WHITE PAPER

The Road Ahead: Front-to-Back Commercial Underwriting

Changing Times for Commercial Underwriters: How Front-to-Back Transformation Enables You to Lean into the Curves

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Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

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We are excited to launch this new publication as part of our Property and Casualty (P&C) Underwriting Excellence series, featuring BCG perspectives on how to navigate through the most relevant big changes P&C carriers are facing through Front-to-Back based transformational approaches. We offer guidance on business, financial, technology, and organizational strategies for today and the years to come.

Introduction

Property and Casualty Commercial Underwriting can be a bit like driving in the fog: it's not easy to see what lies ahead. Anticipating risk becomes even more difficult when the road throws up unexpected twists and turns.

Navigating this path may be tougher now than ever before. The Insurance industry is experiencing its longest hard market period: 26 consecutive quarters of rising premiums and tightening underwriting standards. And these aren't the only pressures underwriters face. Others include:

- **Rising litigation,** which affects liability lines' performance and brings "social inflation";
- **Supply chain disruption and complexities,** resulting in higher property restoration costs, business delays, and more difficulty for underwriters who are striving to accurately estimate and manage losses;
- **Changing risk types,** as extreme weather and cybersecurity are now high on the list of concerns;
- **New technologies** including generative AI, which are reshaping underwriting processes as well as how underwriters work; and
- **Hiring and retention challenges,** as insurance firms struggle to attract and retain qualified workers.

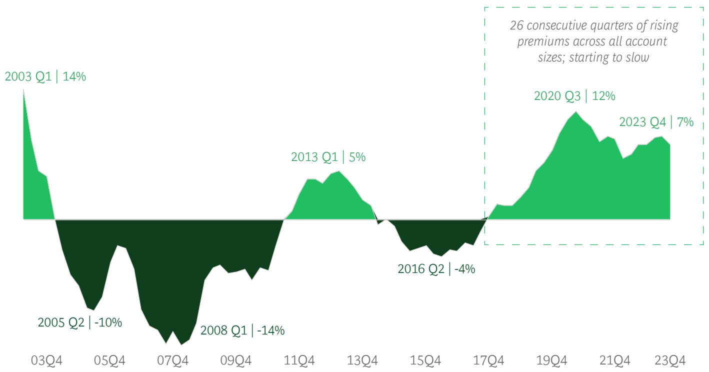
The forecast isn't all bad, however. Looking ahead, we see patches of blue, signaling a softer period coming soon. Commercial property insurance increases are slowing down, while Directors and Officers' (D&O) rates have consistently diminished in recent years. In the third quarter of 2023, price increases shifted into negative numbers – meaning, D&O rates aren't going up, but down – for the first time since 2017 (exhibit 1).

Now may be the perfect time to regroup and tackle the strategic tasks that you may have been putting off. To get ahead of the market, carriers should aim to boldly redesign their Underwriting by adopting Front-to-Back based transformational approaches, rather than relying on isolated business and technology piecemeals. Holistic F2B transformation will have you uniquely ready for the "new normal" that lies just around the bend.

In this paper, we'll explore in detail the big changes Underwriters face, and how a Front-to-Back transformation will enable you to lean into these curves.

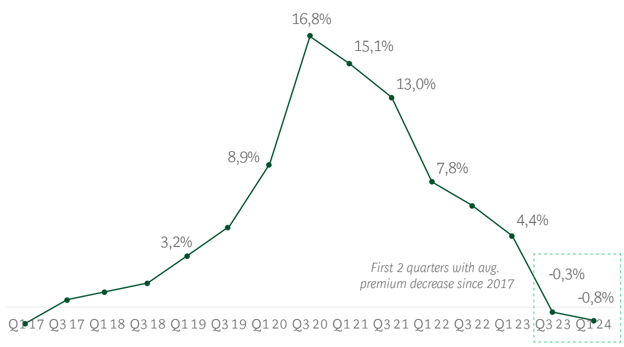
Exhibit 1 - Sky-High Commercial Underwriting Premiums Are Coming Back to Earth

Commercial P&C insurance pricing increases slowing down after a long hard-market period …



LOB (Line of Business)
Source: The Council of Insurance Agents & Brokers; Marsh Specialty and Global Placement; BCG.

… while premium increases for Directors and Officers' (D&O) have fallen sharply …



D&O (Directors and Officers)
Source: The Council of Insurance Agents & Brokers; BCG.

