Operations and Technology Priorities for Property and Casualty Executives
About This Report

This report is one of a series based on insurance industry research studies conducted by The Nolan Company.

The information, results, and insights found in this study are based on detailed surveys completed by more than 100 executives in the P&C industry. Participants include insurers distributing personal, commercial, and workers’ compensation products across a broad array of distribution channels. The Nolan Company extends their thanks and appreciation to all of the survey participants.

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The common theme of responses to The Nolan Company Property and Casualty Survey indicates company leaders recognize that the industry is rapidly evolving around them. In order to stay competitive, they must aggressively adapt their organizations to a market that is being transformed by technology, changing demographics, innovative product design, and increasing expectations for differentiated service.

The insights and comments provided by insurance industry leaders participating in the survey signal the priorities and strategies that will drive their companies’ actions during these unprecedented times. We have integrated these telling responses with expert Nolan analysis and perspectives.

The survey results reveal these critical trends and challenges:

- Gradual economic growth with low interest rates is putting focus on underwriting discipline, loss and loss expense management, retention and growth alternatives
- Competitive market conditions coupled with favorable pricing trends are emphasizing the question of how much rate is sustainable in the marketplace
- Managing balance sheet impact is becoming increasingly complex as leaders navigate the adverse effects of major catastrophes like “super-storm” Sandy
- The impact of increased regulatory oversight and intervention requiring forced coverage and the non-application of hurricane deductible(s) in catastrophe losses
- Rapid advances in multiple technologies are forcing calculated bets and rapid decision making, leading to implementation challenges and increased demand for capital investments
- Reductions in claims loss costs and LAE, as well as improvement in reserve management practices, are offsetting low investment returns
- The complexities of managing “big data” are becoming apparent, driven by text and content mining, telematics detail and increased use of third-party sources
- “Big data” is converging with predictive modeling and analytics to improve underwriting and claim results, including extensive use in fraud reduction and prevention
- Social media is being used to better inform underwriting and claims, engage customers, enhance marketing and servicing, and reduce reputational exposure
- M&A activity is on the rise driven by product line rationalization, targeted national and international expansion and distribution channel expansion
- The burden of increasing regulatory oversight with the impact of IFRS, Solvency II, ORSA, Dodd Frank and FISI
- Some carriers are pursuing “best in peer group” organizational maturity to respond faster and more effectively to market changes

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Personal lines carriers are expanding into commercial lines markets, particularly in small business markets that can be automated with limited line underwriting involvement using an agency distribution platform. The challenge for these companies will be to sustain acceptable blended loss ratios in a competitive commercial market. History has shown this will be difficult to do for those companies lacking depth in commercial lines experience.

About The Survey Respondents

Survey respondents hold positions including Vice President, Senior Vice President, President, and CEO. Total executive level response was 83%. The largest group of respondents were from regional companies - coming in at 48%, followed by 28% national. Single-state and global companies represented the smallest number of respondents at 15% and 9% respectively.

Position

Product Mix (Responses to Survey)

Current Premium Volume

Distribution Method

Over 50% of the responding companies write more than $500M in direct written premium.

Compared to our last survey, companies using an independent agency platform to market and sell their products increased by 10%.
The industry continues to see price increases, particularly in commercial lines, along with a slow decline in reserve releases compared to prior years. As a direct result, companies may be faced with claims inflation outpacing rate increases. This, combined with low interest rates and minimal investment yields, places more pressure on underwriting profit. Even with the market continuing to harden, rate increases may not be sufficient to sustain acceptable margins.

Customer satisfaction and service will be a source of differentiation and a foundation for growth in the coming years. Reviewing the priorities of initiatives across the various survey categories indicates respondents are aware of the importance of service and are taking action to strengthen their capabilities in that arena.

**Underwriting Objectives**

- Increase Profitability
- Renewal Retention
- Organic Growth
- Expense Ratio Improvement
- Improvement in Customer Satisfaction
- Entering New Line(s) of Business
- Growth Through Acquisition
- Business as Usual
- Other

**Underwriting Initiatives Planned or Underway**

- Analytics Program
- New Policy Management System
- Increase or Improve Staff Expertise
- Mobile Technology Platform
- Social Media Program
- Operations Consolidation or Restructuring
- Usage Based Insurance (UBI) Pricing
- Move to “Book” Underwriting
- Administration and/or Policy Services Outsourcing
- Other

One of the result differences driven by size was that the larger companies are more focused on Usage Based Insurance (UBI) pricing than the 23% response would indicate, with UBI trending upward for personal lines companies but predictably less in commercial lines. This same gap exists with social media programs, where the 38% average response is not indicative of the aggressive large company efforts in this field.

