A cut above:
Improving commercial underwriting from strategy to execution

Drive profitability by enhancing how your commercial underwriting strategy is articulated, embedded, and monitored.

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The heart of the matter

Property and casualty carriers came out of the financial crisis of 2007-2009 relatively unscathed. But today, many commercial lines carriers could be running out of ways to grow profitably. They face increased competition, a softening market, low interest rates, producer consolidation, and a coming wave of retiring underwriters. To compete, they must get relentless about articulating their strategy, building it into processes and controls, monitoring results, and preparing staff for the future.

Many commercial carriers are re-examining their underwriting strategies to improve the way they manage risk, but these strategies aren’t always the hard part. At many carriers, the operating models they rely on to execute those strategies could use some closer examination, too.

Technology is changing rapidly, and many carriers have moved toward more automated underwriting decision-making. This is likely to increase—but technology alone, without professional underwriting expertise alongside it, won’t succeed.

We think operating models need to address how carriers:

- Communicate their strategies
- Build strategies into core processes
- Measure results
- Develop the underwriters who do the work

If communication is ineffective, you’ll get inconsistent underwriting decisions and poor underwriting performance. If you don’t embed your underwriting strategy consistently in day-to-day operations, you’re leaving it up to chance that individual underwriters will shape a book of business that reflects the business strategy.

Additionally, while measuring results is important, you need to strike the right balance of monitoring at the transaction level versus the portfolio level. If, for example, you establish too many tripwires at the transaction level, you’ll miss out on valuable opportunities due to slow decision making. Finally, without the necessary foundation to underwrite in line with the strategy, talent development suffers and performance falls short.

In each of these areas, we offer recommendations to help carriers execute better. Tactical improvements can be one of the most cost-effective ways for a carrier to improve underwriting capabilities in a challenging environment. In our view, carriers that successfully address all four components will be able to stay a cut above their competition.

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Carriers focused on commercial lines are finding it difficult to grow profitably as a result of changes in the long-term market environment. For starters, they face new competition from companies (including new kinds of capital providers such as hedge funds) that operate more efficiently than traditional carriers. At the same time, senior underwriters continue to retire or leave, taking their institutional expertise with them. As these experienced staffers are replaced by millennials, carriers are struggling to achieve consistent underwriting outcomes. Margins are under attack from other angles, too: intermediaries are exerting bargaining power, pricing for commercial lines remains soft, and investment income is tempered by the low interest rate environment. And activist investors are driving the need to improve internal operations.

For several years, these pressures have largely been offset by some powerful tailwinds: reserve releases, which have inflated reported underwriting results; declining trends in loss frequency and severity; and lower-than-expected catastrophe losses. However, redundant reserves are being depleted (or have already been depleted), and the odds of the current benign natural catastrophe environment continuing are low.\(^2\) It’s time for carriers to focus on driving underwriting performance.

The underwriting function itself has been changing. For some time now, carriers have turned to automated systems to provide additional underwriting support for personal lines policies. Automation tools have been making progress in commercial lines as well, especially with simpler risks. Over time, these tools are likely to get much better, as artificial intelligence capabilities grow. By drawing in more data from disparate sources—everything from third-party data sources to equipment sensors—carriers should be able to narrow down the specific risks that might apply to a given situation. These technology resources will certainly continue to change the roles of underwriters. But for the foreseeable future, the industry will rely on human specialists who understand risk and have the judgment to apply or reject information provided by a model.

The challenge, then, is figuring out how to get the most benefit from the commercial underwriting process. In our experience, there are four key components necessary to drive strategy through execution:

- **Articulate** – Does everyone understand the underwriting strategy? Do they understand their role in putting the strategy into action?

- **Embed** – Are there systems, processes, and controls in place that embed the strategy in day-to-day decision-making? Are data-driven models adjusted when the market environment and underwriting strategy shift?

• Monitor – Do carriers have the right performance measures to know if underwriters are executing consistently against targets? Are they tracking exceptions to see when the targets themselves need to be adjusted?

• Develop talent – How is the next generation of underwriters being prepared for their new role? Do new underwriters exhibit sound risk selection and risk assessment skills before building other skills?

To address these issues, middle-market carriers need to re-examine their underwriting strategies and the operating models in place to execute them.

In the discussion below, we take a closer look at each component, including the challenges carriers typically face in these areas. We also offer examples of where we’ve seen companies get it right. Later, we address some actionable steps that carriers can take to improve execution.

