

Improving Underwriting Using Organized Learning and Knowledge Management

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The Need

In professional football, running backs that are told to run a 20/30 Sweep play should run to the outside and improvise slightly. They are more successful than running backs that just act out their role according to the scripted play. Running backs who have no playbook or do not learn their teams' plays typically perform worst. They are not "on the same page" as their teammates. This lack of success frequently leads to frustration and diminished effort in all professions. Having a play to run, knowing it reflexively, implementing it as it was designed, and improvising when appropriate is the process professional athletes learn and rely upon for success.

Unfortunately there are those who think "professional football" is an oxymoron like "military intelligence." We hope our readers are open-minded enough to be able to learn good principles and practices from all walks of life, including athletics/sports. There are several professions whose success is built upon having illustrations, documentation, etc. The playbook technique is not limited to professional football or just professional sports. Professional musicians, chefs, actors, contractors, and others have sheet music, recipes, scripts, and blueprints.

Underwriters, producers, and customer service representatives (CSRs) who are asked to underwrite applications and renewals are at best inconsistent when they have cursory guidelines and vague processes to implement. They are often lost on the playing field of risk management because, as circumstances change, they lack well-defined playbooks to help them coordinate their efforts successfully with their teammates. Traditional cursory eligibility guidelines are not process-oriented enough to facilitate success. Such guidelines are subject to inconsistent implementation and faulty interpretation by agency and insurer underwriters.

Our industry has become so nontraditional that templates, matrices, models, and diagrams should be used by underwriters, producers, and CSRs so all can function as teams. These templates, matrices, models, and diagrams should be used to create underwriting playbooks. Producers who try to pass applications to underwriters without the benefit of knowing what plays underwriters will run in response to applicants' circumstances are frequently surprised by fumbles, interceptions, and penalties. Successful portfolio management of a book of property and casualty business requires professional quality communications, hand-offs, and executions.

We are not academics. We are capitalists who are motivated by needs for monetary and nonmonetary rewards. However, we believe Dr. Demming was correct when he said, "No theory, no learning." (p. xix, *The Fifth Discipline* by Dr. Peter M. Senge) Dr. Senge was also helpful when he added, "If we cannot express our assumptions explicitly in ways that others can understand and build upon, there can be no larger process of testing those assumptions and building public knowledge." (p. xix, *Ibid.*) Templates, matrices, models, and diagrams in playbooks can meet this need.

Abstract

Organizations using Management by Objective (MBO) or any other form of management with a primary focus on production or quotas frequently fail in their attempts to foster long-term commitment to learn or to apply new techniques, methods, processes, skills, and principles. A process orientation, as described by the Quality Insurance Congress' Fourth Generation Risk Management, helps underwriters (insurer underwriters and agency front-line underwriters) as individuals:

- *Structure their decision-making processes for efficiency and effectiveness.*
- *Improve their decision-making processes whenever new principles and methods are learned.*

Agency and company interests are better served when their members work as teams to:

- *Learn improved underwriting principles and methods in ways that are structured.*
- *Integrate or assimilate improved underwriting principles and methods into members' philosophies, agendas, and processes.*
- *Apply what is learned on the job more frequently.*

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Therefore, working to be pragmatic, we set about to develop a methodology for helping us improve how well we learn, communicate, and apply underwriting principles to be more profitable consultants, employees, and contractors. This article is offered to:

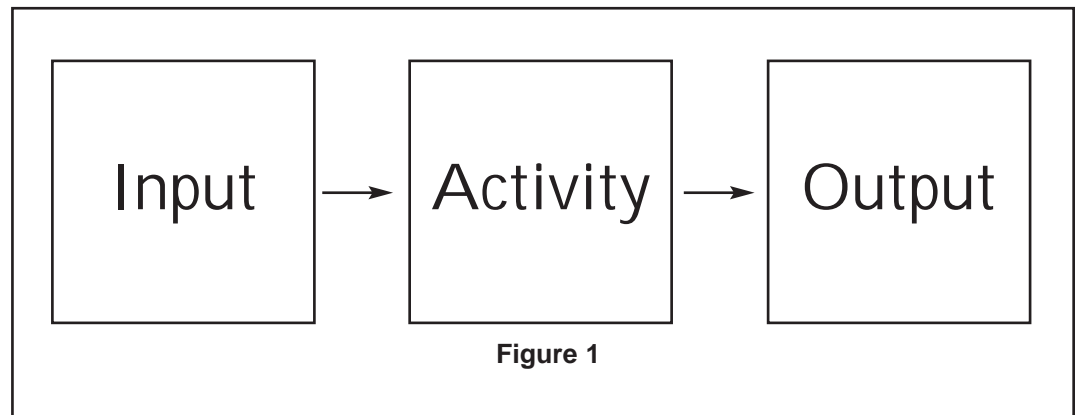
- challenge readers to improve how well they learn
- challenge readers to communicate learning explicitly
- challenge readers to apply more of what they learn more frequently
- challenge readers to solicit feedback from customers so they can improve upon their performance
- solicit feedback so we can further improve upon our methodology and job performance
- encourage debate concerning how well knowledge is accumulated and applied by insurance professionals in customer-supplier relationships

The Problem

Every process is, at its heart, composed of three basic elements: input, activity, and output.

When this model is applied to underwriting, inputs are:

- preconceived ideas, biases, preferences, and paradigms that may or may not be substantiated or factual



- data that include information such as measurements and descriptions from applications for coverage, collateral sources (financial reports, existing account files, etc.), company standards, agency performance, and so on
- emotions and attitudes that have been developed and communicated before and during the underwriting process
- opinions that were formulated during receipt of the information

Activity is what the underwriter does with the information, how the pros and cons are evaluated and weighed. This activity is often referred to as underwriting judgment. Traditionally, it derives from the individual underwriter's knowledge and experience. Underwriters' knowledge and experience have been influenced by the underwriter's environment (e.g., corporate culture) and the prospect's or client's attitude. With few exceptions, this activity can be appropriately described as undisciplined in that it lacks consistent form, structure, and order. Consistent use and improvement of profit-producing activities have helped many industries improve bottom-line results after activities like customer service and quality have been improved. Improving the quality of a process' input and activity will improve the process' output.

Too many underwriters rationalize their actions as being appropriate by saying they “felt badly about the risk” or they “felt the circumstances were not favorable.” In reality they simply said “no” to an application or change request because they could not relate their personal experience to the request as it concerned unfamiliar circumstances, and they would not rely upon the producer’s or CSR’s testimony. We recommend underwriters act consistent with their past behavior unless improvements can be made. Underwriters should be reliable so customers (internal and external) face few disappointments and no discouragement. A key to being reliable is to act in ways that accomplish risk management, not risk avoidance.

Our recommendation is supported by our observations of underwriters reviewing requests for binding authority made by agents over the phone and reviews of insureds’ histories during renewal underwriting. Some underwriters considered the agency’s performance as the primary factor, and they may or may not gather other information. Other underwriters considered loss history as the sole factor. None had documented processes to be applied with consistency. Therefore, none had consistent form, structure, or order in their decision-making efforts. Requests for coverage of Hummer vehicles and high-value art were frequently refused simply because the underwriter’s income level or life experience has not permitted the underwriter to get comfortable with such items. While some insurers help their people get comfortable by including hands-on experience with such property in their training courses, this is the exception and not the rule for our industry’s training efforts.

Output, in this model, is the result of the exercise of underwriting judgment. The output should be decisions that are consistent or improving in the eyes of customers. We want to be consistently reliable or progressively improving when accepting, rejecting, or modifying applications. We want to be consistent . . . when renewing, nonrenewing, or modifying existing policies. We want to be consistent . . . when accepting, rejecting, or modifying requests for changes to policies.

