CPCU SOCIETY INSURING YOUR SUCCESS

Underwriting Interest Group

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Underwriting Trends

Message from the Chair

by Nancy S. Cahill, CPCU, AU

Nancy S. Cahill, CPCU, AU, is manager–special projects, for Liberty Mutual Agency Markets Regional Companies Group in Keene, N.H., part of the Liberty Mutual Group. She also holds project manager oversight responsibilities for the Agency Compensation and Information Systems of Agency Markets. Her experience includes more than 30 years in personal and commercial lines underwriting, commercial lines product development, training and being an agent. Cahill received her bachelor's degree from Capella University and also holds a master's certificate in project management from The George Washington University. She is continuing her education and studying to attain Project Management Professional (PMP) certification.

Welcome to the 2012 CPCU Society Annual Meeting and Seminars in Washington DC!

We are pleased to be jointly presenting these three seminars and the ever-popular sold-out luncheon:

Impact of Cultural Norms on Business Insurance will be co-presented with the CPCU Society International Interest Group and held on Monday afternoon, September 10. Hispanic and Asian business owners now represent a large percentage of the businesses in the United States. Owners of multicultural businesses can be diverse in their business practices in ways not clearly understood by people outside of their culture. Business owners, a broker, and a company underwriter will discuss the rewards and challenges of doing business within the multicultural community.

Current and Emerging Trends Impacting the Industry was co-developed with the CPCU Society Regulatory & Legislative and Agents & Brokers interest groups and will also be held on Monday afternoon, September 10. Representatives from the National Association of Insurance Commissioners, American Insurance Association, Council of Insurance Agents & Brokers, and others will guide meeting participants through issues affecting the industry on state and federal levels. Presenters will identify the pending and emerging regulatory changes and their impact and will also discuss potential strategies for complying with pending regulatory changes.

Underwriting the Wind Peril will be presented in cooperation with the CPCU Society Excess & Surplus Lines and Loss Control interest groups on Sunday afternoon, September 9. This session will explore the wind peril in the U.S. P&C environment and its effects related to weather events such as hurricanes and tornados. It will also address the effects of wind frequency on the wind rating structure, building codes and construction, and catastrophe risk modeling. Presenters will incude representatives from Insurance Services Office, Inc., the Institute for Building and Home Safety (IBHS), and , the Karen Clark & Company.

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What's in This Issue

Message from the Chair

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The Underwriting Interest Group Luncheon will be held on Sunday, September 9, with James L. Britt, CPCU, as the guest speaker. Jim, a CPCU Society past-president, is an adviser, coach, author, and speaker with Britt Leadership Partners, LLC; his topic with be Achieving One's Personal Best. This is an event not to be missed, and we can almost guarantee that you will leave the lunch with more than a few goodies.

As mentioned in previous newsletters, your CPCU Society Underwriting Interest Group can always use additional assistance. Please consider joining the committee and working together with fellow industry professionals in a rewarding and fulfilling experience. If you have any questions about volunteering at the national level with the Underwriting Interest Group, please contact me at nancy.cahill@libertymutual.com or 603-358-4251. ■

The Underwriting Interest Group Committee

We put the YOU in underwriting.

The importance of this slogan is that insurance is still a people and relationship business. People make the difference.

Make sure to put the YOU in the underwriting process.

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you underwriting

UNDERWRITING INTEREST GROUP

Smarter Underwriting

New Strategies for Cost Control and Pricing Precision Using Decision Management

by Lamont Boyd, CPCU, AIM

Lamont D. Boyd, CPCU, AIM, is director of insurance scoring solutions for Fair Isaac Corp. (FICO). In this role, he is responsible for client and partnership opportunities that make use of FICO's credit-based insurance scoring and property risk scoring products and services. Prior to joining FICO in 1993, Boyd served 19 years in underwriting and sales management with a major property-casualty insurer.

Boyd is a member of the CPCU Society's Information Technology, Personal Lines and Underwriting interest groups and of its Underwriting Committee. A former chair of the Society's Information Technology Committee, he speaks regularly on predictive scoring technology to industry and consumer groups.

Summary

Today, insurance carriers are extending the efficiencies achieved through back office automation to point-of-sale (POS) decision making across all channels, including self-service websites, in-house sales and agent/distributor networks. New decision management solutions not only facilitate straight-through-processing, by improving the quality of inbound data, they also increase the accuracy, objectivity, and consistency of underwriting and application decisions, even when business volume is rising rapidly. In addition, by providing deeper insights into loss risk, decision management enables carriers to expand risk tiers, assign more accurate pricing and rapidly bring innovative products to new markets.

These improvements in POS decision making are helping carriers substantially increase the amount of new business coming in through channels, with a high degree of confidence in the value of that business. Because decision management provides an objective measure of potential loss and profit, it can also help in evaluating channel performance and improving channel management. Moreover, better application data means underwriting and new business staff no longer spend time correcting errors and chasing down missing information, which not only cuts costs but also frees up resources to focus on improving producer relations and results.

Decision management, which works with existing rating engines, underwriting applications and policy management systems, can deliver these benefits across a range of insurance decisions. Its basic components—business rules management, predictive analytics and strategy optimization—can be applied not only to POS decisions, but also to renewals, marketing (including cross-selling) and claims processing. Companies can start out in any of these areas with rules-driven automation to boost decision efficiency, consistency and market agility. Predictive analytics can then be introduced, offering increased precision to risk analysis and decisioning to lift results further. Strategy optimization can then be applied for even higher levels of performance and profitability.

Information technology has brought significant efficiencies to underwriting, claims management and other fundamental insurance functions over the past decade, reducing cycle times and costs. Today the insurance industry is focused on revenue, and decision management is having a direct impact on revenue generation.

This white paper explores how decision management impacts revenue: through real-time point-of-sale (POS) decisions and improved channel management; expanded risk tiering and innovative pricing; speedy cross-channel deployments of products addressing a wider range of markets than ever before; and data driven selection and targeting of new business and renewal prospects.

