

CELENT

# P&C POLICY FORMS MANAGEMENT

WORKIN' LIKE IT'S 1999

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21 February 2019

This report was commissioned by Verisk, which asked Celent to design and execute this study on its behalf. The analysis and conclusions are Celent's alone, and Verisk had no editorial control over the report contents.

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## EXECUTIVE SUMMARY

Insurance is a promise to pay. Underwriting forms are the expression of this promise in written form. Creating and maintaining these forms is a core activity in all insurers. To understand current approaches and issues in performing these processes, Celent interviewed product managers in 12 insurers. The interviews collected data on the elapsed time required to deliver new and modify existing underwriting forms, measures of the effort required, the pain points involved, and the various constituencies served. The use of technology was also explored.

The results paint a picture of a process that is frozen in time, largely conducting its business the same way in 2019 as it did in 1999. Insurance product management is best characterized as an “artisan approach,” with highly skilled professionals performing their work in a largely manual fashion. The deliverables are of high quality at high cost, with low process consistency, limited auditability, and partial repeatability.

This may be acceptable in an environment of little change. However, the insurance industry is not in a steady state. Customers, both consumers and businesses, expect an engagement approach that takes advantage of digital technology and makes the buying process easier, faster, and more personalized. Additionally, the product proposition is transitioning to a real-time, risk avoidance model. Investing in new customer engagement models and new products is difficult given expense pressures. Finally, the looming retirement of many career specialists presents an unprecedented knowledge retention challenge.

Celent’s analysis of the survey results yields several conclusions for insurers to consider:

- Increasing customer expectations, a changing insurance value proposition, and growth mandates will increase the rate and complexity of insurance product changes in the short to medium term. These demands require efficiency and throughput improvements in the underwriting forms process to avoid an increase in expenses.
- Survey results outline a product management process that is not positioned to respond. Current processes for underwriting forms creation and maintenance involve high levels of manual intervention, use limited technology, and have extended wait states that result in low throughput rates and capacity restrictions.
- Retirements will have a disproportionate impact on the staffs responsible for underwriting form creation and maintenance. Technology offers significant opportunities in knowledge transfer. As less experienced people replace veterans, it can help maintain existing levels of consistency and underwriting intent while increasing throughput.
- Insurers are encouraged to (re-)examine their form development and maintenance processes using a three-step approach of Assess, Decide, and Execute.

Leading insurers will break the business-as-usual approach and proactively prepare their product management functions to respond effectively. The findings of this research offer practical steps for insurers to modernize their underwriting forms processes.

KEY RESEARCH QUESTIONS

1

*What forces will increase the rate of change of insurance products?*

2

*What do survey results identify as the challenges in the current underwriting form creation and maintenance processes?*

3

*How can insurers prepare their processes for the future?*

# INTRODUCTION

Underwriting and claims are core competencies for insurers. The terms under which risks are selected, priced, and settled are outlined in underwriting forms. Creating and maintaining these forms are part of the product management process. An in-depth understanding of the current state and challenges related to this function informs decisions regarding opportunities to improve it.

## RESEARCH METHODOLOGY

Celent conducted hour-long interviews with 12 insurance companies to gain a deep understanding of their processes that address underwriting form processes — both new development and existing maintenance. Participants were selected based on their direct experience in insurance product management. Sixteen individuals were involved, all of who are active in product management on a day-to-day basis. Sample titles of those involved included Director, Product Development, Underwriting Compliance Director, and VP of Products and Programs.

The survey responses reflected varying sizes of insurers, and participation was sought so that results would be representative across all premium groups.

Table 1: Size and Lines of Business of Respondent Insurers

ANNUAL DIRECT WRITTEN PREMIUM	NUMBER OF PARTICIPATING INSURERS	LINES OF BUSINESS
OVER US\$1 BILLION	3	Personal Lines Property, Commercial Lines — Auto, Property, Cyber, BOP, WC
US\$500 MILLION TO US\$1 BILLION	6	CL and PL standard lines, Nonstandard Auto, Professional Liability
UNDER US\$500 MILLION	3	PL Property, Nonstandard Auto, Professional Liability

Source: Celent

The interviews collected data on the current state of the processes in place to create new and maintain existing underwriting forms. Areas explored included elapsed time and actual work time required to complete changes / introduce new forms, the pain points involved, and the various constituencies served. The use of technology was also explored.

