White Paper

Commercial Portfolio Risk Management Doesn't Stop with Underwriting

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Carriers that proactively manage risk during the policy term can better anticipate and respond to customer needs.

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Executive Summary

Risk management is at the heart of each carrier's business, but until recently, managing risk between point of underwriting and renewal was a costly and labor-intensive process. At point of renewal, a carrier may discover that the risk profile for an insured has changed significantly. Perhaps a plumbing business has doubled the size of its commercial fleet, or a restaurant client has expanded to a second location. In a worst-case scenario, the carrier may discover the change in risk profile only when the client files a claim—which may mean paying losses on a risk that wasn't accurately rated for the exposures, or having to inform the client that they do not have adequate coverage.

Active risk management enables commercial lines carriers to consistently manage risk throughout the policy lifecycle, across their book of business. With automated alerts to changes in an insured's risk profile, carriers can:

- Support a healthier book of business
- Decrease underwriting expenses and loss ratios
- Foster stronger customer relationships
- Strengthen agent relationships to become the carrier of choice

Introduction

Leading carriers have already incorporated driver-based rating factors and an automated loss-history database to enable faster, better underwriting decisions. But what happens after a policy has been underwritten and issued? Unfortunately, many carriers aren't able to efficiently detect or respond to changes in an insured's risk profile.

Carriers that actively monitor risk events can learn about changes to an insured's risk profile when it happens—not at point of renewal, or point of claim. Market solutions are available today to help carriers monitor risks, so they have a current, comprehensive understanding of each policy within their book of business. Equally important, having an up-to-date picture of each insured enables carriers to offer more tailored service and proactive advice—to become more than a carrier, but a trusted business advisor. In an increasingly commoditized industry, this ability to offer personalized service can be a key differentiator.

About the author

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Feirer has been part of the insurance leadership team since 2000 and was named Vice President and General Manager, Commercial Insurance, in 2012. He has held roles as vice president of product management and analytics in the insurance solutions division, and vice president and general manager of the claims solutions division.

What you don’t know can hurt you

A lot can happen to an insured business between underwriting and renewal, but without active insights, a carrier may not learn about changes to an insured’s risk profile until it’s too late.

Example: ABC Trucking may add several vehicles to its fleet without notifying its agent. In the event of an accident, ABC Trucking may find it doesn’t have sufficient coverage—or, its carrier may discover it is inadvertently insuring vehicles it didn’t know about, and pay out excessive claims losses. These types of surprises are detrimental to the customer experience, and puts unnecessary strain on the relationships between carrier, agent and customer.

Some carriers have adopted a manual risk management plan—that is, manually pulling reports in search of key risk events on their customers’ exposures. While preferable to no plan, a manual approach is time-consuming, labor-intensive and prohibitively expensive. In addition, it comes with a high risk of human error, and any inaccuracies or mistakes can result in mispriced premiums, unnecessary risk exposure and increased claims losses down the line.

Perhaps most important, manual risk management is a reactionary approach. In today’s market, when customer expectations are more exacting than ever, and when agility and nimbleness are critical capabilities, carriers can no longer afford to react to customer needs—they must be able to predict and deliver what customers want.

Active insights can shed light

A proactive risk management plan can enable carriers to better manage risk and their book of business, and meet and exceed customer expectations.

Active monitoring uses sophisticated technologies to catalog events as they occur, and relay meaningful data to the carrier. What was previously a manual data “pull” can become an automatic data “push.” Each carrier can set its own parameters of which data elements to monitor, and how often to receive reports. One carrier may prefer immediate alerts, while its competitor may opt for regular summary reports. And other carriers may prefer both—for instance, immediate alerts for certain types of risks, and a summary report for others.

Certainly, carriers cannot cancel policies mid-term without proof of fraud or unpaid premiums. But with an understanding of an insured’s current risk profile, carriers can make smarter decisions—whether that means a mid-term endorsement or a more informed decision at renewal.

Benefits of active risk management

Healthier book of business

Reduced underwriting expenses and claims losses

Stronger customer relationships

Stronger agent relationships

Example: If ABC Trucking's carrier, Sleep Easy Insurance, receives an automated alert that ABC Trucking has doubled the size of its vehicle fleet, it could contact the agent to ensure the company has adequate coverage. Similarly, it could learn that ABC Trucking has hired new drivers, some of whom have driving violations—and make a note to obtain an updated schedule of drivers when the company's policy is up for renewal. See Figure 1 below for a hypothetical plan of other risk events that could occur during the policy term.