- Front-to-back. While the previous generation of insurance IT solutions was deployed primarily for back office processes and decisions, decision management is focused on bringing decision- making capabilities up to frontline functions, particularly POS. Using rules driven automation and intelligent user interfaces, decision management links channels and self-serve websites with the back office and, by improving the quality of inbound data, enables straight-through-processing.
- Business managers in control. Decision management solutions enable business managers to create and modify the rules driving their processes and determining their decisions. With no programming required, changes

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can be made immediately, without consuming precious IT resources, and simultaneously updated across all channels.

- Analytic insights. Decision management rules driven processes easily incorporate data driven analytics. Analytics increase precision in segmentation and decision making by providing clear forecasts of customer behavior. They can also optimize the decision strategies for how a company performs quotations, new business application processing, policy renewal and marketing. An optimized strategy strikes the best possible balance between risk and revenue objectives, given all constraints (resources, schedule, portfolio risk management, etc.) while taking into account market and economic uncertainties.
- Fast, inexpensive development and maintenance. Decision management applications can be developed and deployed 4 to 10 times faster than traditional applications—at 25-80% less cost. This is largely because the rules driving decisioning processes no longer have to be laboriously translated into programming code. Developers can write rules using a business-like language. They can also get users involved by providing them with spreadsheet-like interfaces, tables, graphical trees and web forms that make it easy for nontechnical folks to create and modify rules. Predictive models and optimized decision strategies can be added to rules-driven processes without programming. And rules, models and decision strategies can all be reused for subsequent projects.

While the focus is on revenue generation, decision management solutions for insurance also lower costs. For one thing, by improving inbound data quality, they enable back office systems to operate at full tilt and reduce the need for costly manual review. For another, they can provide enhanced decisioning, callable as a service by legacy systems—improving a claims processing system's ability to detect fraud, for example, or to identify subrogation opportunities. A policy management system could better manage renewals, including the complexities of when to re-tier and re-price, while also identifying the best candidates for cross-selling. Enhanced decisioning could also enable the insurer to save money by gearing renewal campaign effort and expense to the right level given the value of the customer relationship.

This paper explores the revenue benefits of front-end decision management solutions, while also pointing out opportunities for carriers to achieve additional cost savings and efficiencies. All the capabilities described are achievable today with the software and services that make up the FICO Decision Management solution suite.

Making Revenue-Generating Decisions at the Point of Sale

Carriers are intent on increasing the flow of revenue through channels, and decision management provides the means. It makes POS systems really work—fast, uncomplicated interfaces for agents and other POS users combined with straight-through-processing to back office systems means that up to 90% of requests for quotations and new business applications can be handled automatically.

Solving the inbound data problem

A major impediment to straight-through processing has been the poor quality of inbound data. Frequent mistakes and omissions have caused requests for quotations and new business applications to be kicked out of automated flows and queued up for manual review—and that costs time and money.

Decision management solutions solve the problem by validating data up-front to ensure it is complete, within valid ranges/ types and consistent with the ACORD XML object model. Systems should also be able to validate against the carrier's own rules and should provide an easy means for nontechnical business managers to add XML extensions to the industry model.

When inbound data is impeccable, back office systems are able to return quotes in real time and, in many cases, perform underwriting in minutes. Customers often leave the agent's office with a

POS QUOTATIONS AND NEW BUSINESS DECISIONS

The Hartford Insurance Group is gradually moving all of its decision logic onto FICOTM Blaze Advisor®, the world's leading business rules management solution. Blaze Advisor enables The Hartford to combine its own predictive models with rules and other decisioning elements—all without programming—and rapidly deploy the automated decisioning processes to multiple frontline interfaces, including third-party agency management applications (with automatic transformation to/from XML) and a customer self-serve website. Currently new BRM-based processes are being used for real-time POS quotations and new business; soon they'll be extended to renewals as well.

policy number, binder and identification card in hand.

Making it easy to do business

Business rules management (BRM), a key element of decision management, orchestrates POS processes so that they are efficient for both the user and carrier. BRM separates decision logic from application programming code. The business rules (policies, regulations, calculations, etc.) that drive decision making are therefore visible, manageable and editable by nontechnical business users.

At the POS, business rules provide the intelligence behind online forms that ask only relevant questions. Embedded conditional logic dynamically changes questions, fields and formulas based on the data being input and applicable state regulations and corporate policies. Business rules also access data as needed from internal and external sources to prepopulate form fields, minimizing the amount of input required from POS users.

Frontline interfaces should also accommodate users not working online by emailing forms as PDF files. Agents can then complete the forms offline, delegate the task to support staff or even print out hardcopy forms so they can be filled out by hand. Completed forms can then be emailed or faxed back to the carrier. The business rules management system should have the ability to turn faxed forms back into PDFs and also invoke conditional logic to automatically generate follow-up PDF forms with additional questions, where necessary, based on the initial submission.

Increasing decision precision

Predictive analytics can be easily added to rules-driven POS processes, helping existing underwriting systems make more accurate decisions. Many insurers, for example, are already including FICOTM Credit-Based Insurance Scores (sold through credit reporting agencies) as one of the many criteria used in their underwriting strategies. These scores predict insurance loss based on certain types of credit behavior—which have a proven statistical correlation with likelihood of claim submission. FICO also offers prepackaged and customized scores that directly predict loss ratio and loss ratio relativity—these scores are built on a broad foundation of insurance company data.

Risk scores can be used to make rules-based decisions about when to pull credit-based insurance scores from credit reporting agencies and access additional data sources—often the most expensive component in the underwriting process. For example, a company might create a rule that says it will not order MVRs or claims reports on new business applications with a score above a certain point. Below a certain point, it might automatically collect information from additional

