LexisNexis® RISK SOLUTIONS | Insurance

REPORT

A Time of Change in Small Commercial Insurance

Turning gaps into opportunities

JANUARY 2019

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Executive Summary

In today's dynamic and competitive commercial insurance marketplace, carriers are pressed to maintain profitability. There are many opportunities for small commercial insurers to make meaningful progress. With so many factors impacting the business, however, it can be difficult for carriers to know where to start. Should you capitalize on new direct and digital capabilities? What about the resources needed to manage legacy technology migrations? Or the ever-present call to deliver a more compelling customer experience?

To better understand how commercial insurers are dealing with these pressures, LexisNexis® Risk Solutions commissioned a third-party survey of 412 U.S. commercial insurance professionals. We asked for their perspectives on five factors with direct bearing on their current business, including the potential impact of future trends. From this study, we were able to identify key insights in each of the five areas.

Some of our key insights include:

Insight #1: Automation lags behind desired levels and levels haven't improved over the past couple of years.

- 89% report the need to manually re-evaluate insurance applications.
- The lack of automation remains the number one pain point in commercial underwriting.

Insight #2: Insurers use a wide variety of valued data assets but there are variations in how they're used.

- On average, 43% of carriers have not standardized these assets in their workflows.
- The majority view the use of consumer credit (77%) and commercial credit (76%) as a competitive advantage.

Insight #3: Although insurers consider the use of predictive modeling to be important, consistent use is not widespread.

- 78% are currently using predictive modeling.
- Only one-third use predictive modeling consistently.

Insight #4: Areas identified by the majority as important to the customer experience are also identified as areas needing improvement.

The top three priorities for small commercial insurers are:

- Generating faster turnaround time (90%)
- Improving the accuracy of customer data (85%)
- Playing a consultative role (84%)

Insight #5: While the majority of insurers believe market trends are important and impactful to their business, a minority are taking action on them.

- 70% believe specific trends are important to their business strategy going forward.
- Less than 50% are making strategic changes in response to those trends.

These insights demonstrate the clear gaps within insurers' current process and capabilities that can be turned into actionable opportunities. These are digital times, characterized by advanced expectations for customer service, efficiency and innovation—regardless of industry lines. The good news is that those carriers that act quickly can grasp a competitive advantage. The time for action is now.

Navigating change in small commercial insurance

Small commercial insurers often struggle to address multiple priorities, such as investing in new direct and digital capabilities while managing the legacy technology migrations that allow them to make the most of these capabilities. Customer demands are also changing, shaped by the digital era in which we live. Agents and business owners crave simplicity in everyday transactions, including in small commercial insurance, and they'll likely flock to those carriers that provide it.

At the same time, competition has heated up. Startups and incumbents are both going to market with digital-first solutions specific to new market trends and evolving customer demands. Many of these solutions aim to streamline the quote and application process, while others provide a direct distribution channel between carrier and business owner.

These factors are adding to the pressure carriers feel. But all is not lost. Our research indicates there are many opportunities for both traditional and non-traditional carriers to do business more effectively in this digital, data-driven era.

Understanding carriers' attitudes regarding current and emerging market trends

To better understand the challenges and opportunities for carriers in the digital revolution, we commissioned a third-party study to learn about carriers' perception of—and action toward—five topics:

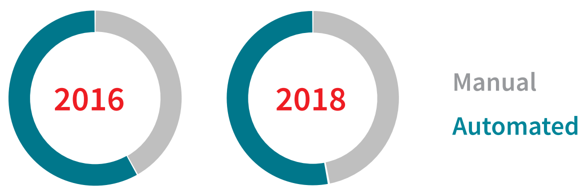
- Automation
- Data Assets
- Predictive Modeling
- Customer Experience
- Market Trends

Our research shows distinct gaps in each of these areas that, if addressed, can actually be turned into opportunities.

Insight #1:
Automation lags behind desired levels

Automation is an efficiency driver, particularly for small commercial insurers. It improves carriers' overall workflows by achieving greater speed and efficiency, adapting to changing business needs, and reducing human error.[1] By taking advantage of opportunities to automate, carriers can reduce the risk of incomplete or error-ridden applications, alleviate labor-intensive busywork for underwriters and improve the overall customer experience. The absence of automation can be costly and undermine a carrier's ability to achieve a competitive advantage.