Articulate

The fundamental responsibility of an underwriter has been, and will always be, to select risks and price them appropriately. To grow the business, underwriters need to balance the need to turn down unprofitable exposure with the need to accept risk that is well understood and accurately priced. They do this in the context of an underwriting strategy that is agreed upon by senior executives.3

The most effective underwriters understand both the “what” and “why” of a carrier’s strategy. Once high-level underwriting goals and strategies are defined, many carriers typically establish growth and profitability goals to guide and measure execution for individual underwriters. That’s important, but it’s not enough. In our view, it’s just as important for executives to translate the strategy into a form that underwriters can put into action, consistently, across individual accounts. We refer to this important step as the articulation of the underwriting strategy. For example, this includes developing and maintaining great documentation, and building consensus around the ideas. This can show everyone how the carrier sees its appetite for risk changing, or which underwriting guidelines are being adjusted (and why), or how claims input or service offerings like loss control guidance affect loss drivers. If underwriters haven’t internalized the carrier’s strategic direction, we’ve observed that it’s hard for them to use their judgment in a way that will support that direction.

This process probably sounds fairly obvious, and yet we’ve seen many carriers fail to take this extra step. The result? Underwriters can price deals incorrectly or quote submissions that don’t fit within the corporate risk appetite.4 This goes in the opposite direction, too. It can lead to underwriters rejecting certain desirable business opportunities, because they’re making overly conservative assessments of how to apply the standard rules.

At leading carriers, on the other hand, we usually see communications that are far clearer. They explain what is acceptable, and why, for everything from prices (of course) to classes of business, products and coverages, size, and limits. This enables underwriters to pursue business that consistently fits the corporate risk appetite and builds a reputation with agents as the first choice to place that business.

3 Of course, this presumes that the strategy is sound. We’ve observed carriers fail to exclude business from the consideration set for fear of missing potentially good opportunities. This leads to a more generalist, take-all-comers approach that makes it very difficult to excel in any one area. This is an example of a strategy failure, and results in products and services that are not differentiated, underwriters who do not have the expertise and tools to out-select the competition, and agents who do not have a clear picture of what business to send.

4 This issue can be exacerbated for carriers that rely on large, decentralized networks of underwriters.

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To make sure they’re in sync with company strategy, underwriters must have the right tools and processes in place. Technology and analytics are changing the way underwriters work and how they decide what to underwrite. Leading carriers use collaboration tools, real-time dashboards, and mobile devices to aggregate and view information about their customers and producers. For example, some underwriters can now use streamlined digital interfaces that help them view customers’ transactional information, see reference material, get access to internal specialists, and pull all of this together into a dashboard. Often they can also see market research and trends that are relevant to the transaction that they’re reviewing. It’s easier to follow strategy if you don’t have to stop and gather more information from different systems.

As we observed earlier, automated modeling also provides valuable inputs into a decision, and underwriters must balance them with their own judgment (see Figure 1). To be clear, we think that quantitative analysis can be extremely valuable in helping an underwriter get more high-quality work done; we’d just add that the automated analysis must be considered in context, and quickly. This is important. As one producer we interviewed observed, “The next best thing to a quick yes is a quick no.”

**Figure 1: Processes and tools do not replace informed underwriter judgment.**
Even when this approach has been articulated clearly, though, some underwriters might see the strategic vision as a highly subjective guideline. Consider a carrier that has decided to pull back from a particular market segment: it still plans to write policies, but it’s no longer looking to offer the most aggressive price and it hopes to reduce its exposure to higher risk clients. One underwriter may continue to advocate for riskier opportunities, even after getting the memo; he does so based on his previous successes with similar projects, even if those were not truly representative. Another might place undue weight on a renewing client’s loss-free history even though, by doing so, she might set a premium that is far too low for the risk involved.

Without tactical guidance, some underwriters may struggle with adjusting their prior behaviors based on new information or a change in the company’s strategic direction. Embedding the strategy means creating a structure that recommends what actions to take based on the individual account situation, and flagging decisions that fall outside the strategy.

At the same time, the last thing anyone wants is to stifle the practical wisdom that doesn’t easily fit into an algorithmic model. Professional judgment is the result of years of on-the-job training. It combines personal observations—seeing first-hand which risks generate claims and internalizing the lessons learned—and it is extremely valuable. It’s hard to overstate the importance that decades of experience can teach.

