Offer fast, frictionless SME insurance with questionless underwriting

Commercial insurers face consistent pressure to reduce operational expenses and grow their customer base. Following the increasing automation of underwriting in personal lines, many insurers are now seeking similar results in SME commercial lines.

External data can replace question sets entirely in commercial insurance, enabling automation of underwriting, while reducing the cost of writing in appetite risks. In this white paper we highlight how external data and artificial intelligence combine to enable questionless underwriting for any SME risk in the market.

"Every company can be priced and ranked purely using data on the web and from external sources…Today a lot of underwriting is subjective. That's really bad for businesses as they get unfair pricing. Data will bring more objective pricing."

Richard Hartley, CEO and Co-Founder, Cytora

Cytora

The changing nature of SME insurance

New technology is driving rapid change in how insurance customers interact with carriers. In personal lines, aggregators and increasing automation have fundamentally changed the business landscape. Commercial lines have been slower to adopt these methods, and underwriter time continues to be required, even for micro-SME segments where automation is possible in many cases.

In the UK, 43% of small businesses purchased their most recent insurance online, in contrast with 10–20% who purchased online back in 2012[1]. By 2027 more than 90% of micro-SME and 40–50% of other SME insurance will be bought by direct, online and telephone channels (with increasing automation 80–90% of micro-SME will be straight through business)[2]. Worldwide, the proportion of businesses buying insurance online is also growing.

At the root of the change in SME market dynamics lies an evolution of the SME insurance customer, who increasingly expects to transact via online and digital methods. In this regard, the change in how customers purchase SME insurance is driven by expectations from personal consumer habits. Global surveys show that personal insurance purchasing behaviour is the single biggest predictor of how a business wants to purchase its business insurance. Where personal lines go, SME insurers will have to follow.

In this white paper we show how questionless underwriting—the ability to rate and price a risk purely using external data with no questions required of the insured—can be applied to SME insurance to meet these evolving customer expectations, enabling an insurer to efficiently grow premium in these lines.

UK Small Business Insurance: Key Facts

2018

43% purchased their most recent insurance online.

£3.2bn In premium annually

2012

10% purchased their insurance online.

£380m In premium transferring to online purchase each year

SME in 2027

<90%

of micro-SME will purchase their insurance online by **2027**

40-50%

of other SME insurance will be bought by direct, online and telphone channels

Source - PwC Strategy& and Oliver Wyman

[1]Global Digital Small Business Insurance Survey. 2017 PwC Strategy&

[2] The Underwriter of the Future: Six Years On. 2018 Chartered Insurance Institute & Oliver Wyman

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What led you to buy your business insurance online?

44%	**It's quicker**
32%	**It's cheaper**
32%	**It's available 24/7**
21%	**I didn't need advice**
20%	**I always buy online in my personal life**
14%	**There are more tailored products**

Data can replace underwriting questions

Across the insurance world, the increasing use of external data is driving fundamental changes to underwriting, enabling risks to be assessed and priced automatically. Among external data sources, government, open data, news media, social media, and commercial data sets contain valuable information relevant to insuring SME lines. Few insurers, however, are set up to make good use of these data to guide their underwriting strategy, and to inform the decision of whether to write an individual risk.

By combining external data and advanced analytic methods—including artificial intelligence and machine learning methods—it is possible to assess and price SME risks with minimal information from the broker or insured, and therefore to underwrite these risks without asking risk rating questions.

Most SME submissions can then be accurately quoted and bound with just a business ID and/or address.

External data allows an insurer to:

Incorporate more features for prediction	To assess risks based on all the available data (e.g. thousands of sources, rather than industry standard question sets).
Incorporate information that is outside the knowledge of the insured	Which enables the inclusion of novel predictive features (e.g. restaurant density within 5-mile radius, vertical height of building).
Incorporate more scale	To build market-wide predictive models and quote for any risk including those outside experience.
Operate instantaneously	To immediately return a quote to broker or insured.

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The business case for questionless underwriting

Overall, questionless underwriting drives down the cost and friction of underwriting, improving the customer experience and enabling insurers to execute on their underwriting strategy, target within-appetite risks, and write more premium at lower cost.

Adopting questionless underwriting for SME lines helps an insurer to:

— Target the right customers with the right proposition, at the right price
— Meet evolving customer expectations with a better user experience and instant quotes

— Make it easier and quicker for brokers to place risks, giving high predictability of quote in target segments
— Automate SME submissions allowing low-premium repetitive business to be written quickly, with minimal expenses
— Free up underwriters to focus their time on more complex submissions, where good underwriter judgment continues to add substantial value
— Enter new lines or business segments, and underwrite new and emerging products where internal exposure data is sparse, and the correct price is difficult to achieve.