% Automated vs Manual Small Commercial Underwriting Processes

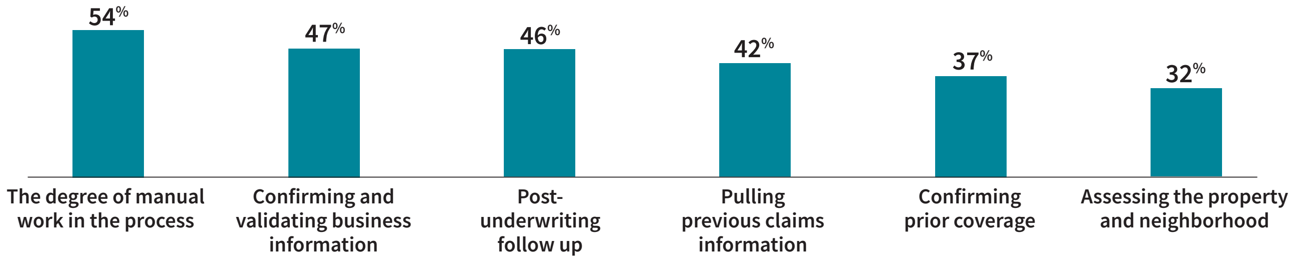


The vast majority of carriers agree automation is valuable for small accounts. Yet only about half are actually doing it. And, according to a 2016 LexisNexis study on automation,[2] the level of automation hasn't improved over the past couple of years.

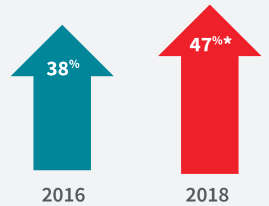
The level of automation in small commercial underwriting has not improved over the past two years, even though carriers would like it to.

Our study shows that the degree of manual work remains the leading pain point in commercial underwriting, followed by the need to confirm and validate business information and perform post-underwriting follow-up. Further, 66% of underwriting managers surveyed list post-underwriting follow-up as a top pain point. Underwriting managers are also most likely to discover inaccurate information later in the underwriting process, which requires rework. More generally, survey respondents say the need for rework later in the process is occurring more frequently.

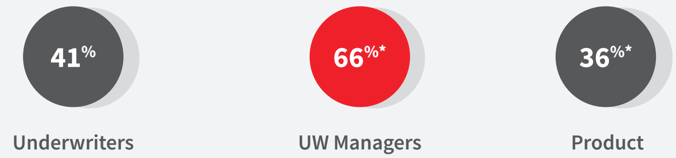
Commercial Underwriting Pain Points



Validating business information has **increased** as a pain point



Post-underwriting follow ups are especially painful for **Underwriting Managers**