Frequently, underwriters act as gatekeepers instead of teammates with producers and CSRs. Their actions result in too much defensive protection and not enough customer satisfaction. Gatekeepers frequently either wonder why their territories are not growing profitably or blame agents for not cooperating. They avoid the extra work and risks associated with modification of applications when risks are not pristine. They rely upon the easiest of the three options every underwriter has: accept, reject, or accept with modification(s). Rejection is their most frequent output because few prospects are considered clean risks. An agency in western Ohio received national recognition in 1998 for having submitted 320 applications and not having any rejected. This was made possible by the agency’s personnel partnering with its underwriter to modify approximately one-third of the applications so they could be accepted, negotiating win/win agreements on the less-than-perfect and nontraditional risks. An underwriter’s requiring the transfer of power surge exposures from a homeowner policy to a warranty offered by a manufacturer of surge protectors is an example of a modification of an application. Unfortunately the trust, creativity, and effort required to negotiate this arrangement discourage gatekeepers from using it.

The most desired underwriting result is profitability. The most desired quality in underwriting decision making is consistency, because consistent judgment generates predictable results, or at least results that are more predictable than otherwise. If underwriting decisions are made consistently, then improvement of underwriting decision-making processes will produce better underwriting results (more profit). Without the application of consistent underwriting judgment, companies are vulnerable

to competitors that are more focused, organized, and have better communication. Inconsistent underwriters' results are as much or more a matter of luck than anything else. Insureds and agency personnel appreciate consistency when they can find it. They come to rely upon it and trust it.

The problem we are working to solve is that, because inputs are always changing from account to account and from time to time for an account, the only way to achieve consistent output is through consistent actions/judgments from one risk to another and from one underwriter to another. We hope this article will encourage and enable underwriters to define processes so their results are more predictable and more easily improved. However, as has been observed, judgment is often a function of individual experiences, and no two underwriters have exactly the same set of experiences. Therefore, few underwriters exercise the same judgment when presented similar risk characteristics. We concede that perfect consistency between underwriters is impossible to attain. However, significant improvement in consistency can be made easily. The solution is to get underwriters to produce favorable outputs as similar as possible. Favorable underwriting outputs are judgments that are consistent though improving as new information is learned and training is received. These judgments should be applied logically, whenever feasible, and be applied in comprehensive ways. This is a holistic approach to problem solving in underwriting.

Implementation

Recently, one of us realized his lack of use of structured decision making had created a weakness in his performance. Unstructured underwriting was preventing productive assimilation of information received from upper management and other credible sources. He was receiving useful information frequently but it was not communicated explicitly nor was it easily implemented. The specific incident occurred when a memo concerning underwriting of requests to increase umbrella liability limits was sent out by a division manager.

As usual, the memo included several helpful tips. It included urgings given to encourage performance improvement. However, it did not specify how its suggestions should or could be implemented or assimilated. While discussing this scenario, we realized this is often as far as such efforts go, unfortunately. Habits, pressures, distractions, detractors, and neglect often prevent assimilation of such information by recipients. Therefore, we resolved to determine what could be done to facilitate implementation and assimilation of this kind of communication into our underwriting efforts in general and underwriting umbrella liability specifically.