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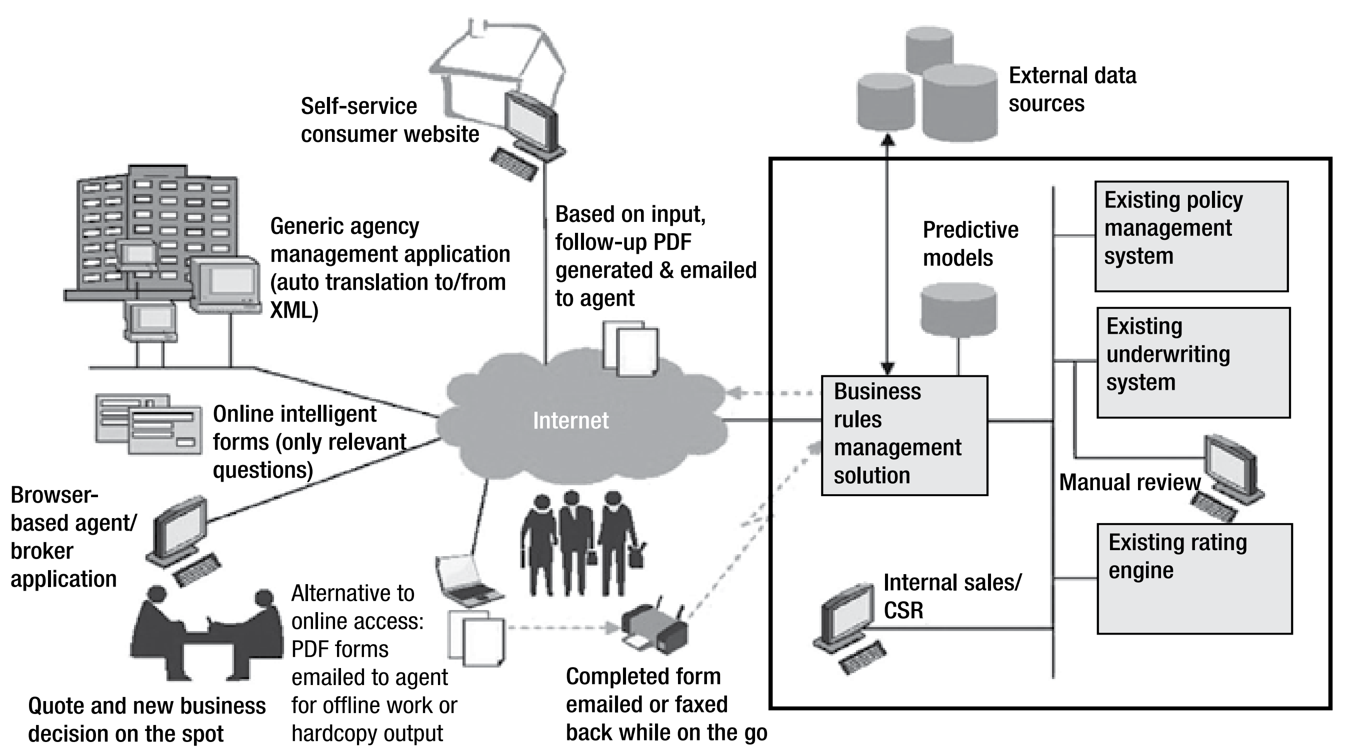
Straight-Through Processing From Point of Sale



Smarter Underwriting

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sources (loss history data firms, for example, collect information on property and automobile loss history), and route the application, based on the score and referral rules, to an underwriter with the appropriate skill and authority level.

Analytics, working in conjunction with up-front data validation, greatly reduces the number of applications referred for manual review. The added insight and clarity brought by additional data sources and predictive scoring also mean fewer applications fall into gray areas; most can be cleanly dispatched one way or the other.

For those that are referred, analytics increase the efficiency of manual review. Underwriters receive all the data and the scores, as well as codes and messages pointing out the reasons the application scored as it did, so they immediately focus their attention where it is required. Rules and scores may also be used, in automated processes or guiding expert staff, for endorsement underwriting and to determine applicant eligibility for payment plans.

BETTER DECISIONS AT FIVE TIMES THE VOLUME

Large personal lines carrier. The company has been able to increase the volume of new business it's writing by four to five times while improving the objectivity, thoroughness and consistency of its decision-making processes. They did it by incorporating credit-based insurance scores as a component in custom models that also look at other factors to predict loss risk. The models, built by FICO, are deployed in the carrier's mainframe-based underwriting system, which delivers web-based POS decisions to a network of independent distributors.

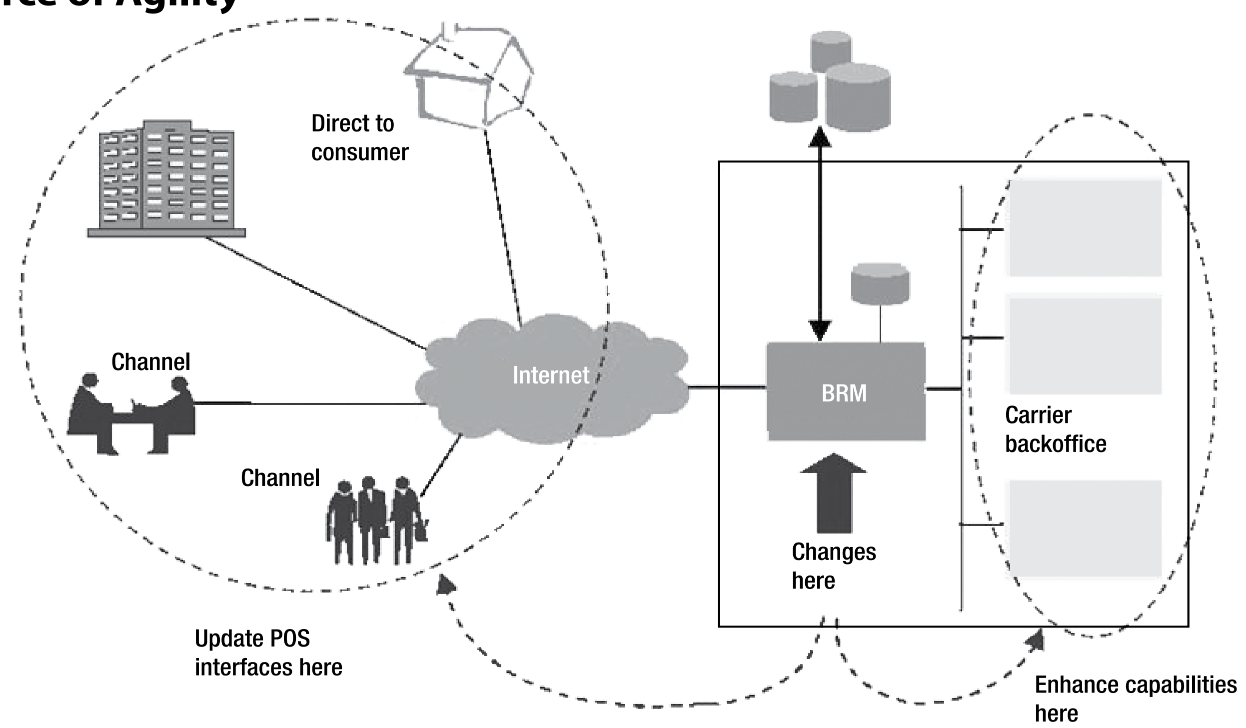
The senior executive in charge has this to say:

"If a company wants to grow rapidly and have confidence that the new business selection is solid, the only way it can be done is with analytics."

