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What does a good underwriting operating model look like?

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Ernst & Young

10 June 2013

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About the presenters



Tony is a Director in Ernst & Young's Insurance Performance Improvement Practice and has over 20 years experience in the insurance industry, on both client and advisory sides. His focus is on business transformation including underwriting, claims and operations. He is also a Visiting Lecturer for the MSc Insurance & Risk Management at Cass Business School and has co-authored a number of research papers for the CII on a variety of strategic and operational issues facing the industry.

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Sherdin Omar is a senior manager with Ernst & Young's European Insurance Risk and Actuarial Services practice. He has significant motor insurance pricing experience having spent 7 years in industry within motor pricing building statistical models and managing the pricing structure for one of the UK's leading brands. Since joining E&Y in October 2010 he has advised a number of leading motor brands on a wide range of projects such as transactions, reserving and pricing projects. His specialism is motor insurance and he has led and presented the E&Y's analysis of motor insurance's results, co-authored a series of telematics articles

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What we would like to cover today

- What is an operating model?
- Why is it important?
- Key drivers
- Operating model framework
- Key considerations and leading practice
- Summary
- Questions



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What is an Operating Model?

- An Operating Model is a means of defining a common view of how an organisation will operate to effectively deliver its business strategy
- The model enables an organisation to plan and build a consistent and co-ordinated view of its business, and how it will be configured, across a number of dimensions.



What is an Operating Model?

- ▶ **What we do...** – Products & Services etc
- ▶ **Who we do it for and how we engage...** – Our Customers, Distribution Channels etc
- ▶ **How we do it...** – Processes, Policies, Third Parties, Technology etc
- ▶ **How we organise ourselves...** – Organisational Structures, Role Profiles etc
- ▶ **How we control and manage our business...** – Governance, Control, Performance Management etc
- ▶ **Where we do it...** - Location etc
- ▶ **How much judgement we apply...** – Scientific versus qualitative



Why is it important?

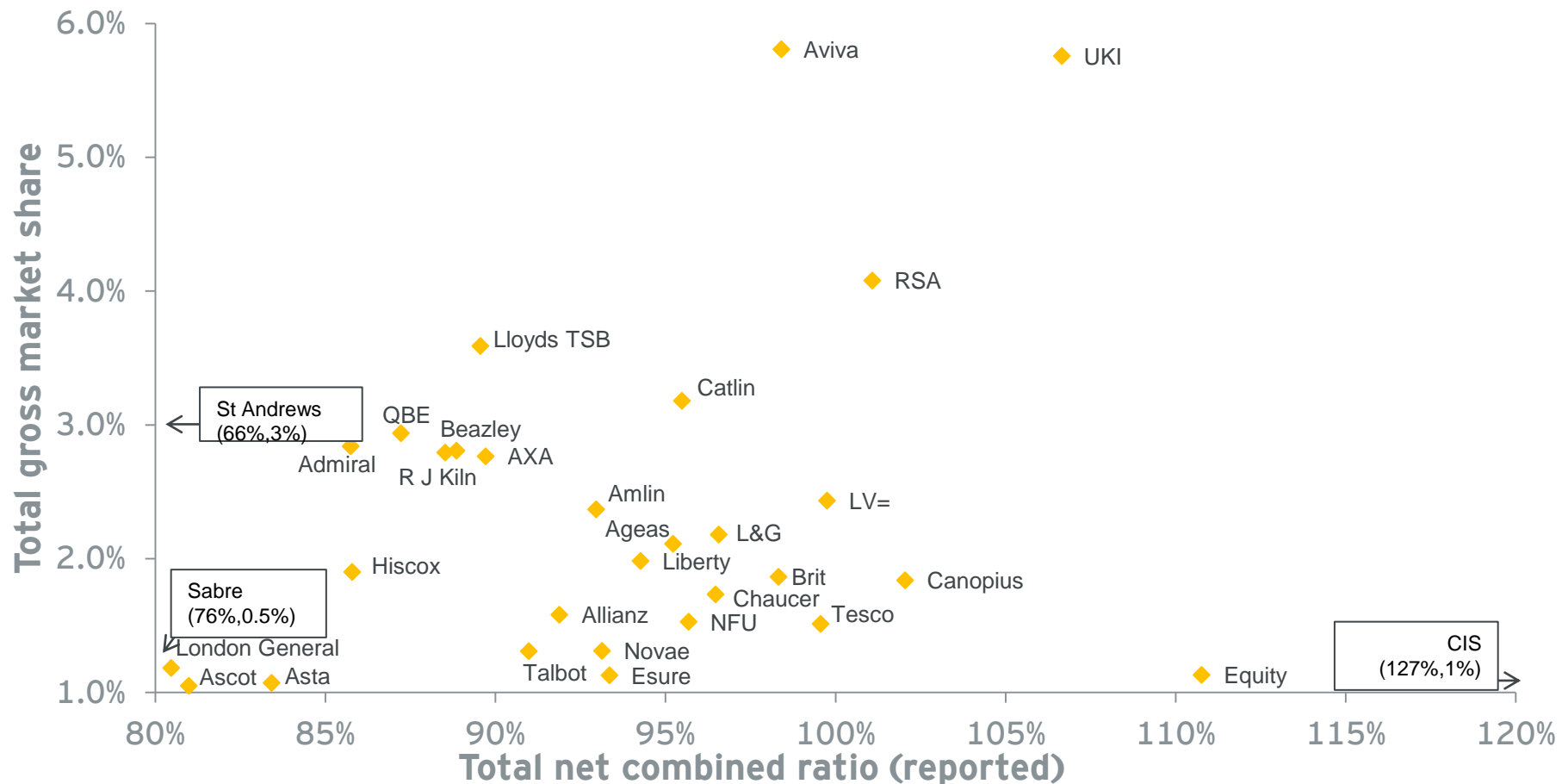
- *“It’s important to understand the ‘aggregation of marginal gains’. Put simply... how small improvements in a number of different aspects of what we do can have a huge impact to the overall performance of the team.”* **David Brailsford, Team GB Coach**



