

Assignment 8

Pricing Insurance

EDUCATIONAL OBJECTIVES REVIEW

Time Required for Educational Objectives Review:

60 minutes

Note to Instructor: This exercise has been designed to help you direct a class discussion of the Educational Objectives (E.O.s) for this assignment. While leading the discussions, be sure to stress the importance of the E.O.s to the students.

Divide the class into groups of three or four, with a leader for each group.

- E.O. 1** Describe the workflow used to process personal insurance applications, and illustrate the following:
- a. How insurers gain efficiency in workflow
 - b. How the workflow might further evolve.

ASK: The last decades have seen significant improvement in the efficiency of personal insurance policy processing, and the industry can anticipate further improvements in the future. How has policy processing improved already, and what kinds of changes are on the horizon?

INSTRUCT: Refer to Transparency/Handout 1 at the end of this assignment. Instruct the groups to describe the application processing workflow using information systems and to predict the application processing workflow using integrated systems. (Allow 5 minutes for discussion.)

DEBRIEF: Have each leader describe the group's workflow using information systems and workflow using integrated systems.

CHECK: Bring the discussion back to the E.O., and check for understanding of personal lines workflows, methods for gaining workflow efficiencies, and future changes in personal lines workflows.

E.O. 2 **Given a case study involving an insurer’s workflow for personal insurance applications and processing, suggest improvements and justify those suggestions.**

ASK: Often we do things a particular way simply because that is the way we have always done them. But if we take a closer look, we realize that we could be more efficient. Given an existing workflow, how can we improve it?

INSTRUCT: Refer to Transparency/Handout 2 at the end of this assignment. Instruct the groups to (1) draw an illustration of Pro Insurance Co.’s present application processing workflow, (2) identify redundancies and inefficiencies, (3) suggest improvements to the present workflow, and (4) identify any costs or considerations associated with the suggested improvements. (Allow 10 minutes for discussion.)

DEBRIEF: Have each leader report on the group’s analysis of Pro Insurance Co.’s present workflow and present the group’s suggested improvements including any costs or considerations.

CHECK: Bring the discussion back to the E.O., and check for understanding of how personal lines workflows can be improved.

E.O. 3 **Describe the effect that catastrophes have on personal lines insurers and the insurance industry, and give examples of the following:**

- a. Insurance company response to catastrophes**
- b. Contingency plans to maintain insurer operations after catastrophes**
- c. The insurance industry’s response to catastrophes**

ASK: When a catastrophe occurs, insurers are under tremendous pressure to deal with large volumes of claims quickly and under difficult circumstances. How do insurers prepare in advance to maintain their operations after catastrophes?

INSTRUCT: Refer back to Transparency/Handout 3 at the end of this assignment. Instruct the groups to (1) list the areas likely to be affected by a catastrophe, (2) identify any potential problems associated with each area, and (3) suggest a possible response to each problem. (Allow 10 minutes for discussion.)

DEBRIEF: Have each leader report on the group’s catastrophe contingency plan.

CHECK: Bring the discussion back to the E.O., and check for understanding of the effect catastrophes have on personal lines insurers, how companies respond to catastrophes, contingency plans to maintain insurer operations after catastrophes, and the industry’s response to catastrophes.

ADDITIONAL EXERCISES

Note to Instructor: These additional exercises have been provided to supplement the material found in this assignment. Students should be encouraged to use these exercises as a review of what they have learned in the assignment.

TRUE/FALSE EXERCISE

Time Required for True/False Exercise:

5 minutes to complete the exercise; 10 minutes to review the exercise

Indicate with a check mark whether the following statements are **TRUE** or **FALSE**.

TRUE **FALSE**

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Insurance is seen as a commodity by many consumers who make purchasing decisions based on price alone. |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. Computer systems can automatically process insurance applications that meet established selection criteria and issue a policy. |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. As computers have become better able to evaluate risks, process policies, and generate management information, the importance of the underwriter's job has declined. |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. Although insurers rely on computer files in day-to-day policy processing, they are still required to maintain paper policyholder files as backup documentation. |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. Empowerment involves employees in management decision making, which improves the use of staff resources and communication. |
| <input type="checkbox"/> | <input type="checkbox"/> | 6. Increased automation of policy processing has resulted in opportunities for part-time work and job sharing in what were traditionally full-time positions. |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. A catastrophe is an event that is likely to result in total losses exceeding \$25 million. |
| <input type="checkbox"/> | <input type="checkbox"/> | 8. Long-term trends in climatic changes suggest that hurricane activity will decrease in the coming years. |
| <input type="checkbox"/> | <input type="checkbox"/> | 9. Some policy wordings require policyholders to pay 10 percent of the insured value of their homes as a deductible on windstorm losses. |
| <input type="checkbox"/> | <input type="checkbox"/> | 10. Securitization of risk allows the investor to earn profits if a company's catastrophe losses for the period are greater than anticipated. |

COMPLETION EXERCISE

Time Required for Completion Exercise:

5 minutes to complete exercise; 10 minutes to review exercise

Complete each sentence with the appropriate word or phrase.

1. The integration of computer systems into insurance processing allowed for increased _____, and _____.
2. One of the most significant developments in underwriting technology has been the evolution of _____.
3. Computers complete _____ far more quickly and consistently than do people.
4. The process of automating a task requires in-depth analysis that often helps insurers identify and eliminate previously unrecognized _____ and _____.
5. Soon consumers will be able to shop for coverage, select an insurer, pay premiums, and report changes and claims electronically via _____ or at _____.
6. One of the significant implications inherent in the increased use of technology is that the _____ can be distributed.
7. The increased use of technology has reduced the need for many support positions. Transferring the data-entry function to _____ or _____ will result in further reductions.
8. Successful insurers are those that focus on the development of _____ as well as of technology.
9. As the pace of change accelerates, the rate at which organizations _____ may become their primary source of competitive advantage.
10. The need for accurate, detailed catastrophe information has prompted the development of several _____ that estimate and describe the results of catastrophic losses.