… underscoring the need to act and address the Big Changes and Challenges that Commercial P&C underwriters are facing.

Social inflation due to rising litigation

Complex client supply chains

Changing risks types: Extreme weather conditions and cyber risks

New technologies' disrupting and reshaping operating models

Challenges in talent attraction and retention

Social inflation due to rising litigation

Social inflation continues to soar. US liability claims costs have risen an average of 16% in each of the last five years, much higher than the 4% annual economic inflation rate.

Third-party litigation funding is one reason for the rise in lawsuits. This funding, in which investors pay litigants' legal fees in exchange for a share of the judgment or settlement, is expected to more than double by 2032 in the US to around $10 billion, fueling a surge in lawsuits (exhibit 2).

US securities class actions have multiplied, too, also because of third-party backers. The number of these class actions also more than doubled between 2014 and 2019. The COVID-19 pandemic slowed this trend, but class actions began increasing in number again in 2023.

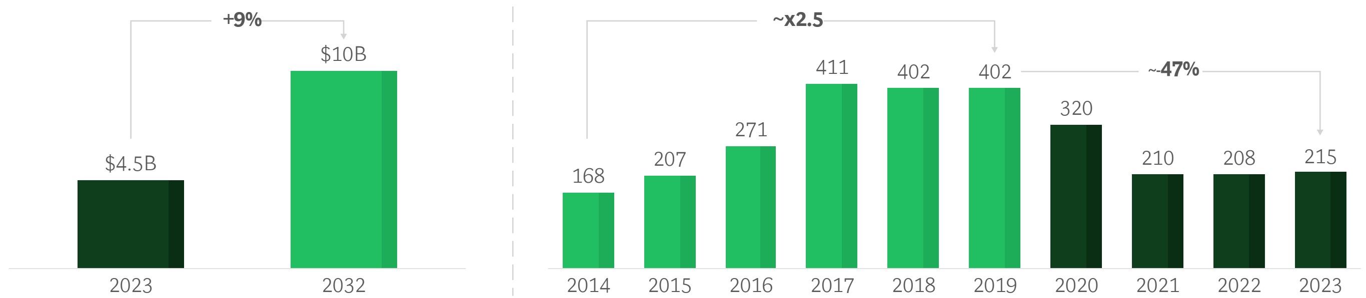
To weather the costs of all this litigation, insurers are setting aside additional liability reserves. To do so, however, they must dip into other reserve funds. Commercial auto liability and general liability lines of business have been the hardest hit so far. Since 2013, these lines' reserves have lost $16 billion and $17 billion respectively, reducing their combined ratios, on average, by 6.37% (auto) and 2.45% (general).

Clearly, the industry needs alternative, creative responses to these litigation threats. As we'll see, data can be an effective tool for minimizing your commercial clients' risk as well as your own.

Exhibit 2 - US market impacts of increasing third-party litigation funding

Third-party litigation funding in the US is expected to grow by 9% annually…

…Contributing to the fast rise in US securities class actions between 2014 and 2019. 2023 shows the trend resuming post-COVID-19