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And this is how it can translate into market performance

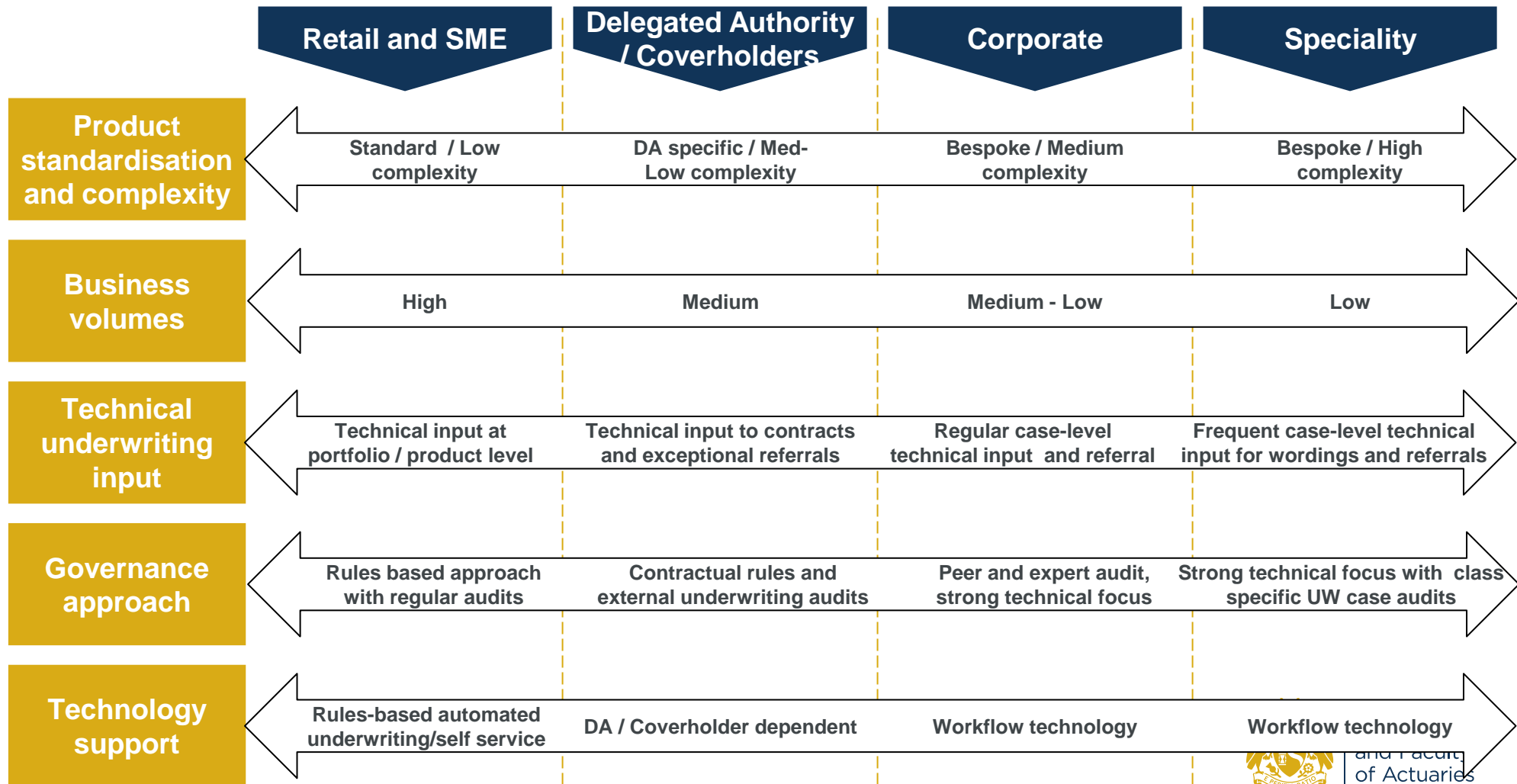
2012 - Underwriting performance for retail and specialty underwriters



