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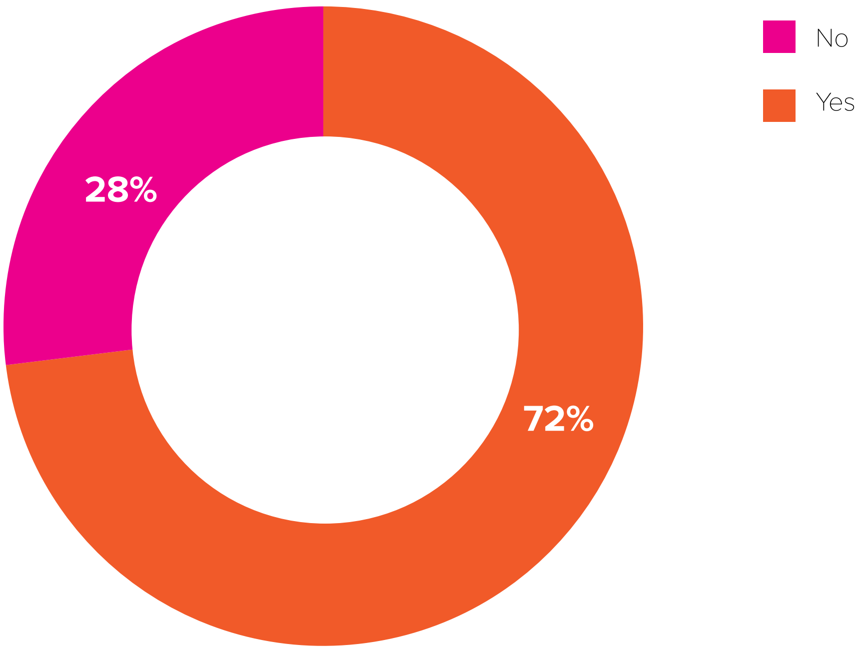
P&C Underwriting Trends & Predictive Analytics ROI Study

Trends in P&C Underwriting

Insurity's annual underwriting and innovation survey, conducted in November 2020 across a broad sample of our P&C customers, including re/insurers, MGAs, and brokers, shows that use of predictive analytics is steadily rising, with 72% of respondents indicating that they are currently using predictive analytics in their underwriting.

Are you currently using predictive analytics in underwriting?



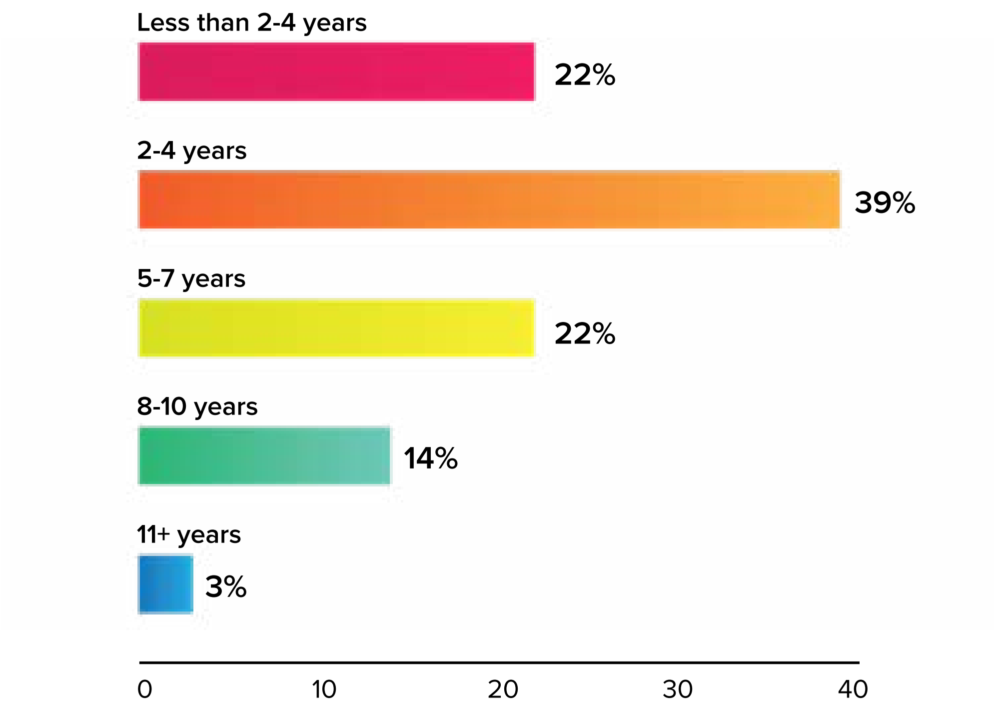
Source: 2020 Insurity Underwriting Survey