The trick is getting the balance right. When the pendulum swings too far to one side, a carrier runs the risk of giving a formulaic, undifferentiated response. An automated system might raise red flags about a project, but a skilled underwriter might recognize subtleties that should take precedence: certain exposure bases might be due to a temporary environment, or a local highway project might change traffic flows. These are the kinds of extenuating circumstances that experienced underwriters will recognize after years of practice, and this may be even more complicated now that younger underwriters are more dependent on automated support. We address the development of underwriting judgment when we discuss talent development in a later section.

As we’ve noted, leading carriers are finding ways to take advantage of technological advances to deliver the right information to the right underwriter at the right time.5 When it comes to finding the right balance between technology and judgment, we have seen leading carriers experiment with the following:

- They design standard processes, tools, and models to account for most scenarios. But they also rely on an individual’s underwriting expertise. Of course, that expertise should convey a solid understanding of the models to know which risk characteristics aren’t being fully accounted for and to determine when it’s appropriate to deviate from the model output. Even the most sophisticated model may propose turning down a unique business opportunity that a seasoned underwriter knows is well within risk tolerances.

- They use technology to streamline and centralize underwriting inputs. This can minimize wasted effort and reduce the amount of time navigating different systems, so underwriters can focus on analyzing risks instead of gathering information.

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They design tools for how and where people work today—with tablets and smartphones. This improves underwriter productivity by providing accessibility and convenience, whether the underwriter is in the office, visiting an agent, or working remotely. Younger workers, in particular, appreciate this flexibility.

They use technology to enable cross-selling, knowing that clients rarely have just a single need. Some carriers are asking underwriters to actively look for cross-selling opportunities as they review applications, regarding what exposures may be present and what products are needed to cover them. Some types of businesses may be fine with a standard commercial package, while others may need supplemental coverage to address unusual risks. A prepared underwriter should spot those opportunities.

Monitor
To execute a strategy successfully, you have to monitor results, and then use those results to make adjustments. And a key part of monitoring is defining the right metrics in the first place.

Monitoring refers to the governance procedures and controls that make sure underwriters are operating within acceptable risk parameters on individual deals. Monitoring also encompasses tracking the risk profile of the overall book of business to make sure that risks are appropriately balanced.

Carriers face trade-offs when deciding the best approach to monitoring. Strong governance, with close monitoring of individual deals, protects the institution. But it can also slow down deal flow, and no carrier wants the reputation of being too difficult to work with or too slow in making decisions. At the other extreme, relying on portfolio monitoring over transactional governance gets deals through quickly but won’t necessarily catch noncompliant decisions in real time. Some decisions can’t be reversed, and no one wants to discover that the reported premium growth was wiped out by higher-than-expected losses.

An effective monitoring program involves a large number of controls, including decision-making authority levels (who can approve what), what documentation is necessary, which benchmarks are used, financial metrics, and so on. Good monitoring programs also typically include procedures to follow when deals fall outside established parameters.

In our experience, poor monitoring often leads to poor risk selection, pricing that lags technical rates, and loosening of terms and conditions over time. There are lots of things that companies do wrong, and each comes with its own negative consequences. Here are some examples of weak monitoring that we’ve seen:

- Letters of authority aren’t consistently issued, reviewed, and updated, and no standard template exists.
- Decisions are based on risk characteristics that aren’t always reviewed as part of the standard underwriting process.
- Reviews are approved on autopilot because approval criteria are too relaxed or the referral trigger is not needed.
- Authority levels aren’t matched to individual underwriter experience, performance, and skills.
- Underwriters continue to ignore controls designed to enforce strategy because there are few if any consequences for doing so.
- Underwriters decline certain multi-line submissions, just because they’ll be too hard to approve.
Leading carriers tend to do a much better job at handling both day-to-day underwriting compliance and balancing the risk profile of the portfolio. They also tend to approach monitoring as a way to inform future actions rather than simply as a backward-looking, point-in-time compliance exercise. For example, they use information from portfolio monitoring to identify potential adjustments to their underwriting strategies. They may also use monitoring results to change processes and tools that underwriters use to make decisions, or they might change the way they articulate elements of the strategy to steer underwriter efforts more effectively.