While this research sample size is too small to yield strict statistical validity, these indicative results are valuable. The comments of these professionals provide current and practical perspectives. Insurers are urged to compare their product management approach with those described and use the resulting insights to decide how to address their own future needs.

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# PRODUCT MANAGEMENT

Product management is a central activity in the execution of an insurer's business strategy. As such, the interviews began with a discussion of each company's approach to their market. Seven identified customer intimacy as the main driver of their business strategy, three named price, and two chose product.

The focus on customer by these insurers reflects the industry trend toward a new engagement model and product set. Insurers are keenly aware that companies such as Amazon and Netflix use digital technology to set the standards regarding customer experience. The resulting expectations require a response by all industries, including insurance. (For more on the changing nature of insurance customer experience, see the Celent report *Digitizing the Customer Experience: A New Framework*.)

In addition to influencing customer engagement, technology is also changing the value proposition of the core insurance product. More emphasis is being placed on loss avoidance rather than indemnification. The Internet of Things (IoT) allows sensors to constantly monitor property and signal when conditions change that may result in a loss. Water leak detection and temperature variation are prime examples. Some insurance products are moving to more of a utility-based pricing, which is based on frequency of use, rather than broad risk classification. Commercial fleet and personal automobile products are examples. Figure 1 summarizes the changing insurance proposition.

Figure 1: The Changing Insurance Value Proposition

SHIFTING THE FOCUS OF THE PROPOSITION FROM 'INSURED' TO 'PROTECTED'		
	MOVE FROM...	...TO
CUSTOMER EXPERIENCE	Periodic	Continuous
VALUE PROPOSITION	Indemnity	Avoidance
PRICING	Tiered	Utility
CAPABILITIES	'Everything at scale'	Specialist
ORIENTATION	Process	Data

Source: Celent

## Key Research Question

# 1

*What forces will increase the rate of change of insurance products?*

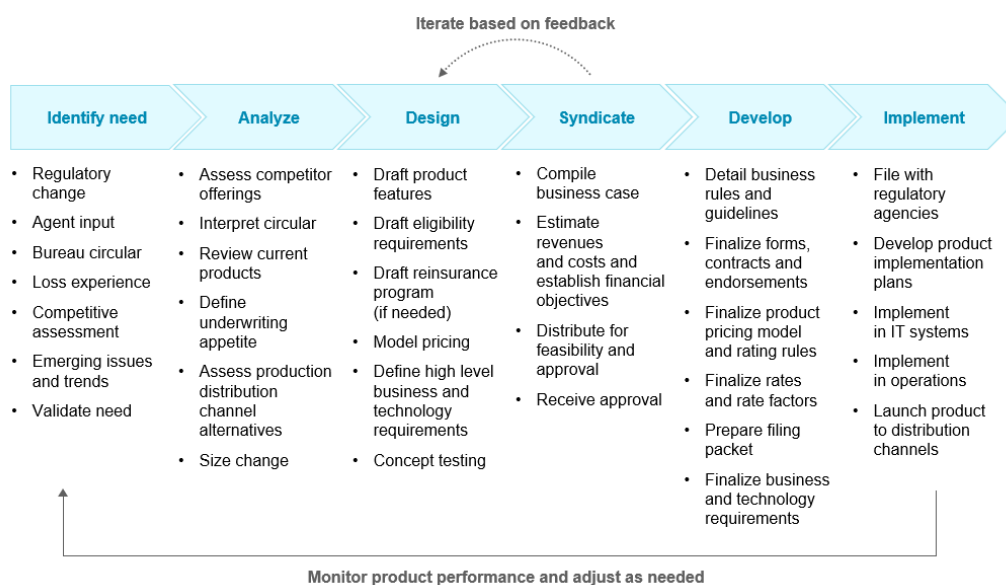
Increasing customer expectations, a changing insurance value proposition, and growth mandates are pressuring insurers to increase the rate of product changes.

## PRODUCT MANAGEMENT PROCESS

To respond, insurers introduce new products and services. As customer expectations grow and technology opportunities multiply, the activities involved in delivering and maintaining new products will be more important than ever.

The insurance product development process is best described as intricate. Broadly, there are two major categories: build new products and maintain existing ones. Both involve numerous activities and multiple handoffs between different departments/organizations. Creating and modifying underwriting forms are key activities. Figure 2 depicts a typical process flow.