While predictive analytics are a mature technology, they remain a relatively new addition to P&C insurers' underwriting departments: 61% of P&C insurers have been using predictive analytics for less than four years. Only 3% of companies have been relying on predictive analytics for 11 or more years.

In the 2020 Insurity Underwriting Survey, 72% of respondents said they have "moderate," "significant," or "high" concern about their underwriters' adoption of predictive analytics.

72%

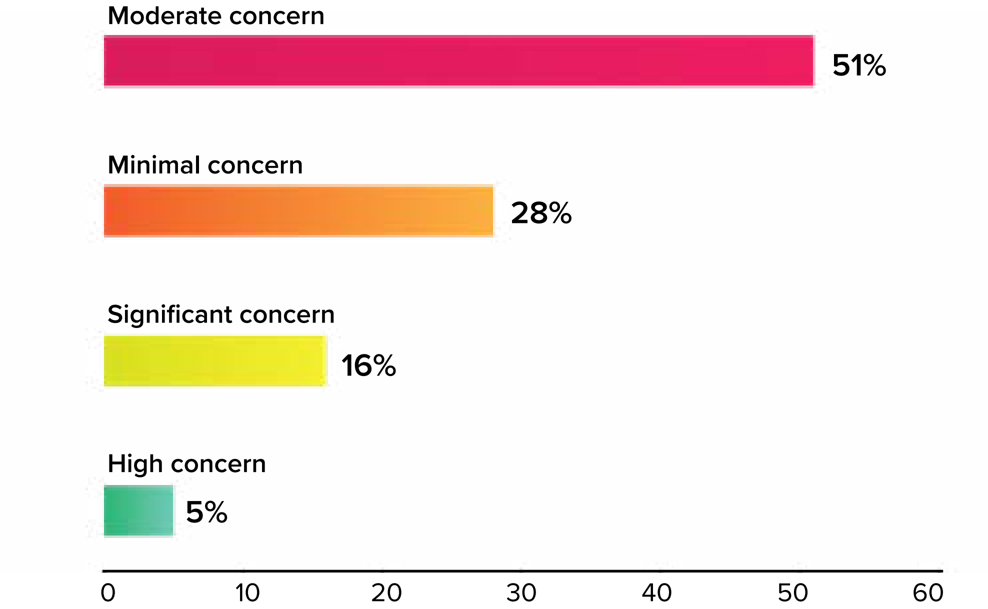
How long have you been using predictive analytics in underwriting?



Source: 2020 Insurity Underwriting Survey

The effective use of analytics isn't as much about reducing human underwriting involvement as it is about allocating and supporting resources effectively to achieve the best result. While the adoption of predictive analytics is gaining traction, as evidenced by a 56% increase in use of Insurity's predictive scoring platform in 2020, there is still room for improvement. Insurity found that while 28% of insurers have minimal concern about underwriter adoption, 51% have moderate concern, and 21%—more than 1 in 5 companies—have significant or high concern. This is in line with our 2019 survey which found 72.4% of respondents had "moderate," "significant," or "high" concern.

How big of concern is underwriter adoption of predictive analytics?