By keeping a pulse on underwriting activities as they happen, companies can identify market trends, such as emerging exposures, changes in coverage requests, and competitor product and pricing activities. This can also be used to fine-tune strategy and position the carrier for future growth.

**Develop talent**

Changing demographics around the world are challenging employers. In many developed countries, aging populations will shrink the workforce, and this is especially complicated when the cohort that is “aging out” has specialized knowledge that is hard to replace. Employers may also need to change their approach if they hope to attract and motivate millennials, who may have very different expectations and needs for work.

Underwriters are a prominent example of this change. In the United States, according to Bureau of Labor Statistics projections, employment in this job category will shrink by 12% between 2014 and 2024. During this period, many senior underwriters will retire, and many of them may not be replaced as carriers rely more heavily on automated systems. As these employees leave, carriers may lose institutional expertise and consistency, as new industry hires will be far less experienced. We have also heard anecdotal reports of underwriters who feel that the automated systems have limited their empowerment.

Consider, for example, the composition of the Chartered Property Casualty Underwriter (CPCU) Society: The American Institute for Chartered Property Casualty Underwriters confers the CPCU designation after students pass a battery of national exams, and two-thirds of CPCU Society members are currently over 50 years old.

So what are carriers doing about this impending “brain drain”? Often, not much. Many don’t invest in entry-level jobs, they put little effort or budget toward mentoring programs or conferences, and they wait until employees with key responsibilities announce their plans to leave before taking the knowledge transfer process seriously. This can leave companies dangerously vulnerable. One industry observer recently described the fallout from the talent gap: “An insurance company ... in Ohio actually lost all of its experts in underwriting surety bonds, and therefore couldn’t underwrite them.”

Formal education can help, but university programs may not graduate enough students to make up the difference. And while academic programs can train someone on how to deal with relatively straightforward situations, modern commercial underwriting decisions can be subtle. Knowledge to handle those subtleties won’t come from a book. It comes from direct interaction with someone who has seen it before.

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To enable profitable growth over time, leading carriers invest in training new underwriters, teaching them the specifics of the risk solutions the carrier offers. To make profitable decisions, these junior underwriters also learn the “softer” skills associated with negotiations. Leading carriers make this a priority. They turn to their soon-to-retire specialists to focus on developing training programs and documenting risk analysis processes and guidelines as a means of transferring their knowledge to the next generation. In some cases, carriers also bring back retired employees as consultants to continue the knowledge transfer process.

Becoming an experienced underwriter is a gradual transition. So, leading carriers tend to delegate decision powers to their staff based on their demonstrated ability to effectively manage risk at the point of sale. As junior underwriters gain experience and expertise, these carriers give them more opportunities to handle complex accounts.

We’ve also observed leading carriers putting this concept into practice by defining standard technical underwriting skills levels and identifying what skills and knowledge are required to advance. This “competency model” framework for measuring skills allows the carriers to link the evaluation of underwriting acumen to the delegation of authority. It typically involves both objective and subjective measures, such as audit results, book performance, manager observation, and training accomplishments. Furthermore, it provides transparency to underwriters on what skills they’ll need to advance in their careers. Once underwriters have demonstrated that they excel at managing risk, they are given additional opportunities, like working toward becoming better sales representatives and market innovators.

Finally, leading carriers tend to make this process part of their ongoing talent strategy. They identify “strong athletes” among their underwriters and expand their roles and responsibilities. They guide managers in these efforts, too, by a talent strategy that sets expectations for all underwriters. And, they maintain incentive systems that are transparent about both career paths and potential rewards.
As we’ve seen, there are four primary components to commercial underwriting success (see Figure 2). In an industry that faces serious growth challenges, carriers that step up their underwriting execution can really influence their performance. At many carriers, though, we haven’t seen a consistent focus on addressing the gaps.

The good news is that there are concrete, tactical steps that can benefit almost any carrier’s underwriting program, regardless of business strategy. Perhaps it’s not a surprise that the answer is in getting the basics right: delivering on a company’s strategy, whatever it is, by focusing on successful execution.

- **Articulate** – Turning business goals into a set of actions that everyone can follow.
- **Embed** – Designing underwriting processes that reflect the strategy in day-to-day decisions.
- **Monitor** – Measuring results to make sure the processes are being followed, and using them to improve.
- **Develop talent** – Helping junior underwriters exhibit sound risk selection and assessment skills before building other skills.

