underwriting, what we're seeing is a lot of big changes coming at the same time. There are changes in technology with regards to artificial intelligence, changes in risk profile, global nature risk, changes in distribution that are causing different needs for the underwriting to be faster or more efficient or be nimbler and return in different ways, and we looked at how underwriting was responding. And because underwriting has historically divided into individual P&Ls, we were throwing lots of tactical solutions and lots of tactical pieces of it, but we weren't really addressing it strategically, we weren't really even thinking about it strategically because we were just thinking about it in these little pieces and there was this need to take a step back and really rethink what underwriting could be like because essentially underwriting hasn't changed in 40 years. We've changed technology platforms a little bit but it's still essentially the same. You have this huge opportunity to reimagine. And so when you look at who is in the right position to consider doing that, we start to think of the Chief Underwriting Officer. And similar to the changes we saw with the Chief Financial Officer and the CIO to become strategic, we now see that same need within underwriting to become strategic and the CUO was the natural position we kind of started to land on and think about. Kym do you want to add your thoughts?

Kym Gully: Hey Josh thanks for inviting me, I appreciate the opportunity. I'm pretty aligned with Michael, I'm maybe an opportunist. In the life industry I see so much opportunity to improve, I also believe our future consumers have different expectations on how they expect to purchase. I think underwriting is a really exciting area and it has to evolve, especially over the short term. If you look at adoption of cloud in our industry, it was very slow to start and

then it just exploded. If we look at an analogy, let's take a snowball. The more momentum it gathers, so too will it increase in size and speed. So this is something that's going to increase exponentially and I'm not a very good bystander.

Josh Landau: So on that, how do you see the role of the Chief Underwriting Officer changing over the next few years?

Michael Reilly: When you look at the CUO today, they play an extremely important role. They help manage capital allocation, they help set the allocation standard, they kind of help set the allocation controls but they're more a governor on the process. They help make sure that the underwriting process functions well but they're not the driver, they don't set the direction. That's been left to the individual P&Ls. The trouble is that the challenges the individual challenges that underwriting faces today are not something that a small business or just the life insurance side or just the group can kind of tackle by themselves. There are bigger issues that require bigger thinking. How to bring data more comprehensively and how to have an analytics approach all the way through my full end to end process. How to change my distribution. They require bigger thinking and bigger alignment so we need the CUO to move from being the governor on the car to being the driver on the car and setting that direction and where it goes to bring the different groups along so that investments can be aligned and these different challenges that underwriting is poised to take, it can actually start to take those steps.

Josh Landau: So then why have insurers held back on this change up to this point?

Michael Reilly: Well, I think a couple of things. Insurance in general is a little conservative, underwriting is very conservative. And they try to take small steps along the way. The trouble is the tactical steps aren't leading to where we need to be. After a lot of leader technology implementation, sometimes an underwriter will say they jobs were the same or worse than they were before. We walked into one carrier look-at and the underwriter was supposed to use 92 different models that were supposed to help them do their job. So they had included analytics, they had included even some cool AI thing but they did it in such a way that the job become worse, the job because harder they weren't improving and driving performance because the tactical steps or thinking about that small tactical piece, while it was moving in the right direction, couldn't really set the broader strategic changes that are needed to really transform. The model works today to do incremental changes, the trouble is the challenges that we face aren't incremental in nature. The challenges that we face require more transformative or more strategic thinking to really get the leaps ahead and really drive solid performance either significant changes in expense or significant changes in driving loss ratio and improvement require a different way of thinking.

Kym Gully: Let me add to that, thanks. I'm completely aligned with Michael, but I'd like to extend it. You know like he said, we work in an industry that is risk averse, especially when you compare it to others like trade platforms, etc. We're very slow to adopt change and in some cases we have this concept that if it's not broken don't fix it approach. The challenge that I see coming out of the left corner is the consumer market is changing rapidly. How we purchase generally today has taken a right turn over the years thanks to the likes of Amazon etc. It's all instant, simple and if we look at the Generation Z, this will drive the final push, particularly in the life insurance business. As a new generation starts to engage, they'll expect the purchasing model to be vastly different from what it is today.

An early flag to me was my son-in-law and daughter who were generally surprised when I was speaking to them the other night at dinner the process they went through to buy life insurance for the first as a young newly married couple. For two young healthy individuals, the process took weeks for them to get it and they probably rang me two or three times asking me if this was normal. So the market is definitely changing and the expectations are going to change rapidly in the near future.