Source: S&P. Lloyds returns. FSC returns and Ernst and Young

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No two models are the same

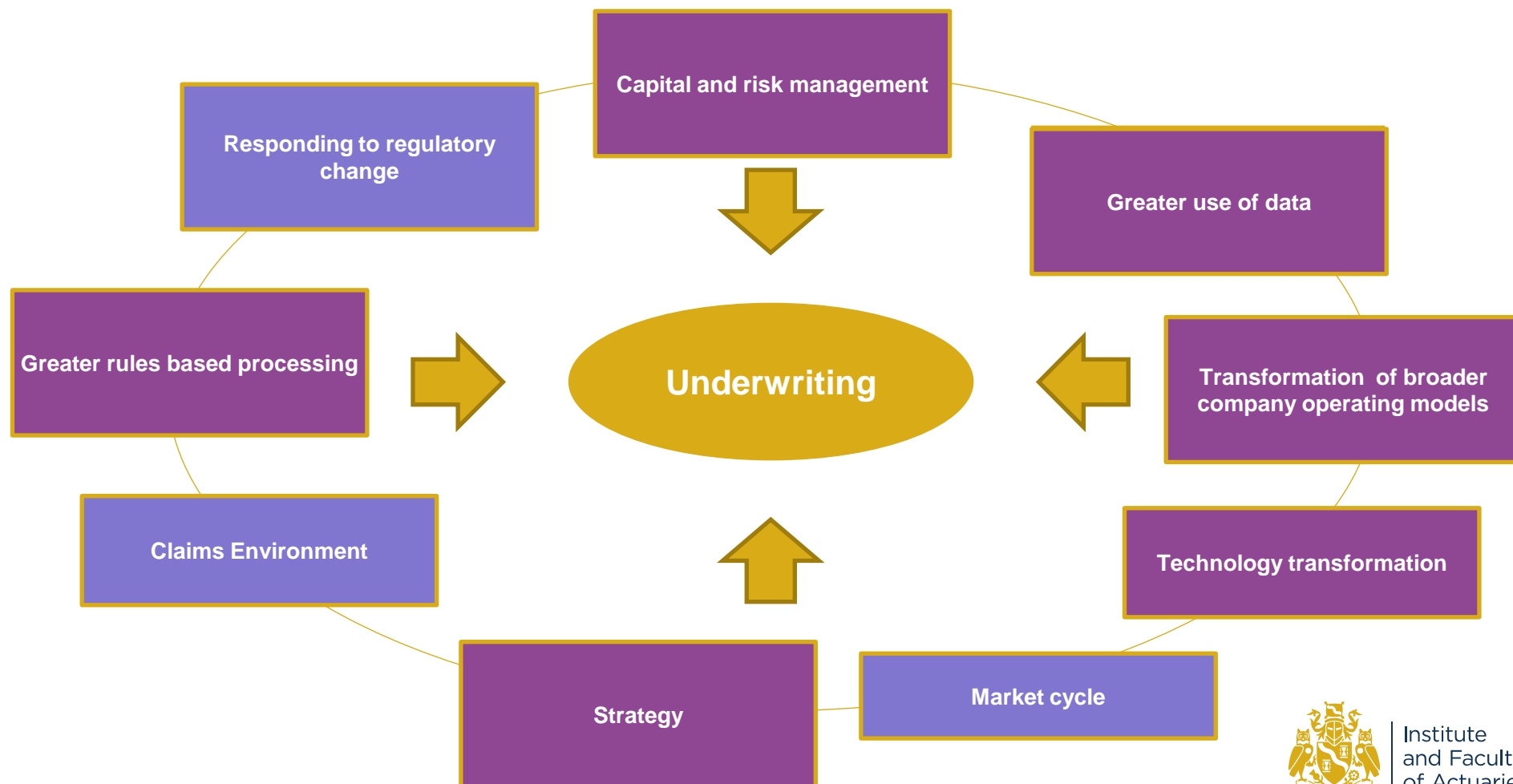


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Internal and external drivers also need to be considered

