ReSourcePro

PERSPECTIVE

RiskOps: A true mindset shift for commercial P&C underwriting

Federato

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About Federato

Federato is bringing RiskOps to insurance to help underwriters win the right deals, faster. From the moment a submission hits an underwriter's email or portal, RiskOps puts AI to work, triaging submissions with a focus on high-appetite business, delivering real-time feedback on the portfolio, and consolidating workflows into a single proven system. Federato delivers the transformation required to drive profitable growth, providing confidence that teams will stick to the plan, because their unique portfolio goals, strategies, rules, and appetite are built into the core system through which they transact business.

With Federato, insurers can:

- **Turn winning into a science.** The platform surfaces and prioritizes the in-appetite submissions a business is most likely to win, so that underwriters can focus their attention on the best deals first.
- **Operationalize selection strategies.** Portfolio strategy and appetite are configured into the platform and communicated immediately to underwriters through decision support at every step of their analysis.
- **Reduce systems, and future-proof technologies.** Federato consolidates the entire workflow into a secure, proven platform, eliminating delays and errors from scattered documents and disconnected point solutions.
- **Broaden the organization's authority.** Real-time reports and quantifiable performance data give a position of strength in capacity negotiations and with risk capital partners.

Customers regularly see a 90% improvement in time-to-quote, 3x improvement in the proportion of good business bound, and a 50-90% reduction in systems used by underwriters.

Learn more at federato.ai.

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Embracing a new approach

Commercial lines underwriters face growing pressure in an environment of increasing and emerging risks that require agility to change existing products and bring new offerings to market. Emerging risks such as cybersecurity threats, catastrophic weather events, and social inflation require constantly adapting insurance products, underwriting guidelines, and pricing models. An upcoming wave of underwriter retirement further complicates the landscape, creating an urgent need for organizations to capture outgoing workers' knowledge and best practices.

This heightened pace of change in external conditions that impact risk makes it imperative for underwriters to incorporate dynamic external data into their portfolio management process and individual risk assessments. In addition, where these activities remain siloed, critical insights about the in-force book of business are blocked from influencing appetite, new business decisions, and profitability, while risk expertise is being lost to underwriter retirement.

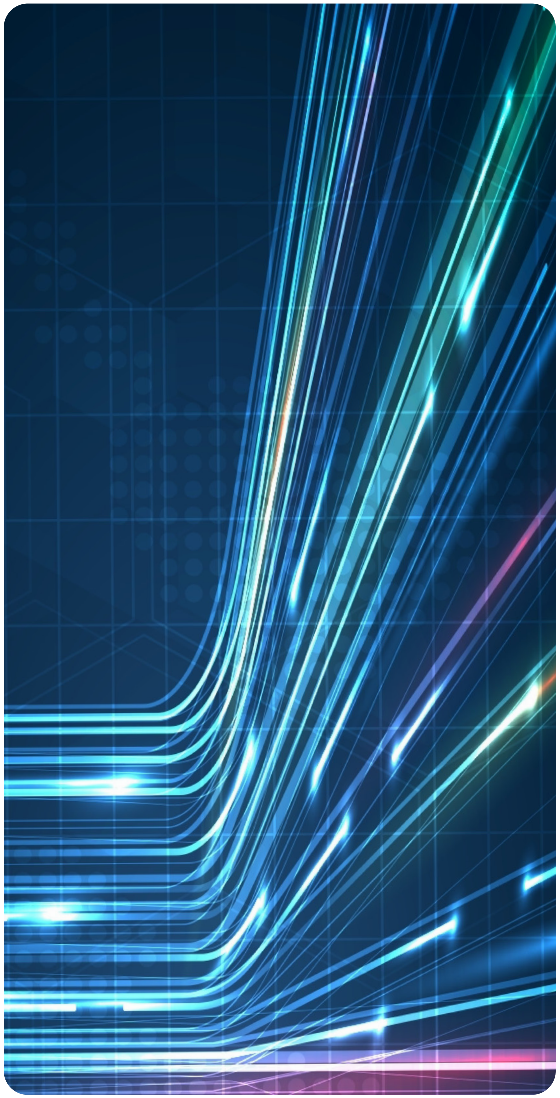
Underwriting remains in catch-up mode when it comes to embedding technology to reimagine its capabilities. Digital transformation focused first on policy administration, billing, and claims management, but AI has now ushered in solutions that can meaningfully improve underwriting effectiveness, offering new opportunities to rethink underwriting processes. Commercial lines organizations know they need to invest in underwriting solutions that can be implemented rapidly at a cost that delivers a positive return, enabling growth and driving profitability.

