

Isn't it time you managed your insurance portfolio better?

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Managing your insurance portfolio

Insurance portfolio management (a.k.a. book management) is a slow, sleepy, backward-looking process, and has been for a long time.

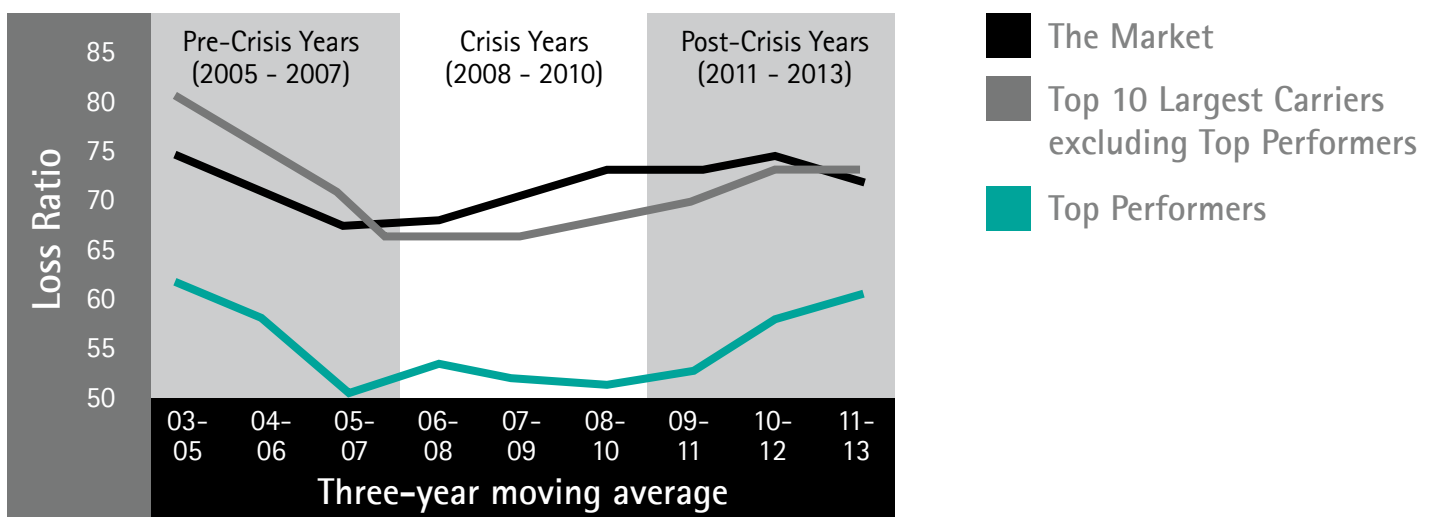
Individual lines of business are reviewed monthly, quarterly or yearly, with outdated data often spread across multiple spreadsheets in an effort to show the growth, profitability and claims trends. Managers regularly examine their portfolio's performance to determine the actions that are required. Less frequently, actuarial does a more thorough analysis to assess pricing. While the tools have changed a bit, little about the portfolio management process has altered in the last 30 years.

But managing the portfolio effectively is critical to a carrier's profitability. A review of the performance of commercial carriers over

the past decade, across underwriting cycles and various product types, clearly reveals a set of consistent winners (see Figure 1).

- The delta in performance between these winners and the rest of the market was primarily due to world class loss ratios while achieving above-market growth rates.
- These carriers created substantially more economic value than their peers through consistent profitable growth across market cycles. This indicates that the ability to manage a portfolio of business over time can be a source of competitive advantage.

Figure 1: A review of the top 50 commercial carriers clearly reveals a set of consistent winners



Effective ongoing portfolio management is critical to underwriting profitability. A carrier that can respond quicker than its peers to emerging threats, or aggressively pursue profitable sectors of the market, will significantly improve its underwriting profitability. To do this, its portfolio management process needs to

evolve. High performers will create a competitive advantage by utilizing new analyses, new data sources, and new analytics and visualization tools to explore and assess portfolio opportunities and deficiencies. The best carriers will be able not only to better assess their portfolio's performance, but to act appropriately.

