A Fascinating Challenge for Today's Carriers: Utilizing Technology to Enhance - Not Replace - Personalized Service

An interview with OneBeacon Professional Insurance President Paul Romano

The insurance industry is often accused of being slow to adopt new technology. That has especially been the case in the specialty insurance segment, where the transactions tend to be more complex and therefore more difficult to automate. A growing number of specialty insurers, however, are concluding that technology holds the key to sustainable competitive advantages. Easy-to-use software now can simplify and speed up transactions, identify profitable customer segments, and enable underwriters and claims adjusters to make better decisions.

Paul Romano, President of OneBeacon Professional Insurance, has long recognized that those insurers that most effectively harness technology will be the best positioned to emerge as market leaders. Paul recently spoke with Dave Bradford, editor-in-chief of Advisen Front Page News, about how technology is transforming specialty insurance, ranging from systems to facilitate interactions with brokers and agents, to using Big Data and predictive analytics to improve underwriting decision-making, to the ways smartphones and tablets are changing the ways business people interact with one another.

Dave Bradford. *Thanks for speaking with me today, Paul. Insurers are often accused of being laggards in adopting new technology. How would you characterize the pace of technology adoption in the insurance industry today?*

Paul Romano. *There is no question that the insurance industry was severely lagging many other businesses in the use of technology as recently as three or four years ago. More companies today, however, are recognizing the value technology can bring in improving productivity and increasing service levels. More insurers are now using technology to conduct business rather than to simply administer business internally.*

DB. *Can you give me some examples of how insurers are using technology to support decision-making and improve service?*

PR. *Insurers are leveraging technology for both customer-facing interactions, as well as to better harness and use the data they have collected to improve decision making.*

When you think about customer-facing activities, we've advanced beyond simple online quoting of new business, and now can conduct different types of transactions online. We've moved from billboard-style websites into interactive systems and the exchange of intelligence.

Internally, insurers are using far more sophisticated technology for data mining and predictive modeling, getting information they need when they need it. Previously we slid by with Excel spreadsheets to run simple rating algorithms to help with decision making.

DB. *So how do customers benefit from these changes?*

PR. *For companies like ours, customers come in two forms. We view insurance agents/brokers as our customers, and we also have the insured/policyholders as customers.*

From a broker perspective, well-structured technology allows brokers to have greater control of their business. A lot of what we are after is to enable brokers to guide and drive the transaction processes. There has been substantial improvement both in coverage procurement – the submit, quote, issue, and bind process – as well as the on-going servicing of accounts. This includes such activities as requesting claims/loss runs or submitting first notice of claim/loss. These technologies also enable brokers to have a portfolio view of their business.

We're also rapidly moving towards transactions times that are closer to being conducted in "real time." The Internet has trained consumers to open a session and do what we need to do in about 10 minutes or so. We expect to complete a transaction in a single session. Demand for that type of performance is making its way into the business environment. Technology oriented to delivering that level of performance is a big part of getting it right.

DB. *What portion of your segment of the insurance business – specialty lines – is actually being transacted online?*

PR. *It varies quite a bit by company. If I had to guess, certainly no more than 15 or 20 percent of business is being transacted online. By that, I mean the entire process, beginning with a submission or a renewal through quoting and binding.*

The early generation of technology connecting brokers and carriers was about online quoting, but that is only a small part of the potential online services that a carrier can bring to a broker or agent. There is a lot of other activity that lends itself to technological solutions. Enabling brokers to access and gather intelligence without having to go directly to an underwriter, for example, or facilitating other servicing activities that aren't just about quote/bind/issue. For a company that is able to effectively put the pieces together, technology can be a real differentiating factor.

DB. *Why aren't more insurers using these tools to their full potential? Are there technological issues? Cultural issues? Or is it because some aspects of the business are just not well suited to using technology to provide solutions?*

PR. *One issue is an aversion by agents and brokers to any company's proprietary system. They don't want to have to learn how to use different systems. We're going to have to endure that situation for a while, but there are companies developing technologies to enable brokers to get quotes from multiple carriers, and to bind coverage. But these systems don't encompass all the other servicing aspects yet.*

Another impediment is cost. The investment it takes to get it right is pretty substantial. Based on their experiences with big technology projects – which often cost a lot but deliver less than expected – many executives are reluctant to take that leap. Smaller, targeted initiatives are a smart way to go. The process can be tackled in chunks – perhaps developing online quoting capabilities in one business segment, or automating certain aspects of the servicing process. That way executives can gain more confidence in, and control over, the cost, quality and time.