Insurance is an industry with no shortage of unique product characteristics to address emerging risks, an expanding data ecosystem, and processes influenced by a patchwork quilt of regulations. However, it is not the only industry where a full understanding of risk and managing it continuously are key to profitability and compliance. Commercial lines underwriting has an opportunity to incorporate RiskOps practices that banking, healthcare, and other industries have already embedded into their daily operations.

Risk Operations, commonly referred to as RiskOps, combines data, technology, and analytics to enable comprehensive risk management, providing organizations with a full view of their risk exposure and decision support to enable more effective control.

Underwriting challenges today

Commercial lines span various industries, requiring tailored products and coverages to address unique risk exposures, which can also vary by state. Today, the segment is trending toward greater specialization, with many carriers and MGAs focusing almost exclusively on excess and surplus (E&S). Incumbents and startups are launching many new specialty offerings, and virtually every commercial lines carrier is deepening its expertise in selected industry segments. Many managing general agents (MGAs) differentiate by bringing specialized expertise to specific lines of business or industry verticals. In addition, new insurance models such as parametric, embedded, and on-demand insurance enable underwriting entities to reach target segments with new coverages.



Emerging risks

As the insurance industry continues to evolve, the impact of emerging risks in commercial lines is becoming increasingly significant. These challenges are reshaping the way insurers and MGAs approach underwriting.

CAT Events

The frequency and financial impact of catastrophic climate and weather events, classified as a disaster with losses in excess of $1 billion each, continue to climb in the U.S. Data from the National Oceanic and Atmospheric Administration (NOAA) states the annual average for CAT events has risen from 8.5, spanning 1980-2023 to 20.4 for the most recent five years, 2019-2023. The final tally for the record-breaking number of 28 CAT events in 2023 is at least $92.9 billion. These disasters are categorized as drought, flooding, freeze, severe storms, tropical cyclones, wildfires, or winter storms.

Underwriters are challenged to have the most accurate data to manage their portfolio and assess new risks, as illustrated by the flood zone maps maintained by FEMA, which do not account for flooding caused by intense rainfall. In 2020, according to modeling by the non-profit First Street Foundation, as many as 14.6 million properties could be at high risk, far more than FEMA's identification of 8.7 million.

Cybersecurity

Anyone not yet convinced that cybersecurity is a rapidly growing and evolving risk can reflect on some of these sobering statistics:

2,200
times per day a cyberattack occurs, or once every 39 seconds. (Astra Security)

$4.88 million
global average cost of a data breach in 2024, the highest ever, and 10% more than the prior year. (IBM)

$9.5 trillion
predicted global cost of cybercrime in 2024. (Cybersecurity Ventures)

>72%
of businesses worldwide were affected by ransomware attacks. (Statista)

61%
of small businesses in the U.S. and U.K. were successfully hit by a cyberattack in 2022. (BlackFog)

39,000
new entries added to the catalog of of publicly known cybersecurity vulnerabilities (CVE) in 2024. The total number of reports has more than doubled since 2020. (Security Scorecard)

Cyber insurance as an industry has similarly changed and grown significantly, with NAIC reporting more than 4 million policies in force in 2023, an increase of almost 12% year-over-year. While cyber insurance offers a safety net, it does not replace the comprehensive security measures that businesses need to have in place. MGAs and carriers that offer cyber insurance must have the ability to gather and analyze unique data from both the business and trusted third parties about these security protocols, along with other key risk indicators like quantity of sensitive data, prior cyber incidents, industry-specific risks, and claims history.

Social inflation

Social inflation refers to the increase in property and casualty claims costs resulting from increased litigation and larger jury awards. Research by AM Best, Macrobond, and Swiss Re Institute determined that social inflation rose on average 5.4% annually from 2017 to 2022, while economic inflation was 3.7%. Multiple culprits are in play, from anti-industry sentiment among jurors to third-party litigation funding and eroding tort reform. Social inflation increases incurred claim values, loss ratios, and, in turn, the cost of insurance.

Third-party litigation funding (TPLF) is believed to be one of the leading drivers of social inflation. Financers, including hedge funds and foreign investors with no relationship to a claim, fund a plaintiff's case with the financial return of a portion of the settlement or jury award. In 2023, $15.2 billion in assets was estimated to be allocated to U.S. commercial litigation investments.