**Figure 2:** To address these issues, middle-market carriers need to re-examine their underwriting strategies and the operating models in place to execute them.
**Articulate**

Have you translated high-level business goals and strategy into actions that frontline underwriters can act on consistently?

Once your company has defined its appetite for risk, we recommend the following guiding principles:

- Translate strategic goals into clear actions that underwriters can execute (examples shown in Figure 3 below).
- Adjust the content to make it more strategic or more directive, depending on the maturity of the organization.
- Strike a balance when communicating with underwriters, between sharing complex details (when they’re essential) and focusing on clarity and readability (when they’re not).
- Be sure that underwriters can communicate the strategy as representatives of the company, in a way that will be relevant to both producers and clients.

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**Figure 3: Tactical actions underwriters might take to support a given strategy.**
At every carrier, underwriters should always be given sales and underwriting guidance that reflects company strategy. Of course, supporting documentation should also be accessible and up-to-date, and it should clearly articulate desired underwriting actions. But we recognize that it can take time to develop detailed underwriting documentation, so it makes sense to start with programs that will yield the most value. Figure 4 shows several cases in which providing detailed sales and underwriting guidance can be particularly valuable.

- **Low risk complexity:** Some underwriting guidelines are very straightforward, when you have a clear idea of which risks to accept and how to price them. As a result, the content is both easy to create, and it can help your team give consistent and efficient decisions. In some cases, these guidelines are even built into the system as business rules to streamline the underwriting process.

- **Inexperienced underwriters:** Where you have units with less experienced underwriters, offer them specific guidance. This can help make sure the right information is analyzed appropriately when they make underwriting decisions. By providing clear documentation, you’ll also standardize the messaging and speed up the training process for future hires.

- **Knowledge sharing:** Experienced underwriters know a lot about a carrier’s past experiences and underwriting preferences. By documenting what they’ve seen to create specific guidelines, they can help their junior counterparts make better decisions.

**Figure 4: When writing documentation, start with programs that will yield the most value.**

<table>
<thead>
<tr>
<th>Low risk complexity</th>
<th>Inexperienced underwriters</th>
<th>Knowledge sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Risks have similar exposures and product needs by class code</td>
<td>✓ Many underwriters are new</td>
<td>✓ Underwriting officers have a clear understanding of what drives losses</td>
</tr>
<tr>
<td>✓ Risk profile is relatively straightforward (for example, not complex)</td>
<td>✓ Turnover is relatively high</td>
<td>✓ Large amounts of historical data and/or market insights are available</td>
</tr>
<tr>
<td>✓ Loss frequency and severity are highly predictable</td>
<td>✓ Few underwriters have deep expertise</td>
<td>✓ Carrier is communicating a new or revised underwriting strategy</td>
</tr>
</tbody>
</table>
**Embed**

*Have you planned, designed, and implemented the processes, tools, and resources to embed the strategy in day-to-day underwriting activities?*

Having a good strategy isn’t enough. Once you’ve defined the strategy and articulated it so underwriters can apply it, you need to support them in their efforts. Embedding the strategy requires the careful planning, design, and implementation of the right tools and processes in all daily activities. To do this, we suggest the following guiding principles:

- **Build a communications program that continually reinforces components of your underwriting strategy.** You should give everyone regular reminders of what you want them to do, and why. To emphasize their importance, all communications should come from senior underwriting management.

  Include metrics that show progress, so everyone can see whether or not they’re on track to reach your published goals. And if you’re making mid-year tactical changes, or if you see upcoming opportunities, share as much information as you can about the rationale to inspire buy-in.

- **Use processes, analytics, and tools to embed the strategy into day-to-day account decisions.** Help underwriters see when they can layer their own judgment on top of the strategy if it can support a better decision.

- **Consolidate and centralize resources that underwriters use in their day-to-day activities.** As shown in Figure 5, this comes down to building in the right inputs and the right checkpoints at the right points in the underwriting process.