Over 83% of the respondents indicated no interest in outsourcing policy processing services. Over the next several years, we may see a reduction in outsourcing of core customer-touching functions in order to leverage service and customer engagement as a revenue and retention mechanism.

**Do You Outsource Policy Processing?**

- None: 83%
- Onshore: 12%
- A Combination of Onshore/ Offshore: 3%
- Offshore: 2%

In areas of most significant change over the last year, social media, agency web use and customer web use rank highest, reflecting the dramatic increase in the use of web-based forums. Mobile technology at 46% seems low when considering the trends across the industry to empower agents with richer toolsets and provide customer FNOL and servicing apps.
Claims

Survey responses indicate companies intend to place more emphasis on the quality of their claims operation and implementation of new claims technology. In the current competitive market, saving 2%+ off the combined ratio will be critical to remain competitive and sustain acceptable margins. This can be achieved with improved claims workflow and process changes, implementation of updated technology, and a focus on overall improvement of the quality of a claims operation.

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Proper reserve management is critical to a company’s balance sheet – with the impact of both redundancy and deficiency. Given the industry’s dwindling reserve redundancy due to reserve releases over the last several years to improve results, it is not surprising to see improving claims reserve practices as being an important claims objective. As reserve redundancy is reduced, it will be critical for case reserves to be adequate to pay losses.

Claims Objectives

<table>
<thead>
<tr>
<th>Objective</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce Loss Costs</td>
<td>High</td>
</tr>
<tr>
<td>Reduce Loss Adjustment Expenses</td>
<td>High</td>
</tr>
<tr>
<td>Improve Claims Reserve Practices</td>
<td>High</td>
</tr>
<tr>
<td>Improve Claims Customer Service</td>
<td>High</td>
</tr>
<tr>
<td>Other</td>
<td>Low</td>
</tr>
</tbody>
</table>

Respondents overwhelmingly agree that reducing loss costs is their primary objective.

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The use of analytics in fraud detection and reduction can have a significant impact on a carrier’s financial results. It can also improve claims decision making, adjuster performance, settlement outcomes, and operational efficiency. Analytics provides greater insight into a claim’s context and allows for a transition from a reactive to a proactive approach. It also provides for early detection of adverse claims development with a forward-looking view of frequency, severity, claims duration, and LAE.

Specific Claims Initiatives Planned or Underway

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims Analytics Programs</td>
<td>52%</td>
</tr>
<tr>
<td>Litigation Management Program</td>
<td>52%</td>
</tr>
<tr>
<td>SIU Effectiveness and Results</td>
<td>40%</td>
</tr>
<tr>
<td>Claims Operations Centralization</td>
<td>32%</td>
</tr>
<tr>
<td>New Claims System</td>
<td>28%</td>
</tr>
<tr>
<td>Mobile Technology Platform</td>
<td>27%</td>
</tr>
<tr>
<td>CMS Medicare Process and Reporting Effectiveness</td>
<td>22%</td>
</tr>
<tr>
<td>Workers Compensation Managed Care Programs</td>
<td>20%</td>
</tr>
<tr>
<td>Recovery Results Program</td>
<td>15%</td>
</tr>
<tr>
<td>Increased Use of Outsourced Resources</td>
<td>9%</td>
</tr>
<tr>
<td>Claims Operations Decentralization</td>
<td>7%</td>
</tr>
</tbody>
</table>

Survey respondents noted a wide range of impactful initiatives as the business focuses on deriving maximum benefit from an efficient and effective claims operation.

Claims Results Will Be Most Improved By

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process and Workflow Changes</td>
<td>High</td>
</tr>
<tr>
<td>Improved Hiring and Training Programs</td>
<td>High</td>
</tr>
<tr>
<td>Improvements in Litigation Management</td>
<td>High</td>
</tr>
<tr>
<td>Use of Remote Field Staff (Home-Based)</td>
<td>High</td>
</tr>
<tr>
<td>Increased Resources Devoted to SIU Operations</td>
<td>High</td>
</tr>
</tbody>
</table>

Respondents indicated that claims process and workflow improvements will have the most significant impact on claims results.
Technology

The market may not harden to the extent expected, which will increase the need to focus on underwriting profitability using enhanced underwriting tools and new technology. For example, tapping into the rich sources of underwriting data by using advanced systems and predictive analytics will allow underwriters to better assess risk.