Verisk and the RAND Corporation discovered that civil litigation filings increased by 10% from 2012 to 2019 in the 19 states studied.

Underwriters need to incorporate social inflation into their portfolio and individual risk assessments to reflect claim propensity and the increase in litigation. This adds the quantity and outcome of claims lawsuits to the dynamic data underwriting needs to monitor, including the ability to analyze it by line of business and jurisdiction.

Loss of talent

The insurance industry is amid a talent crisis as many highly tenured employees reach retirement eligibility, and few younger people see insurance as a career. In 2021, the U.S. Bureau of Labor and Statistics forecast that over the subsequent 15 years, 50% of the current insurance workforce will retire, resulting in more than 400,000 job openings. Millennials (born 1981-1996) will soon comprise 75% of the workforce, but according to Pew Research, less than 5% are interested in an insurance career.

The Jacobson Group and Aon-Ward's semi-annual study of the U.S. insurance labor market reveals that 66% of commercial lines carriers plan to increase staff, with 84% expecting growth. Underwriting is in the top three roles with the most growth expected.

As highly experienced underwriters near retirement and automation is explicitly built for the unique needs of commercial lines, it will be essential to capture the decisions that human experts are making today, to incorporate as training data into AI-guided workflow and decision support. Modernizing the employee experience is a key part of changing the perception that the insurance industry does not embrace technology. It will be a necessity to accelerate underwriting talent development, focusing more of new hires' time on analysis and making decisions. Automation is also key to taking out the cost and duration of manual, if not duplicative, work.

Process complexity

The complexity of commercial lines products and the trend toward greater specialization have only added to the challenges of the underwriting process (Figure 1) where manual handoffs and data rekeying add to the degree of difficulty, time, and cost.

Figure 1. The Commercial Lines Underwriting Process

Submission: Email remains the predominant inbound channel, with each submission involving multiple attachments in different formats and a mix of unstructured, semi-structured, and structured data.

Triage and clearance: Manually navigating through appetite checking, clearance, and validating the presence of enough information to rate and triage takes considerable time and effort. While the agent or broker is expecting a quote proposal, the submission may not have yet reached an underwriter.

Underwriter referral: There is growing interest in prioritizing submissions based on the opportunities the carrier or MGA wants the most and is more likely to win. The currently widespread first-in, first-out approach is almost guaranteed to result in quoting business that historical data would reveal was unlikely to bind or be in the top 10 of desirability to sell. The same applies to working first on the potentially largest opportunities. Additionally, blocking submissions can be hard for an underwriter to recognize, which can lead to wasted effort.

Data gathering: With the greater availability of third-party data sources to validate or augment the content of a submission, there is a continued push to shift as much data validation and augmentation as possible to occur within the submission intake process. By reducing, if not eliminating, the need for underwriters to gather data before analyzing each risk, more underwriter time could be focused on decision-making.

Risk analysis: Underwriting needs to continuously incorporate real-time portfolio insights into their guidelines. New business evaluations must include a carrier's existing accumulations to avoid excessive financial losses from a single event that simultaneously impacts multiple accounts. A cybersecurity incident in a specific industry vertical may warrant a real-time moratorium to limit exposure. The integration of risk analysis and portfolio management will address the unintended siloing of the outcomes of new business applications, endorsements, and renewals from developments and changes within the book of business.

Pricing: As noted earlier in the underwriting process, incorporating refreshed portfolio information will improve pricing precision to balance profitability with competitiveness to win the deals the carrier or MGA wants the most.

Quote: Producing the quote proposal may be fully or partially automated or a manual process. Regardless, the pressure for speed is real since responding later than a competitor, despite offering a lower price, could take a carrier or MGA out of the running.

Issue: Options are important since distribution formats (digital or paper files) and digital channels (email or portal) can vary based on agent, broker, or customer preferences, security considerations, and technical capabilities.

RiskOps: How other industries manage risks

Risk Operations, commonly referred to as RiskOps, is an integrated methodology designed to streamline risk management processes by combining data, technology, and analytics. This unified approach enables organizations to view their risk exposure and control it more effectively and comprehensively.

While RiskOps is not a methodology widely applied within property and casualty insurance today, several other industries leverage it for its ability to enhance risk management by integrating compliance, security, and operational controls within a unified framework. Key industries include:

Financial institutions: RiskOps is used to manage risks associated with regulatory compliance, application security, and operational stability. All operations use a centralized combination of external data sources, from customer onboarding and then ongoing, to continuously assess risk and detect fraud and other matters requiring intervention.