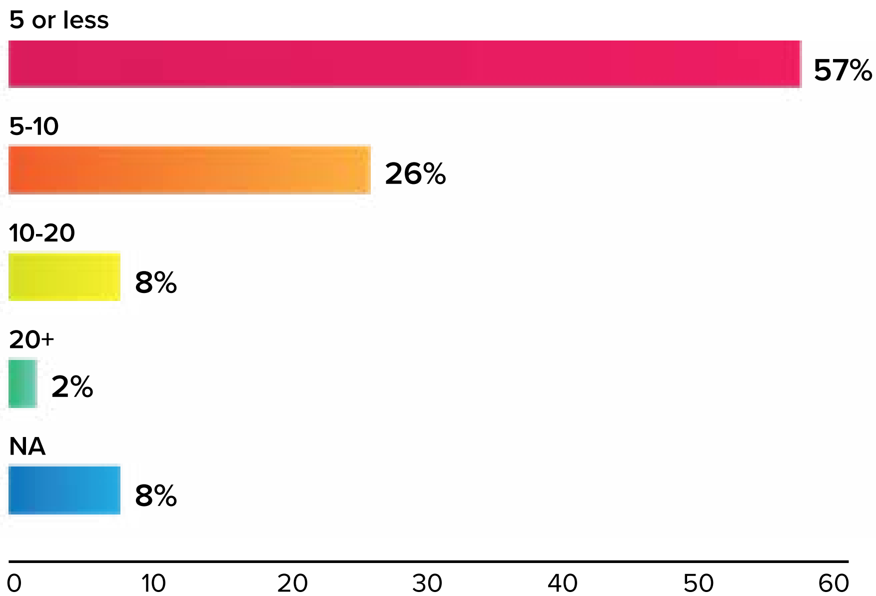
Source: 2020 Insurity Underwriting Survey

The power of predictive analytics is only as great as the quality of its data sources. Supplementing in-house underwriting data with third-party data or data consortiums is a proven way to enhance the effectiveness of predictive analytics. Most respondents, however, said their underwriters only have access to a minimal number of third-party data sources: 57% use five or fewer, 26% use between five and ten, while only 10% use more than ten sources. According to McKinsey & Company, "Sophisticated insurance carriers evaluate more than 30 new external data sources and then select two to four sources each year that they use to develop new features and embed in their pricing and rating models."[1]

"Over the past decade we've seen a competition between underwriting and data science. Guess what? They both won. Underwriting judgment has been and will remain fundamental to our industry, it is the essence of risk taking, but judgment alone hasn't always proven dependable. Judgment built on a foundation of analytics is much more sustainable. This sustainability will enable the P&C industry to find a new equilibrium between premium and losses, to attract new capital and to remain relevant."

-Willis Towers Watson, "Insurance Marketplace Realities 2021"

How many sources of expert third-party data do underwriters in your company have at their disposal?

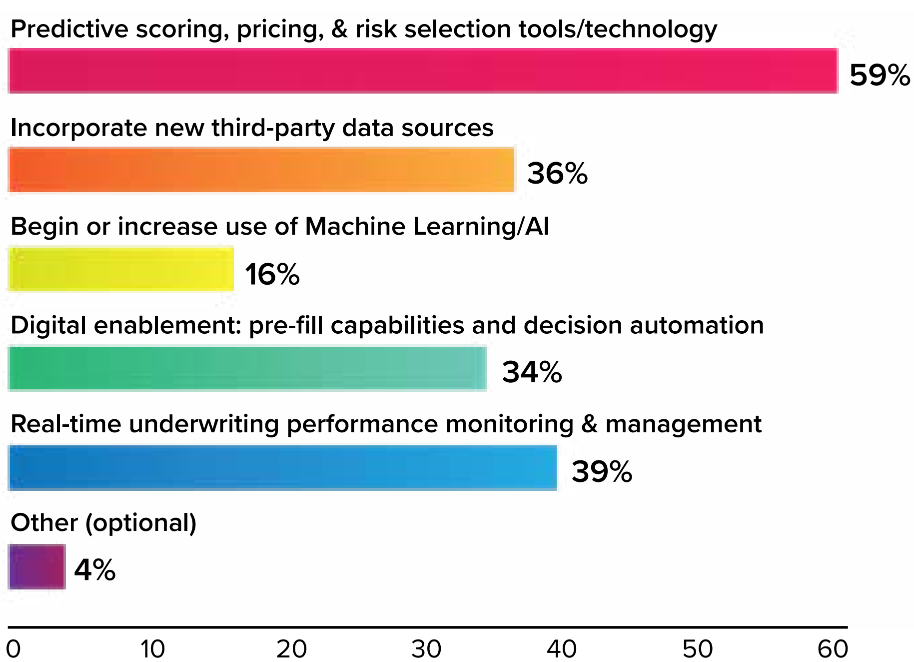


Source: 2020 Insurity Underwriting Survey

Insurity's survey found that about one-third—36%—of P&C carriers see incorporating third-party data sources as a priority for their data and analytics investments. Among the highest priorities are:

- Predictive scoring, pricing, and risk selection tools, cited by 59%
- Real-time underwriting performance monitoring and management, cited by 39%

Please specify your data and analytics investment priorities?



Source: 2020 Insurity Underwriting Survey

Annual ROI Study: Insurers on the Front Line of Data Analytics See Cumulative Results

For insurers that are trying to get a handle on how the pandemic and market conditions continue to impact their portfolios, data and analytics sit at the very center of understanding. Protecting your performance, growth, and profitability goals by leveraging predictive analytics and proprietary data in underwriting becomes even more important during times of volatility.

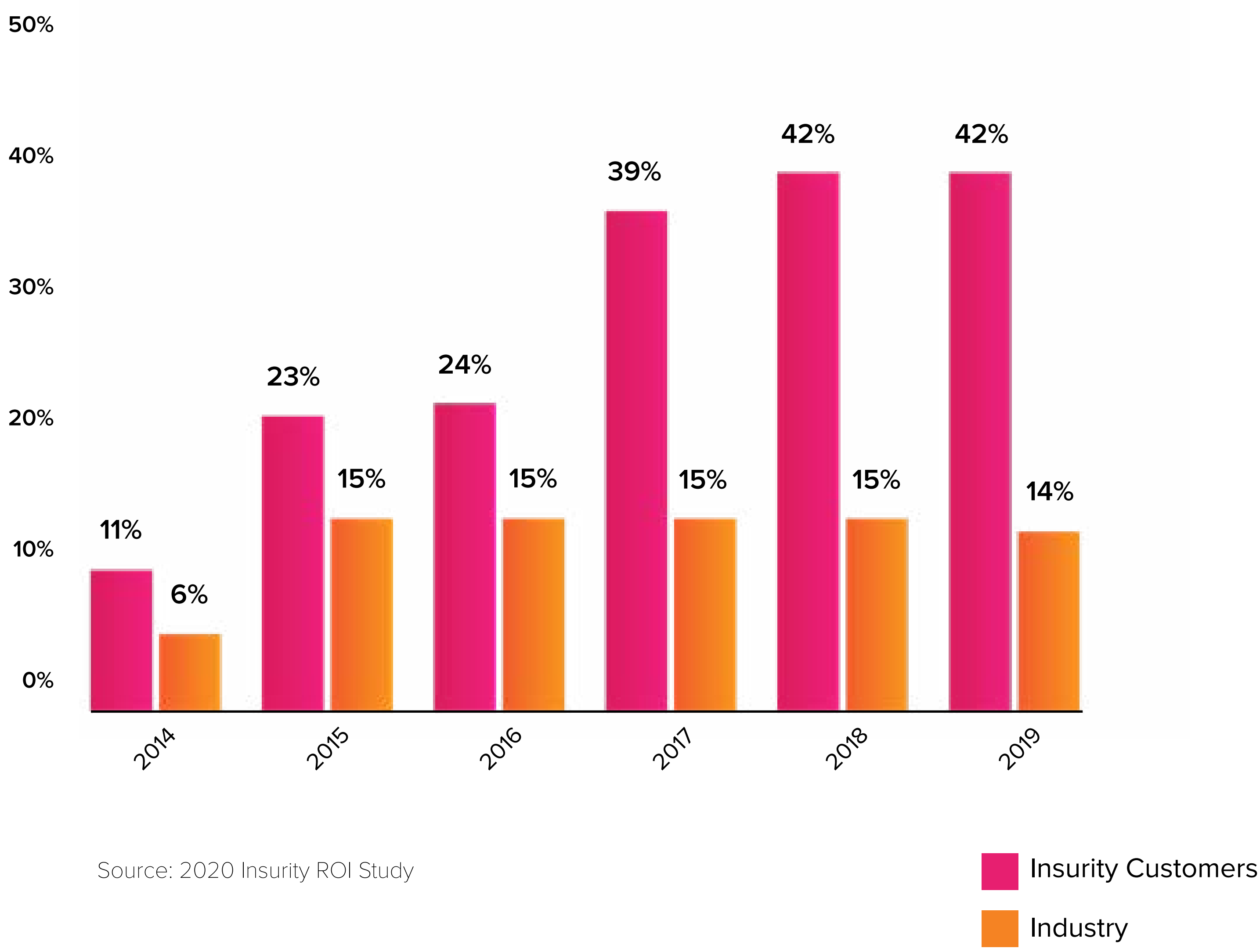
Multiple studies, including Insurity's annual ROI study, offer evidence that applying analytics improves insurers' results. We have published a broad study for the last six years showing how our workers' compensation customers who have been using Insurity predictive models for at least two years compare to the industry overall. The study is based on the proprietary data consortium representing $60 billion in workers' comp premiums. The chart below shows that our customer cohort outperformed the market with loss ratios 3.6 – 10.1 points better than the industry average—every year. Our customers have been outperforming the industry and continue to do so through our partnership with them, keeping our advanced analytics up to date and cutting edge.