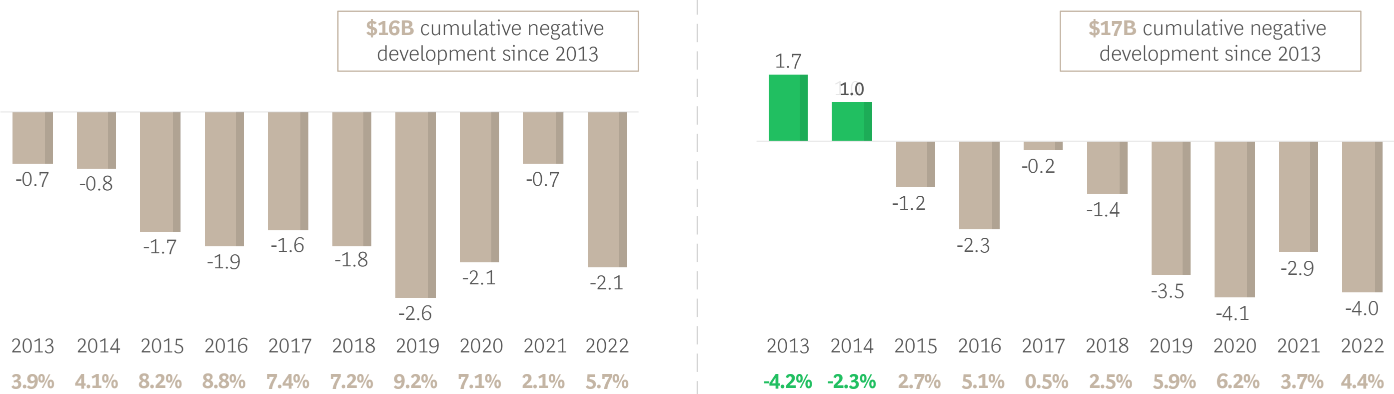


Sources: Swiss Re Institute, S&P Capital IQ, Dowling & Partners, BCG analysis.

Challenges to setting suitable liability reserves are especially formidable in Commercial Auto Liability and General Liability, the lines of insurance most impacted by social inflation

Commercial Auto Liability reserve development ($B)

General Liability reserve development ($B)



Impact on Other Liability combined ratio (%)

Impact on General Liability combined ratio (%)

Sources: III, NAIC, BCG analysis.

Complex client supply chains

Business globalization has made supply chains incredibly complex. A single disruption could trigger a literal chain reaction that, ultimately, hinders a business's ability to fulfill orders or perform services on time.

Globalization also makes the supply chain more vulnerable to geopolitical events. For example:

- **Upcoming elections** in the US have provoked uncertainty, as regime changes often bring policy changes that could affect enterprises in their supply chain models.
- **The Russia-Ukraine** war brought about rises in the price of oil and gas, and limited the production of wheat and barley, causing food prices to rise, as well.
- Tensions between the **United States and China** have affected global trade.

Extreme weather, too, can cause supply chain shortages, disruptions, and price increases. Accidents, climate-related or not, can do the same. The collapse in March 2024 of Baltimore's Francis Scott Key Bridge had an enormous effect on auto industry logistics and distribution, for instance.

These and other supply chain issues have caused property restoration costs to rise. Estimating and managing business interruption losses have become more challenging, too. But, as we'll see, there are ways to untangle the knots in the supply chain as well as to strengthen it.

Changing risk types: Extreme weather conditions and cyber risks

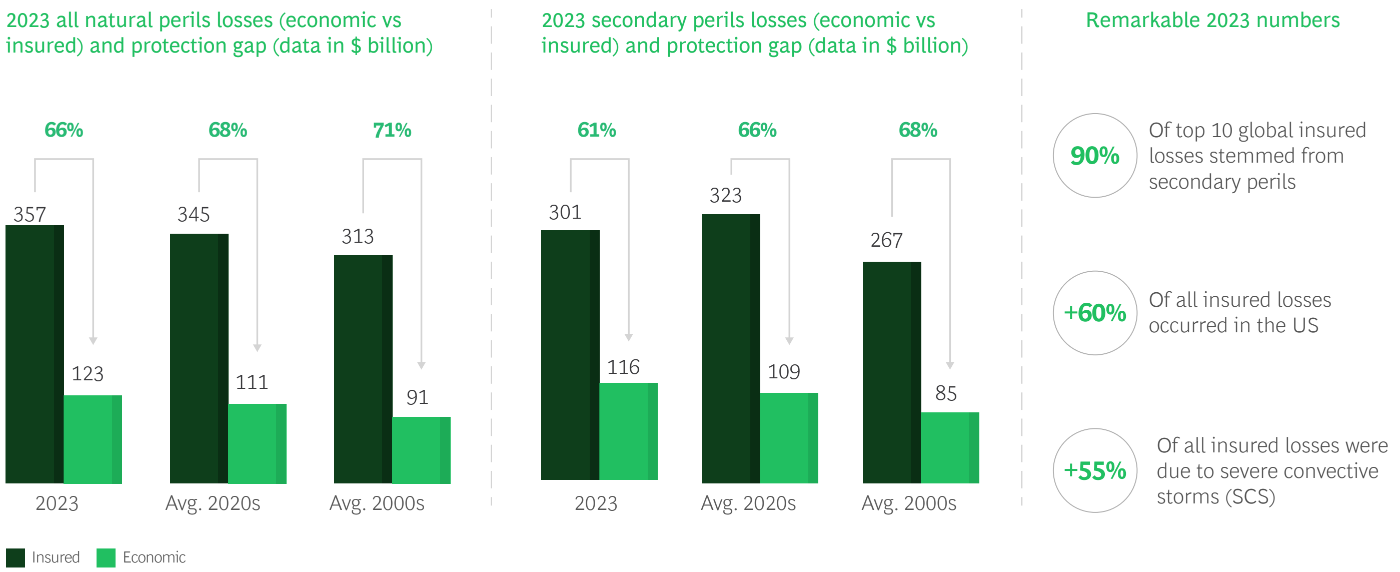
Climate change risk rise being backed by secondary perils

Climate change has long been on insurers' radar. This industry well understands the potential for large-scale losses as extreme climate events occur more frequently. Floods, storms and other "secondary perils" are now dominating weather events (exhibit 3).