Improving performance at both ends

While in some cases insurers are choosing to move their entire underwriting process onto a decision management platform, new solutions

Source of Agility



can also be used with existing back office underwriting systems. When deployed in this way, decision management becomes not only a source of agility at the POS, it's also a means of increasing the agility of legacy applications. Existing systems can call the new BRM-based decisioning processes and analytics as services—as shown in the adjacent graphic. This approach extends the lifecycle and ROI from major investments while minimizing technical risk.

Getting a Better Handle on the Channel

Channel management is greatly improved by eliminating the productivity losses and friction caused by constant calls and emails from carriers trying to track down missing information and correct mistakes. In addition, since underwriters are focused on fewer applications, those that truly require their expertise and discretion, they have more time. They can use it to make the right kinds of contacts with agents, brokers and other channel partners—contacts aimed at improving and nurturing valuable relationships. They also have some additional tools to do it with: a review of the scores derived from the applications submitted by an agency can assist in the evaluation of the quality of the business being submitted, and provide valuable insights into how the carrier can work with the agency to improve it.

Multiplying Profits and Markets Through More Accurate, Innovative Pricing

Predictive analytics and rules are being used in conjunction with existing rating engines to improve pricing accuracy and flexibility. FICO's own experience in building analytic models for the insurance industry suggests that many insurers are "leaving money on the table" for their existing book of business through imprecise pricing. In addition, increased precision enables insurers to price coverage in ways that expand the range of risks they are willing to write, allowing increased market penetration and entry into new markets.

Republic Indemnity, a division of Great American specializing in workers' compensation, is using business rules management for POS quotations and new business. The company's real-time solutions include dynamic forms, which it built with the assistance of FICO. Nontechnical managers can now make changes to decisioning rules themselves—in one central place, with no programming required. The decision logic in the browser-based forms used by Republic's agents are then automatically updated. Now there is no lag time between changing policies and deploying them, and consistency is guaranteed.

Kemper Insurance replaced its mainframe-based, rules-driven underwriting system with a decision management solution that provides more flexibility to modify underwriting guidelines and apply them consistently across channels in real time. The solution also incorporates FICO predictive models for forecasting loss ratio. As a result, Kemper has attained its goal for reducing underwriting losses along with an 8-point drop in its combined loss ratio. Underwriting staff have also been freed up to spend more time focusing on book management and agency performance.

Kingsway Financial had merged five companies under its banner, each with its own underwriting system. Taking a decision management approach, Kingsway now maintains underwriting rules for all five systems in a single, central repository. Business managers for each company can access the repository to add or change their own rules using their own unique GUI. At the same time, corporate-wide rules can be implemented once and applied to all.

Other carriers who have adopted FICO solutions for underwriting: AAA Michigan, Acuity, AIG, AXA Insurance Co., Erie Insurance, Fiserv AIS, Guardian Life Insurance Company, Harleysville Insurance, The Hartford, John Hancock Mutual Life Insurance, Kingsway Financial, Liberty International Holdings Company, Nationwide Insurance.

Using Real-Time Loss Forecasts to Drive Real-Time Rating

The very data that contribute the most value to a forecast of loss ratio relativity is data typically not found in industry rating methodologies. This data is among the key characteristics analyzed by FICO insurance risk scores however. Moreover, it is possible to combine risk scores with credit-based insurance scores and other types of characteristics to help create tiers that reflect not only risk but consumer behavior and price sensitivity also.

It should be noted that risk scores are not a methodology in themselves for creating multi-tier pricing structures nor a replacement for the actuarial methodology practiced by insurance companies and required by many states in rate filing. On the contrary, scorecards should be used to improve the precision of existing rating methodologies or to provide the pricing flexibility needed to accomplish strategic objectives for growth or market expansion.

Predictive modeling is a natural complement to rating processes, in fact. Scores are generally output in numeric rank order, which lends itself well to tier assignment. By setting granular score cutoffs and combining these with tiering rules, carriers can determine the number of tiers by product and refine tiering based on market and loss experience.

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Below is a very simple hypothetical example of how score range could be divided into a six-tier price structure with implied loss ratio relativity, which could then be mapped to an existing or proposed tier structure.

This table contains data representing a strategy to move from a three-product price structure (sub-standard, standard, preferred) to a one-product structure with six price tiers.

Price tier	Selected score range	Loss ration relativity	LR index relative to Tier 3	Proposed tier factor	% earned premium
1	184 & up	0.73	0.87	0.87	11.9%
2	172 to 183	0.77	0.92	0.92	11.0%
3	160 to 171	0.84	1.00	1.00	14.7%
4	150 to 159	0.99	1.18	1.18	11.9%
5	141 to 149	1.07	1.27	1.28	13.0%
6	130 to 140	1.08	1.29	1.28	12.9%
7	115 to 129	1.19	1.42	1.40	12.9%
8	Below 115	1.34	1.60	1.60	11.7%

One of the advantages of using a predictive scorecard as part of a tiering algorithm is that the in-force book of business can be scored and the impact of the new rate program assessed. Scores can then be correlated to rate level, resulting in the net written premium impact—actual dollar value increase/decrease. The book of business could also be analyzed and segmented to identify trends and determine their impact.

Here is a simple simulation of the benefits that could be attained from introducing a predictive model and expanded tier structure into a personal lines auto book of business.

15%	200+	0.87
20%	<200	0.92
30%	<178	1.00
20%	<152	1.18
10%	<133	1.29
5%	<114	1.42

These data were then applied to a development database of over 10 million records to compare the two strategies.