Josh Landau: Yeah, I expect that. On that point and then pivoting a bit to the practical nature on this in order for this evolution of the chief underwriting officer to work the way you say it should, insurers are going to need a great deal of technology to help with the process. Practically speaking, is this even possible to do today or are we really looking far out into the future.

Kym Gully: Absolutely. The short answer is yes. There's an abundance of new tech startups and AI frameworks that can support the direction underwriting needs to go. In addition, in today's modern policy admin systems, with their open APIs and distribution model you can absorb from the cloud, you can easily partner for the new tech. When I look around it's really interesting and what I see is available. When I go to the conferences and engage with partners and constantly speaking at different venues, I feel like a kid in a candy store. There's so much opportunity I can grab and move on with. I think all that is left to do is define the path for your particular business and then integrate with the right partners.

Michael Reilly: Yeah, I would add on, the future is here. It happens to be unevenly distributed. Right. It's not here in all places, it's not here in all case and we haven't necessarily linked it together. But the limiting factor is not the technology. The limiting factor is imagination and the boldness to follow through with a reimaged future of what underwriting can become.

Josh Landau: You know, Kym, you mentioned AI and one thing we've been hearing for years is that AI is going to replace underwriters, yet you make the case in the paper that there's strong evidence that humans plus machines is the way to go. Can you expand on that a little bit?

Kym Gully: Sure, yes, in small steps. So at Accenture, we believe in the concept of "human + machine." What that means is that while there are some tasks that obviously artificial intelligence is very good at, such as parsing massive amounts of data and identifying patterns, the ultimate decision at this point, it's going to rest with a human. So in the case of life underwriting and the growing sources of data available to assess risk—and there is an amazing amount—, it would take a human underwriter significant time to review, so let's simplify and let's set pinpoint patterns within these data sets. Add AI, and we can make the underwriter's job a little easier and a little quicker by removing the grunt work, the administrative work, and then we enable the underwriter to act on the data itself, which we mentioned earlier. We've also seen situations where insurers use straight-through processing to underwrite smaller face values. This obviously frees up underwriting capacity for more complex higher faced values. So it is human plus machine, the two work together and you've got to remember one last thing. The machine is only as smart as it's been educated. If you go back to programming days, a computer does exactly what you tell it to do; nothing more, nothing less. So even with AI, the education is going to have to come especially at the start and allow it to grow.

Michael Reilly: Yeah, and you see these same models kind of play out in commercial. AI can be extremely useful in cleansing the data, repairing the data, making sure we have the right data. Actually, one of the things we know is a major problem is we get the industry code which we know is critical to your small business and large commercial. We get it wrong 20%, 70% a large percentage of the time. With computers we can get it right. So in that case we would want the machines to do it. When it comes down to the judgement, we want the underwriter to do it but informed by the machine, informed by - it helping to point out, if I have 300 locations by the way here are 10 that are near CATS, here's the one that has an ITV that's unusual for this piece, pay attention to these as opposed to this. This is the area for using comparative analytics. This is the one where this company doesn't quite look like its peers. So maybe pay more attention here. So you can use the machine to draw attention to help make sure the underwriter isn't missing exposures or considering the risk appropriately but the ultimate judgement and later on the negotiations and other elements that underwriters are critical for, we still want the underwriters to do it we just want to help them do it better.

Josh Landau: That makes sense. So given the collaboration between human and machine, how do you see AI and Underwriting affecting the core policy administration systems? And really, in other words, where should insurers invest?

Kym Gully: Unfortunately, if you look through time situations have occurred where some sort of event has been experienced that creates change. The pandemic has been no less unfortunately. We've seen a lot of change especially around Policy Admin systems that were pushed through during the pandemic and life insurance that had already modernized their core policy admin systems were much better positioned to handle remote work and contactless underwriting. So my advice is and it's simple, if you haven't done it already, modernize your core system. You also want to make sure the system can integrate easily with third party data sources and other technology such as predictive risk models. That's what's going to be needed.

Michael Reilly: Yeah, and I'll take it a step further. In commercial P&C and even in personal lines P&C we have some slightly different challenges than on the life side but all of it points to the same piece. When I look back, underwriting platforms have gone through a number of different stages. The first stage was base rating systems – systems that allowed me to do base rate but wouldn't actually allow me to do anything else. That was the first generation, we had those 20-25 years ago. The next piece was I married my base rating systems with workflow systems. That's where kind of the modern platforms are today to allow the workflow and do those different elements and they've gotten very very smart where they can adjust data , bring data into the process and do different things but they're not really big data platforms. What we're starting to see is the third generation of data platforms. And the third generation is we want to take the best of those current generations of platforms and we have some great platforms out today, marry them with a big data platform that at the point of needing the workflows that the modern systems control, they can bring the analytics, they can bring the models, they can bring the data visualizations into the processes because they've very specialized on the data side and by combining the best of both of those pieces is where you can really get powerful transformation in where underwriting can go in the future.