Figure 2: Insurance Product Management Process



Source: Celent

The 12 insurers in this survey group generally follow this standard workflow. As in most insurers, their processes involve substantial manual handling. Two have automated a portion of their product management environment using ISO Electronic Rating Content™. (See the Celent report *Does ISO ERC Deliver the Goods?* for a detailed analysis of ISO ERC.)

Ten of the insurers start their forms creation and modification with a bureau form as a base and modify it to meet their specific objectives, market strategy, tactical plans, etc. The remaining two exclusively use proprietary forms and rating.

With a high demand for new and revised forms, prioritization is critical. For new forms, seven out of twelve participating companies reported that agent feedback drives their decisions. In the remaining five, bureau activity is the main prioritization rule for new products.

For changes, bureau filing dates are the main factor determining project priority / sequencing in six of the insurers. Changes are held until the next bureau compliance project. Four companies reported that they use a scoring system to rank product suggestions. The scores are based on a formula that includes factors such as value, cost, and risk rating. Resource availability, particularly in IT, drives prioritization in the remaining two firms.

Figure 3 summarizes the data about the process.

Figure 3: Survey Group Process Profile



Source: Celent

Verbatim comments from participants reflect the dynamic nature of the prioritization process:

- *“Planning is done each year and a certain number of projects are planned, then reprioritized as unforeseen demands come in.”*
- *“We try to bundle changes and make them coincide with a planned rate / bureau change. Occasionally, a business opportunity or an adverse selection/competitive disadvantage situation makes that impossible.”*
- *“We look at the agenda of legislatures and see what they are working on.”*

## NEW FORMS

Judging from the difficulty in providing estimates around the cycle time, number of projects, and average work effort, it appears that many insurers in the study do not carefully track the new form development process. Estimates were difficult for most.

Table 2 presents the averages of key metrics of the new form creation process across the 12 insurers.

Table 2: New Form Efforts — Key Averages

NEW FORMS INTRODUCED (YEAR)	ELAPSED TIME (MONTHS)	WORK EFFORT ONE FORM (MONTHS)	NUMBER OF PEOPLE INVOLVED
18	10	2.3	13

Source: Celent

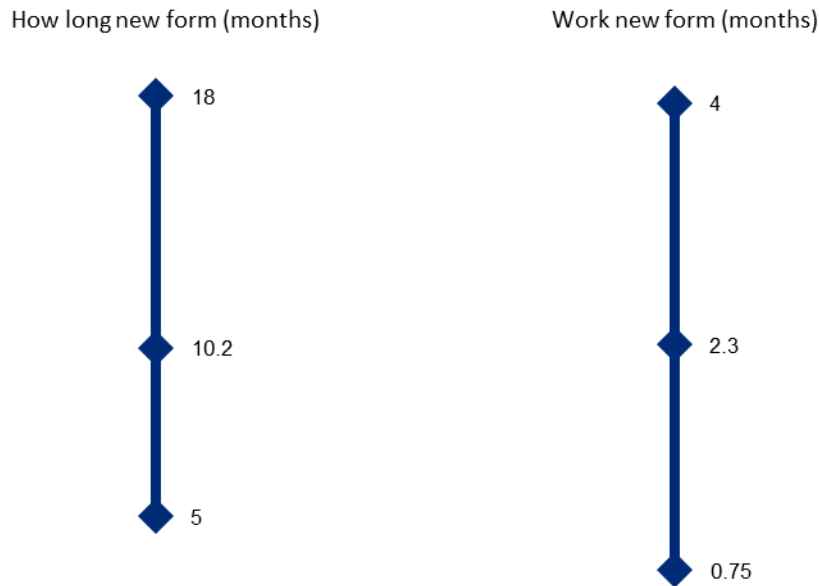
There are important caveats to make regarding this data as the respondents represented a wide scope of business responsibilities. Some were answering for forms creation for a



single line of business such as commercial auto, or for a limited number of specialty lines. Others were outlining the work involved across multiple lines in both personal and commercial books. The number of new forms created each year is highly dependent on the scope of the product management area, and the average from the survey results reflects a mix of business lines and complexity.

Respondents also estimated the elapsed time and effort involved with a single new form. Figure 4 shows the high, low, and average estimates of elapsed (how long) and effort (how much work) time.