The results are show in the table below:

Three products / three prices	148,963,085	200,040,302	74.5%	27.00%	101.5%
Single product six-tier pricing structure	148,963,085	207,544,861	71.8%	26.02%	97.8%

For simulation purposes, it's assumed that many variables remain constant across the comparison. Yet among the factors likely to change are growth rates. New business booking rates and revenue would both be expected to rise, given the expanded tier strategy would give the insurer an automobile product with price points covering a larger segment of the population and geared to consumer willingness to pay.

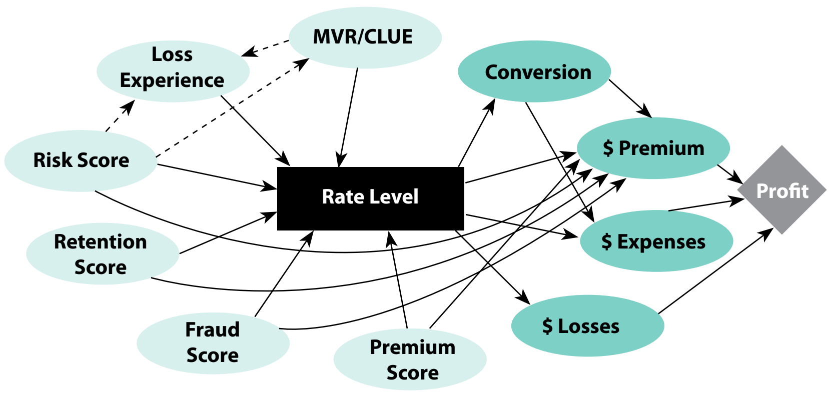
Optimizing Decision Strategies

There is another type of analytics that can be applied to risk tiering and pricing, and which will produce even larger gains (typically 5 to 35% over predictive analytics alone). Decision analytics enables companies to leap over the months of testing and iterations typically required to approach optimal strategies—and get to optimal sooner.

Shorter time to optimal is a substantial advantage in a rapidly changing market. If it takes many months to refine a strategy, conditions may have already changed by the time optimal is reached. Many companies are forever chasing optimal while operating at suboptimal levels. Decision analytics enables companies to get there right away and operate at a high level longer—reaping the rewards—before conditions change.

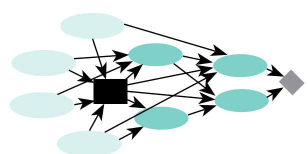
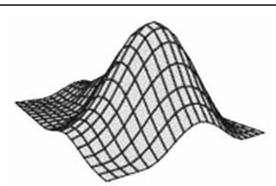
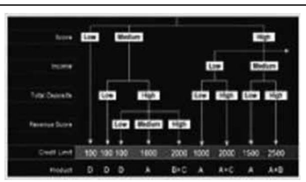
How does decision analytics work? A decision model is created by mapping the mathematical relationships between all the factors that go into a tiering decision aimed at an overall goal, such as maximizing profits. The model can incorporate any number of scores (credit, loss ratio relativity, response, retention, fraud, and so forth) as input along with numerous other criteria. It finds the best possible tradeoffs between competing objectives (maximum revenue, minimum losses, and so forth.) within specified constraints (such as resources, schedules, regulatory and policy requirements), and can also build in allowances for ranges of market and economic uncertainty. A simplified example of a decision model for tiering might look like the "Sample Tiering Decision Mode 1" exhibit.

Sample Tiering Decision Mode 1



The decision model is part of a multi-step process, which is summarized in the table:

Multi-Step Decision Process

Decision model		Simulates different rate levels and their impact on profit
Optimization software		Finds the optimal rate level for each customer
Strategy trees		Used to translate individual optimal rate levels back into an optimized class plan (that can be filed)

Strategy optimization not only lifts results, it also accelerates learning and the rate of continual improvement. New generation systems, for example, provide graphical tools (depicted in the third row of the table on previous page) that enable insurance analysts to explore how the optimal strategy is constructed, test the sensitivity of various "levers" on the performance objective, change variables, experiment with tradeoffs and ranges of uncertainty, and run numerous simulations very quickly to see alternative futures. Through this type of exploration, analysts can improve their understanding of and control over the pricing dynamics of their business.

Facilitating Profitable Renewals

Decision management solutions can be used to segment a carrier's book of business with granularity that facilitates automate renewal processes and precisely targets policyholders with effective terms and packages. The results improve both sides of the balance sheet: higher renewal rates at less cost.

Renewal strategies, for example, can incorporate criteria based on account payment and claims records as well as various risk scores (credit, loss, retention). Rules then automatically pull policyholders matching these criteria and assign them appropriate treatments before routing the renewal offer to the agent or broker. (Carriers may also save money by gearing the level of the renewal effort to the value of the customer relationship.)

As shown in the next graphic, rules can be used to make intelligent automated decisions about when to order external reports (when data is missing or has passed a specified shelf-life). They can manage the complexities of whether or not to re-tier (in states where allowed) and when to make a call to the rating engine (such as for surcharges, credits).

Expanding the Market by Tightening the Target

Increased segmentation, through analytics and rules, is also advantageous in marketing. Analytics provide insights that are enabling some insurers to extend into new markets previously regarded as too risky. Analytics can also be used in cross-selling existing policyholders and in new business acquisition.

A custom model can be created, for example, that enables carriers to identify the best candidates for life insurance among their auto and homeowner policyholders. Rules then distribute that information through the channel.