Insurity Customers vs. Industry

Source: 2020 Insurity ROI Study

While profitability is one-half of the story, it's also important to look at growth. You don't want to sacrifice growth to get profitability gains—and our customers enjoy gains on both ends. Cumulative premium growth for our customers over the past five years was three times the industry average or 42%, compared with the industry's growth of 14%. That translates into more than $965 million in premium compared to $328 million, had our clients grown at the industry rate.

Insurity Customers vs. Industry
Cumulative Premium Growth since 2014



Source: 2020 Insurity ROI Study

Top Considerations

The next new normal for P&C insurers offers challenging conditions on multiple fronts: continuing economic uncertainty, a shrinking ability to count on investment yields to offset underwriting losses, increased frequency and severity of losses—and all while competitors strive to grow their market share. Finding and holding on to good risks has perhaps never been more difficult—or more important to P&C insurers' profitability. Insurers will need to find ways to rapidly adapt. In the end, "business as usual" is no longer enough. Success will hinge on a level of underwriting excellence not previously tested until today.

Building blocks for next level underwriting:

01

Partner to accelerate digital transformation. Consider complexity and total cost of ownership when deciding what to build internally and what to buy. Partnering enables innovation to be very accessible, but when looking at providers, consider the proprietary nature of their platform: how well do they play with others? The new way of thinking is "better together," not "either/or."

02

Think proactive and preemptive. The pandemic has proven the value of preparation. Those with digital capabilities in place adapted much faster in every capacity. How well prepared is your organization to evolve with the pace of technology and digitally adapt to the next unknown? Are your underwriters prepared to capture opportunities that will emerge in the next new normal?

03

Know what you insure, and actively monitor and manage it. With volatility everywhere, getting a handle on your exposures and a real-time understanding of your accumulations of risk—as well as opportunities for growth—is paramount. Do you know how your book will look in 6 to 12 months? Do you have real-time purview into your future performance?

04

Simplify and speed the delivery of insight. Automation takes on heightened importance especially in the current climate of lower investment returns. Finding areas to streamline the underwriting process while speeding the delivery of insight is paramount. How fast and efficiently can your underwriters get to a good decision? How much business can you underwrite without having to manually touch policies?

05

Keep instilling a data analytics-driven culture. Taking your underwriting and data analytics to the next level is as much about embracing a data analytics-forward mindset as it is about sophisticating the use of analytics. Have your underwriters and actuaries bought into the value of predictive analytics? Are you instilling a drive and an appetite for analytics from the top down?

For more insights like this, download our
2021 Analytics Outlook Report

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Sources

1. "Billion-Dollar Weather and Climate Disasters: Overview," NOAA
2. "Secondary natural catastrophe risks on the front line," Swiss Re sigma 2/2019, April 2019
3. "Yet more fires," Swiss Re, January 2021