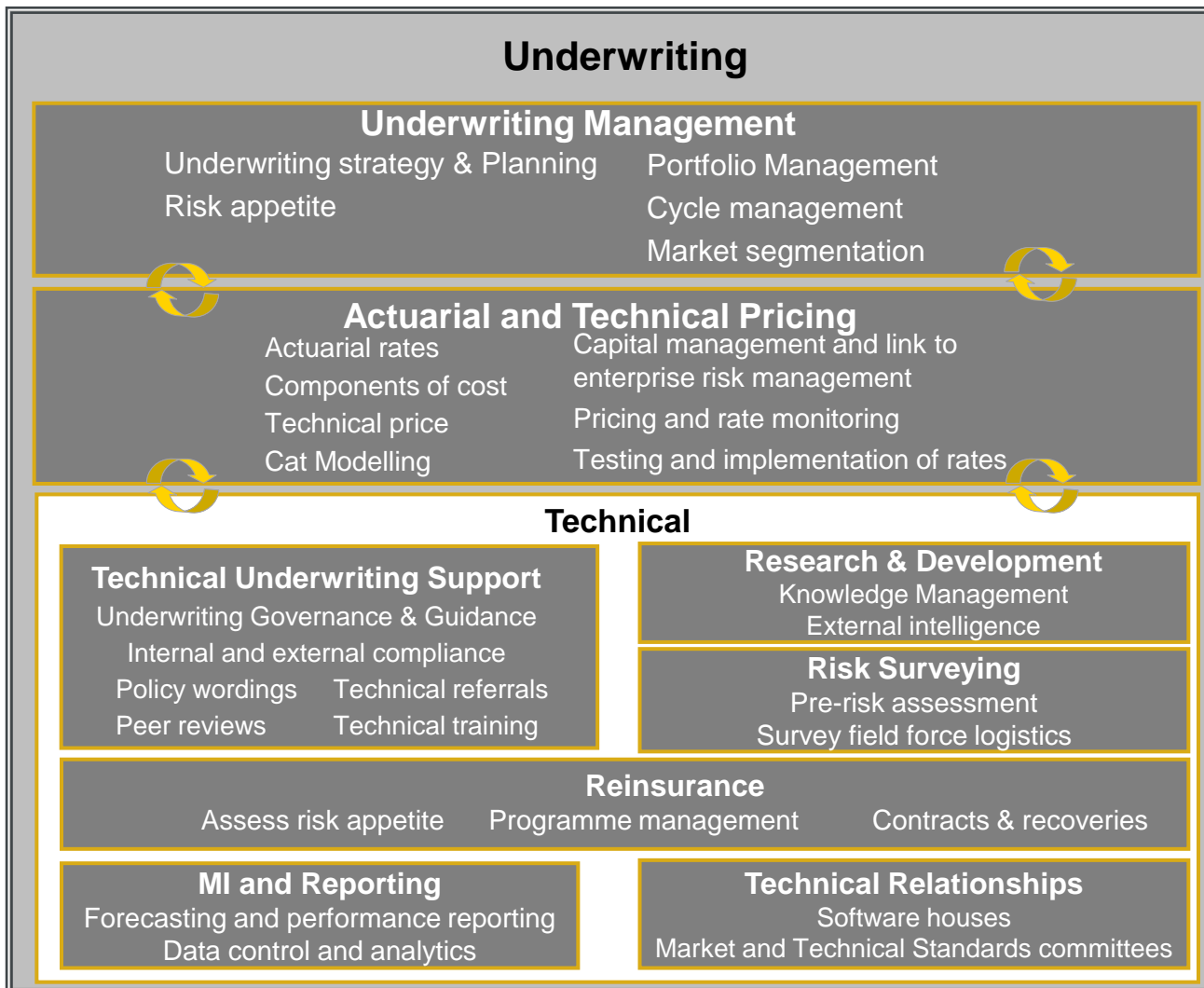
Internal

External



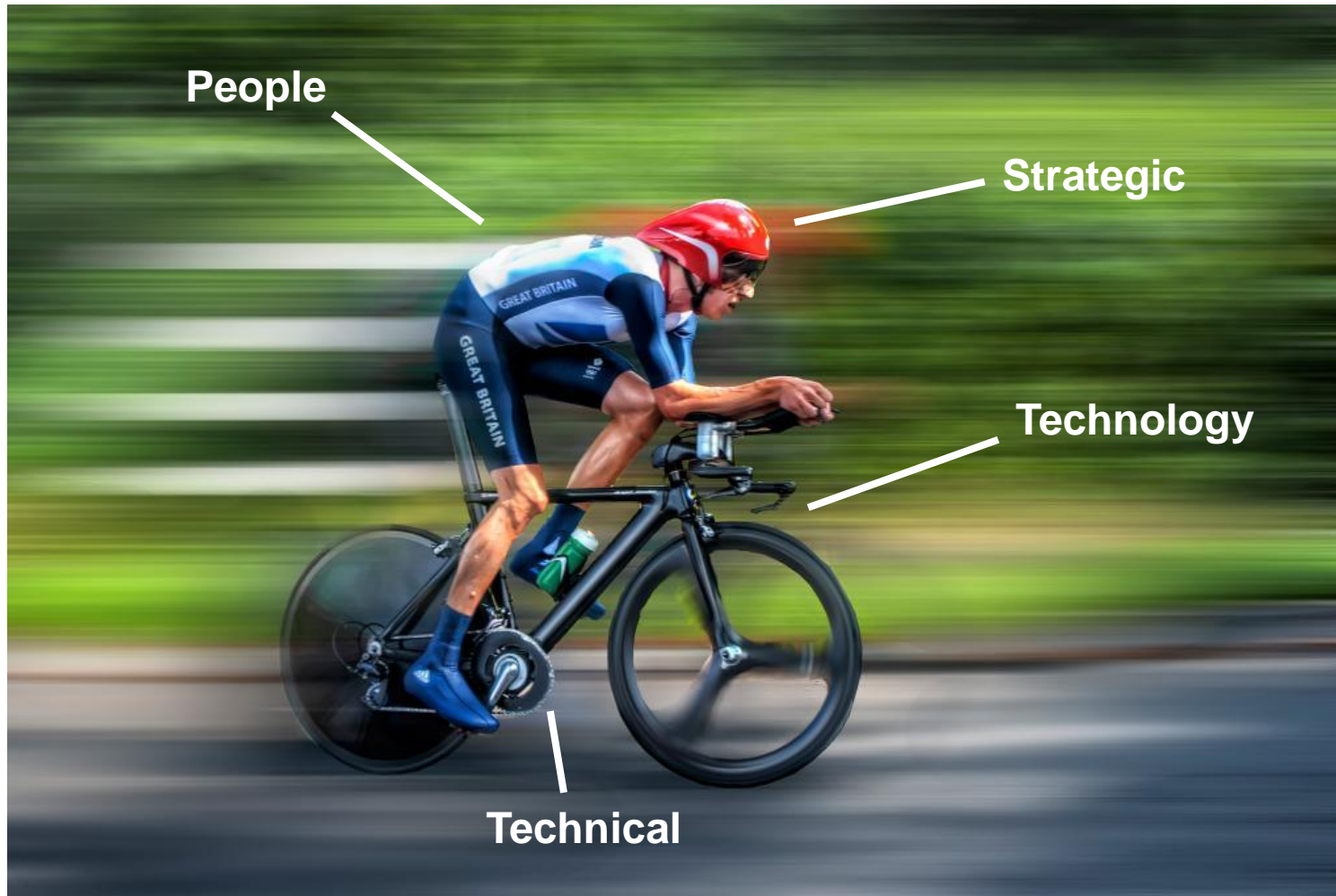
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A typical logical underwriting model