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The ability to integrate the use of multiple data sources and types into decision-making processes ranging from pricing to underwriting to servicing to claims is essential in today’s competitive environment. Managing the recent dramatic increase in data diversity will ideally be accomplished using next-generation data management tools, data warehouses and robust analytical tools.

Specific Technology Initiatives Planned or Underway

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand Use of Data Warehouses and Data Marts with Reporting Tools</td>
<td>72%</td>
</tr>
<tr>
<td>Replace Legacy Policy Management Systems</td>
<td>65%</td>
</tr>
<tr>
<td>Replace Legacy Claims Management Systems</td>
<td>33%</td>
</tr>
<tr>
<td>Increase the Use of Web-Based Claims Reporting</td>
<td>32%</td>
</tr>
<tr>
<td>Use Cloud Technology</td>
<td>31%</td>
</tr>
<tr>
<td>Deploy Tablet Computing for Internal Staff</td>
<td>25%</td>
</tr>
<tr>
<td>Systems Vendor Hosting Solution vs. an Onsite System Installation</td>
<td>18%</td>
</tr>
<tr>
<td>Extend the Life of Legacy Systems</td>
<td>9%</td>
</tr>
</tbody>
</table>

Rapid technology evolution is one of the major disruptors impacting the industry. Companies not investing in mobile solutions, and the required governance platforms, will likely find themselves at a competitive disadvantage as market acceptance and functionality continues to grow.

Mobile Technology Implementation Plans

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Implementing a Mobile Technology Platform</td>
<td>40%</td>
</tr>
<tr>
<td>Distribution</td>
<td>37%</td>
</tr>
<tr>
<td>Claims</td>
<td>33%</td>
</tr>
<tr>
<td>Underwriting</td>
<td>24%</td>
</tr>
<tr>
<td>IT Delivery</td>
<td>5%</td>
</tr>
<tr>
<td>Other (Marketing, Loss Prevention)</td>
<td>2%</td>
</tr>
</tbody>
</table>

Our Biggest Challenges in Technology:

| Challenge                                                      | Percentage |
|                                                              |------------|
| Staying Current with Technology in a Changing IT Environment  | 70%        |
| Budgetary Constraints (Capital and Expense)                   | 68%        |
| Capacity of Internal IT Resources                             | 57%        |
| Availability of Qualified IT Staff                            | 56%        |
| Capacity of Internal Business Resources                       | 43%        |
| IT Resource Expertise (Volume and Capability)                 | 42%        |
| Company Size                                                  | 14%        |
| Need for Outsourced Technology Expertise                      | 9%         |
| Security Breaches Involving Use of Cloud Technology            | 4%         |
| Other (Legacy Systems, Weak Vendors, External Demands)        | 2%         |

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Today’s claims technology can have a significant impact on a company’s results and should be considered a top priority. Claims operations are often overlooked as a key contributor to company profitability. Most claims operations have a significant impact on results in terms of both loss costs and expense. Yet, it is common for the claims operation to be last in updating its technology resources.
Balancing contact complexity and contact type is becoming increasingly difficult. Companies must evaluate how to best provide a satisfying service experience, while optimizing staff utilization. Further complicating the issue is the evolving role of agents as companies search for ways to partner with the distribution channel in delivering differentiated service. Customer tolerance for lower service standards is rapidly disappearing as expectations rise and performance is compared to other industries. The opportunity for differentiating service rests at the nexus of skills, technology, and contact centers.

Demographic changes have brought a demand for expanded access methods as well as expanded availability hours. This challenges large and small centers alike to determine the most cost effective resourcing. For many companies, call centers have gradually migrated to full-scale contact centers that incorporate phone, fax, email, and, for some, instant chat in an attempt to optimize the use of resources with the best communications skills.

Contact Center Perspectives

Policy Services Contact Centers are in Place and Effective 55%
Claims Services Contact Centers are in Place and Effective 49%
Expanding Functional Use of Contact Centers Within 12 Months 47%
Personal Lines Underwriting Tasks Being Deployed to Contact Centers 34%
Commercial Lines Underwriting Tasks Being Deployed to Contact Centers 32%
Core Contact Center Services are Being Outsourced 26%
Claims Contact Centers Handle First Notice of Loss Claims Reporting 13%
More Claims Adjusters Will Work in a Contact Center Environment 13%
Higher Claim Volume Handled to Completion in Claims Contact Center 10%
Contact Centers Serve Multiple Functions 10%
Staffing of Contact Centers is a Major Limiter and Business Challenge 9%
Contact Centers Most Improved Through Deployment of New Technologies 7%
Contact Centers Currently Use Home-Based Employees 1%

Contact Center Communication Methods

Survey responses indicate, based on today’s volumes, that there is adequate lead time for companies to build capacity to handle emerging forms of service delivery, including methods like web chat, instant messaging or even video conferencing.
Social Media

Social media represents new territory for an industry that still struggles with reconciling company and agent websites. The risks of associated-party regulatory violations and reputational damage continue to grow regardless of a company’s intentions toward social media. Despite the inevitability of social media as a force in the industry, the survey results reveal mixed company involvement.