New analyses

Insurance today is more complex than before, and the portfolio management function needs to keep up. We have automation, predictive models, and complex operations and distribution structures, each of which has an impact on the portfolio. Carriers need to understand not only how the portfolio has performed historically, but how each of these innovations affects the portfolio. This is leading to new analyses that need to be added into the existing repertoire:

Flow analysis

How is business flowing through our process and what is the profitability by path?

Rule analysis

What is the profitability and efficiency of our rule structure?

Profile analysis

How are the risk profiles we have set up performing in terms of growth and profitability?

Underwriter/broker analysis

What is the level of effectiveness in pricing, closures, and profitability?

New data

One of the greatest opportunities to improve portfolio management is to enhance basic data with new external sources. This can include new demographic information on companies, individuals, or neighborhoods. This type of data can help the carrier not only better understand its current portfolio, but also look forward to possible actions in the future:

Geographic data

Carrier A could explore the potential degradation of its portfolio by examining the locations of its retail risks to see whether pharmacy and supermarket trends are reducing shopping center occupancy levels.

Attitudinal data

Carrier B could examine the sentiments of renters in different areas to find out whether certain brokers or underwriters are writing apartments with greater risks than others.

New analytics and visualization tools

New analyses and data are accompanied by new tools to assess and analyze the data. Portfolio management needs to evolve, not only to better assess enhanced static views of performance. In addition, it must be capable of continuous, exploratory assessments of the portfolio to identify areas of risk and advantage in a test-and-learn approach. Leading carriers will integrate advanced analytics tools and visualizations into their portfolio management function to explore the data for hidden risks and opportunities.

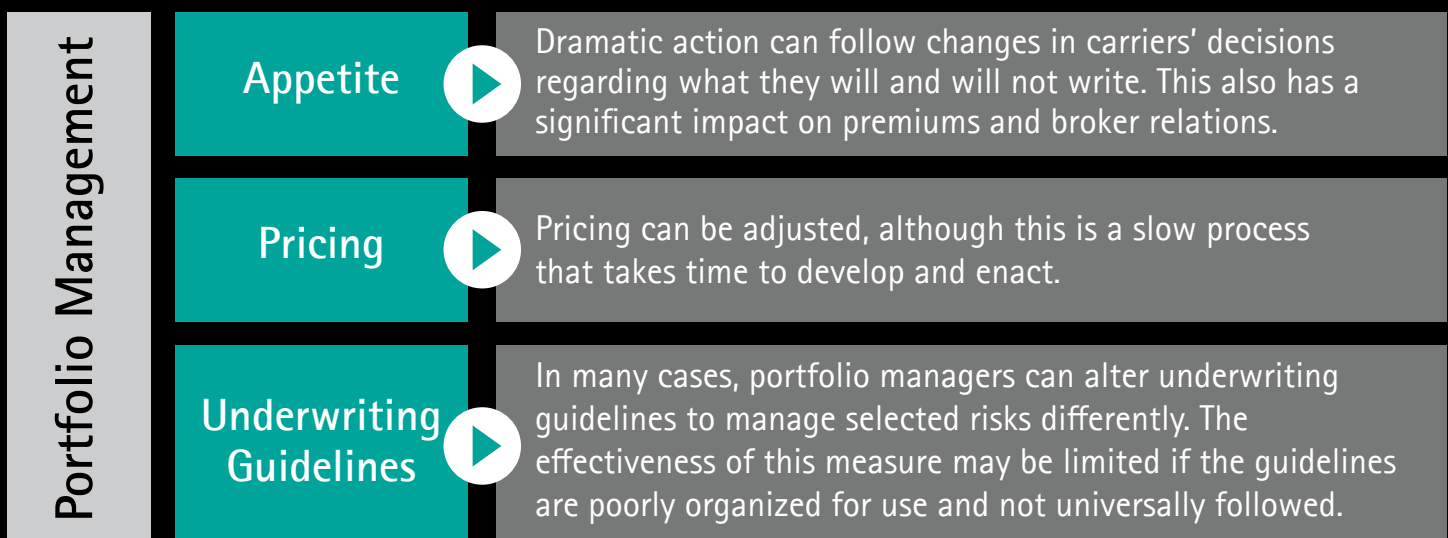
- Analytics engines can be used to find micro-segment pockets of risk and potential that can then be further analyzed.
- Machine learning can be used to identify hidden patterns of data or interaction for analysis.
- Data visualization can be used to find unexpected risk concentrations that may need to be mitigated.
- Flow visualizations can be used not only to manage the output of the portfolio, but to understand how business is flowing through the operation and where that flow might need to be adjusted.
- Intelligent visualization can draw management's attention to areas of the portfolio that need to be evaluated for superior or poor performance.