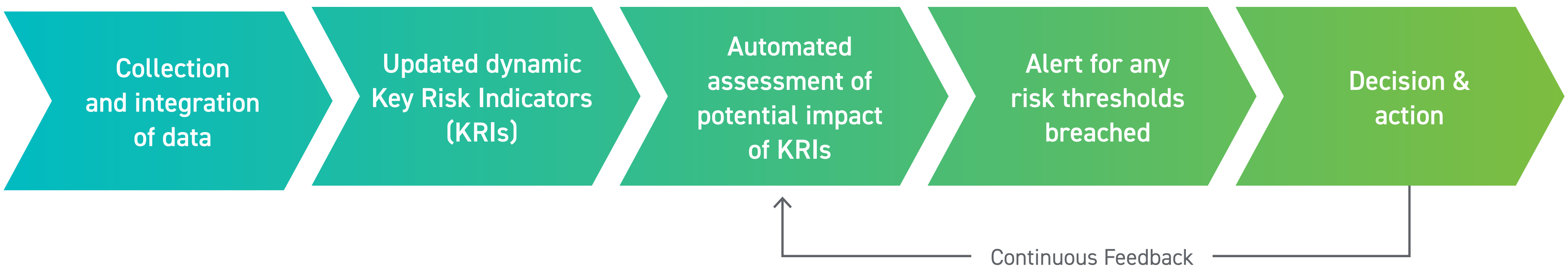
Healthcare: RiskOps helps healthcare organizations comply with regulations like HIPAA and HITECH while ensuring patient data security. Hospitals utilize risk assessment data from their network of third-party providers and products to continuously evaluate and identify any vendor risk profile changes warranting action.

Cybersecurity: With the rising threat of cyber incidents, RiskOps enables organizations to proactively monitor and mitigate cyber risks. All known risks and risk levels are captured, including systems and people. External information about emerging cyber threats is applied to the internal risk inventory to identify risk level increases needing mitigation.

RiskOps process

RiskOps combines static data and real-time dynamic information to assess the potential impact of changing internal and external factors on risks. If a pre-defined threshold is breached, the corresponding operations are alerted to review and decide what action to take. Actions taken are incorporated into the company's risk assessment models. Figure 2 highlights the RiskOps process from data collection to action, including the impact of the continuous feedback loop.

Figure 2. RiskOps: Continuous Feedback Loop



To illustrate the RiskOps process in the financial industry, a bank managing its loan portfolio risk may integrate borrowers' static data, like transaction histories and credit scores, with dynamic data, such as real-time economic indicators (ex., unemployment rates). RiskOps uses predictive analytics to update static credit scores in real-time based on dynamic market conditions data. When a notable change in a borrower's creditworthiness is detected, an alert is sent to the credit risk team, triggering a review or possibly even a modification to the loan terms. The decisions and actions are logged, providing a feedback loop to help refine the bank's credit-scoring model for future applicants.

Use of data and analytics

Data is an integral element of RiskOps, from the type used to how it is analyzed and shared. Static data provides the baseline view of risk. It includes structured data, like customer profiles and transaction histories. Dynamic data enables businesses to detect changes in risk and take proactive steps when a pre-defined risk threshold is breached.

RiskOps data may apply advanced analytics, such as natural language processing (NLP), to assess (for example) sentiment in customer communications or external news feeds and machine learning for predictive risk scoring. The processed data is often presented through dashboards tailored to different stakeholders, such as compliance officers, portfolio managers, and executives. Real-time data visualization enables each team to interpret risk levels and make informed decisions quickly. For example, a compliance dashboard might highlight areas of elevated regulatory risk, while a financial risk dashboard could display default risk trends across portfolios.