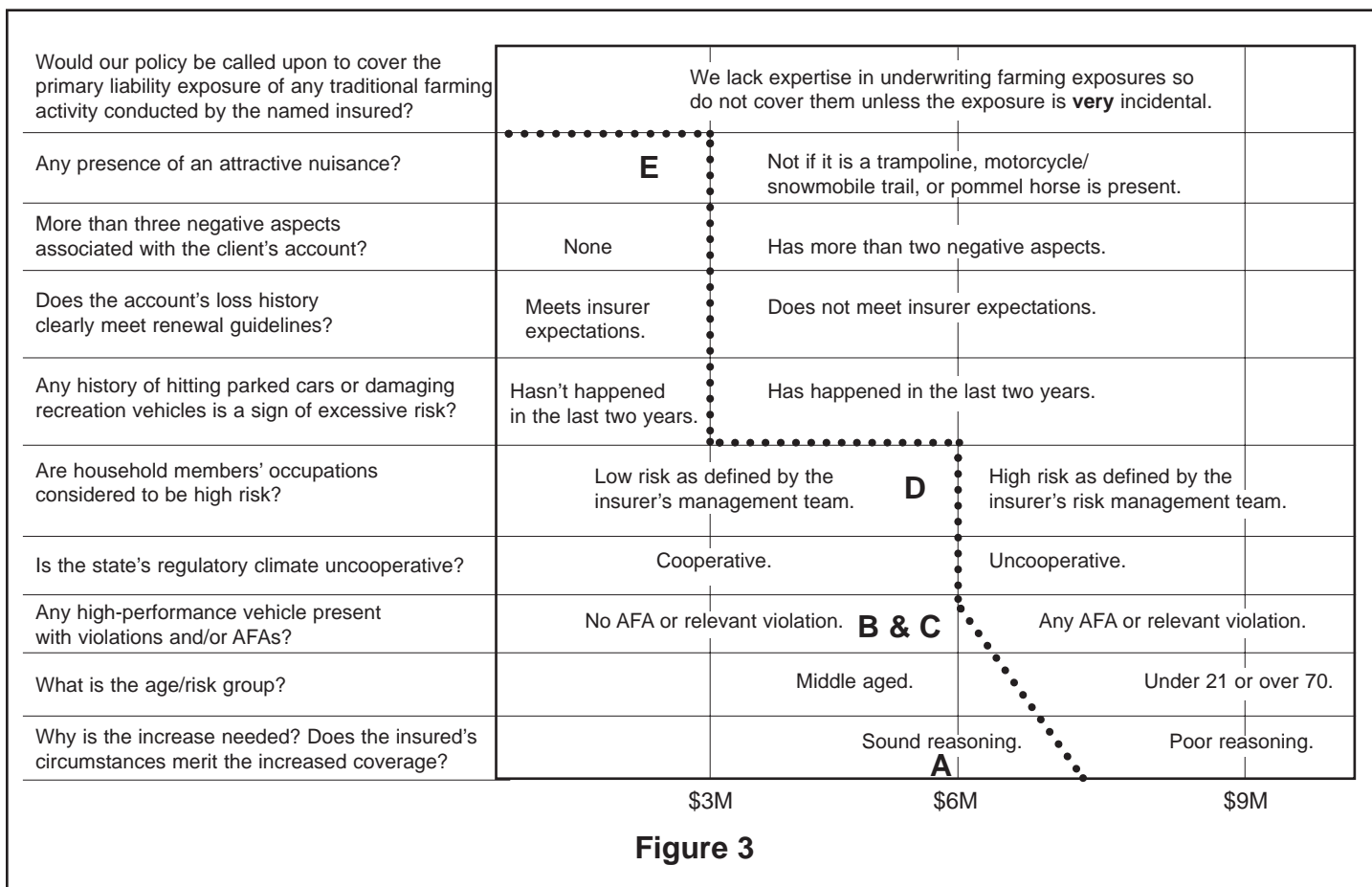
Borrowing from a chef's routine, we recognized underwriters should:

- Develop a basic recipe for underwriting new, renewal, and changes for umbrella liability coverage.
- Be able to communicate the recipe as a process and the intent of the process explicitly.
- Be able to efficiently modify the recipe as new information is gathered.
- Prepare ways to "sell" such rationale to our customers, peers, and superiors.

The basic underwriting process is similar to what many call the Risk Management Process. The underwriting recipe described by most insurance texts is:

1. Gather relevant information.
2. Select what insurance policies and endorsements should be used.
3. Implement a plan, program, policy, etc.
4. Monitor the plan, program, policy, etc. to see if changes are needed.

