MARKET WATCH

ONTARIO MUTUAL INSURANCE ASSOCIATION
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July 2021

A periodic update to members on the work of OMIA's Market Issues Committee.

Mandate:

"To gather and analyze information on industry trends that affect a mutual's ability to market their product and serve policyholders and to disseminate information to members and to connect with industry groups."

As you may know, OMIA's Market Issues Committee meets about four times a year to tackle issues that we see driving the Canadian insurance marketplace.

Typically the committee has a look at industry articles that have been archived over the past quarter, touching on issues that in turn touch upon policyholders and how insurance is created, marketed, and delivered.

In many cases, MarketWatch looks at some very specific market activities including pricing trends, market hardening or softening, and general innovation in new products for risk appetite.

At the spring meeting of the Market Issues Committee, the committee focused on an article around **The Future of Underwriting**.

This kicked off a lively exchange of opinions and analysis as to where mutuals fit into the lifecycle of this particular trend.

In addition to the article on What the Future Underwriter Looks Like, the committee also spent some time looking at the recently published and excellent paper from the Insurance Institute on AI and Big Data: **Implications for the Insurance Industry in Canada**. In particular the committee considered the first of six questions asked in that paper which was: **What is big data and how will it support sound business decisions?**

This edition of MarketWatch will attempt to share some of what proved to be a "lively" discussion.

COMMITTEE MEMBERS

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David Gambrill's Canadian Underwriter article of March 1, 2021 began with the following provocative statements:

"Underwriters of the future are going to look a lot more like technology trailblazers, data pioneers, dealmakers, portfolio optimizers, and risk detectives, according to a new report by Deloitte."

"To remain competitive, insurers should accelerate underwriting transformation," Deloitte states in its new paper, The Rise of the Exponential Underwriter, released Feb. 25. "They can do this by automating routine tasks and augmenting teams with emerging technologies and alternative data sources to empower underwriting professionals to become 'exponential'— more valuable than ever."

The Market Issues Committee has the benefit of having a number of individuals from the mutuals with extensive careers in underwriting and this article was particularly thought-provoking as they reflected on where underwriting has been and where it is likely to go.

Some of the following key conclusions came up in discussion:

1. Radical transformation in underwriting has been predicted since the 1990s. While it's probably taken a lot longer to arrive, the change definitely appears to be here now.

2. This is particularly notable in looking at residential underwriting where many of the large, if not most of the large insurers, have eliminated transactional underwriting for portfolio underwriting.

3. What has been seen in personal lines underwriting is starting to be seen or will soon be seen a lot more in small business commercial underwriting, an area of particular interest to many mutuals.

4. Portfolio underwriting is all well and good, but it has a number of critical pillars which must support it:
    - Strong front-end controls and automation on pricing and acceptable risk parameters;
    - Algorithms that create these front-end controls and allow for the automation;
    - Underlying data that provides credibility to algorithms and allows for their continued development and improvement.

What do we mean by *Portfolio Underwriting*?

This is a general term that attempts to capture the mindset of managing a group or "portfolio" of similar risks. It does not depend on individually scrutinizing every individual risk, but rather on setting a risk appetite within a category and then assessing the overall results for pre-set performance criteria, such as profitability, retention, new business etc. Rates, rules, and risk appetite are then used as "levers" and adjusted as necessary to meet the performance criteria metrics. Some also think of it as "portfolio steering". Another way to think of it is that your underwriter is not managing risks as much technically on their own merits, but strategically as part of a larger group.

Since nothing should be too easy to understand, you should also know that in practical terms in Canada, portfolio underwriting is often less about a category of risks, but more about a producers portfolio… how does the full book of business from a broker measure up against a companies risk appetite and profitability, volume and retention targets. Manage the forest, not the trees.

5. **<u>You have to have the data.</u>**

SO DO WE HAVE THE DATA?

Questions around data and how it can be used to improve both operations and customer experience is constant and ongoing and is not new to the mutuals.

It has been particularly challenging for mutuals to assess and invest in some of the data improvements required to take first steps towards the future of underwriting.

The reasons for this are many, but primary among them include:

- It is overwhelming to take on this project in your own.
- Mutuals are fiercely independent, both to their benefit and detriment.
- Creating meaningful collaborations between small groups of mutuals (i.e. 3 to 7 groups of like-minded individual mutuals working on the same project) can be like catching lightning in a bottle.
- Innovation theory tells us that many of our innovation attempts will fail but they're only failures if we don't learn from them. (But none of us wants to fail.)
- The investment required to really dig in and work on this particular problem is seen as a hurdle to many.

The committee also wondered about the degree to which competitiveness among mutuals takes away from the ability to collaborate together. This is a very fine line to walk as competition is important and can be to the benefit of the policyholder. The difficulty becomes that competing with other mutuals can be easier than differentiating from larger insurers. But differentiating from those non-mutuals is critical to growing the overall aggregate mutual book and continuing to provide a vibrant policyholder-owned system of insurance.

PARTING THOUGHTS

What types of things do we need to talk about next if we're going to keep marching down this particular field?

1. How do we make sure we are equally committed to making the investment in the hard, behind-the-scenes work required to work ethically and effectively with customer data to the same extent that we have stood by doing right by the customer for many years and which continues to be a mutual hallmark?

2. How do we find that right-sized "skateboard" project that provides proof of concept and encourages broader participation? At the same time, this proof of concept needs to be something that helps establish the beachhead for a foundational approach to collecting, aggregating, and effectively using data.

3. How do we better understand data structuring and the right steps to start in that direction?

4. Individuals joining the mutual system, regardless of position, whether it be entry-level insurance professional, management team or director - how do we help orient and educate on the importance of working together with other mutuals and the degree of long-term stability this was created over the past 160 years?

PARTING SHOTS

Are we (the mutuals, not just the Committee) up for taking this discussion to the next level?

As we come back together for in-person forums, will we catch "lightning in a bottle"?

We have some excellent and ambitious projects underway that are built on sub-groups learning how to work together….

- Peril Scoring Group Project
- The Mutual Field Lab
- The High Values Homes Project
- The Ontario Auto Restructuring

Can we turn this corner?

HAVE YOUR SAY!
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