

Top Performing Auto Carriers All Do One Thing Well: Aggressively Underwrite Suspicious Applications

I have been thinking a lot about why so many carriers have struggled to generate value from their digital transformation investments. An insurance analyst at Gartner recently told me that ‘the industry has spent over \$184-billion on digital transformation – and has gotten little or no return.’ I’ve also spoken with a number of executives at personal lines carriers over the last year who all said more or less the same thing - ‘we’re getting killed’ – when talking about the direct/online channels they had hoped a digital transformation would enable.

What is going on here? Why are a few juggernaut carriers (we all know who they are) thriving while most continue to struggle despite a massive, industry-wide technology transformation effort? Isn’t Insuretech here to save the day? Don’t the big processing platforms fix decades of neglect to the industry’s core systems and production issues? The answer is clearly no – or at least not yet – for most carriers.



Successful Digital Transformation Requires Tight Focus on the Right Things

In most industries, increasing the top line and driving production efficiencies are the primary economic levers CEO’s need to pull. They know exactly how much margin they will generate with an incremental sale. They understand how scale impacts costs the transaction costs and

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Undisclosed Drivers. Pre-Existing Damage. Rating Address Misrepresentation. Corrupted Data. Ineligible Drivers. Serial Cancellers. Unpaid Premium Applications. Commercial Vehicles. Incomplete Data. Salvage Vehicles. Ghost Brokers. Fraud Networks. Vehicles Registered to Unlisted Drivers. Known Fraudsters.

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Real-Time Quote Monitoring & Intervention. Omnichannel Solutions. API as a Service Vendor Network. Suspicious Connections Detection. Social Network Analytics & Investigations. Customer Lifecycle Event Monitoring. Dynamic Web & Mobile Interview & Data Capture. User-Configurable Boolean Rules Engine. Continuous Risk Monitoring & Scoring. Distributed Cloud Database Analytics Services. Mobile Image Capture & Recognition. GPS & Device Monitoring. Customizable Case Management & Workflow.

the bottom line. They see how automation of order and production processes directly impacts value creation. That is what drove the ERP revolution in manufacturing, for example. But that is not working in the insurance industry.

Why? Because insurance is different.

Risk Selection Overwhelms Operating Cost Impact for Insurance Carriers

Every time you issue a policy, you are making a bet on the future behavior of a person or group of persons. Your margin is different on every sale. So, you are betting that you can pick the pool of risks better than your competition – and make a little money at a lower price. But the math fact is that just a few mistakes in risk selection can destroy your financial results – it's the difference between market leaders and also-rans in insurance - whereas an extra point or two on LAE or marketing costs won't put you out of the market, or even out of business.

It is an old adage that *'it's easy to grow a bad book quickly.'* Today, you can originate an even bigger book of poor performing business faster and at lower cost than ever before – but that is the road to failure. If your digital transformation focuses primarily on treating every inquiry about risk the same to drive down costs and increase decision speed at the expense of risk selection excellence, you will quickly find yourself struggling to keep up with those juggernauts. You will not be alone in your despair, but you will let them keep winning.

The fact is our business is not about volume – although volume matters if you pick risk well. It is not about operating costs, either – although they also matter if you pick risk well. Our core competency is and must always be *risk selection* because that's where competitive advantage starts. Everything else we want to achieve is enabled by achieving greatness in picking and pricing risks, and only heartache will follow from a focus on efficiency for efficiency's sake.

Top Performing Carriers Aggressively Underwrite Every Aspect of New Business – Including Fraud & Misrepresentation Risk

Every carrier has capable actuaries who can provide a reasonable, risk-adjusted price about an honestly presented risk. But leading analytical and

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data firms like Transunion, PWC and Verisk tell us that carriers lose 15-20% of NPW to fraud and misrepresentation – and have for many years. At VeracityID, we have confirmed they are right. In fact, we found that fraud and misrepresentation costs are bigger - much bigger - in the direct channel. By as much as 40 points in ‘unprotected’ new business.

We have also learned that about 75% of fraud risk is revealed at POS – and that a relatively small percentage of policies drive most of it. *This means that the intense focus on detecting claims fraud we continue to see in the Insuretech marketplace – while worthwhile – is missing the biggest available target of opportunity.* And it means the actuarial toolbox carriers currently use to set price is not set up to prevent fraud because it continues unabated year after year. So now what should carriers do?

It's All in the Troublesome 10%

If you look at a typical book of new business, over 90% of it appears to be ‘clean’ at POS – meaning carriers can trust representations and make informed pricing decisions via an automated process that core systems platforms were designed to deliver. And that business is profitable. Perhaps even at a lower operating cost per transaction if you have finished your digital transformation!

It is figuring out how to deal with the ‘other 10%’ of inquiries that invariably arrives with the ‘good stuff’ – applications and endorsement requests where something does not make sense – that differentiates top performers from the rest. Can you see problems before you issue a policy? Should you decline the app instead? Should you get more information? Should you escalate it to an underwriter or refer to a call center for a recorded interview? Should you modify payment or coverage offers? Should you flag it for later review? Making those decisions well is the difference between being a juggernaut and a laggard.

If you think this sounds like we believe you need to **refocus your digital transformation efforts on underwriting excellence first**, you would be right. Automation is still the future of insurance – but you need to invest in automation where it matters – in targeted, aggressive underwriting where anomalies are discovered. If you do not do this well, no amount of technology will allow you to compete with a carrier with a 15-20% cost advantage.

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Solve the 10% and the Rest is “Easy”

Do you have the right toolbox?

Carriers that get the ‘10% problem’ right have a huge margin advantage over those that do not. And that gives them the financial strength and confidence to drive operating costs and efficiency improvements in the ‘other 90%’ and thereby realize the value that the digital transformation was meant to capture. It also allows them to market aggressively and grow profitably – because they understand how to write a profitable book in any market they understand. A deeper look at how the juggernaut players did it will show you I am right. It is not too late. But the clock is ticking, so get started.

*Are You Ready to Become a
Juggernaut?*

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About VeracityID

VeracityID is a privately held company. We offer an integrated suite of leading edge, real-time underwriting & claims fraud risk monitoring, detection and intervention solutions for the insurance industry. Learn more about us at www.VeracityID.com or write us at Sales@VeracityID.com.