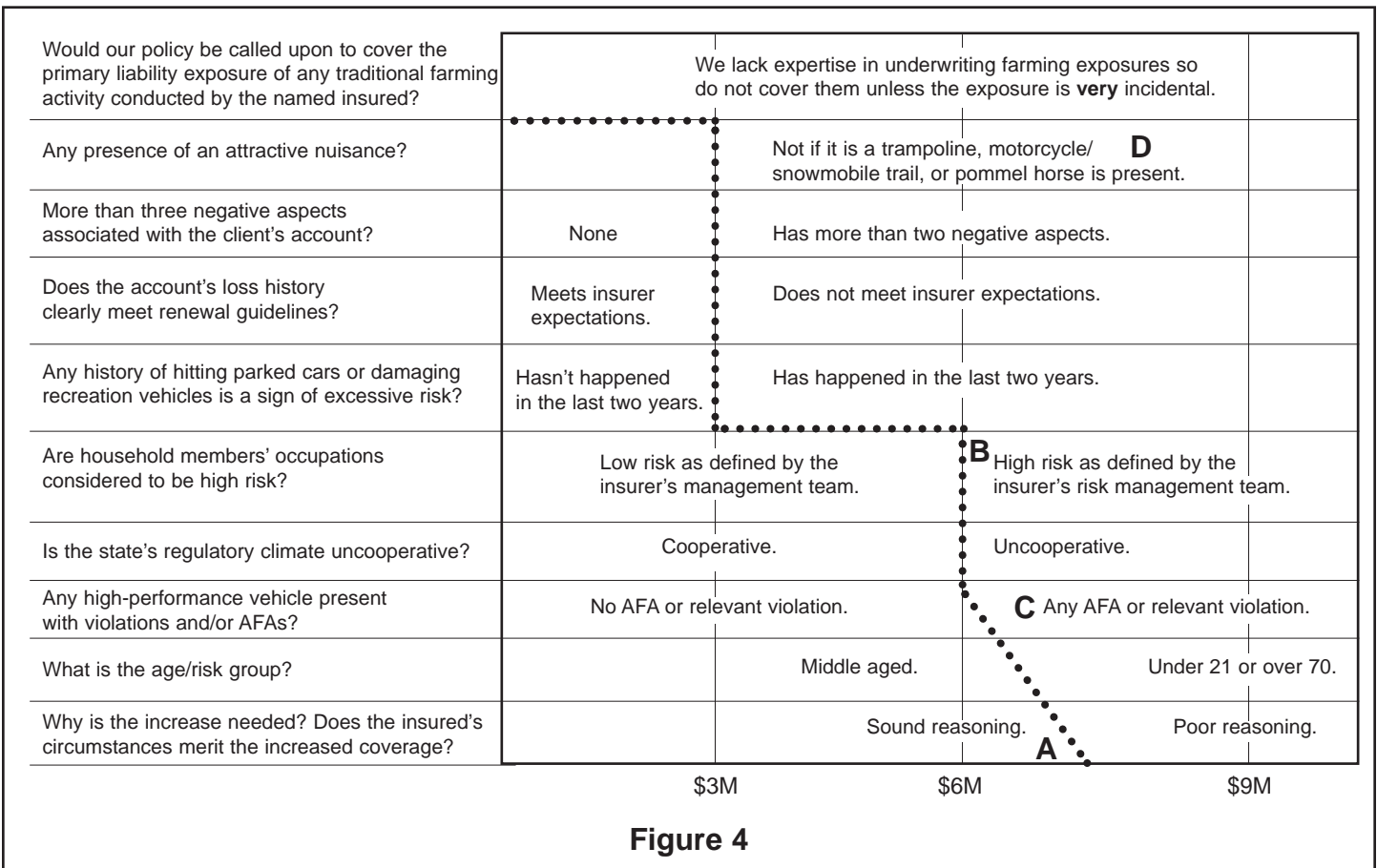
- The request is made because the insured's net worth is now approximately \$5M.
 - A head of the household is the CEO of a multi-national corporation.
 - The family has only two minor speed violations in the last five years and none in the last year.
 - There are no high-performance vehicles in the household.
 - There are fenced swimming pools at two of the residences.
1. The underwriter gathered relevant information, making sure the insured's file was complete and current.
 2. The underwriter verified:
 - a. The insured is continuing to use the risk treatments required when the home, automobile, yacht, and umbrella applications were originally approved in 1992.
 - b. No new risk treatments are merited as a result of this request or any change in the risk itself.
 3. The underwriter plotted the letters A through E on the matrix in Figure 3 to correlate with the insured's characteristics/risk factors:
 - a. The request is made because the insured's net worth is now approximately \$5M.
 - b. The family has only two minor speed violations in the last five years and none in the last year.
 - c. There are no high-performance vehicles in the household.
 - d. A head of the household is the CEO of a multi-national corporation.
 - e. There are fenced swimming pools at two of the residences. So this facet is not a concern.