Underwriting reimagined with RiskOps

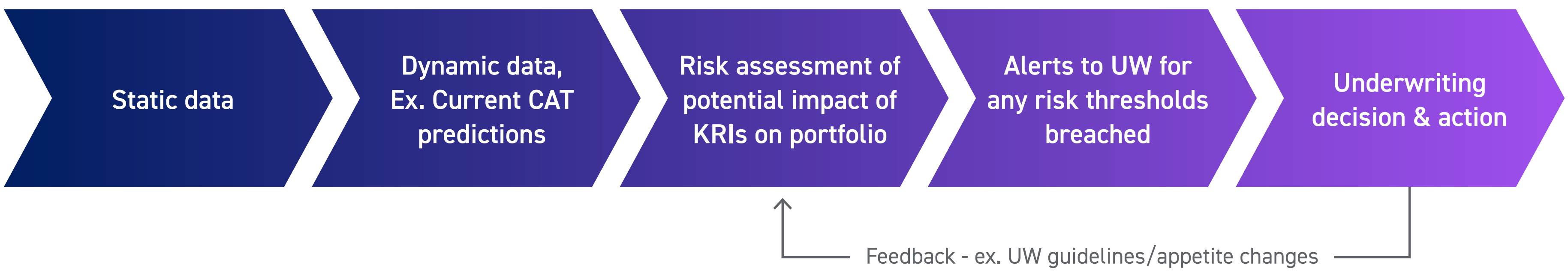
Commercial lines underwriting has been on a continuous improvement journey to enhance its risk assessment practices through new uses of data and automation. The initial focus has been on analyzing individual risks better and faster.

The next level of transformation comes from making risk assessment a dynamic, data-driven, and continuous process instead of a one-time event. Creating a feedback loop from the portfolio risk assessment to the evaluation of new risks ensures that appetite and other underwriting guidelines reflect the current state of the portfolio and dynamic external conditions. Predictive analytics can examine the portfolio and historical submission data to score each new business application's winnability and establish underwriter priority based on portfolio strategy alignment.

Commercial lines underwriting RiskOps

For insurance, RiskOps brings together the in-force book of business and real-time dynamic conditions that can affect the amount of risk in the portfolio. The feedback loop ensures that decisions and actions are appropriately applied to the portfolio and new business opportunities. Figure 3 illustrates the RiskOps process for commercial lines underwriting.

Figure 3. RiskOps: Commercial P&C Underwriting



Static data: The accumulated static, historical data about each risk in the portfolio is integrated with dynamic data, such as open claim reserves.

Static data collection should include a cumulative submissions history for both sold and lost opportunities to identify meaningful quote-to-bind patterns. Insights to score new submissions for winnability can be based on attributes like the agent or broker, or a particular class code.

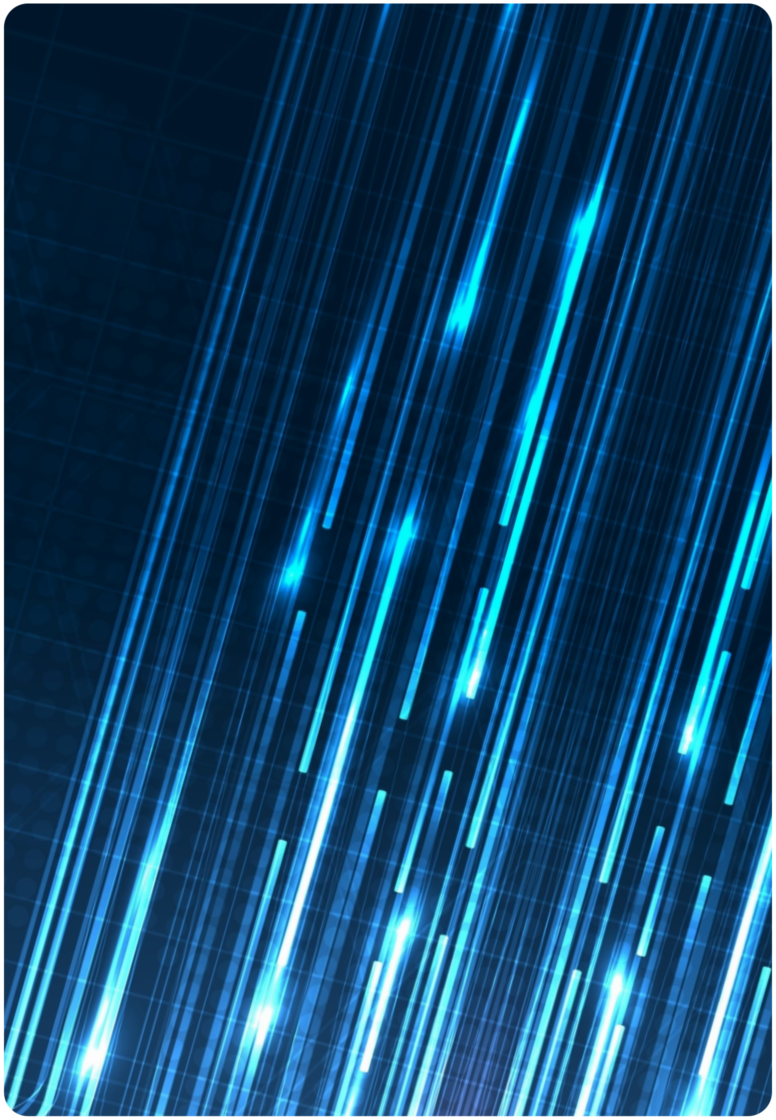
For the new business process, providing a data-driven winnability score and relative priority measure reduces the burden on underwriters in determining the prioritization of which submission to work on next. Underwriters spend less time screening and sorting and more time underwriting. It establishes consistency across an underwriting organization. The inevitable outcome will be a higher quote-to-bind ratio and underwriter activity aligned with the portfolio strategy.