MATCHING EXERCISE

Time Required for Matching Exercise:

5 minutes to complete exercise; 10 minutes to review exercise

Match each term with the appropriate definition.

- | | |
|---------------------------|--|
| A. Expert systems | 1. ____ The series of steps or actions that must be completed, in sequence, to accomplish a particular task |
| B. Orphan account | 2. ____ An insurance company that previously wrote an insurance policy for an applicant |
| C. Empowerment | 3. ____ Software programs that duplicate the decision-making process |
| D. Modeling | 4. ____ A system in which all paper documents are filed by the date on which they were processed |
| E. Securitization of risk | 5. ____ Single policy accounts in which the producer provides only part of a customer's insurance needs |
| F. Workflow | 6. ____ The distribution of authority, resources, information and accountability to employees in an organization |
| G. Knowledge management | 7. ____ A strategy for capturing and assessing information so that everyone in an organization is able to access the information needed |
| H. Prior carrier | 8. ____ A system of calculating known outcomes based on current data, and then using those calculations to predict future outcomes |
| I. Document maintenance | 9. ____ Sale of short-term bonds and other financial instruments to investors to generate the cash required to pay potential catastrophe claims during a specific period of time |
| J. Transactional filing | 10. ____ Filing, storing, and retrieving applications, photographs, inspection reports, policyholder correspondence, and all other underwriting information |

ANSWERS TO THE ADDITIONAL EXERCISES

TRUE/FALSE

1. T
2. T
3. F
4. F
5. T
6. T
7. F
8. F
9. T
10. F

COMPLETION

1. speed, accuracy, efficiency
2. expert systems
3. standard, repetitive tasks
4. inefficiency, redundancy
5. the Internet, touch-screen kiosks
6. underwriting process
7. producers, policyholders
8. people
9. learn
10. catastrophe indexes

MATCHING

1. F
2. H
3. A
4. J
5. B
6. C
7. G
8. D
9. E
10. I

SHORT ANSWER QUESTIONS

Based on	Text Pages	Possible Answers
1. E.O. 8.1	8.3 – 8.11	<ol style="list-style-type: none">1. Collecting and evaluating data2. Deciding on risk acceptability3. Issuing policies or endorsements4. Billing policyholders and collecting premiums5. Recording statistical and management information
2. E.O. 8.1	8.3 – 8.11	<ol style="list-style-type: none">1. Empowering employees2. Developing learning organizations3. Instituting knowledge management4. Improving employee relationships
3. E.O. 8.3	8.18 – 8.24	<ol style="list-style-type: none">1. A significant increase in the number of claims reported resulting in many more claims than regular staffing levels can manage2. Potential disruption to the insurer's operations if its own premises are damaged or must be evacuated3. Difficulty in verifying coverage if records are lost or destroyed or if the insurer's computer is down4. Inability of employees to report to work due to disruptions in transportation or because they are dealing with damage to their own property5. Potential disruption to communications hindering claim staff's ability to contact policyholders and settle losses6. Delays in claim settlement due to unavailability of goods and services required to mitigate and settle losses quickly
4. E.O. 8.3	8.18 – 8.24	<ol style="list-style-type: none">1. Withdraw from lines or geographic areas prone to catastrophe2. Strictly limit writings to control exposure in catastrophe-prone areas3. Introduce limitations to coverage or significant deductibles on catastrophe-related coverage4. Securitization of risk

TRANSPARENCY/HANDOUT 1

Manual Workflow	Workflow Using Information Systems	Workflow Using Integrated Systems
1. Producer completes handwritten application.	1.	1.
2. Producer mails application to insurer.	2.	2.
3. Insurer support staff orders additional information (e.g. MVRs).	3.	3.
4. Underwriting staff reviews application and accepts, rejects, or modifies.	4.	4.
5. Insurer support staff inputs data into computer for issuance, billing, accounting, and statistics.	5.	5.
6. Computer prints declarations page and endorsements.	6.	6.
7. Insurer support staff attaches required forms to declarations page.	7.	7.
8. Insurer mails copies to producer.	8.	8.
9. Producer distributes copies.	9.	9.

TRANSPARENCY/HANDOUT 2

Pro Insurance Co.'s Present Workflow

Handwritten applications arrive by courier, and they are sent to the data-entry department. The data-entry clerk inputs the information into the computer and routes the application to the underwriter. The underwriter determines which additional information (e.g. MVR, prior carrier experience letter) is required and then routes the application to the underwriting assistant. The underwriting assistant checks that all necessary information has been provided by the producer and orders any additional information required by the underwriter. When an underwriting report is received, the assistant matches it with the application and routes it to the underwriters. After an application has been underwritten, it is sent to the billing unit where a rating clerk calculates the required premium. The rating clerk then routes the application to the data-entry department, where the data-entry clerk enters the premium amount and any changes that the underwriter has made. Then the data entry department releases the application for issuance. The computer batch prints all required documents overnight. The printing is routed to a support staff member who attaches the appropriate forms and wordings. Then the policy is sent to the mailroom for distribution to the producer who, in turn, delivers it to the policyholder.

Present Workflow Illustration

Redundancies or Inefficiencies

Suggested Improvements

Costs or Considerations

