



# Take Control over Underwriting Quality and Leakage

---

Study the issues before jumping to conclusions

**Athenium**



PERFORMANCE IMPROVEMENT SOLUTIONS



## What is the cost of leakage in your organization?

Loss costs are on every insurance executive's mind, and underwriting performance is central to this issue. No one denies that experience and judgment are critical to an underwriter's success. At the same time, more and more underwriting organizations understand the need for firmer guidelines and best practices to improve loss and expense ratios.

While stronger Quality Assurance (QA) programs for underwriting are now taking root to measure and monitor performance, many insurers still don't have a definitive way to uncover the exact sources of underwriting losses. This is particularly true of costs associated with underwriting leakage, which are a direct result of quality issues.

Costs that are incurred because underwriters are not in conformance with best practices are commonly known as underwriting leakage. These costs can be hard to see, yet they can significantly erode profitability. Looking at the situation in a positive light, reducing leakage is an opportunity to improve financial outcomes and competitive advantage.

### Loss costs

Higher loss and expense ratios are caused by policies that are underpriced relative to the financial risk they represent.

### Leakage costs

Additional profits are lost because of failure to comply with established practices, or because the practices themselves are ineffective or not aligned with the organization's strategic goals.

## Does your organization understand its leakage issues?

### Ask yourself these questions:

- Do you know how effective your best practices are or how they can be improved?
- Are there clear rules for accommodations and how to monitor them?
- Are you aware of exactly how well your underwriters conform to best practices?
- What are the consequences of deviation from your established processes?

## What factors contribute to leakage?

While leakage may result when the risks assumed are not supported by pricing, the two primary causes of leakage are the lack of process adherence and weak negotiation skills among the underwriters.

Despite the cost of leakage, many – if not most – underwriting organizations lack a systematic approach for understanding the extent to which leakage is occurring, where the specific problem areas are, and their root causes. This makes finding the right solutions a guessing game.

### Process Adherence

Consider the potential leakage costs when underwriters fail to adhere to guidelines in areas such as:

- Assessment of risk and insurability
- Selecting and rejecting applications
- Writing and implementing policies
- Monitoring loss exposures

### Negotiation Skills

To limit leakage, an astute underwriter must negotiate within accepted guidelines in areas including:

- Agency accommodations
- Servicing of accounts
- Pricing and terms

### DATA IS BOTH THE KEY AND THE CHALLENGE.

A true understanding of performance, and associated leakage, is dependent upon getting the right data. Without that, efforts to reduce leakage will be, at best, hit or miss.

A number of factors affect how useful your data will be. Of paramount importance is that data are measurable, accurate, and up-to-date. In addition, a comprehensive set of data is needed to precisely identify and prioritize problem areas. Further, data must be consistent across time to assess results in a historical context. Finally, data must be analyzed and presented in a way that is useful and convenient for managers and executives. For most organizations, it is no simple task to meet all of these criteria.

Beyond the data itself, you may face other challenges to evaluating and monitoring leakage. These include poorly defined standards, limited staff support, and inadequate technology. If you face these or other challenges, consider conducting a Leakage Study as a positive first step in pinpointing your issues and plugging the leakage gap.

### GET STARTED WITH A LEAKAGE STUDY.

A comprehensive Leakage Study is an effective way to measure leakage, understand its sources, and establish baseline performance data. It can provide, perhaps for the first time, a clear picture of the factors contributing to underwriting leakage. In many cases, the study will also provide a compelling rationale for developing a long-term QA program that continuously improves the organization's performance. The Leakage Study should explore all facets of your underwriters' process adherence and negotiation skills.

### How effective are your underwriting processes?

- Automation for monitoring underwriting activity
- Modeling of critical process flows
- Exception handling
- The definition and use of metrics
- Applying metrics to root cause analysis

## What questions should your study answer?

A well planned and implemented Leakage Study provides insights about a variety of performance issues aggregated by line of business, state or region, product, or other groupings.

As with any study, it's important to know what questions you want answered before you begin. Examples of questions you might include to identify quality and leakage issues are:

### ACCOUNT PRICING

- Is the overall premium for the account acceptable, and were the filed or published rates utilized?
- Are the multi-policy discounts offered appropriate?
- Was the rate within the standard of variance?
- Were the loss ratios and loss runs analyzed thoroughly to identify frequency and severity issues?

### ACCOUNT UNDERWRITING

- Does the exposure exceed the underwriter's assessment?
- Are all CAT risks properly identified and considered?
- Were all credit reports and financial statements obtained and evaluated, and was the premium adjusted appropriately?
- Were the appropriate coverages chosen and exclusions addressed?
- If the policy underwriting was automated, does it warrant an additional review?

### POLICY ISSUANCE AND SERVICE

- Were billing amounts consistent with the rating and pricing?
- Was the account performance monitored and were the policies modified accordingly?
- Were adjustments made without objective or new information?
- Was the renewal strategy thorough and did it match issued guidelines?

Knowing these questions from the outset is critical to all phases of the Leakage Study. They enable the planning and construction of a study that is correctly targeted toward your organization's specific needs. This, in turn, will result in data that can be analyzed efficiently and will appropriately guide your recommendations.

In this initial stage you will also need to determine how to use your internal resources and decide which areas may require outside expertise. Yet another critical consideration is what type of technology can collect accurate, comprehensive data and provide meaningful analysis.

## Leverage your study as a springboard for continuous performance improvement.

---

Often, a Leakage Study acts as a catalyst for developing a more disciplined and data-driven Quality Assurance program. Many organizations that go through this process realize that providing managers and executives with consistent performance data on a regular schedule will help them make more effective decisions about resources, training, and other issues affecting profitability.

---

### QA program essentials:

- Best practice guidelines
- Established quality control processes
- Dedicated personnel
- Staff expertise
- Meaningful metrics
- QA audit technology

If an organization decides to elevate its QA efforts, it's time to investigate what steps to take and what resources you will need to improve performance, refine best practices, and reinforce their use for continuous performance improvement.

## Conclusion

---

Insurers that are driven to reduce costs and improve profitability recognize the potentially significant financial impact that underwriting leakage can have on corporate results. Leakage in underwriting, as in claims, is a serious issue that shouldn't be taken lightly. Rather, it should be addressed proactively. Conducting a comprehensive Leakage Study, fortified by sound data, can be a major step toward meeting this objective.

As you move forward, work with your underwriting, QA, and management team to determine a plan of action. From the start, know the questions that you want to answer, and make a plan to collect the data you'll need. Identify your internal resources, including limitations in staffing, expertise, and technology. If you decide to use an outside partner, choose one with substantial experience and implementation expertise, along with the robust technology needed to efficiently gather, measure, and analyze your data.

Once you have completed your study and digested the results, it may be time to consider a more structured Quality Assurance program for consistent, ongoing review of underwriting performance and best practices. With the right set of decision-making information at the ready, you will be in the best position to improve execution and compliance with best practices, refine policies and controls, and ultimately reduce underwriting leakage for improved profitability.

Athenium delivers exceptional performance improvement solutions that optimize the QA process for insurers worldwide.

**Contact:**

[sales@athenium.com](mailto:sales@athenium.com)

+1.877.250.1720

**Athenium, Inc.**

75 Third Avenue

Waltham, MA 02451

[athenium.com](http://athenium.com)



PERFORMANCE IMPROVEMENT SOLUTIONS