Typically associated with low-to-medium impacts, these secondary perils are changing the insurance underwriting game. Unlike earthquakes, tsunamis, volcanic eruptions and other primary perils, weather-related events deemed "secondary" can arise and worsen suddenly, with little or no warning. And they are costing more than before.

"Expect the unexpected" is becoming the new normal. Secondary perils are taking insurers by surprise. To adjust, underwriters will need to re-think their classifications and responses, and price accordingly.

Exhibit 3 - Secondary perils are dominating the global catastrophe risk list



Sources: Natural Catastrophe and Climate Report 2023 Gallagher Re.

Climate events pose a distinct threat to commercial insurance profits. Insurers must educate themselves to better understand and underwrite property risks. If not, their bottom line will suffer, perhaps significantly.

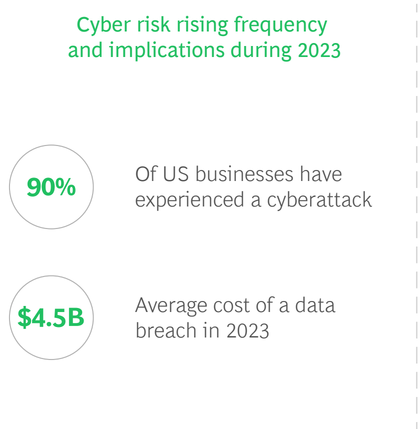
Our recent publication, "Insurance Innovation in the Eye of the Storm," explains in detail the art of underwriting in the climate change era, including:

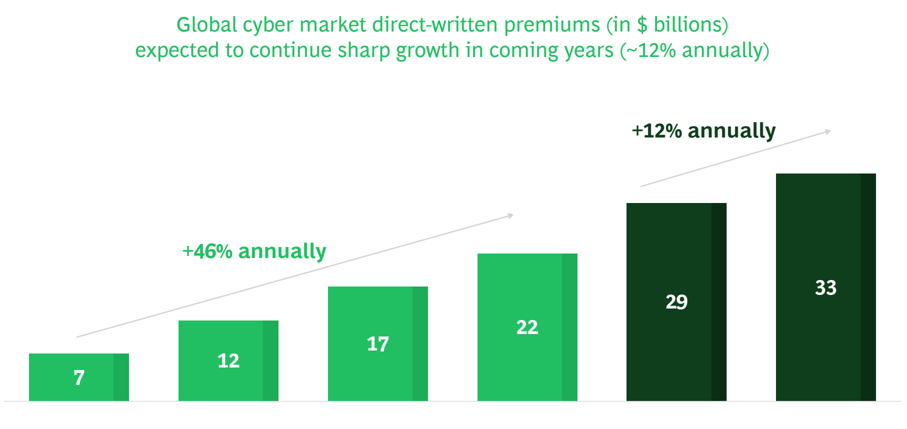
- Creating products for faster and more effective natural catastrophe response
- Using data analytics to better understand, predict, and set a value on risks
- Innovating ways to prevent and mitigate risks
- Finding alternative capital sources and structures, and reporting how this capital is used
- Forming collaborative partnerships

Cybersecurity risk is constantly rising.

Digitization brings not only rewards, but also risks—chief among them, cyber risk. As a result, the cyber insurance market has grown tremendously. Direct-written cyber insurance premiums rose more than threefold between 2020 to 2023 and will continue increasing at double-digit rates, presenting enormous opportunities for commercial insurers (exhibit 4).

Exhibit 4 - Global cyber market overview





Sources: Life Insurance International, BCG analysis.

Cyber risk exposure keeps going up, with no end in sight. In 2023, more than two-thirds (68%) of US businesses experienced a data breach or cyberattack in 2023, at an average cost of $4.5 million.