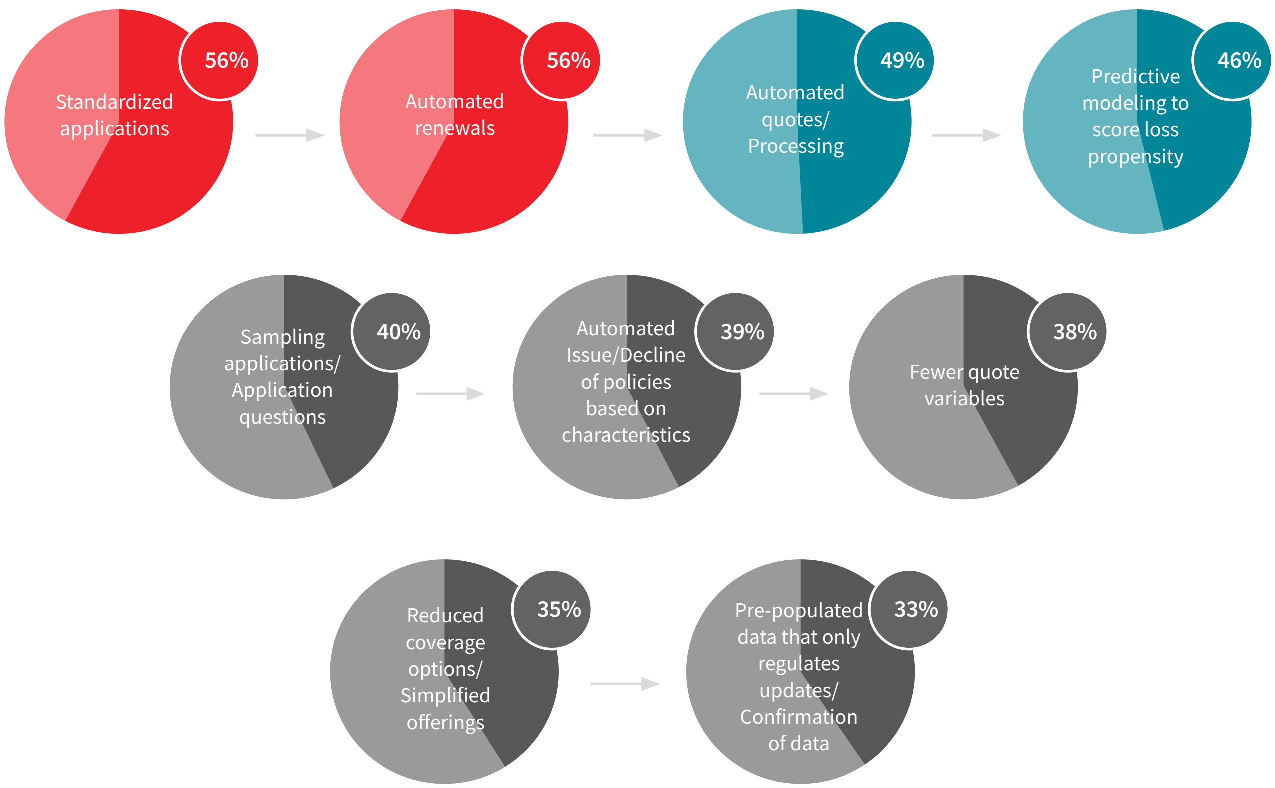
Respondents indicate straight-through work is 1.5 times below desired levels, and 89% of carriers report the need to manually re-evaluate insurance applications. However, carriers that serve small accounts are most likely to report an increase in straight-through processing.

"Given that insurance carriers need larger volumes to generate sufficient premiums from small commercial accounts, it makes sense that they would put more attention toward automation in this market segment. However, legacy systems continue to be a common barrier among commercial carriers in progressing their automation and digital capabilities."

Calvin Barber
Vice President, Technology, LexisNexis Risk Solutions

Where automation does exist, there are areas identified as steps in automation specific to small commercial accounts. Standardized applications and automatic renewals are most common. Automated quotes/processing and use of predictive models to score loss propensity are also used quite commonly to further automation.

Steps Taken Towards Automation for Small Commercial Insurers



THE GAP

The majority recognize automation as an efficiency driver and want to increase automation levels. However, there is a significant gap between how much they value automation and the actions they've taken to achieve it overall. While carriers have automation in some areas with standardized applications and automatic renewals, there are specific areas within the carrier's workflow lacking automation.