Josh Landau: So are insurers behind in the use of AI for underwriting and, if so, how far?

Michael Reilly: So it's interesting when you say "insurers" because it's different whether you think insurers are behind or underwriters are behind and you kind of get different answers along the way. In general, insurers are behind in, you know, compared to some of their peers in retail or banking in different elements. But when you look even within an insurer, I would say in general, underwriting is behind its peers even within the underwriting practice itself. Claims has had more focus on bringing in analytics, bringing in artificial intelligence to help, you know, drive specific outcomes and drive specific paths. And I started to get fairly sophisticated in those cases of using it to drive interactions and things along those lines and so we can see a cohesive vision starting to emerge for how AI and analytics and advanced tools can actually work in the claims practice. Underwriting, instead, is much more still in the learning stage, right, there's little tactical solution here, a little tactical solution here, or there may be narrow, you know, narrow companies that are actually using AI in a slightly broader piece. But you're not seeing that cohesive vision yet, and that's part of the challenge that we see with underwriting is there is this need to take this next step forward and take a leap and really consider how AI can actually be used from beginning to end through the underwriting process and that's where, coming back around, where it needs to be more strategic and, again, where we think the role of the chief underwriting officer is to help drive that vision through the underwriter and to help it catch up and help it, you know, set that direction and set that vision.

Josh Landau: Right, so then what is the market for AI-led underwriting?

Kym Gully: Josh, let's flip that, can we? Let's talk about it another way. Should we be asking what is the opportunity cost. Ok, Accenture surveyed over 500 interesting firms—"interesting," they were probably interesting—insurance firms and found the opportunity cost is as high as 37% fewer revenues over an 8 year period. You know, when you compare that to insurance leaders that have adopted new technologies such as AI, that's a fundamental difference. We have a report, "Future-ready Insurance Systems Report and that can provide the details and I do recommend people reach out for it. In it you'll see how silos within the legacy carriers are either missing the opportunity from technology investments or not realizing the full value of technology investment already made. In the life insurance business, we see AI as a catalyst to expand business by enabling new models such as "pay-as-you-live." It's gonna move down the side of P&C and motor insurance similarly to what their doing today. If you have a look at P&C or motor insurance, they came out some time ago where they put the little box on the dash. Personally I'm not a fan, wouldn't be in a rush to do it. I probably have a little heavy right foot, but it monitors your driving and the premiums adjust against your driving capabilities. We buy a life insurance policy for 30 years, and my body is physically changing massively over that time. Why aren't I following a similar line? Why aren't I looking at my FitBit and my watch and everything else pulling that data in on a real-time basis, adjusting the algorithms and the calculations. The AI can be monitoring all the way through, and now giving me a premium on a yearly or even a monthly. Yes, we have to redesign our products. Yes, we'll have to address regulations, but that's where we're gonna go; that's where were heading. I really believe that.

Josh Landau: Hmm ... terrific. So the technology is there. The ROI is there. Where do the insurers actually begin, aside from, of course, contacting Accenture?

Michael Reilly: Well, and this is, and you know, we're trying to get the role of the chief underwriting officer to change as well. So, again, they're in a governance role today, and we want them to get to a driver role. And so for them to start to play that strategic role, one of the first things they have to do is help make sure they understand where their business actually is today. So a much more detailed assessment understanding where are the processes breaking down. Where is the underwriting breaking down so it's not as effective or efficient today. And also looking ahead as what are the changes that are coming. So what are the changes in distribution that are going to come in those areas. There's different ones going on depending on the market. Sometimes I see broker and agency consolidation. Sometimes I see explosion of new direct sources. Sometimes I see completely different sources as far as MGAs or original equipment manufacturers, or original service providers emerging. So you gotta kind of assess that piece and then drive the imagination. What is that kind of future that we could do and then come back around the tactical steps. Don't do it in reverse. Don't just, oh we'll learn from this tactic and we'll learn from this tactic. We've done enough of that. The time is no longer to do the tactical pieces. The time is, take that leap, set a real strategic vision and start to take the first steps to it.