A recent two-tiered attack on software provider CDK Global hit some 15,000 North American auto dealerships, for instance. Victims suffered losses and delays business-wide, including sales, financing, vehicle maintenance and repair, and other departments.

The need for commercial cybersecurity insurance is becoming crucial for enterprises of every size and stripe. Savvy insurers are seizing the day, creating and underwriting new and specialized cyber products and policies that provide effective coverage for their business clients.

New technologies' disrupting and reshaping operating models

That car you've been driving in the fog has become, suddenly, a rocket ship, able to move incredibly fast thanks to disruptive new technologies such as AI and GenAI.

GenAI is already disrupting how commercial insurance carriers do business along their different value streams. Underwriting, in particular, has seen procedures and processes change quickly and significantly (exhibit 5).

Exhibit 5 - GenAI use cases along insurance value streams

Value Chain	Product Development	Underwriting	Servicing	Claims & Benefits Management	Investment Management
Emerging GenAI Use Cases	Hyper-personalization of products, based on customer profiling	Underwriter co-pilot	Chatbot for customers and employees	Claims adjustor co-pilot	GenAI-based scenario generation for risk modeling
	Product exposure review and visualization	Personalized policy language generation	GenAI regulatory filing, reporting a nd compliance	Rapid fraud detection and visualization	GenAI-based portfolio optimization
Emerging Impact (estimates)	**60x** Time reduction for data provisioning	**>80%** Time saved for document review	**>50%** Reduction in contact center costs[3]	**>80%** Accuracy for damage legitimacy assessment	**+80%** Increase in Sharpe ratio compared to reference[5]

Adapting to these changes – especially trendy GenAI – may feel impossible, but it is not. We see six main use cases where underwriters can use GenAI to serve customers more effectively and efficiently.

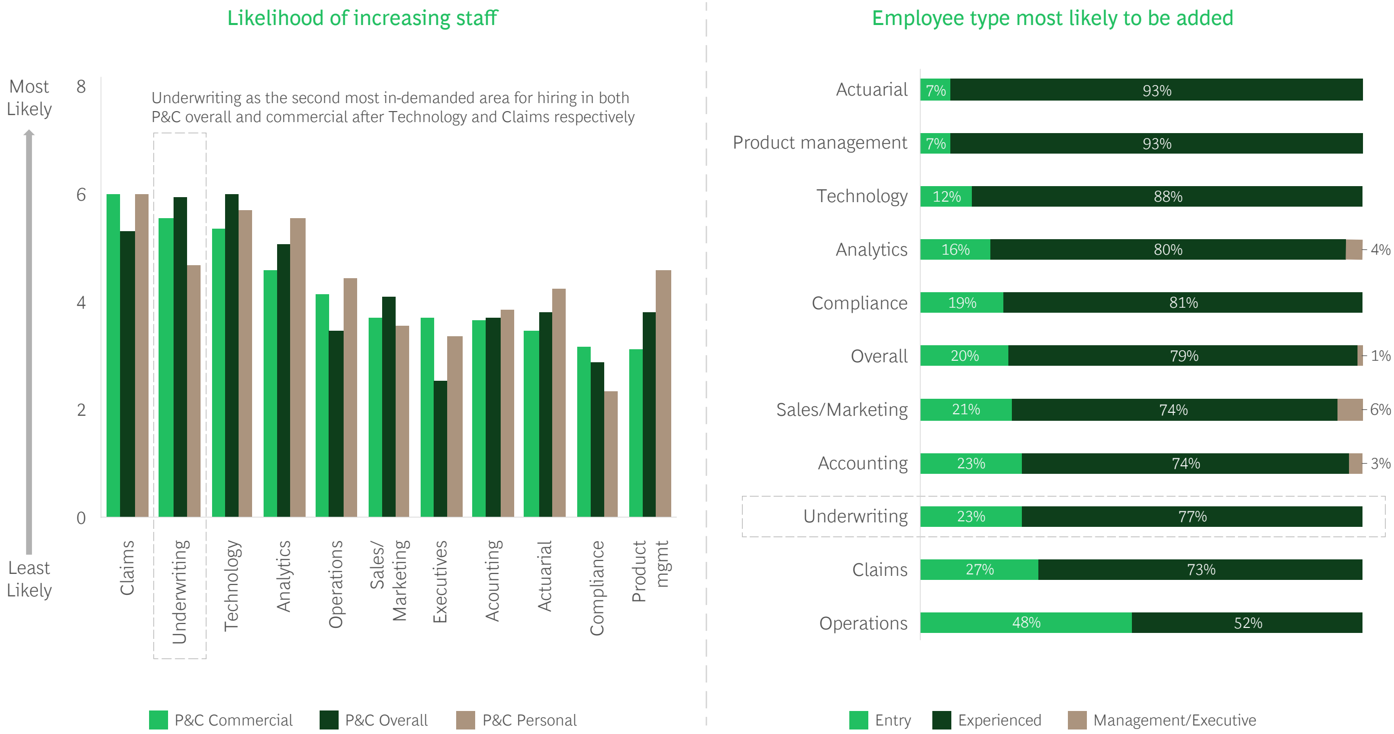
1. **Personalization:** Use GenAI to gain a more thorough understanding of even your smaller commercial clients' insurance needs so you can recommend specific products for each business you serve.
2. **Guidance:** Add client videos, photos, and other types of "unstructured" data to your risk models, to better serve your clients. GenAI can even suggest questions for you to ask as you assess risk, as well as strategies for mitigating risk.
3. **Analysis and summary:** Know you're adhering to underwriting guidelines by having GenAI analyze and summarize all your declinations and quotes and recommend when to make exceptions to declinations.
4. **Communication:** Improve broker communication by having GenAI automatically draft emails according to the data you're receiving in submissions.
5. **Legal agreements:** Speed up production by having GenAI offer language options, agreed upon by underwriters and your legal office.
6. **Risk assessments:** Ask GenAI to create a variety of risk scenarios – one of the most difficult risk management tasks – to help you assess risk more accurately. Factors might include affected policies, event size, and location.