How Active is Social Media For Your Company in Each of the Following Platforms?

![Graph showing social media activity levels for different platforms]

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A number of companies have formally integrated social media searches into their underwriting and claims processes, taking advantage of publicly available data to add to the file as part of the risk assessment decision. Privacy concerns may drive a shift in the use of social media over time. The survey response reflects the reality that social media has been a powerful tool for claims in fighting fraud. Providing fraud indicators to trigger additional research has proven to be one of social media’s tangible values within the industry.

What is The Primary Reason For Using Each of the Following?

![Graph showing primary reasons for using social media]

Benefits of Social Media to Your Company

- Monitoring Reputation Across the Internet
- Capturing Analytics About Use of Company’s Social Media
- Capturing Demographics About Users of Company’s Social Media
- Capturing Specific Customer Information From Social Media
- Tracking Benefits of Social Media

The results of this category may be somewhat distorted by response averages. Many larger companies are using social media quite effectively, yet other companies are not using it at all.

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Social media is here to stay, and it is an important cultural shift that companies must learn to manage effectively. Carriers will be held to a higher standard and will need to listen and respond. It is critical for companies to recognize the significance that social media has for their brand and make the necessary investments to implement dedicated programs to manage their social media presence.
Organizational maturity reflects the degree to which an organization can perform as a cohesive and focused unit. Specific measures covering functional skills, process reliability, and technology effectiveness are among the defining factors. Survey respondents indicated that staff alignment, organizational positioning and effective communications all ranked as strengths in their organizations. These three factors support an organization’s efficiency and agility in adapting to change. They are critical for leading-edge and fast-following companies engaged in navigating the current dynamic times to achieve “best-in-peer group” organizational maturity.

Continuous improvement is highly valued, with 52% of respondents rating their company’s capabilities as either “Best in Class” or “Strength.” The concept of continuously renewing processes and practices to ensure optimal performance is a differentiating key to success particularly during tumultuous times. Resource allocation, expense management, and growth initiatives impact the ability of an organization to remain focused on continuous improvement. Efficiencies can be lost in rapidly changing markets if company leaders don’t focus on eliminating redundancies and inefficiencies that inevitably develop.

The survey results show that respondents recognize the “brain drain” that is occurring as baby boomers retire. Critical risk management areas (claims, underwriting, actuarial), as well as distribution channels, are without doubt the hardest hit areas in terms of talent loss.
Conclusions

The senior P&C industry executives who responded to our survey are cautiously optimistic about the future. The tumultuous business climate they face now and in the near future requires focused leadership and strategic discipline. Implementing new technology in their organizations is a top priority for all.

Traditionally, the P&C industry, while affected by poor economic conditions, tends to weather adverse economic times relatively well. Companies who adapt to industry cycles have been the most successful. Considering this, it is not surprising that our survey respondents are optimistic they can maintain the underwriting discipline needed to compete in the marketplace with modest rate increases and organic premium growth, while achieving profitability.

Other Observations:

- Operational effectiveness will be critical in order to control expenses in this highly competitive environment. The emphasis on underwriting discipline and effective control of loss costs will continue to improve margins.

- Higher-quality underwriting information, obtained through the use of analytic tools in creating highly-useable indicators, will improve risk selection and pricing.

- Process improvement, supported by investment in emerging technologies, will yield improved efficiencies and necessary cost reductions.

- Continuing to redefine company and distribution channel roles in the acquisition, retention, and claims processes will further eliminate redundant activities and their associated impacts.

- Skilled and knowledgeable people are still the most important asset in an organization. Finding and retaining talent remains a critical priority.

Overall, the responses to this survey reveal that functional capabilities within insurance companies are becoming more specialized and tailored than ever before. Data management, analytics, process automation, service model design, financial management, and cost containment are among the disciplines that market leaders are relentlessly evolving and improving. Amidst these trends, opportunities abound for many carriers to strengthen their capabilities and, in turn, improve their competitive position and profitability.

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