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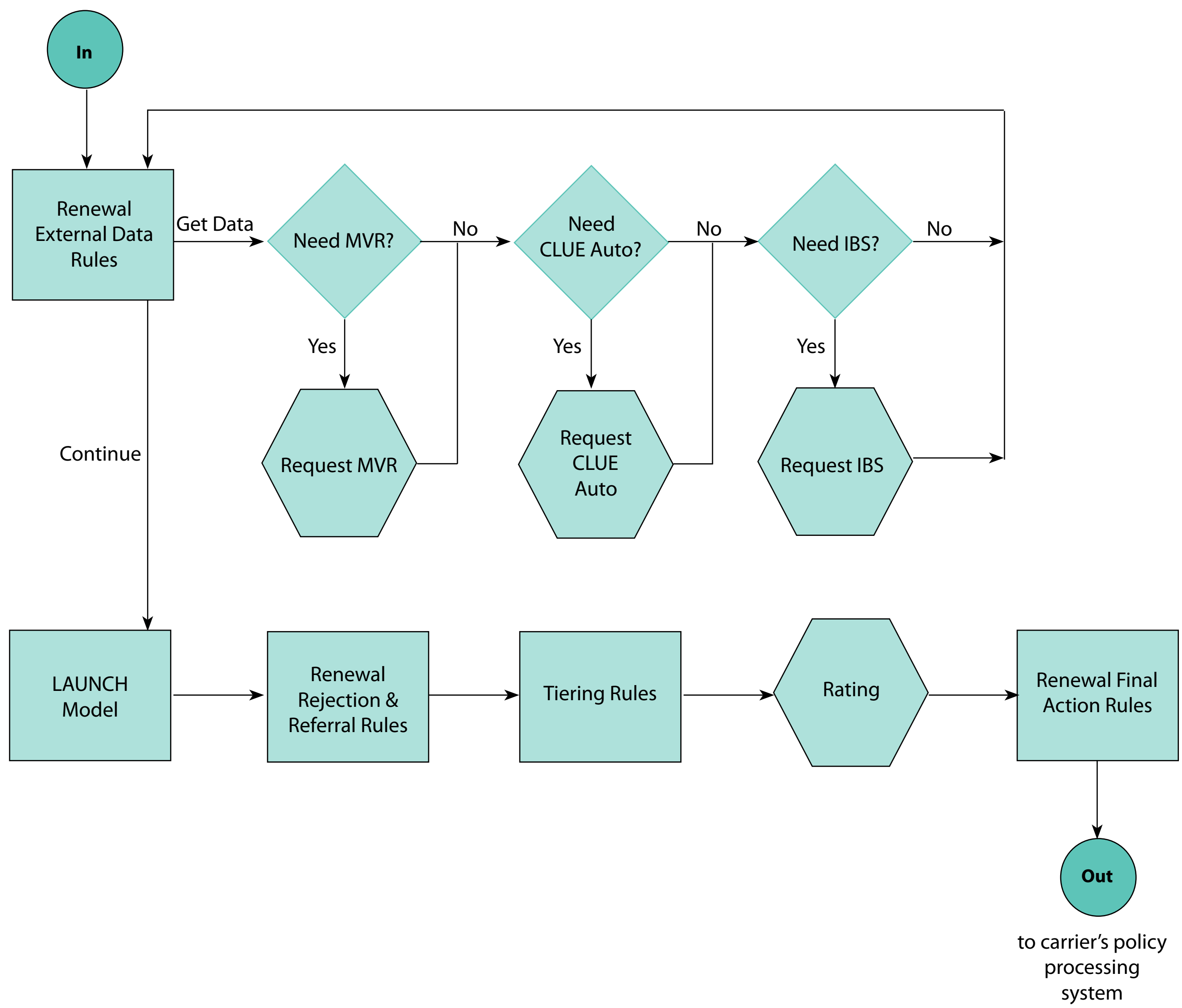
Sample Renewal Automation Flow



In new business, carriers can use analytics to make finer distinctions between market segments. Loss scores can reveal significant differences between applicants that appear to have similar risk or show hidden opportunities, such as willingness to pay more, that make additional risk worth taking on.

Analytics can be combined with experimental design and systematic internet-based pre-market testing to determine the most effective product feature sets and rate levels for the target segments. The result, as depicted below, is faster time to market for offers that have a high chance of succeeding at rollout.

Processing Claims with More Accuracy and Less Cost

The insurance industry has become highly efficient about processing claims in a timely manner. Adding flexible business rules management and powerful analytics to existing claims processing systems can increase

DON'T OVERLOOK THE BASICS

While business rules can be combined with sophisticated analytics to perform precise market segmentation and targeting, they can also be used in a more prosaic way to attract and engage potential new customers.

GEICO, for example, found that 9 out of 10 visitors to its self-service website were abandoning the quote process before completion. Using business rules, the site now intelligently directs the online quote process, asking only relevant questions in the context of driver risk class and state regulations. Today 50% of visitors stay long enough to receive their quote.

Samsung Fire & Marine Insurance wanted to attract a younger generation of insurance buyers. They used business rules management to create an online buying guide that makes personalized product recommendations to youthful customers based on their profiles and on-site behavior. Rules also analyze customer interests in the company's various products and provide data to marketing teams. These nontechnical marketing folks can change how the site interacts with users and what products it recommends by changing the rules, all by themselves, on a day-to-day basis if necessary.

speed and efficiency even further while reducing mistakes and costs.

Decision management solutions, for example, can be used to create subsystems that work with claims edit applications. These subsystems can perform additional automated validation and ensure consistent application of company policies and state regulations. Rules can also guide claims processing specialists in handling exceptions according to best practices or in sensitive situations such as claims for death benefits.

Analytic models can be added to rules-driven processes to detect possible fraud, identify exceptional claims requiring special attention and spot opportunities for subrogation. For a workers' compensation carrier, for example, combining analytics with business rules