Challenges in talent attraction and retention

Transformations cannot be achieved without talented people. But the insurance industry is facing an enormous staffing challenge. In the US alone, half the workforce is expected to retire over the next 15 years, opening up more than 400,000 positions – and this downward staffing trend is just beginning. Industrywide, more than three-quarters of insurance personnel are over 35 years old, according to market research.

P&C Underwriting stands to take a particularly hard hit. This line of business is expected to be among the most in need of more staffers, falling just behind claims, according to a US labor market study (exhibit 6). Demand is high for both entry-level and experienced workers.

Exhibit 6 - Employee demand across Insurance teams in the US



Sources: Jacobson labor market study, Q3 2023; BCG analysis.

In our publication "The Underwriter of the Future," we show how AI, big data, and other technologies are changing the way underwriters work. By automating as much as 35% of your underwriters' daily tasks, your firm could provide the time and space for them to learn new skills and capabilities – the kinds that only humans can develop, such as intuition and critical thinking born of experience – and to deepen and develop existing ones. As a result, they might better serve your company by improving your presence in the market, helping to attract new customers, and communicating to existing clients the value that your firm provides.

And now what? Learn how to lean into the big changes with Front-to-Back

These big changes are having major effects on carriers' profits and operations. To address them and be ready for the "New Normal" that lies ahead, insurers must step up their game. Incremental improvements will no longer suffice. To truly compete, it's imperative to undertake larger and substantial transformations of the underwriting operating models and technologies.

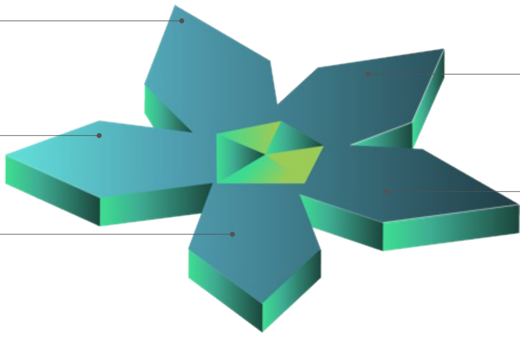
A holistic Front-to-Back transformation of your Commercial Underwriting will not only enable you to select, price, and tailor risk more accurately and efficiently, but also prepare your organization to adeptly navigate unforeseen obstacles and challenges on the road ahead.