Figure 4: Range of Estimates — New Forms



Source: Celent

The estimates for the length of time to deliver a new form project is in a tight range around the average of 10 months. This indicates a high degree of reliability. In contrast, the reported data shows a wide variation in estimates for work effort. This signals that some insurers are not tracking the work effort of individual forms projects.

These results reflect a process that contains a significant amount of wait time. On average, it takes 10 months to perform 2.3 months of work. To the extent that an insurer's process mirrors those in the survey group, improvement efforts should focus on eliminating wait states.

The pain points in the new form process mentioned by participants included:

- *"Our biggest issue is capacity — finding staff with good product development experience. Existing staff have no additional capacity."*
- *"Last year we had seven forms projects chopped off because we did not have enough IT resources."*
- *"Analysis is a challenge as the quality of the result matters based on the experience of the analyst."*

- *“Determining requirements across all the people involved is very time-consuming and difficult.”*

## EXISTING FORMS

Table 3 presents the averages of key metrics of the existing form maintenance process across all 12 insurers.

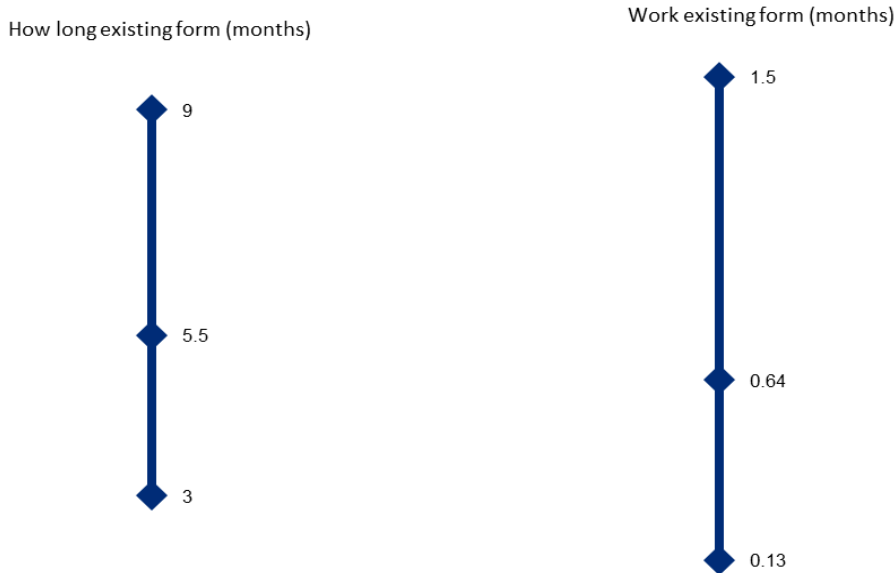
Table 3: Existing Form Efforts — Key Averages

EXISTING FORMS CHANGED (YEAR)	ELAPSED TIME (MONTHS)	WORK EFFORT ONE FORM (MONTHS)	NUMBER OF PEOPLE INVOLVED
40	5.5	0.64	8

Source: Celent

The patterns seen for new forms are repeated in the estimates for new forms. The duration range is even tighter, and the work estimates are widely distributed.

Figure 5: Dispersion of Estimates — Existing Products



Source: Celent

The existing forms development process also suffers from extended wait states. It takes 5.5 months of elapsed time to deliver 0.64 months of effort.

The pain points mentioned in the maintaining existing forms were:

- *“There are no strong controls around documents. A lack of version control adds to the work as we determine if we are doing what think we are doing. There is a lot of effort to verify that we are using right version.”*
- *“We have project management folders going back 12 years. Keeping track of the changes and who has touched what is impossible.”*

- *“If we are not current with our bureau, we have to do analysis of language to see what is different to fit into the current version.”*

To keep up with existing forms, all but two of the participants reported that they have a centralized form repository. However, the functionality described provides very limited forms management and no analysis capabilities. Most use a popular document sharing application that primarily manages check in / check out rights to assist with version control.

# TECHNOLOGY

Participants were asked to characterize the technology used in the forms development process. The specific question was:

*How would you characterize the technology used to manage the forms creation/revision process?*

- 1. A fully featured set of functions that are integrated between and across all involved process participants,*
- 2. Some limited integration and automatic sharing of data and information,*
- 3. Extensive use of shared folders on file servers,*
- 4. Islands of spreadsheets and documents that are emailed between participants,*
- 5. More than 50% manual, paper-based.*

The results are summarized in Table 4.