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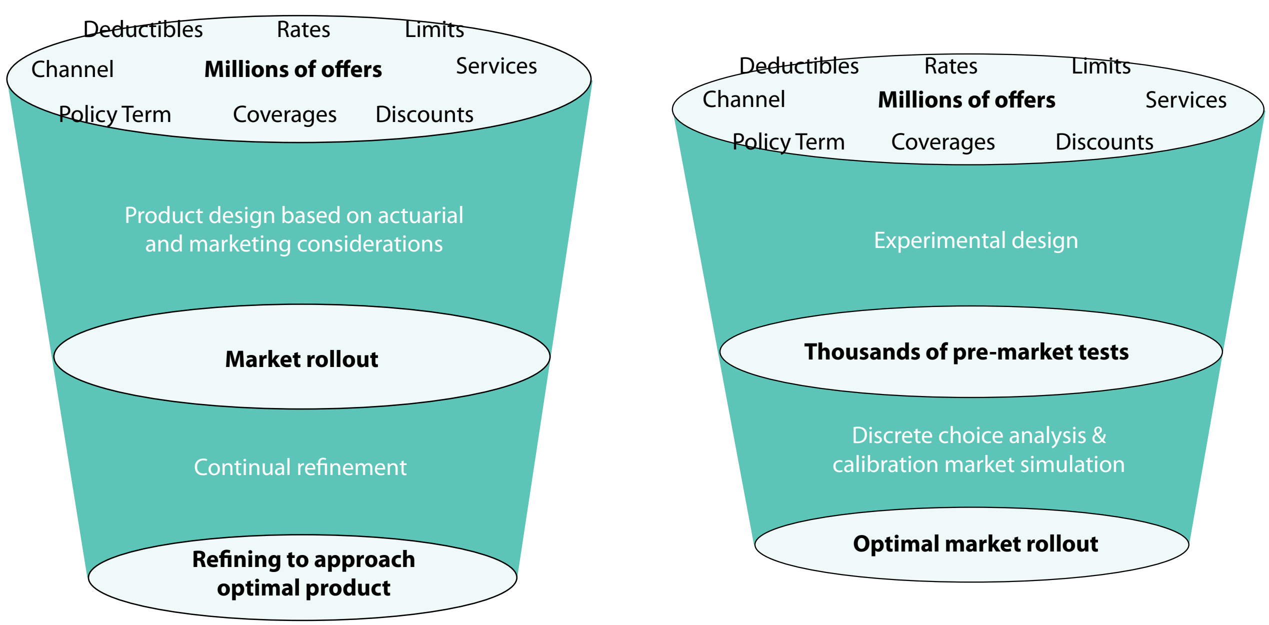
Analytics Fine-Tune Targeting



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CONSISTENT EXCELLENCE

Prudential Life Insurance is using business rules management to handle all aspects of death benefits claims handling. From a single interface, the claims department can control call scripting, data acquisition and data validation—and make changes in any area in just minutes. The benefits include lower costs and training time, improved regulatory compliance and customer and employee satisfaction.

management can boost the number of exceptional claims identified from the industry average of about 20% to up to 60%. In subrogation, predictive models can identify the 10-15% of claims with highest recovery potential within 24 hours of receiving accident reports. The models recognize even subtle subrogation signals that might otherwise be recognized late in the claim lifecycle, after a statutory filing deadline or perhaps never at all.

Conclusion: Decision Management Is the Next Step

The application of decision management to the insurance business is potentially quite broad—but it starts at the point of sale. Most carriers are intent on solving the inbound data problem because it affects nearly everything else. Once the quality of inbound data is reliable, carriers can boost automation levels, derive full benefit from back office systems and better utilize staff resources. At the same time, a straight-through-processing environment powered by flexible business rules and analytic intelligence permits highly competitive carriers to move beyond the status quo to innovative pricing, new markets and higher levels of profitability.

No matter where an insurance company currently is in its use of automation and analytics, Decision management offers a natural next step. It builds on the efficiencies already gained in the back office, enabling carriers to bring them forward to the point of sale for accurate, consistent real time decisioning. Companies new to decision management may want to start with business rules management. Predictive analytics can then be added into these processes to lift results further. Decision analytics, incorporating all predictions and all other decision factors into an optimal strategy, offers even higher levels of performance and profitability.

About FICO

FICO (NYSE:FICO) delivers superior predictive analytics solutions that drive smarter decisions. The company's groundbreaking use of mathematics to predict consumer behavior has transformed entire industries and revolutionized the way risk is managed and products are marketed. FICO's innovative solutions include the FICO® Score—the standard measure of consumer credit risk in the United States—along with industry-leading solutions for managing credit accounts, identifying and minimizing the impact of fraud, and customizing consumer offers with pinpoint accuracy. Most of the world's top banks, as well as leading insurers, retailers, pharmaceutical companies and government agencies, rely on FICO solutions to accelerate growth, control risk, boost profits and meet regulatory and competitive demands. FICO also helps millions of individuals manage their personal credit health through www.myFICO.com. Learn more at www.fico.com. FICO: Make every decision count ™. ■

The NCCI Split Point

by Kevin Ring, CWCA, MWCA, CBWA

Kevin Ring, CWCA, MWCA, CBWA, is the Institute of WorkComp Professionals' lead workers' compensation analyst. He joined the Institute in 2003 after a stint as a systems manager for a mid-size manufacturing company.

A licensed property-casualty agent, Kevin has an affinity for making the technical simple, whether it is computers or insurance. His technical workers comp skills have helped Certified WorkComp Advisors (CWCA) through sticky situations (including analyzing a sixty-eight-page mod sheet). Kevin regularly works with CWCAs to deepen their knowledge of the Institute process, and he provides expert guidance on premium audits, experience mods, and injury management.

Kevin's articles have been published in insurance trade publications such as Risk & Insurance, Insurance Journal, Insurance Record, and Best Practices in Compensation & Benefits; in publications of various Independent Insurance Agents & Brokers of America (Big I) state associations and of the International Association of Industrial Accident Boards; and in business journals including Verizon Small Business, Crain's Tire Business, Grading & Excavation Contractor, The Enterprise (Salt Lake City, Utah), Workforce Management, Industrial Distribution, and Concrete Contractor.

Summary

Beginning in 2013, states that rely on the National Council on Compensation Insurance (NCCI) for workers compensation are changing the primary/excess loss split point. The split has been at $5,000 since 1991. In 2013, it will be jumping to $10,000. The year 2014 will see the split increase to $13,500, and it will increase to an estimated $15,000 in 2015. This change will have a minimal impact on the majority of insureds but has the potential to have a dramatic impact on some. All experience-rated companies need to know what is changing in order to take advantage of the changes.

California, Pennsylvania, Delaware, and New Jersey have experience rating plans that vary widely from the NCCI plan and are unlikely to make any changes.

Back in 1991, NCCI rewrote the experience rating plan that determines your experience modification factor. At that time, the formula counted the first $5,000 of each of your employee injuries 100 percent in the experience mod, while all money over $5,000 was discounted based on what you do and how much you pay your employees.

Back then, the average cost of an employee injury in the workers compensation system was about $3,000. Since that time, that cost has increased to almost $9,000.