4. Because no negative factors are above or to the right of the line, the underwriter agreed to accept the request after verifying the agency producer and the insured agree the current plan with its risk treatment program, insurance policies, etc. should continue indefinitely.
5. The underwriter left diaries to follow up annually and monitor the plan, program, etc. to see if changes are needed, because the limit is above what is thought to be acceptable to the insurer.

Here's how our structuring was applied to a request to increase an umbrella's liability limit from \$1M to \$7M. The characteristics relevant are:

- The request is made because the insured's business partner has \$7M, but our insured's net worth is now approximately \$4M.
 - A head of the household is a plastic surgeon.
 - A head of the household has had a minor AFA (at-fault accident) in a high-performance vehicle. There are no other violations or AFAs for other household members.
 - There are a fenced swimming pool and trampoline.
1. The underwriter gathered relevant information, making sure the insured's file was complete and current.
 2. The underwriter verified:
 - a. The insured is continuing to use the risk treatments required when the home, automobile, jet ski, and umbrella applications were originally approved in 1990.
 - b. No new risk treatments are merited as a result of this request or any change in the risk itself.



3. The underwriter plotted the letters A through D on the matrix in Figure 4 to correlate with the insured's characteristics/risk factors:
 - a. The request is made because the insured's business partner has \$7M, but our insured's net worth is now approximately \$4M.
 - b. A head of the household has had a minor AFA in a high-performance vehicle. There are no other violations or AFAs for other household members.
 - c. A head of the household is a plastic surgeon.
 - d. There are a fenced swimming pool and trampoline.
4. The request was declined because more than one negative characteristic is plotted above or to the right of the dotted line. The underwriter left a diary to follow up in two years to reconsider the request and monitor the plan, program, etc. to see if other changes are needed.
5. No follow up was needed.

Conclusion

Having a well-developed plan, communicating the plan to teammates, and implementing the plan in a disciplined manner help teams score and win. Planning, communicating, and implementing logical and comprehensive plans in structured ways increase our chances for success significantly as compared to relying upon unstructured decision making by shooting from the hip repeatedly. Having plans that have passed the test of time and are improving enables decision makers to more efficiently add (reflect the impact of) new learning in ways that improve their performance quickly and consistently.

References

We recommend the following books to improve readers' self-management when setting goals, planning, and so forth.

- *Lead the Field*, by Earl Nightingale, Nightingale-Conant Corporation, 1986.
- *The Psychology of Winning the Ten Qualities of a Total Winner*, by Denis Waitley, Nightingale-Conant Corporation, 1987.
- *The Magic of Thinking Big*, by David J. Schwartz, 1987.
- *Life Planning*, by Paul H. Dunn & Richard M. Eyre, 1980.
- *Mastering Self-Leadership*, by Charles C. Manz, 1991.
- *What Is Your Destination?*, by Marvin J. Ashton, 1979.
- *See You at the Top*, by Zig Ziglar, 1981.
- *The 7 Habits of Highly Effective People*, by Stephen R. Covey, 1989.
- *First Things First*, by Stephen R. Covey, 1994.
- *Smart Maneuvers*, by Carl W. Battle, 1994.
- *To Build the Life You Want, Create the Work You Love*, by Marsha Sinetar, 1995.
- *Callings: Finding an Following an Authentic Life*, by Gregg Levoy, 1997.
- *Not Just Another Job*, by Tom Jackson, 1992.
- *Think Big*, by Ben Carson, 1973.

For more information about decision making, see the following:

- *Creative Solution Finding*, by Gerald Nadler and Shozo Hibino, 1994.
- *Developing Critical Thinkers*, by Stephen D. Brookfield, 1997.
- *Fourth Generation Risk Management*, by Jay T. Deregion, 1995.
- *Smart Thinking for Crazy Times*, by Ian Mitroff, 1998.
- *The Fifth Discipline*, by Peter M. Senge, 1990.
- *The Leader's Edge*, by Guy Hale, 1994.
- *The Thinker's Toolkit*, by Morgan D. Jones, 1995.
- *Thinking on Your Feet*, by Marlene Caroselli, 1992.
- *"Yes" or "No": The Guide to Better Decisions*, by Spencer Johnson, 1992.