

UNDERWRITING MANUALS: STRATEGIC DILEMMAS

Part 3

Previously in this series on underwriting manuals we have considered:

- Maintaining and resourcing a manual
- Issues of access, security and usage
- Training content, and
- A supporting evidence base.

In the final part of this trilogy we look at the use of calculators and consider possible future developments.

Calculators

The use of calculators to produce a decision is growing in popularity. But does the use of a clever 'black box' reduce the need for the traditional skills of the experienced underwriter? Or is there a place for both art and science in the underwriting process?

A number of manuals now feature calculators, and for a number of reasons:

- To enable quicker and easier decision-making, for example when blood pressure readings need to be averaged
- To lead the underwriter through the decision-making process to ensure that no steps are omitted
- To assist on complex cases, for example where a number of cardiovascular risk factors interact with each other, and where reaching a decision requires more than simply summing the ratings for each risk factor.

Calculators are rather a two-edged sword. They have the benefit of assuming responsibility for complex rating calculations, thus reducing the scope for error. But then there is the risk that the underwriter relies overly on the answer that the calculator produces and fails to see the overall picture presented – including those risk factors *not* covered by the software. After all, underwriters are paid to make judgments; it's what makes them worth their salaries.

However, in these days of reinsurers wanting their clients to follow their underwriting guidelines correctly, there appears to be a trend for manuals to push underwriters away from making judgments towards a more 'prescribed' approach. One could argue that the desire for adherence to rating guidelines is diluting some of the traditional skills of the underwriter. Clearly a balance is required, but defining where that balance lies, and how to create and maintain it, is for another discussion.

So what of the future?

The world of insurance has seen enormous change in the last twenty years (or so one likes to think) and this pace of change is constantly accelerating, giving rise to a number of questions, such as:

- Experienced underwriters are increasingly fewer in number. So how does a company capture the knowledge of its experienced underwriters for the decision making process of the future? How does knowledge management fit with an underwriting manual?
- How does the manual fit with the new culture of talent management and continual professional development (CPD)? Is it a training tool in its own right or one piece of a larger jigsaw puzzle embracing on line learning, knowledge management, CPD and informal learning to deliver a 'just in time' approach to knowledge and learning?

- Do the new initiatives on the Web described as 'Web 2.0', blogs, wikis, informal networking and other collaborative ways of interaction have a place in the underwriting manual of the future?
- And finally what impact do new business process developments such as straight-through processing, rules engines, tele-interviewing have on the underwriting manual? With the advent of tele-interviews, are the risk classification systems of traditional manuals still valid?

With an increasing desire to differentiate and increasing levels of consolidation in the industry, will there be increasing numbers of direct writers deciding to produce their own manual? And what will the underwriting manual of the future look like? The answer is that it will either be quite different to how it is are now or even unrecognisable, having metamorphosed into a more integrated approach to providing underwriters a wider range of tools needed to enable more efficient and effective risk appraisal.

In each of these articles we have explored the strategic issues in respect of underwriting manuals. If these articles have struck a chord with you either as a producer or a user of a manual, then we would be pleased to hear from you.

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