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**Figure 5: You will get better underwriting decisions if you combine standardized processes, tools, and analytics with critical thinking and questioning.**

<table>
<thead>
<tr>
<th>Processes, tools, and analytics</th>
<th>Query appetite and hazard information for specified risk</th>
<th>Retrieve data from third-party sources such as company financials, litigation activity, and loss history</th>
<th>Use technical raters and pricing models to consider factors such as the account’s revised class code, size, geography, loss history, and financial data</th>
<th>Display benchmark coverages, limits, and average premium for similar risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prequalify account</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gather information</td>
<td></td>
<td></td>
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<tr>
<td>Analyze risk</td>
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<td></td>
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<td></td>
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<tr>
<td>Rate and price</td>
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<td></td>
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<tr>
<td>Quote and negotiate</td>
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</tbody>
</table>

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Here is a real-life example, drawn from underwriters working on a multi-line submission. It shows how automated systems can work together with experienced underwriters, using strategic cues built into the process, to produce better results:

- **Prequalify account**: A risk is flagged as “out of appetite” for the general liability product because of concerns about legal exposure from end users who might misuse the prospective customer’s products. The underwriter may still be willing to accept the risk, given appropriate pricing and controls, to have a chance at the rest of the prospect’s business.

- **Gather information**: The underwriter collects data, including third-party information about the prospect. For example, the company’s revenue has been stable over the last three years with consistent profitability and no litigious activity. However, the underwriter researches the company name and finds out a new product was just announced.

- **Analyze risk**: After following up with the agent, the underwriter discovers the new product will substantially change the nature of operations and updates the general liability and workers’ compensation class codes accordingly.

- **Rate and price**: The workers’ compensation pricing model primarily accounts for manually-performed manufacturing processes. The underwriter knows that the customer’s processes are highly automated, thus mitigating concerns about the frequency of employee injuries, and adjusts pricing accordingly.

- **Quote and negotiate**: When negotiating with the agent, the underwriter highlights the carrier’s unique service offerings and uses pricing benchmarks to close the deal.
Monitor
Are you tracking compliance with individual deals as well as monitoring the risk profile of the overall portfolio? Are you approaching monitoring as a way to improve the business—or just as a means to control behavior?

Individual underwriters are often convinced that their actions are best for the agent/broker, the policyholder, and the carrier. And they may be right. But monitoring is still critical to make sure that underwriters are following the broader strategy as it changes. In the commercial property and casualty market, it’s likely that a strategy that worked in the past may no longer be the best choice.

Monitoring also helps carriers identify when they should make strategic adjustments across the underwriting process. This is a key part of the feedback loop that leads to better decisions. If an underwriter isn’t complying with a specific policy, for example, you should take the time to understand why, because the explanation can tell you a lot about what to do next. Is this poor performance? Is it a training issue? Are automated systems working as they should? It’s entirely possible that the underwriter knows more about the market environment than the rules that model the market environment. She may be acting in the best interest of the company, even when her actions are officially branded “noncompliant.”

With a robust monitoring program in place, you’ll be able to get to the root cause quickly. If the underwriter knows something that your guidance should reflect (but doesn’t), make it easy for underwriting executives to find out. This will let them incorporate the feedback into strategic plans, change policy and guidance as needed, and quickly share this information across the enterprise so everyone can benefit from the experience.

Here are some things to keep in mind when developing and implementing procedures to monitor the underwriting process:

- **Align efforts**: Know what’s already in place so you don’t keep reinventing the wheel. Where possible, encourage collaboration across the enterprise. This will help you define overall monitoring targets, and will let you eliminate redundant efforts. Coordinate your efforts so you can find the root causes of issues and enhance your strategy.

- **Adapt approaches**: Stay flexible with regard to both internal changes and external forces. When you identify an important conclusion from one mechanism, use it to inform the others. For example, when you spot shifts in the market or issues that keep coming up in formal audits, consider adding or changing process metrics.

- **Apply insights**: Analysis shouldn’t occur in a vacuum. Use data from the full suite of monitoring mechanisms so you can identify opportunities for targeted improvements, such as training needs for underwriting risk in a particular industry.

- **Gain buy-in**: Keep key underwriting personnel in the loop on how underwriting decisions are supervised. When you make a change, be sure you tell people what’s changing—and remember that it’s equally important to convince people the reasons for the changes are valid. This supports morale and avoids backlash from a perception that there are too many checks in the process. It may even generate other opportunities for improvement.
**Develop talent**

Do your underwriters feel empowered and accountable? Are you training your newer and younger team members to work more consistently, with a focus on foundational skills?