Dynamic data: Key Risk Indicators are refreshed. Some will be specific to a line of business and could include CAT predictions, industry loss trends, cyber threat intelligence, economic measures, or regulatory changes.

Risk assessment: This is where analyzing risk follows two paths - for each discrete new business or renewal transaction and a continuous process applied to all the risks in the portfolio. RiskOps uses predictive analytics to update the portfolio's risk assessment.

Alerts: The appropriate person or organization is automatically notified if the assessment triggers a risk threshold.

Action: The assessment results are reviewed, decisions made, and action is taken. The actions taken based on the portfolio risk assessment will intersect with the submission process if they include changes to appetite or other underwriting guidelines. This results in each subsequent business opportunity being handled based on the portfolio strategy, considering a current assessment of the portfolio's risk.



Supporting the RiskOps Mindset: The OODA Loop

RiskOps requires a mindset shift to successfully adopt a process change in how commercial lines underwriters both assess and manage risk for both new business and the in-force portfolio. This will be a significant pivot for some underwriters, and as with any change management cycle, how it is introduced will determine the success of the implementation, its sustainability, and its impact on profitability and underwriter engagement.

Carriers and MGAs that strive to be underwriting companies – as opposed to companies that underwrite – are managing their portfolio all the time. RiskOps is designed for this very purpose. The RiskOps framework guides underwriters to use data differently and feel empowered to make decisions faster while trusting systems to take on more decision support.

To illustrate this mindset shift, we can look at the evolution of the role of the airplane and the pilot over time. Initially, the pilot was the sole "brain" making all the decisions. Over time, technology, such as autopilot systems, has assumed more pilot decisions while presenting pilots with more data. However, the pilot remains on point, and when the real-time data reaches a risk threshold, like weather, the pilot assumes manual control and uses that data to navigate the plane safely. The plane and pilot come together to operate as one.

Retired Air Force Colonel John Boyd created a mental model – the **OODA Loop** – for fighter pilots to win by making informed decisions faster than their opponents in combat.

Observe: Gain situational awareness via all your senses

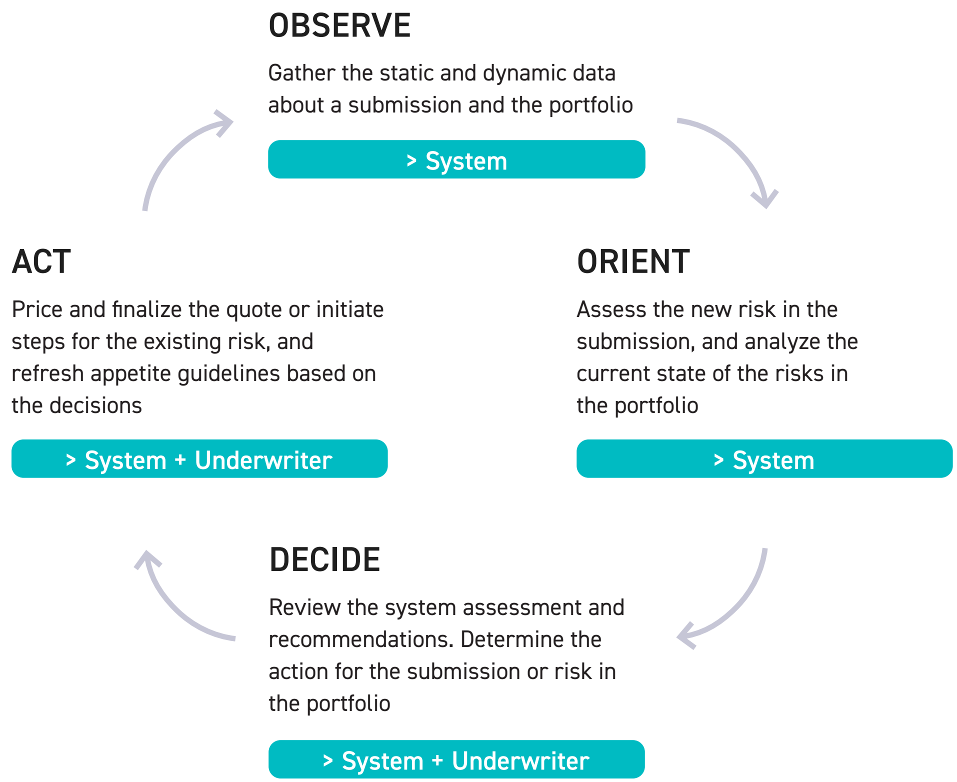
Orient: Contextualize what you observe based on everything you know