Fast and integrated process

The most important advances in portfolio management, however, are not the data, tools and techniques that help identify issues and opportunities. More critical are the speed

and methods with which it can act. Portfolio management has had three main tools to address risks in the portfolio:

Figure 2. The three primary components of portfolio management



The result is that portfolio management actions have typically been overdue, and take the form of drastic changes rather than more frequent, more precise corrections.

The new tools and methods that have become available need to be included in the portfolio management process so that the insights they produce can be rapidly integrated into ongoing operations to improve performance:

Underwriting rules

As modern policy and underwriting desktop solutions emerge, the underwriting workflow is becoming increasingly rules-driven. In developing rules-based workflows, portfolio management needs to be built out as a feedback mechanism. This feedback should be used to constantly evaluate and adjust the workflows for optimal efficiency and effectiveness in terms of flow, path and outcome.

Underwriting performance

While underwriter performance often has a profitability component, this is usually at a gross or overall level. Advances in portfolio management can produce analytical insights into an underwriter's strengths and weaknesses, which can be used for feedback and coaching on specific areas for improvement. For example, they might show that a generally profitable underwriter is under-performing in a few specific standard industrial classification (SIC) codes or when negotiating with a particular broker.

Broker performance

Insights into the profitability of different types of business from a specific broker can help underwriters and business development leads identify where they should expand or restrict business with the broker.

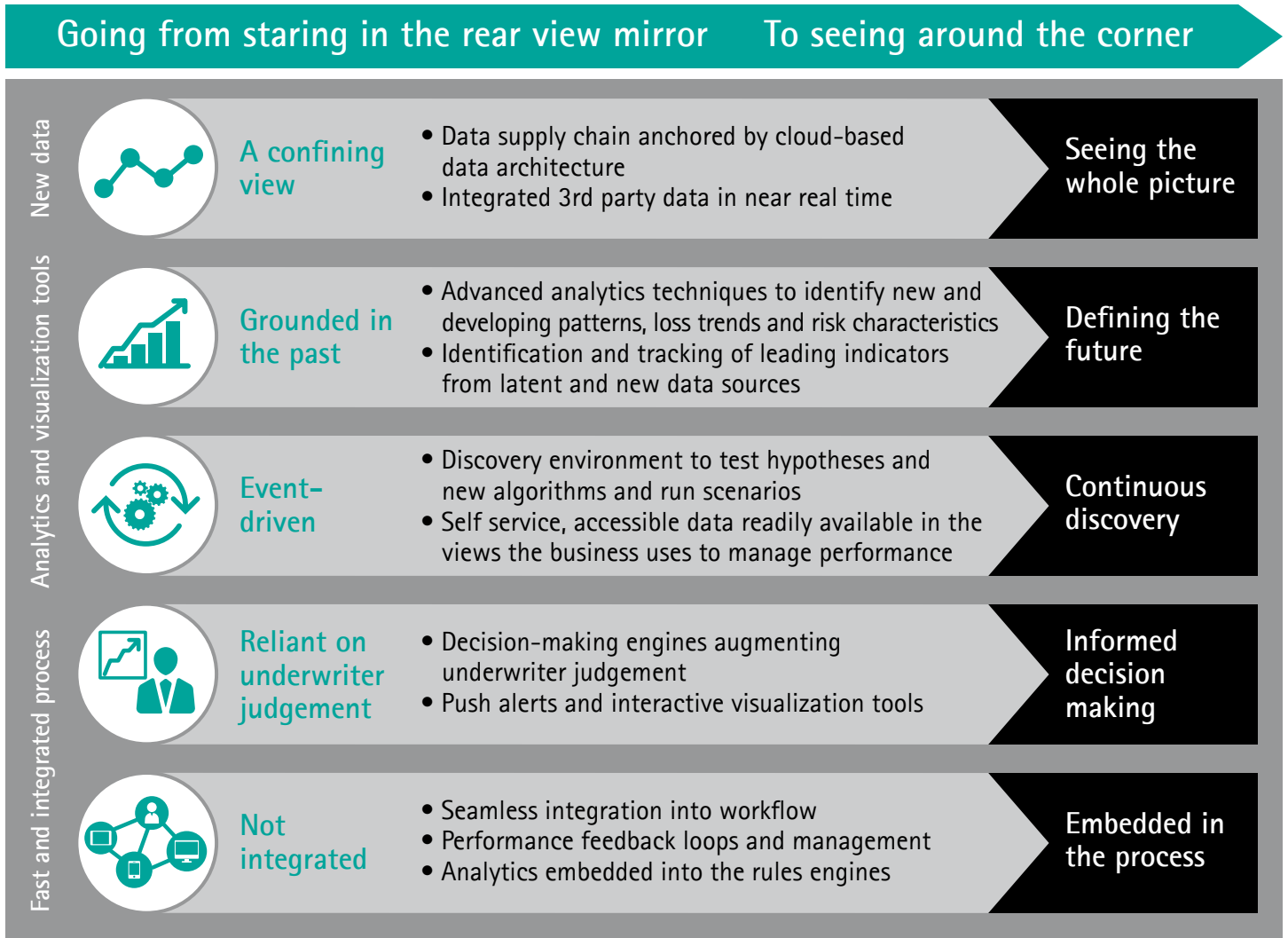
The most important change that can be made, however, is to decentralize the insights generated by portfolio management. As portfolio management becomes more competent in different analysis techniques, in the use of external data, and in visualizations, the resultant insights can be integrated into the underwriter's risk analysis and his evaluation of the actions that should be taken. How would an underwriter's analysis of an individual risk be improved if she knew:

- How the risk characteristics of a particular account compared with those of accounts of a similar size, industry and location, using both internal and external data sets?
- The average pricing variability to the technical price compared to similar accounts for that specific risk?
- The performance and pricing of the agent for that type of risk?
- The pricing, profitability, and claims trend for this risk, across the carrier's peer group?

If portfolio management data, analysis, and visualization tools can place the specific risk being evaluated within the context of a micro-portfolio management segment of its peers, wouldn't that improve outcomes?

Figure 3: Pulling it all together

Through the utilization of new data, new analytics and visualization tools and fast and integrated processes, high performing carriers in the future will be much more proactive and forward-looking in how they manage their portfolios.

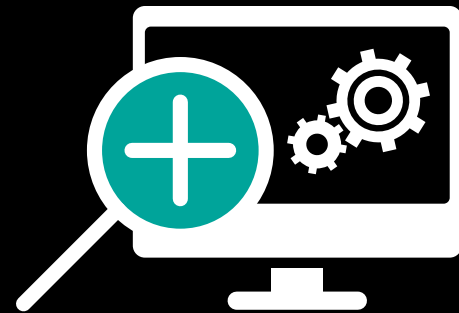


A sustainable competitive advantage

The advent of new risks, increased automation, and predictive models has made underwriting an increasingly complex function. Portfolio management needs to evolve to provide management with the insights it needs to manage this complexity. This evolution is not

about having better data and analytics. It is about improving the nervous system of the underwriting organization to be able to sense, assess, and respond to the market faster to produce superior underwriting results. The questions insurers need to ask themselves are:

1. Does my portfolio management function adequately evaluate and manage how I underwrite, especially with regard to:
 - a. Underwriting rules and automation;
 - b. Predictive models and pricing;
 - c. Different underwriting operations;
 - d. Cross-segment interactions?
2. Is my portfolio management function able to provide fresh insights rather than just base performance information relating to:
 - a. Flow performance;
 - b. Micro-segment opportunities and risk;
 - c. Insights enriched with external data?
3. Am I set up to act rapidly on the insights and findings that my portfolio management is producing?



Portfolio management is a critical, yet neglected function at most carriers. With faster and better insights that new data sources, tools, and techniques can give you, improved portfolio management will not only allow you to understand what is going on in your portfolio, but improve your speed in responding. Being able to see and take action before a significant issue in the portfolio arises – that is high performance.

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