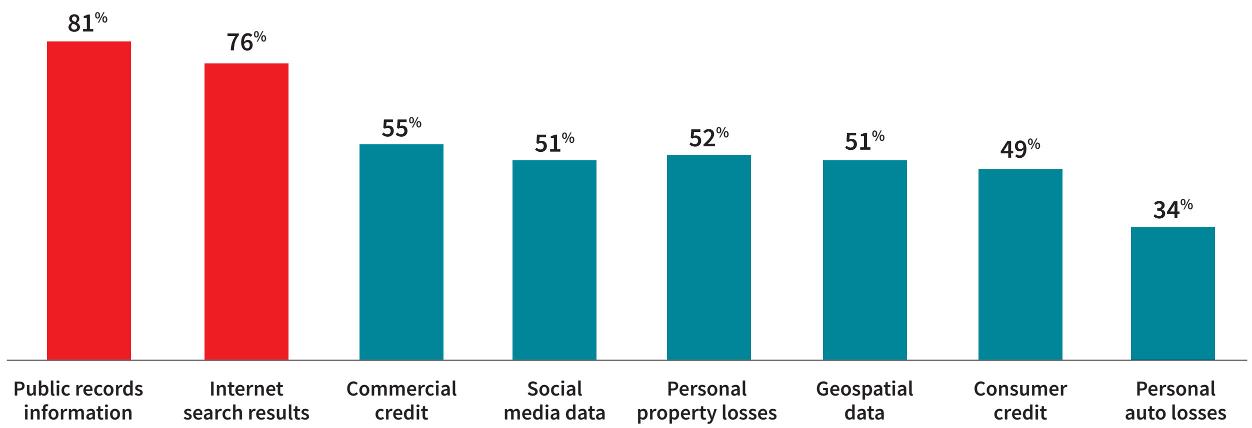
THE OPPORTUNITY

Automation drives efficiency and accuracy. If carriers can expand automation capabilities to include advanced use of predictive modeling and automated quoting through prefilled data on the business, they can get closer to their efficiency goals—which helps reduce errors, alleviate unnecessary rework on policies, improve turnaround times and advance their competitive advantage.

Insight #2:
Valued data assets are used inconsistently

Commercial insurers are no strangers to using data for more informed business decisions. Robust, accurate and easily accessible data is a crucial business asset that helps more effectively assess risk and set profitable rates. The majority of commercial carriers surveyed report using a wide variety of data assets with public records and Internet search results as the most widely used.

Data Assets Carriers Use Today for Small Commercial



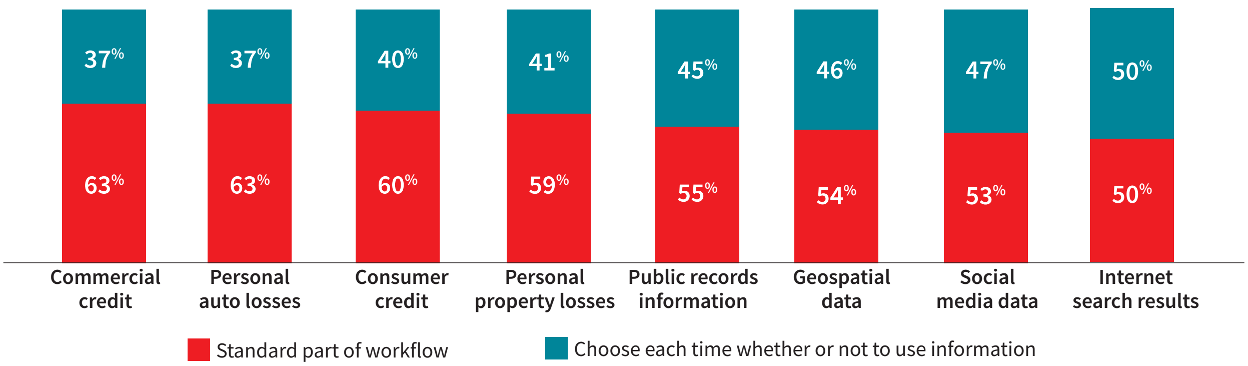
Carriers also view the data assets they use as giving them a competitive advantage, with consumer credit and commercial credit identified by the greater majority.

Data assets that provide competitive advantage

- 77% Consumer credit
- 76% Commercial credit
- 73% Public records information
- 71% Geospatial data
- 70% Personal property losses
- 68% Personal auto losses
- 68% Internet search results
- 66% Social media data

Results also show that carriers have integrated data assets into workflows to varying degrees, with commercial and consumer credit as the most likely data assets to be standardized. This is consistent with our finding that carriers consider credit information as offering the most valuable competitive advantage. Further, the perceived value of data assets varied by function, with underwriting and actuary professionals considering data assets to be more relevant to their work than product management professionals. Though data assets are deemed useful, they are not consistently used across the workflow.

Are These Data Assets a Standard Part of the Workflow?



THE GAP

The data assets carriers value and most strongly identify as enablers of competitive advantage are consumer and commercial credit records. However, approximately 40% of carriers have not integrated these specific data assets into their standard workflow. The data assets used most—public records and Internet search results—are even less likely to be part of a standardized process.

