Top Issues

Digitizing small commercial

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As we noted in last year’s edition of Top Insurance Industry Issues, commercial insurers are finally making significant investments in the digital space. Historically, the market was largely free from disruption – overlooked, in fact – so there wasn’t much incentive to change. However, because small commercial insurance is a large and profitable market for carriers who understand it, it’s now attracting a great deal of attention – and pressure to modernize.

Improving the customer experience

Both established players and new entrants realize there’s still too much manual work, inefficiencies in distribution, and inconsistent levels of customer service and interaction. Fast movers recognize that, if they’re able to overcome these shortcomings, they’ll be more efficient, attractive to customers, and profitable.

There are a few key areas in which digital capabilities are helping commercial carriers modernize. There is considerable innovation taking place in claims. As personal lines started doing over a decade ago, small commercial carriers are now investing in capabilities that make it easier to manage a claim online, thereby expediting the process and increasing customer satisfaction and retention. In addition, increasingly comprehensive and comprehensible third-party and in-house data is simplifying online research; understanding of complex products, individual customer and broader customer categories’ needs; and the quote and sales process.
Because of the importance of the user experience and the need to more efficiently and profitably serve the market, the small commercial operating model will continue to change the most at the front end. Investments in digital capabilities will continue apace and the direct channel will slowly grow in importance. But, because small business owners’ insurance needs are often bespoke and require a human touch, we expect that independent agents will continue to be the primary distribution channel for small commercial into the foreseeable future.

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**Digitizing underwriting**

AI is playing a huge role in changing underwriting. As a case in point, most personal auto policies are now priced automatically. Digitization has simplified the underwriting process to the point insurers can avoid asking too many questions of the customer, who’s just trying to get a quote. There’s enough internal and external data to automate most of the process.

However, in other segments of the market like small commercial, an underwriter – a human – still has to look at the risk that a carrier underwrites. At least for the time being, human judgment is still going to be important, even if models increasingly inform decisions. Accordingly, digitization – in this case, AI – is more about 1) enabling humans to quickly and effectively collect the information they need to adequately assess and underwrite risk and 2) defining the technologically augmented process they need to follow to underwrite that risk. This is resulting in greater underwriting discipline; there’s an increasingly consistent approach to underwriting risks on a day-to-day basis, as well as greater understanding of and control over underwriting decisions.

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**Underwriting talent**

Talent – and especially underwriting talent – is the lifeblood of an insurance company. Carriers spend a great deal of energy trying to attract the most qualified people. As carriers consider the underwriting workforce of the future and how to evaluate their underwriting talent, they’re looking at not only existing underwriting acumen but also how to develop it.

For example, and to add color to what we’ve noted above, as AI and data digitization are becoming more prominent, carriers are devoting considerable attention to helping underwriters use models and AI driven tools to supplement their knowledge. In this way, underwriters are becoming increasingly comfortable marrying what they’ve learned from personal experience with insight from models to make the most informed decisions possible.

Carriers also are training experienced underwriters to document and transmit their lifelong expertise to more junior underwriters. This is where digitization is playing a major role. It’s converting the knowledge that resides within an insurer to make it more permanent and available to new generations of underwriters. Making this knowledge institutional creates a better connected and informed workforce, which helps makes existing employees happier and attracts new ones. More importantly, it helps the insurance company itself be in a better position to profitably grow.

In sum – and in line with what optimists have been saying about the positive effects of AI and automation – small commercial is a proving ground for people and machines working together to create a better outcome for carriers, their employees, agents and customers. While the segment is fairly early in the modernization process, the companies out in front are already benefitting from augmenting their front and back end operations. Digital advances in claims processing; underwriting; customer service; and workforce systems, processes, and knowledge are already resulting in improved efficiencies, a more connected workforce, lower costs, and happier customers.
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