Insurance Value Chain	Impact of Questionless Underwriting	Value
Sales and Marketing	— Target the right customers with the right proposition — Meet evolving customer expectations with better user experience	**Top Line** Revenue Increases
Distribution	— Make it easier and quicker for brokers to place risks, giving high predictability of quote in target segments	**Top Line** Revenue Increases
Underwriting	— Automate SME submissions — Focus underwriter time on more complex submissions	**Bottom Line** Cost Reductions
	— Enter new lines of business, and underwrite new and emerging risks	**Top Line** Revenue Increases

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Building capability for questionless underwriting

With questionless underwriting, an insurer can return an accurate price for every SME submission and bind the risk in real time, without asking questions of the insured. By doing so, the insurer is best able to capture the business that is within its appetite, while minimising operational costs.

Delivering questionless underwriting, however, requires several key capabilities that lie outside of insurers' traditional expertise. Here we discuss three key requirements for a successful implementation of questionless underwriting in commercial insurance:

1. A view of the whole insurable population, which enables the insurer to quote for any risk within appetite, even when exposure data is sparse.

2. Powerful, predictive models based on external data and AI, which allow an accurate price to be determined from thousands of sources of external data in the absence of question responses.
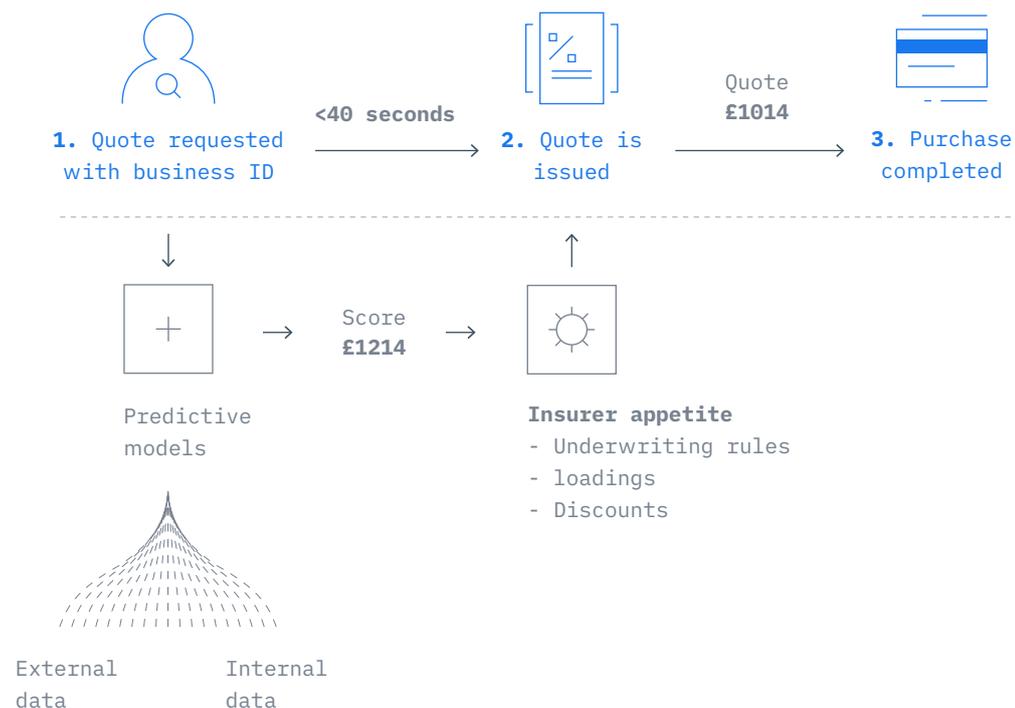
3. Real-time interaction with broker and customer, which helps deliver a quote to every insured and allows automation, reducing attrition and operational expenses.

By combining these three capabilities, an insurer can offer customers and brokers a profitable questionless underwriting experience. Without all three, the insurer will consistently lose business to competitors who are strong in the missing capability.

While these capabilities would be possible for a technically sophisticated insurer to develop in-house, in practice we find that our customers have lacked the expertise and/or resources to successfully deliver across all domains within a commercial time frame.

For insurers who are keen to deploy these capabilities, the Cytora Risk Engine enables rapid integration of questionless underwriting capabilities.

Questionless underwriting: Delivering a seamless customer experience

1. Quote requested with business ID

<40 seconds

2. Quote is issued

Quote **£1014**

3. Purchase completed

Predictive models

Score **£1214**

Insurer appetite
- Underwriting rules
- loadings
- Discounts

External data   Internal data

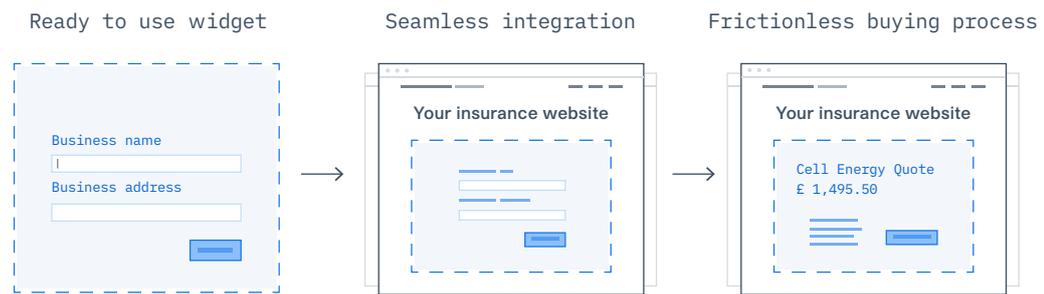# Questionless underwriting with the Cytora Risk Engine