This drastic change has created a situation in which experience mods aren't as effective as they should be. The experience mod is designed to be a predictive indicator of future injuries 100 percent in the experience mod, while all money over $5,000 was discounted based on what you do and how much you pay your employees.

Rather than make a single drastic change, NCCI has decided to

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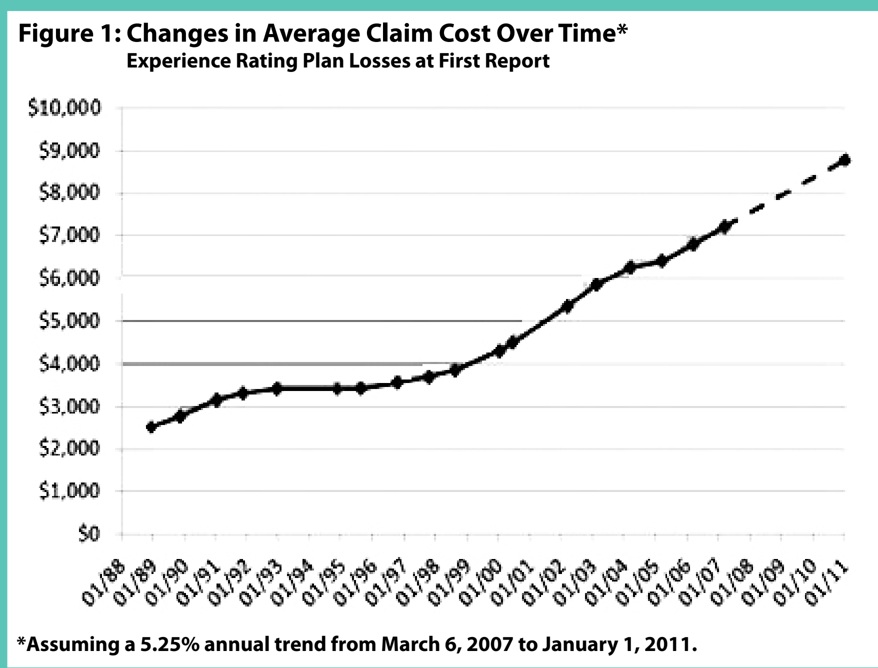

Figure 1 (Source: NCCI)

The NCCI Split Point

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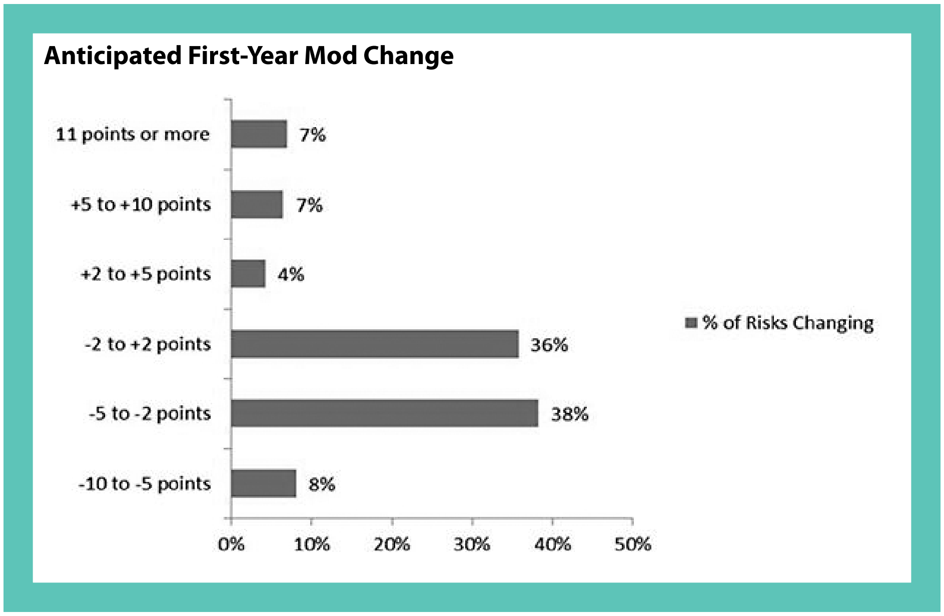

Figure 2 (Source: NCCI)

transition to what it considers the appropriate split point over three years. In 2013, it will go to $10,000; 2014 will see the split point increase to $13,500; and, finally, in 2015 it is estimated it will reach $15,000.

The 2015 value is estimated because that value will be set based on the actual average cost of an employee injury at that time. Going forward, it is planned that the split point will change every year as the average cost of an employee injury goes up or down.

This change will not be occurring on January 1 in all states. The change will take effect on the date that each state regularly approves changes to the rating values that determine the experience mod.

What does this mean to employers?

This change will have a dramatic impact on employers' experience mods, but what that impact will be depends completely on their history of employee injuries.

NCCI estimates that 78 percent of experience mods will change ±5 points as a result of this change. The drastic changes will be in the best and the worst mods. If your experience mod is already high, it is likely that it will increase even more. Seven percent of mods will increase more than 11 points!

What does this not mean?

As you can see in the previous chart (Fig. 2), this change does not mean that every experience mod will increase. As the split point goes up, the D-ratio, which determines your expected primary losses, will also be increasing.

NCCI has stated that this change will be "premium neutral" across each state. The goal of this change is not to increase the premium that employers pay, but rather to assist insurance companies in determining the proper amount to charge an employer for its insurance coverage.

How can employers take advantage?

One side effect of this change is that virtually every employer will have a lower minimum experience mod. The minimum mod is the lowest that an experience mod can be in a given year. To reach the minimum mod, an employer would have to have a record of zero employee injuries during the period of time that is included on the experience mod. Even if an employer isn't at (or even close to) its minimum mod, it's critical that the employer knows what it is because it gives the employer a target to aim for. Achieving the minimum mod can drastically change the amount of money an employer spends for workers compensation insurance and allows it to allocate that capital in other parts of its business.

Summary

The split point change creates an opportunity for employers to take greater control over their workers compensation costs than ever before. The changes are dramatic and lasting; the split point will change every year going forward, barring further changes to the experience rating plan.

Help employers take control over their workers compensation costs, and seize the opportunity that the split point change presents. They will reap the benefits of lower workers compensation premiums, and you will have clients for life! ■

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