Decide: Formulate the optimal course of action

Act: Execute your decision without delay

This model is relevant to businesses striving for decision-support processes that emphasize action with both speed and empowerment. Establishing this "how to decide" mindset within commercial lines underwriting organizations encourages agility in a complex, high-pressure environment. Figure 4 below illustrates how the OODA Loop can be applied in an underwriting setting. Continuous improvement is built-in because of the feedback loop, which incorporates each decision into the next risk assessment and how the portfolio is managed.

Figure 4. Underwriting RiskOps in the Context of The OODA Loop



Call to action

RiskOps is a proven approach to simultaneously assess individual risks and manage portfolios within other complex and highly regulated industries, including financial institutions and healthcare. Within commercial lines underwriting, incorporating dynamic portfolio insights when evaluating each new submission not only improves the precision of appetite matching, risk analysis, and pricing. It also enables the lens of prior deals won and lost to factor into providing underwriters a new and impactful decision support tool – a winnability score. At the annual WSIA Marketplace conference, one specialty lines executive observed that their E&S submissions had increased 125% over the last two years. Coupled with the ongoing exodus of the most experienced underwriters as they reach retirement eligibility, carriers and MGAs need to maximize the power of decision-support solutions to grow profitability as they hire and develop new talent.

Mindset + Process

The success of RiskOps in commercial lines underwriting is founded on a mindset shift on how decisions are made. Frameworks like The OODA Loop offer a proven, reusable approach to help both leaders and underwriters think like fighter pilots to make informed decisions with a bias toward action and speed. With fostering empowerment comes building trust in the data, decision support system, and the process.

Data

Leveraging the right data is key to RiskOps, and due diligence will be needed to understand the current state of what you already have, internally or externally sourced, and how it is utilized today. Underwriting transformation has been heavily focused on tapping into the growing array of vendor solutions for risk data and analytics. Confirming current portfolio management practices and the accessibility of portfolio data will be important to not under- or over-solve to achieve your target state.

Change Management

Change is hard, and with the intended impacts on the role and objectives of underwriters, introducing RiskOps needs to begin with communication and education. Strive to create and sustain bottom-up and top-down awareness within underwriting organizations and adjacent operations, such as policy servicing, about the need for change. Engage leaders and the executors on the front lines on how responsibilities and expectations should change, establish end-state goals, and gain buy-in on an iterative approach and timeline to get there. Collaborate to establish measurable milestones and leverage problem-solving techniques to adjust the plan with maximum agility.

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Meredith is an award-winning insurance transformation strategist with almost four decades of industry operations and technology experience spanning all lines of business and the entire insurance value chain. She has led numerous digital, product, and organizational carrier transformations, along with the insurance go-to-market strategy at an AI customer experience SaaS startup.

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ABOUT RESOURCE PRO

Focused exclusively on the insurance industry, ReSource Pro is a trusted strategic operations partner to insurance organizations seeking to increase their productivity and profitability. With a global team of more than 10,000 employees, ReSource Pro operates at the critical intersection of people, process, technology, and data to serve more than 1,800 clients across the carrier, broker, and MGA segments – consistently earning a +96% client retention rate for over a decade. It offers expert advisory services, proven business process management optimization and transformative data and technology solutions. It was recognized in 2024 by Inc. 5000 as one of the fastest growing companies in the US.

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