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A good underwriting model needs to be underpinned by a set of core capabilities

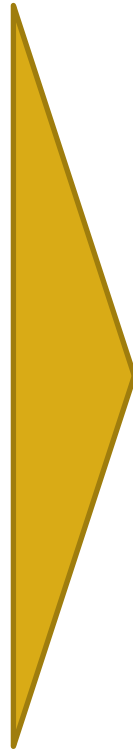


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Strategy and Value Contribution

Key considerations

1. How connected is the underwriting strategy to the business strategy?
2. Do we understand our risk appetite and do our clients understand it?
3. Do we look ahead of the curve – what are future trends?
4. What are our channels to market, what does it take to win in this market?
5. How much influence does underwriting have in the organisation?
6. How do we use our strengths, manage our weaknesses and react to external pressures?
7. What are the clearly defined roles & responsibilities and who holds accountability?



Leading practice

1. Clearly articulated and understood risk appetite across business used in decision making
2. Communication of vision and strategy is clearly articulated.
3. Strategy is linked to financial objectives and overall corporate vision.
4. Processes in place to discuss trends. Active participation in industry & regulatory forums
5. Robust governance framework facilitates visibility across the organisation
6. Both volume and performance matter as well as fit to strategy



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Technical

Key considerations

1. What is the optimal reinsurance programme & strategy?
2. Are the pricing models fit for purpose?
3. Go to market: How can we ensure that market price is above technical price – or understand if the technical price is too high?
4. How well is the risk understood and what controls are in place? How are delegated authority arrangements managed?
5. What data adds value and what doesn't?



Leading practice

1. Willingness to try new modelling techniques and a reliable method for testing their effectiveness.
2. New techniques are established with a well defined project plan detailing aims, measures for success, timelines and resources required
3. Good communication and documentation of the underwriting techniques used
4. Conducts regular market surveys to understand competitor pricing



People

Key considerations

1. Are we seen as an employer of choice in the market?
2. How do we recruit and retain talent?
3. Is there a clearly defined career path within the organisation?
4. Can we offer international opportunities or cross-functional experience?
5. Do we have a compelling and inclusive culture?
6. Do our underwriters understand how they contribute to the business?
7. Are we commercial business people?



Leading practice

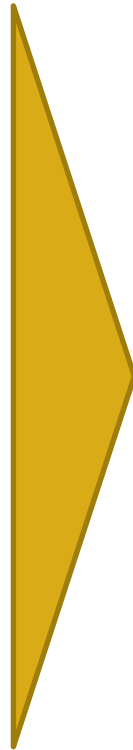
1. Commitment to learning and professional development
2. Interaction with professional bodies
3. Recognition of talent and reward performance – linked to company objectives
4. Excellent leadership of the functional and open communication
5. Enable people to work efficiently and flexibly
6. Underwriters are empowered



Technology

Key considerations

1. How is technology supporting our business?
2. Have we established a single source of data and how do we make effective use of it?
3. How agile are our systems when responding to changes?
4. How can we simplify our systems, can we merge platforms and legacy systems?
5. What MI intelligence is available – how do you measure performance... And act upon it?
6. Do we use E-trading (using technology to allow underwriters to focus on judgement calls – automated underwriting)?



Leading practice

1. Having technology to support big data and analytics
2. Single systems for classes of business
3. Access to same tools across business
4. One version of the truth with buy-in from stakeholders
5. Empowering people to make timely business decisions whilst maintaining appropriate governance
6. Product componentisation to allow reuse across different channels and partners



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Conclusions

- **Cannot get a “Wiggo” off the shelf** – no single answer as there are a number of good underwriting models in operation
- **It is a team effort** - need to consider the Strategic, Technical, People, Technology aspects
- **Start small** – “aggregation of marginal gains”



And then one day you may achieve this!



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Thank You



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