DB. *How should senior executives be involved in developing and implementing technological solutions?*

PR. *They need to understand the process and be involved with setting goals for the project. To assure the success of this type of project, it is important that senior executives understand the level of activity that goes on between underwriting, claims and the brokers and clients, so they will genuinely appreciate the business benefits of automating the processes. We spent a lot of time re-documenting the processes in our organization, and then reorienting them to benefit our customers. We did this before we even began designing and building the technology.*

DB. *Let's turn to the other types of tools you referred to earlier, the internal ones. Predictive analytics is a phrase you hear tossed about a lot these days in the insurance industry. Why is that?*

PR. *Fairly sophisticated data mining and analytic tools have existed for quite some time, but the rate of adoption has varied considerably by industry. A desire by insurers to improve their margins in a prolonged soft market inspired quite a bit of creativity. Underwriting executives have been asking how they can get better at selecting risks, structuring deals, and pricing risks by gaining more insight into their clients. Predictive analytics takes what had been a more historical way of assessing risk, structuring and pricing, and applies "tags" that give underwriters more insight into organizations and their propensity for certain types of risk.*

Predictive analytics uses both structured and unstructured data to identify risk characteristics better than traditional rating and pricing methods. Risks can be arrayed across a continuum that allows you to decide what portions of that continuum you want to focus on and what the right price points are. Those price points may be lower than the market, but you can be profitable because you understand the risks better. It is about refining the risk quality and understanding more about the risks you write.

DB. *Big Data is another term you hear a lot today. What does Big Data represent as concerns the ways insurers will assess and underwrite risk in the future?*

PR. *Big Data is an incredibly well-suited concept for what underwriters do. In our business, an underwriter does not perform a straight line or serial exercise to arrive at how they are going to quote a risk. It has always been about a series of evaluative tests that lead you to insights, to which you apply judgment. The notion of more evaluative tests and more insights through Big Data is an extension of the thinking that an underwriter brings to the process. When you get into midmarket and larger professional, D&O and specialty risks, the underwriting process is an analytic process that also includes a lot of judgment. Big Data can bring you perspectives that validate, or perhaps invalidate, the traditional methods of looking at risk and pricing risk. I'm pleased to see insurers move that investment up the priority list.*

DB. *Are underwriters open to these technologies? Do they recognize the value?*

PR. *I think there is cultural angst. It has been challenging to get acceptance and adoption of these methods. That is breaking down very quickly, though, as the sophistication of the tools and the elegance of their outputs grow.*

DB. *Do you think the angst begins to disappear once underwriters recognize that these tools improve decision making, but don't necessarily replace underwriting judgment?*

PR. *Absolutely. I think we are probably past the notion that these tools are about replacing underwriters. They enhance productivity and improve service, but the judgment factor underwriters bring to evaluating the outputs of these models is still the key to making decisions about the business a company wants to put on its books. It's essentially giving underwriters more tools to effectively execute the art of the deal in a more informed fashion.*

DB. *Let's turn from software to hardware. We're in the midst of a mobile device revolution. The number of people using smartphones and tablets is growing at a remarkable rate. What impact does access to these tools have on the insurance industry?*

PR. *The notion of bricks and mortar has changed dramatically. People can work just about anywhere now. For some companies, that changes the need for large-scale facilities. It also means that people spend a lot more time online, and become accustomed to rapid transaction times and the ability to conduct business at any hour of the day. That changes the demands of our business, and it will almost certainly have an impact on how we staff and resource our operations. From an underwriting perspective, 24/7 access means that one underwriter can't be responsible for servicing a group of brokers, and it becomes more of a team effort. But we still have to maintain the same continuity and insight into the accounts that our brokers demand. It's a fascinating challenge.*

If consumers go to a website and it is confusing, inconvenient or slow, they are likely to close out of it. If anyone thinks that that same level of expectation is not coming to the business-to-business environment, they are wrong. It already exists in a lot of places. We see harnessing that as a real competitive advantage. The carriers that will emerge as leaders are those that can demonstrate their command of process and their dedication to superior service.

DB. *Thanks for taking the time to speak with me today, and for sharing your insights, Paul.*

PR. *My pleasure, Dave. Thank you.*

Advisen is a leading producer of data & analytics for the insurance industry.

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