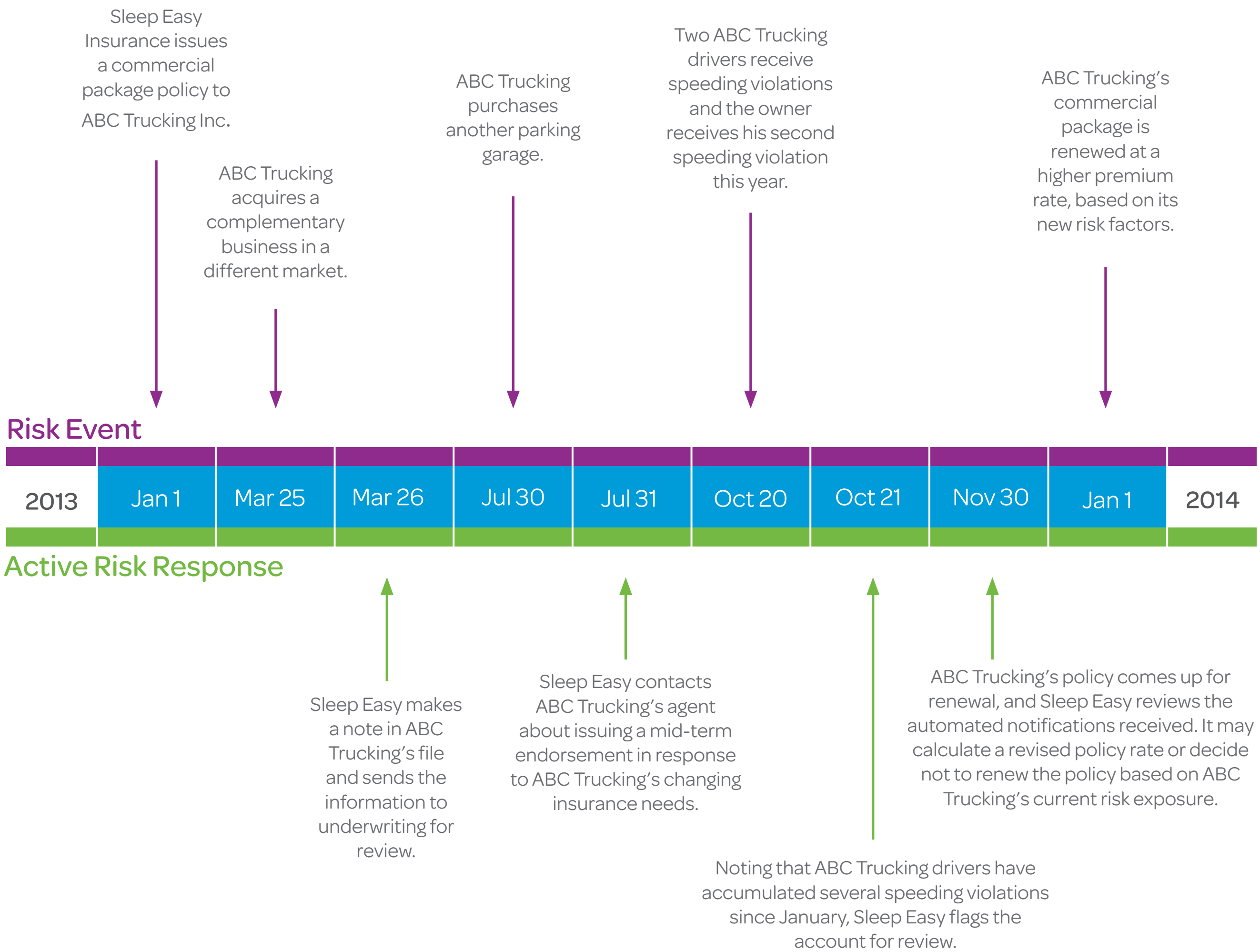

Figure 1: Active risk management provides carriers with the information they need when they need it, empowering them to proactively manage risk and be responsive to customers' needs.

