

Moving from a Paper-based to Exception-based Underwriting Process

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What we did at Kemper Auto and Home

- Implemented Decision Support System (DSS) using Fair, Isaac software May 2001
- Moved Kemper Auto and Home to an Exception Based Underwriting process
- Prior to May 2001 Underwriters reviewed all NB submissions
- Applied Exception Based Logic to Renewal Business

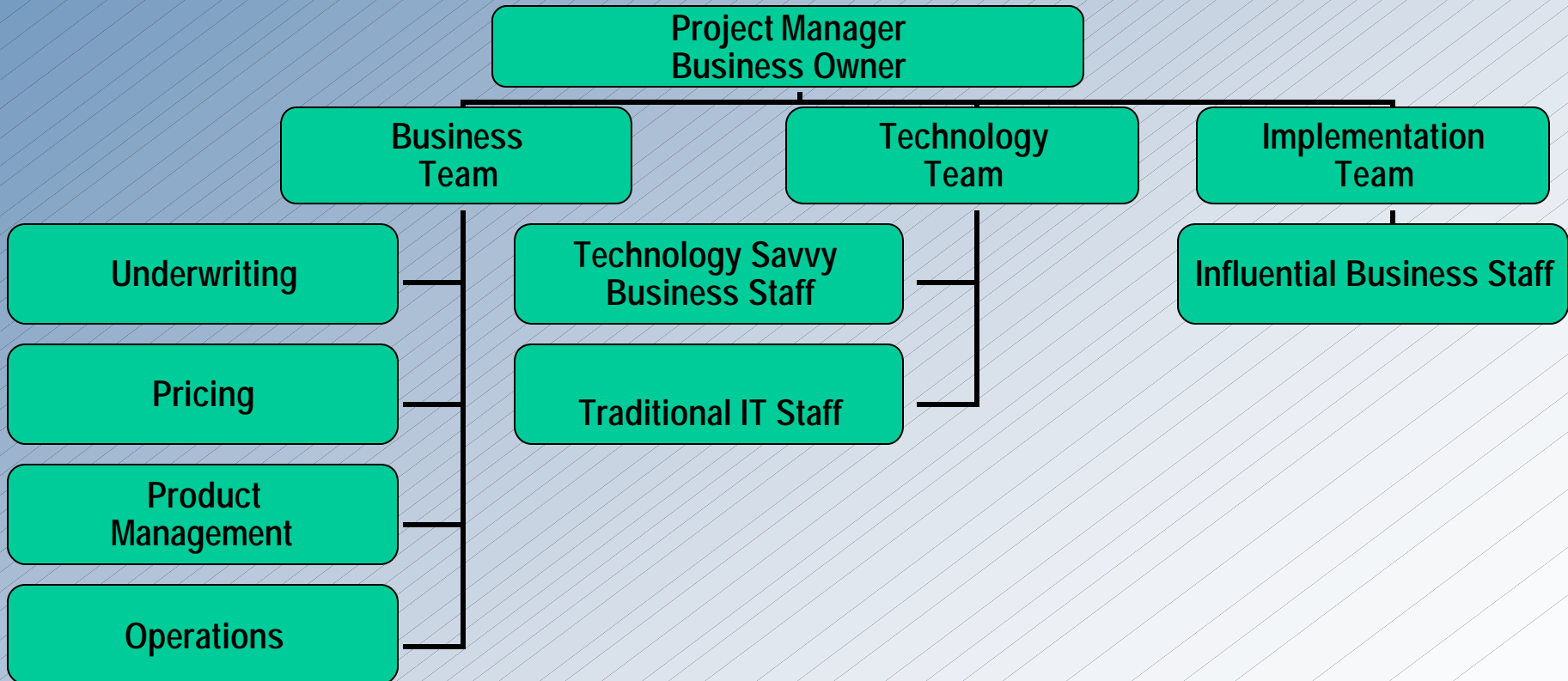
What we Built

- Combined Number & Words
 - Numbers:
 - Actuarial data – moved to multivariate approach
 - Scorecard – work like questions on a high school math test
 - Words
 - UW Guidelines
 - » Knock-out rules
 - » Tiering rules
 - » Referral rules

How we did it

- First Things First – Planning
- Project Team Approach
 - Guiding Principles
 - Business owns project
 - Define Roles for each team with clear deliverables
 - Follow-up and communication
- Tactics
 - Project Kick-off meeting
 - Critical to have all stakeholders attend
 - Executive support
 - Concept to Implementation

Decision System Project Team



How did Project Team work?

- Challenge: How do we notify the agents of the decision?
 - Business Team
 - Developed the Tiering Message text to be displayed
 - Technology Team
 - Developed the functionality to display message
 - Implementation Team
 - Developed training to explain where message displays, why it displays, and what it means

The Results

- Consistent Application of UW Guidelines
 - All UW rules are programmed & applied to every quote, every time
- Incorporate external data elements
 - IBS, Loss History, MVR
- Implemented new data elements
 - Replacement cost calculator data
- Deployed to agents' offices via our website
- Unprofitable risks don't enter process
- Profitable risks accepted without referral to underwriting

The Results

- Increased Underwriting Efficiency
 - Most recent Pricing Methodology - Kemper Auto and Home Underwriter's review 25-30% of NB submissions
 - We challenge remaining referrals for value
 - Remainder of risks are underwritten and issued by the system
 - Allows Underwriters to focus on Book Management/Agency Management activity instead of individual policy transactions
- Guideline Migration
 - Complex to more Complex to Simplified

The Results

- Assists With Catastrophe Management
 - Kemper Auto and Home incorporates state specific CAT management rules into DSS
 - Risks that do not meet our requirements are referred for Underwriter action
- New Access to Quote Data
 - Decision stats on quotes not issued as policies
 - Success ratio by state, tier, rule, etc
- Response to Market Conditions
 - Adjust rules & scorecard until filing approval
 - Adverse Action Notice Logic

Unintended Impacts

- Decreases Impact of UW Turnover
 - UW is a great start to an Insurance Career!
 - Even “good” turnover can have negative impacts
 - Maintains UW discipline while new UW are trained on Book Management/Agency Management techniques
- UW’s focus on developing solid relationships with Agents in early stages of assuming responsibility for a territory
- Kemper Auto and Home Circle of Success
 - Award trip to China in 2006

Expansion of Rules Technology

- Rules Engine Project
 - Project externalized mainframe rules
 - Policy administration rules
 - Supporting RightPrice Web 6.0

The Future...

- Policy Issuance System (mainframe) Replacement
 - Rules Engine was first step in the process...
- Expense Control
 - Use risk characteristics to determine whether to order MVR
- Stand Alone AAN module
 - Faster Compliance to ever changing requirements
- Claim
 - Fraud detection
- Online Quoting
 - Pilot this year to drive business to agents