The Cytora Risk Engine enables commercial insurers to rapidly obtain questionless underwriting capabilities for SME lines. Powered by artificial intelligence, the Cytora Risk Engine continuously ingests data from thousands of sources, to compute a risk score and price for every risk in the insurable population. Insurers can integrate the Cytora Risk Engine into any app or website or deploy it into e-trade platforms to completely automate submissions through broker and direct-to-consumer channels.

For insurers who want to provide questionless underwriting direct to customers and broker partners **Cytora**
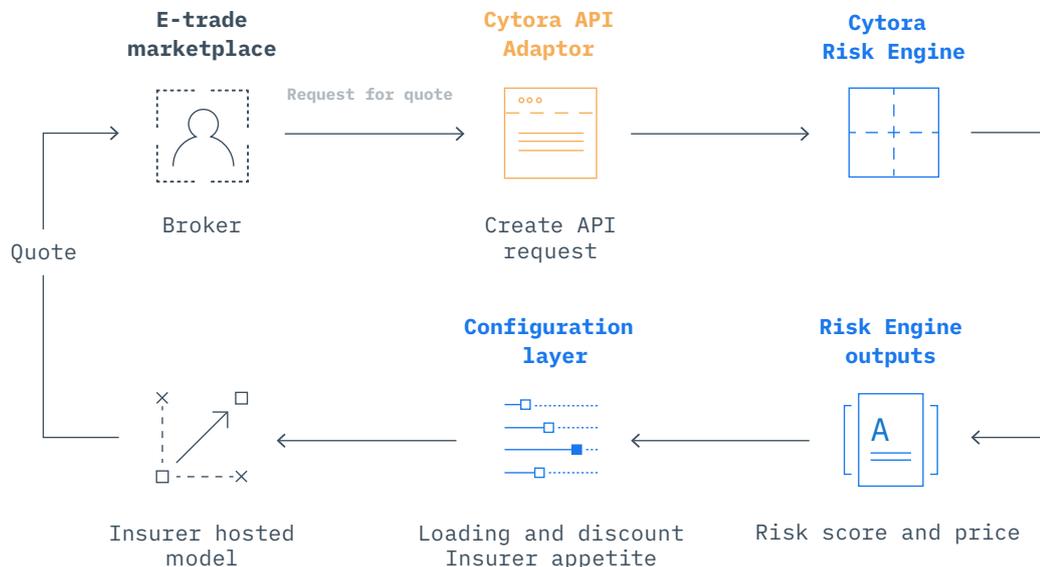
Underwrite Direct can be embedded into any website or app using a few lines of javascript code. This makes offering insurance and trading with distribution partners fast and easy, requiring only a business name and address to quote.

For insurers who want to use the Cytora Risk Engine within existing systems, the **Risk Engine API** connects directly to core underwriting systems. This lets an insurer use the Cytora Risk Engine in e-trade platforms and broker to insurer quote aggregators, like Acturis in the UK, to completely automate quote and bind across SME and mid-market lines.

Cytora Underwrite Direct is easily embedded in any website or app

Ready to use widget

Business name

Business address

Seamless integration

Your insurance website

Frictionless buying process

Your insurance website

Cell Energy Quote
£ 1,495.50

Risk Engine API connects to e-trade platforms and core underwriting systems

E-trade marketplace

Cytora API Adaptor

Cytora Risk Engine

Request for quote

Broker

Create API request

Quote

Configuration layer

Risk Engine outputs

Insurer hosted model

Loading and discount
Insurer appetite

Risk score and price

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Conclusions

Data and analytics are enabling leading insurers to tackle systemic challenges facing the industry. Commercial insurance has to date been slow to adopt new analytic methods, making it expensive to write micro-SME business, and challenging to expand into new segments outside of exposure. Alongside this, the SME customer is evolving to expect a higher quality of direct and online interaction.

Questionless underwriting leverages external data to assess SME submissions without the need for an extensive question set, and enables insurers to automate or augment existing processes, giving them an edge in customer experience and operational efficiency. The Cytora Risk Engine enables insurers to rapidly implement questionless underwriting to grow premium, reduce expenses and improve loss ratio.

The Cytora Risk Engine is the leading AI underwriting engine for commercial insurance, enabling insurers to adopt automated questionless underwriting and reduce the cost of delivering insurance. Contact us to learn how you can use questionless underwriting to start, grow and optimise your SME portfolio.