THE OPPORTUNITY

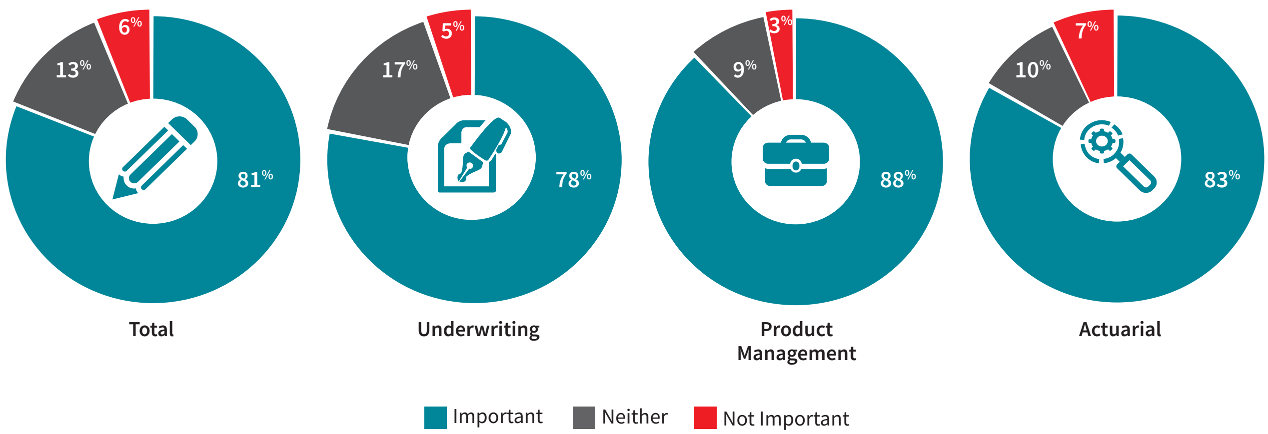
Carriers who recognize the value of the broad spectrum of data assets should strive to improve standardized usage across the workflow. Doing so can enable greater automation, more accurate risk assessment, a more consistent customer experience and ultimately, improved profitability. Over the long term, these actions can help improve the health of a carrier's book.

While the majority of carriers see predictive modeling as important, few are using it consistently in their workflows.

Insight #3:
Only one-third use predictive modeling consistently

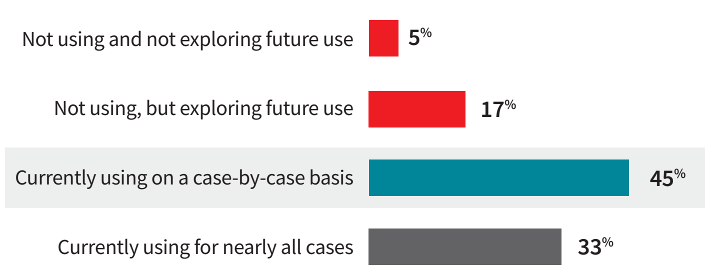
Predictive modeling can help carriers evaluate loss propensity and make more informed decisions based on their risk appetite. This explains why the majority of carriers (81%) believe predictive modeling is important for commercial underwriting, pricing and rating. In addition, carriers that use predictive modeling report at least moderate success.

Importance of Predictive Modeling for Commercial Underwriting, Pricing and Rating



While the majority of carriers see predictive modeling as important, few are using it consistently in their workflows. For example, the majority of carriers state they are currently using predictive modeling—but only one-third are using it in all cases.

Current Use of Predictive Modeling

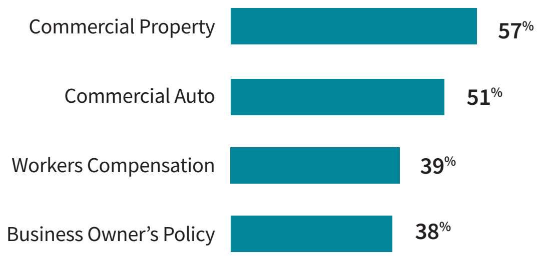


78% state they are currently using predictive modeling

Only **1/3** are consistently using predictive modeling in ALL CASES

Further, when taking a deeper look at any given standard commercial line, predictive modeling is used even less consistently.

Commercial Lines using Predictive Modeling



THE GAP

The majority of carriers recognize the value of predictive modeling and are using it, but not routinely or consistently across commercial lines. Carriers may be unsure of how to get the most out of predictive modeling.

THE OPPORTUNITY

Predictive modeling can improve risk assessment and support more consistent decision-making. In the short term, carriers that identify frequent or high-value predictive modeling use cases can gain a better understanding of how score-based decision-making can benefit their business. In the longer term, they can build on that knowledge to adopt predictive modeling as a consistent business practice.