Kym Gully: And from a technical perspective, I'd like to throw that in. The ecosystem must be out and readily absorbed and process data in a real-time manner. You need to be able to leverage data partners who can help scale the process and once you have the data in the system, you need to be able to use it. And then obviously the next step is to focus on the product design that can capitalize on the data as it evolves over time and then your AI underwriting can be tuning in – in a perpetual motion – so that they can look at the sales they can look at the payout process they can look at the decision process and they can grow and expand till it gets to a point where it becomes self-perpetuating.

Michael Reilly: Yeah, and when you do that the solutions are endless. Its like a simple solution so renewals. Renewals should be the simplest thing in the world. But add AI, add some of the thought leadership and you completely reimagine it. So take a small commercial renewal. What if I use third party data to see where that business has actually changed so I don't have

to send the application out, I don't have to go back out. I can actually use third-party data sources or data scrapings from web and whatever else and find them. I can have an AI reach out and have a conversation. Hey, your renewal's coming up. It looks like your hours have changed, are your new hours this? Are you now using drivers because of Covid? You know all these things have changed. Let me just get these answers for you. Oh, I have these answers for you? Oh by the way your new price is going to be this, I'll send you the new quote. I can completely reimagine that experience. If I take the steps to do it.

Josh Landau: So what mistakes have you seen insurers make and should they be aware of and what should they avoid?

Michael Reilly: I think the biggest piece is lack of imagination and failure to be bold. Going back to where we've started, its incremental steps, small tactical solutions and lots of tactical solutions. And those tactical solutions, they have their actuaries building lots of little models that the underwriters are supposed to use which makes the process slower which just makes the process harder, which is not improving. We've got to get out of that mode of pilot or just do it off to the side, it has to become strategic, it has to become reimagining. It has to become underwriting experience driven and driven by real goals that are significant targets not small incremental changes.

Kym Gully: I agree. It has to become proactive not reactive to industry's change. When you look at the early signs, they're out there, change is coming we need to take a step back and look at the underwriting world holistically. We need to use everything that's available like business intelligence reporting to identify the problem areas and then act upon them. We need to make sure the physical environment is capable of supporting your strategy. Remember the solution is only as strong as your weakest link. So we need to look right across the enterprise not just the core system, and plan the attack accordingly.

Josh Landau: If there is one key takeaway from all this, what should it be?

Michael Reilly: For me, its just no longer the limitation. Its not what's holding us back, its not what's preventing us from doing anything. The technology is there, the technology is ahead. Its lack of imagination. Its actually thinking and being bold enough to re-think and having the courage to re-think what if we did this completely differently. What if we approach this in a different way? Now, underwriting still has its core goal. It still has its critical goal to protect the company. And it has that function and will always have that function. But there are such better ways to do it if you're willing to consider and willing to reimagine. Reimagine what the agent experience could be, what the broker experience could be, what the end customer experience could be. Take the simplest example in the world, in 1600 when modern insurance started, how did we deliver a policy? Well, they wrote it up and they walked it down the street to hand it to the customer. Well now I can send it off by mail. And then I got really fancy and I faxed it. Now 300 years later, the best we've done is now we email it. There are collaborative solutions, there are ways to integrate, there are ways to deliver it. It's a simple thing that we could completely transform but we're stuck in a way which we did 300 years ago. And most of the underwriting processes are the way. It is time to make a change, it is time to be bold, it is time to be imaginative and really take this to the next level. If you do, the financial gains across expense, across loss improvement, across growth are there, they are tremendous. But it takes the leap.

Kym Gully: Josh, you've heard the passion coming from Michael. I'm of a similar vein and maybe a little pessimistic at times but the future from my perspective is bright. It's a pivotal moment in time for underwriting and I think companies just need to act on it so that they're not left behind. You know, at Accenture, we're already working with a couple of insurers that have the foresight and are adopting change at pace. Companies need to come on board

otherwise it is going to be a completely different marketplace than it is and I'd hate to see somebody being left behind.

Josh Landau: Terrific. Well Michael, Kym thank you for spending time with us today talking about the future of the Chief Underwriting Officer. We are appreciative of the time, I enjoyed reading the white paper. I want to let everybody know watching today that they will be receiving a copy of the white paper and if there's any further interest in the topic, they can reach out to Michael and Kym, and again on behalf of the International Insurance Society, Michael, Kym and Accenture, thank you for being great partners, thank you for sharing this new paper with us and we're looking forward to hearing more about this topic as it develops.

Michael Reilly: Thank you

Kym Gully: Thanks so much

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