The benefits of active risk management

Risk monitoring can help carriers better understand the changing risk profiles of businesses, their owners and the people they employ. Given the wide variety of relevant risk events that can occur during a policy term, many different scenarios can emerge to provide benefits to the insured, agent and carrier.

Healthier book of business

Carriers invest significant time and resources in managing risk at point of underwriting. The continued diligence of keeping tabs on an insured's risk profile throughout the lifecycle of the policy enables carriers to better understand their overall book of business, make informed decisions throughout the enterprise and capture additional premiums.

Reduced underwriting expenses and claims losses

Active risk management enables carriers to mitigate risk in a cost-effective manner. It frees underwriters from pulling manual reports, and carriers can ensure they are offering appropriate pricing and coverage—minimizing claims losses at a later date and improving profitability.

Stronger customer relationships

Many customers may not realize the effect their business decisions—expansions, purchases, hiring—have on their insurance coverage. Proactive carriers can offer more responsive service and position themselves as trusted supporters along a business's journey to success.

Stronger agent relationships

Insights derived from risk monitoring can help agents provide a cohesive, consistent experience throughout the policy lifecycle, from application to policy issuance, claim to renewal.

Key Risk Events During the Policy Term

	Possible Mid-Term Endorsement	Possible Rate Adjustment at Time of Renewal
Commercial Package		
Change in policy on another line of business that affects the risk exposure and/or likelihood of loss on the policy in question	✓	✓
Commercial Auto		
New driver or new vehicle registered for business	✓	
Change in driver's risk profile (for example, residential stability index, driver's license status, marital status, driver violation)		✓
Change in vehicle garaging address, business use and/or radius of operations	✓	
Commercial Property		
Acquisition of new property or equipment	✓	
New lien on business	✓	
Workers' Compensation		
Change in number of employees	✓	
Change in governing class code or payroll	✓	
Business Owners		
Acquisition of another business	✓	✓
Existing owner(s) file for bankruptcy	✓	✓

Making it possible with advanced technology

To be effective, active risk management requires a carrier to continually reference external data. By pulling from vast data resources outside the company's four walls, carriers can create a more comprehensive customer view to achieve a more holistic understanding of an insured's risk profile.

External data

Public records can offer insights into changes in the risk profile of fleet drivers, such as changes in driver's license status or residential stability, as well as business and personal bankruptcies, new vehicle records and alternatives to consumer credit. Further, public property records can provide insight into new locations or acquisitions by a business.

In addition, contributory databases offer carriers access to a broader dataset and insights into claims they may not know about. For example, a workers' compensation carrier may benefit from information on a business's auto or property claims.

Linking

On its own, big data has little value—it is only through analytics and linking that disparate data sources become meaningful insights. Because names and locations of individuals and businesses can vary among data sources, carriers must be able to accurately identify and link disparate pieces of information to create meaningful insight.

What to look for in a data provider

Carriers should look for a neutral third party with the experience and technical capabilities to handle high volumes of complex data, and accurately and effectively link the data. Vendors should provide access to a breadth of information and be able to manage changes in data sources so a carrier doesn't have to. Finally, carriers should seek a provider that can offer configurable solutions that can be customized for the unique needs and risk appetite of the business.

Conclusion

Carriers consider a wide range of factors when determining whether to insure a business or individual at the time of underwriting, but there is no guarantee that a customer's risk profile will stay the same over the policy term. Within months—or even days—any number of events might alter the decision, pricing calculations and risk assessment.

Active risk management offers carriers an efficient, cost-effective way to proactively manage their portfolios. With up-to-date insight on an insured's risk profile, carriers can make better decisions, support a healthier book of business, and reduce underwriting expenses and claims losses.

Perhaps most important, carriers can offer more relevant customer service to position themselves—and their agents—as trusted advisors. As carriers seek to differentiate themselves in what is often seen as a commoditized industry, personalized, proactive customer service can be a winning factor. Successfully addressing customer needs, while also managing carrier needs to profitably manage risk, lays the foundation for long-term trust and loyalty.

For more information:

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About LexisNexis® Risk Solutions
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Our insurance solutions assist insurers with automating and improving the performance of critical workflow processes to reduce expenses, improve service and position customers for growth.

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