Insight #4:
Customer experience needs improvement

Today's always-on consumers expect the businesses they interact with to keep up, digitally speaking. For personal lines insurance, consumers can receive a quote within minutes using a mobile device. Our research found that 62% of insurance professionals believe the customer experience in personal lines impacts customer expectations in commercial lines. A separate study, focused on the insured's perspective, found that 70% of business owners who purchased personal insurance online would like to be able to purchase their business insurance online as well.[3]

However, when it comes to customer-centric service that matches personal lines, commercial carriers have some work to do. According to our study results, the top three factors commercial insurance carriers identify as important to the customer experience are:

1. **Generating faster turnaround times** (90%)
2. **Improving the accuracy of customer data** (85%)
3. **Playing a consultative role** (84%)

"Carriers should not fear automation for the sake of their agents, but embrace it for the sake of their customers. It gives them the ability to turn policies around more quickly through more accurate and complete applications. And this gives agents the ability to focus on being more consultative with their customers."

Jennifer Parker, Director of Customer Experience
Berkshire Hathaway Specialty Insurance

There is a disconnect in that these same factors viewed as important to the customer experience are also the areas that the vast majority of carriers see as needing improvement.

Factors Important to the Customer Experience

Customer Experience Areas of Improvement

THE GAP

The factors seen as important to the customer experience are closely related to our survey's other focus areas—such as how to make better use of automation, data assets and predictive modeling. The gap here is in carriers' current capabilities to embrace and apply these solutions to improve the customer experience and foster stronger relationships with customers.

THE OPPORTUNITY

Automation can decrease turnaround times. High-quality data assets can streamline underwriting processes. And the use of predictive modeling can standardize how policies are underwritten. Given that commercial carriers have typically underinvested in the customer experience (especially compared to personal lines carriers), small investments can yield outsized returns. Commercial carriers should focus on enhancing their online, digital platforms by deploying new automation technologies such as commercial data prefill.

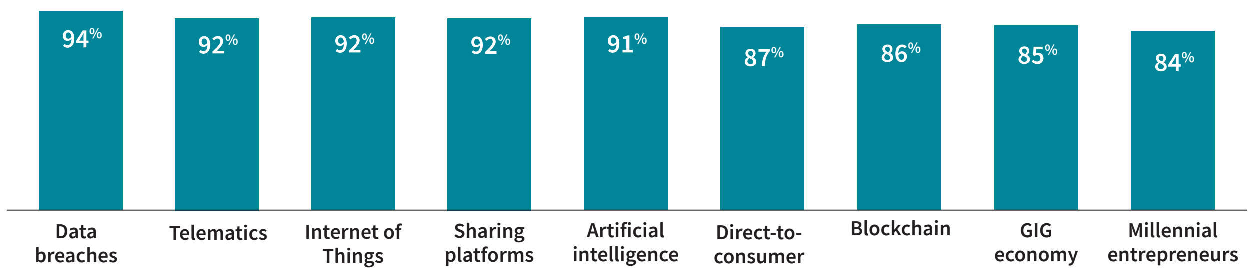
Insight #5:
Carriers want to embrace market trends

To stay ahead of the competition, carriers must understand emerging trends and how to capture the opportunities they present. Yet, if existing trends already pose a challenge, how will carriers fare as emerging trends become a reality?

For the purposes of this study, we view market trends as those external, influencing factors that have the potential to impact business strategy. We want to know how both current and emerging trends are likely to affect how insurance companies will do business now and in the future.

The carriers we surveyed identified several market trends as most relevant to their business.

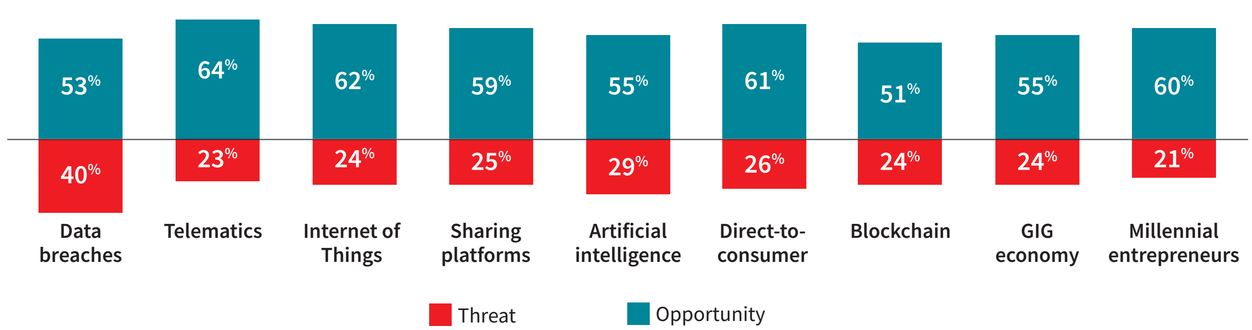
What Insurers Consider to be Revelant Market Trends