Managers often focus on technology and process before paying attention to people. No doubt, human capital issues can be challenging. But carriers who want to succeed at underwriting—that is, all of them—need to think hard about this “third leg of the stool.” Experienced underwriters can be the difference between a company that hits profitability targets and one that doesn’t. So, now that the industry faces an impending wave of retiring underwriters, you need a good plan to transfer as much of their knowledge as you can, and train their replacements effectively.

Over the course of a carrier, an underwriter wears many hats, and they build on each other (see Figure 6). As we’ve said, an underwriter’s fundamental responsibility is to select risks and price them appropriately. Therefore, the main development priority for underwriters is to foster technical underwriting skills. Once these foundations are strong, carriers can focus on helping their underwriters to develop new business, improve the stakeholder experience, and drive innovation.

Your development programs should address the full range of underwriting activity:

*Manage risk:* Underwriters must be able to understand and underwrite risks in line with the carrier’s strategy. This includes product and coverage knowledge, risk analysis, loss projections, pricing, and portfolio management.

![Figure 6: Underwriters take on a variety of roles during their careers.](image-url)
Drive new business: Very early in their careers, underwriters are expected to have strong, generalist risk management skills and develop relationships with producers. At some point, though, building relationships in the distribution channel starts to be especially important. Underwriters “represent the firm” to producers, and quality time with agents will help to resolve negotiation challenges as they arise.

Improve stakeholder experience: The more experience your underwriters gain, the easier it will be for them to get work done, which will make them more valuable to the customer. Even those who are less focused on distribution play a role. Seasoned risk managers who anticipate trouble spots can help identify potential workarounds ahead of time. Distribution leaders, in turn, will be responsible for executing strategy in the region.

Drive innovation: At a certain point, industry leaders and product leaders have “seen it all.” Whether they have ultimate authority for a product line or an industry strategy, they’ll intuitively know the fundamentals of risk as well as how underwriting drives revenue and profitability. They’ll use this foundation in risk management to devise product solutions that help customers manage their risks better. They’ll have the terms, conditions, and pricing mechanisms in place that protect the carrier’s underwriting results, too. Furthermore, their experience in driving new business and establishing strong distribution relationships helps them keep a pulse on market needs that help them identify opportunities as the market shifts. They have had opportunities to see how sales and service evolve over decades, so they are in a position to act when the industry shifts.

To build and maintain an underwriting organization with top-notch talent, you have to create an environment for less experienced underwriters to develop skills and advance.

Here are some key development factors:

- Understanding the underwriting strategy
- Using processes, tools, and analytics to make sound underwriting decisions
- Monitoring results so that developmental feedback can be applied to future decisions

The fact is that good development programs can offer benefits to the staff as well as the carrier. Junior underwriters should be able to see that you’re investing your time to train them so that they’ll want to stay the long term. And the way you transfer knowledge from the most senior underwriters to the most junior can be mutually rewarding, stressing professionalism, continuity, and pride in an essential career done well.
Carriers design their strategy to maintain profitability throughout the underwriting cycle. But there are major forces at work making this difficult to achieve.

Between the dynamics of the underwriting cycle and the impending mass retirement of experienced underwriters, some carriers could find themselves struggling to achieve their goals over time.

**Good underwriting doesn’t ‘just happen’**

Underwriting profitability isn’t a matter of coincidence. It’s the result of targeted underwriting strategies and consistent execution against those strategies. Carriers that focus on execution will be in a stronger position to succeed: they’ll get all—or most—of their underwriters capably managing risks across the underwriting cycle. They’ll make sure that this happens, because they’ll be monitoring decisions at an appropriate level of rigor to help maintain compliance and consistency. They’ll be ready to compete against next generation carriers that focus on cost efficiency, data-driven decisions, and digital distribution.

**Getting the balance right**

Effective underwriting has always been a balancing act. If you’re too loose, you can wind up with accounts on the books that shouldn’t be there, with risks that are poorly evaluated, understood, and underpriced. If you’re too tight, you may not generate as much profit as you otherwise could. In the same way, modern underwriting demands a balance between intelligent systems and experienced professionals. When the strengths of each are combined, a carrier can see better decisions made by employees who feel good about their work.

**Back to basics**

The framework we present here—articulate the underwriting strategy, embed it in day-to-day situations, monitor the results, and train for the future—is all about “blocking and tackling.” Regardless of industry sector or geography, every commercial carrier needs to manage these basics. And now, more than ever, managing the basics can point the way to sustained and profitable underwriting growth.
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