Table 4: Technology Used in Forms Creation / Maintenance Processes

TECHNOLOGY DESCRIPTION	NUMBER OF INSURERS
EXTENSIVE USE OF SHARED FOLDERS ON FILE SERVERS	7
ISLANDS OF SPREADSHEETS AND DOCUMENTS THAT ARE EMAILED BETWEEN PARTICIPANTS	4
MORE THAN 50% MANUAL, PAPER-BASED	1

Source: Celent

No company had automated audit tools to identify what activities took place on individual forms at what time. All firms, except one, used a standard word processing package to compare changes. One participant was aware that their company was evaluating the use of an artificial intelligence system to analyze underwriting forms, but they did not have any direct experience with the tool.

These results describe a technology environment best characterized as “early internet.” Except for the few using ISO ERC and SERFF, the prevailing technology is the same as 20 years ago. Unlike other areas of insurance which have benefitted from innovation and automation advances, the technology tools for product management in use in the companies surveyed have not advanced significantly.

The technology tools identified by participants that would improve the underwriting forms process included:

- *“We have all this data but don’t know how to get at it, do a quick analysis, make decisions off of the data. Technology would be especially valuable if we can analyze competitor forms.”*
- *“We need a new forms library product.”* (Note: This need was expressed by half of the participants.)
- *“We need to be able to manage consistency across forms better and technology can play a role in that.”*
- *“I’d love to see an Oden-type policy reference tool.”*

- *"It would be very helpful if everyone could share documents in a controlled workflow."*
- *"Creating side-by-side comparisons for the regulatory filings is painful for us."*

Despite this technology environment, the respondents expressed confidence in the quality of the results of their work. Regarding underwriting leakage, defined as the situation where wording in a form does not reflect the intended / current underwriting practice, eight were very confident that they did not have any leakage, and three were somewhat confident that they had none. When asked about the level of consistency across their forms, six stated that they were "very consistent," six said that they were "somewhat consistent," and no one identified that they were "not consistent."

- *"We are very confident that our underwriting intent is reflected in our forms as we just completed a rigorous, multi-year review dealing with exactly this issue."*
- *"It is a very special skill to know how to look at a policy and create language in an endorsement that is consistent with the policy language."*
- *"We are very confident in our forms since we started our product management department."*
- *"Given the amount of review of our forms that we do, I am confident that we have minimal leakage."*
- *"We currently have a project underway to make sure that the way we want to underwrite is what is in our contracts."*
- *"We recently did review of the underlying lines of business when we were looking at Umbrella and did not find very much leakage."*

Based on the metrics and details provided, the create and maintain forms processes in the insurers interviewed are best characterized as an "artisan approach" — dependent on the expertise of the professionals involved, yielding a high quality result but at high costs, with low process consistency, limited auditability, and partial repeatability. It is a credit to those in the roles that their work product is of such a high quality. Because their deliverables are filed with state regulatory authorities, it is also critical that it remain so.

**Key  
Research  
Question**

**2**

*What do survey results identify as the challenges in the current underwriting form creation and maintenance processes?*

**Current processes for underwriting forms creation and maintenance include high levels of manual intervention, use limited technology, and have extended wait states that result in low throughput rates and capacity restrictions.**

## OUTLOOK

There are multiple forces impacting insurance that will increase the rate of product change, so the final portion of the interviews explored the outlook for product management. Participants were asked if they thought the industry rate of change in the next three years would be substantial, minimal, or none. Opinions were split. Six predicted substantial, and six chose minimal. Expected levels of bureau activity had a similar split, with seven projecting a substantial increase in the rate of change and five predicting minimal or no change.

Comments regarding the rate of change external to their companies included:

- *“Substantial changes in products will be necessary to address new risk exposures like ride sharing and homesharing.”*
- *“We are an ISO company and think that their rate of change will stay the same.”*
- *“Regulators seem to be more consumer focused, to make sure that new coverages are being addressed.”*
- *“We expect substantial change based on activity in commercial auto.”*

Projections regarding product activity driven by company strategies varied. Five felt that the rate of change in forms would increase substantially based on their firms’ strategies. The remaining seven did not see the rate of change increasing very much, if at all.