Notably, 70% of the insurance professionals we surveyed believe these trends are important to their business strategy going forward—but fewer than 50% are actively making strategic changes in response to them. It was surprising to find that 11% don't plan to make any strategic changes at all.

Along with identifying relevant trends for commercial carriers, we asked respondents to characterize each one as an opportunity or a threat to their business. On the opportunity side, telematics is viewed as offering the most promise, while data breaches are considered mostly as a threat.

Market Trends as Opportunities /Threats to Business



THE GAP

We've already seen that current market trends pose challenges for commercial carriers. But there isn't just a gap between where commercial carriers are and where they want to be in their current state. Slow-moving carriers are not leveraging those new data sources and capabilities that help them turn those challenging external influencing factors into opportunities for their business. Exacerbating the issue, customers are well aware of new capabilities coming to market and what those capabilities can mean to their experience in buying commercial insurance.

THE OPPORTUNITY

These trends have an impact on business performance—including offering a competitive advantage to carriers that can respond to them quickly. The first step in the right direction is recognizing the urgency of the situation. Change is inevitable and as emerging market trends become mainstream, embracing change will be the only way to keep from being left behind. Carriers should identify those trends that present the greatest opportunity for their organization and implement a strategy now that focuses on embracing them.

"There is almost universal recognition among commercial lines insurers that advanced data and analytics capabilities are mandatory for creating a competitive edge. The potential is enormous with so many new data sources and the rapid advance of predictive models, AI, and machine learning. Insurers have made progress, but the challenges of so many options and the need for highly-skilled talent have resulted in a large gap between the actual progress and the potential."

Mark A. Breading, Partner,
Strategy Meets Action

Turning gaps into opportunities

Our study shows that while carriers are well aware of leading trends and their importance to business performance, few are taking sufficient action to keep up. Every time a carrier fails to turn an opportunity into a business asset, they risk lagging further behind changing market demands and evolving customer expectations. Carriers that continue to be complacent will not only miss out on the benefits to be gained from today's market trends, they'll also be unable to take advantage of new ones on the horizon. If only a few players are taking action, then that creates an opportunity for a carrier to take small steps and get a big result.

That carrier could be you.

Find your opportunity. Make it happen. Move forward.

Using insights to improve business performance

Carriers recognize the importance of current and emerging market trends—and understand the potential value embracing them can bring to their business. They can turn these insights into reality by taking the following steps:

1. Identify the areas where new opportunities can improve business performance
2. Act on those opportunities that create a better customer experience and a competitive advantage
3. More fully leverage automation, data assets and predictive modeling to drive efficiency and effectiveness, and please customers
4. Gain a competitive advantage by making investments that make the most sense to your business

Click here to learn more about our solutions that help turn gaps into opportunities.

How we can help

Many market solutions are available to help carriers be more efficient and effective while keeping up with today's market changes and evolving customer expectations. LexisNexis Risk Solutions offers a suite of solutions that can help carriers decrease turnaround time, improve data accuracy and offer a more consultative experience to their customers. For example:

- Prefill solutions can enable faster quote times and streamlined service that positions commercial insurance as a driver of business success, rather than just a business requirement.
- Automated data and analytics can be seamlessly integrated into the new business and renewal workflow to improve data quality and standardization levels.
- Contributory databases can provide crucial information to support risk assessment and more sophisticated pricing practices.

For more information, call 800.458.9197 or email insurance.sales@lexisnexisrisk.com

Appendices

Notes

1. Moving at the Speed of Automation, LexisNexis Risk Solutions, 2017, http://solutions.lexisnexis.com/28804

2. Ibid.

3. Global Digital Small Business Insurance Survey: This time it's personal, PwC, 2017, https://www.strategyand.pwc.com/report/digital-sme-insurance-survey

Glossary

Artificial intelligence: Machine learning through computer systems that are able to perform tasks that normally require human intelligence, such as visual perception, speech recognition, decision-making and translation between languages.