- *“We are modernizing our commercial lines package and this involves substantial work.”*
- *“Substantial because of a new commercial lines growth initiative.”*
- *“We just re-wrote our major line of business, so we expect our forms work to decrease.”*
- *“We have growth plans and have hired new product managers.”*
- *“We are moving to a steady state with our products.”*

## CHOICES

In the companies that do not expect substantial external or internal change, it is difficult to make the business case for investment in the current forms process. Why change something that has been working for 20+ years? This is reflected in the participants’ feedback. When asked if they expected the level of technology investment to rise, half said yes, and half said no.

However, the insurers that seek efficiency and expense improvements, that have significant growth plans, or that are convinced that industry dynamics will require increasing product change, must determine how they will change the existing process.

One option is to hire more product managers. Feedback from the interviews indicated that expense considerations eliminated this alternative. Even if the extra cost is acceptable, there is a significant challenge to identify and recruit qualified individuals and then train them appropriately in the craft of product development.

Improvement through the application of technology is an attractive option. Based on the comments of the participants and the metrics reported, standard workflow and specialized forms management applications would increase productivity and process

transparency. Automated text analysis and document comparison tools, long a staple in the legal industry, would assist with new product development, competitive form comparisons, and impact assessments.

Regardless of opinions about outlook, there is one issue that all insurers face that is currently impacting almost all insurers — retirements. The loss of technical expertise is particularly acute in product management. It takes a substantial length of time to become expert at underwriting form creation and maintenance. This was evidenced in the 16 individuals involved in the survey. Five have over 30 years of service in the industry, nine have between 11 and 29 years, and two have 10 years.

- *“Retirements are a top concern for us now. Over 80% of our product management team has over 20 years tenure. We will have five retirements next month in the commercial lines department.”*
- *“The three technicians that handle all filings have worked for us for over 40 years. Seven of the twelve employees in product management will be gone in 3 to 4.5 years. These folks can do the job without thinking; they know impact analysis immediately. We have not planned enough ahead for retirement.”*
- *“We have lots of institutional knowledge permeating the whole organization. We would love to bring in new people, but budget and expense ratios don’t allow that to happen.”*

Technology helps bridge the experience gap. Forms management software offers templates that can be used as a starting point in the development of a new form. Automated audit trails on past projects provide practical, real-life training materials. Analysis tools assist inexperienced employees with impact assessments. They can also identify patterns – both similarities and differences -- between different forms. Search utilities, driven by keywords, retrieve forms that contain specific concepts. Finally, workflow tools guide participants through the numerous handoffs, provide alerts when tasks are overdue, and aid communication between multiple stakeholders.

The objective of technology in the forms management process is to augment, not replace human effort. As less experienced people replace veterans, technology can help maintain existing levels of consistency and underwriting intent while increasing throughput.

## GOING FORWARD

Celent encourages insurers to (re-)examine their form development and maintenance processes. A three-step approach for such a review is detailed in Table 5.

Table 5: Review of Forms Creation / Maintenance Processes

STAGE	SELECTED QUESTIONS
ASSESS	<ul style="list-style-type: none"> <li>Estimate rate of change for new/revised product introductions based on company strategy / competition / bureau activity</li> <li>Collect key metrics on process (cycle time, work effort, etc.).</li> <li>Identify human resource situation (for example, the percentage of specialists within five years of retirement)</li> <li>Inventory technical tools (for example, impact analysis capability).</li> <li>Examine workflows (how effectively are handoffs managed?).</li> </ul>
DECIDE	<ul style="list-style-type: none"> <li>Based on assessment and business strategy, should investment in product management stay the same, decrease, or increase?</li> </ul>
EXECUTE	<ul style="list-style-type: none"> <li>Implement human resource plan (e.g., knowledge transfer activities; recruitment actions)</li> <li>Upgrade technology: address process efficiency, throughput, and human resource enhancement.</li> <li>Revise process (e.g., introduce best practices to eliminate wait states).</li> </ul>

Source: Celent

Conducting such a review will, at a minimum, improve current practices. For insurers with aggressive expense goals and growth plans and/or those which expect the rate of product change to increase, it is a necessary step. For those wishing to address the retirement issue, it serves as a proactive step toward an inevitable transition.

### Key Research Question

## 3

*How can insurers prepare their processes for the future?*

Leading insurers will break the business-as-usual approach and proactively prepare their product management functions to meet the changes the industry faces within expense constraints. An examination of their current form development and maintenance processes is a good place to begin.

Was this report useful to you? Please send any comments, questions, or suggestions for upcoming research topics to [info@celent.com](mailto:info@celent.com).



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