Blockchain: A distributed ledger through a decentralized technology that uses a global network of computers to jointly manage a shared database that records some type of transaction (e.g. Bitcoin).

Data breaches: Any incident that results in unauthorized access of data, applications, services, networks and/or devices by bypassing their underlying security mechanisms.

Direct-to-consumer: Commercial insurance carriers that are marketing and selling insurance directly to the business owner through an online platform. It does not require an agent to facilitate the writing of a policy.

Gig economy: A focus on workforce participation and income generation via "gigs" (single projects or tasks for which a worker is hired), as a freelancer or independent contractor, rather than a full-time employee. Provides opportunities for workers to find tasks suitable to their schedules, abilities and other needs (e.g. Uber or Lyft).

Internet of Things (IoT): Technology that monitors and collects information about a home or commercial property such as fire and water detection, thermostat details, appliance and electricity information.

Millennial entrepreneurs: Business founders and owners born between the years of 1980 and 1997.

Sharing platforms: An economic model often defined as peer-to-peer based activity of acquiring, providing or sharing access to good and services that are facilitated by an online platform (e.g. Airbnb, Uber, etc.).

Telematics: Information that can be collected via devices installed in a vehicle and/or apps that might include driver behavior statistics, roadway topography, field usage or accelerator information.

Methodology

The research was conducted by interviewing 412 U.S. professionals employed in the insurance industry, from among the following lines:

Workers' compensation

Commercial auto

Commercial property

Business owners' policy

Account sizes were defined as follows:

Small commercial accounts: less than **$25,000** in annual premium

Medium/middle market accounts: between **$25,000** and **$250,000** in annual premium

Large commercial accounts: more than **$250,000** in annual premium

A mixed mode of web and telephone surveys were used to collect the data. The survey questionnaire was approximately 20 minutes in length.

In order to qualify for the study, respondents were required to spend more than 50% of their or their team's time underwriting commercial insurance policies or managing commercial insurance products and have been in one of the following roles for at least one year*:

- Underwriter/Underwriting Assistant
- Underwriting Manager/Director; Chief Underwriting Officer; VP of Underwriting
- Product Specialist; Product Manager/Senior Manager/Director; VP of Product Management
- Actuarial Analyst/Analytics/Modeling/Data Science
- Actuarial Consultant/Actuarial Principal/Partner/Manager; VP/Director of Actuary/Risk; Chief Actuary/Risk Officer; Head of Actuary

* This criteria was relaxed for the actuary groups to allow respondents spending 25% to 50% of their time on commercial policies; however only 4% of actuarial respondents qualified under this criteria, with the vast majority spending more than 50% of their time on commercial policies.

Interviews were cconducted in May 2018, and distributed across functions as follows:

Underwriting (170)
- 105 interviews completed with underwriters
- 65 interviews completed with underwriting managers

Actuary (171)
- 106 interviews completed with actuaries
- 65 interviews completed with actuarial managers

Product Management (71)
- 71 interviews completed with product managers

Mathew Stordy

Senior Director, Commercial Insurance

Mathew Stordy is Senior Director of Commercial Insurance for LexisNexis Risk Solutions. Stordy is responsible for driving the development of solutions for the commercial insurance market. In this role, Stordy manages strategic aspects of all data solutions in the commercial lines business including market intelligence, value proposition development and market positioning. He also works directly with customers, prospects and the product development team to ensure these solutions meet commercial insurers' needs. These solutions assist insurance carriers in evaluating, predicting and managing risk and improving operational effectiveness. Prior to joining LexisNexis Risk Solutions in 2009, Stordy worked extensively in the insurance software industry focused on policy administration systems, quoting applications, and business intelligence solutions. He holds a bachelor's degree in mathematics and a master's degree in philosophy from the University of Connecticut.

For more information, call 800.458.9197, or email
insurance.sales@lexisnexisrisk.com

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LexisNexis Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. We provide data and technology solutions for a wide range of industries including insurance, financial services, healthcare and government. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX Group (LSE: REL/NYSE: RELX), a global provider of information and analytics for professional and business customers across industries. RELX is a FTSE 100 company and is based in London. For more information, please visit www.risk.lexisnexis.com, and www.relx.com.