Exhibit 7 - Front-to-Back enables substantial transformation of Commercial Underwriting

Front-to-Back enables the creation of disruptive capabilities along the Commercial Underwriting value stream …

	TO…	FROM…
Underwriting strategy: Where to play	Business footprint driven by historical factors and shaped by the business we attract today	Prioritization of opportunities based on market attractiveness, according to our long-term vision, aspirations and financial goals
Underwriting strategy: How to win	Unclear view of how our capabilities compare to "best-in-class" in target markets	Purposefully defined target portfolio based on our competitive advantages, with a de-averaged approach on "how to win" ("UW alpha" vs "UW beta")
Servicing	Limited understanding of customers' holistic risk management needs beyond coverage	Thought partner to key clients that are experiencing emerging or shifting risks, providing support through a compelling risk service value prop
Underwriting (UW)	Highly manual underwriting processes involving inefficient steps, slowing down time to quote	Risk selection, pricing and tailoring supported by efficient processes (e.g., simplified referrals), with right balance of automation and human touch
Operating Model	Siloed team structure preventing coordination and collaboration	Move to a nimble structure that allows quick spotting of trends and reactions to opportunities
Talent	Uncoordinated approach in finding and retaining talent to support long-term underwriting goals	Intentional talent strategy that supports internal upskilling, and an environment conducive to top talent retention and focus on critical activities
Data & Analytics	Limited use of third-party data, sub-optimal pricing models, or poor model rollout / deployment	Adoption of advanced data analytics to augment underwriting models and enhance decision making, fully integrated into workflows
Technology	Legacy, disconnected and inflexible systems constraining UW process speed and insightfulness	Transformation of UW desktop to re-focus UWs' time and efforts on value-added activities

… driving top- and bottom-line value



Efficiency Gains
Streamlined Underwriting value stream incl. faster cycle times, automation of manual steps; reduction of IT and Operational expenses

Top-Line Growth
Growing participation of Underwriters in client-facing activities

Improved Compliance
Growing STP2 rates by embedding enriched data and disruptive tools along the value stream; better visibility and management of P&C risks

Underwriter and Agent Experience
Higher loyalty and work experience by empowering Underwriters and Agents while boosting collaboration

Sustainable capabilities
One-stop shop of data and tools enabling faster decision making; cadre of F2B practitioners to help scale across value streams

1.Account Executive; 2.Straight Through Processing.
Source: BCG case experience.

How should carriers approach these sweeping Front-to-Back transformational programs? We recommend the below steps:

1. **Involve your senior leaders in the transformation conversation.** Front-to-Back programs offer a paradigm shift for how change is approached and managed across the organization completely upending traditional ways of working. Senior leaders must be involved: they need to buy into the changes, then lead them from the top down. With your senior leaders on board, you'll know that all functions involved will be aligned and their people committed to the project's success.

2. **Define your Underwriting Journey architecture.** It should consider every aspect of the Underwriter's end-to-end experience and needs, and have a front-to-back scope, including all relevant capabilities like Product & Operations, Technology, Research and Voice of Employee, Experience Design teams, Data & Analytics, and Agents.

3. **Work to really understand what your Underwriting teams need and think creatively as you devise solutions.** Go beyond static research and employee profiling, to deeply understand Underwriters and associated teams' "moments that matter". These moments may point to optimal areas of focus, where gaps exist between needing and having, and opportunities for improvement.

4. **Define a bold vision for your underwriting value stream.** Think holistically – with a front-to-back scope – about the underwriting target experience you want to provide. This view – defined as a whole, involving all capabilities – should address the key gaps defined in step 3 as well as the opportunities for improvement, to help create measurable value and future-proof capabilities.

5. **Set a supporting operating model and flat governance focused on change delivery.** Front-to-Back programs typically implement agile ways of working from Day 1, as well as a "flat" governance structure in which leaders provide their input and cross-functional teams can focus on meeting transformation goals.

6. **Leverage on AI/GenAI and other technologies to disrupt your Underwriting value stream along the key gaps and opportunities identified.** Myriad ways exist for using disruptive technologies such as AI and GenAI to:

   a. Better serve your clients – with personalized, even individualized, policies, for example –while generating income for your firm

   b. Becoming much more efficient – more quickly managing sophisticated risks, for instance;

   c. Helping your underwriters work more productively and efficiently by, for example, automating such manual tasks as capturing data, or providing them with an AI assistant to support Underwriting throughout the process.

7. **Lead the competition by addressing the risks others are neglecting.** Cybersecurity has become a top risk in every enterprise. Nearly every company connects to the internet, and has digitized part of, if not all, its business. And yet most insurers lack the knowledge and capabilities to help their clients manage cyber risk.

   Savvy insurers will build specialized cyber teams that can help commercial clients improve their security, and underwriting models that use data and technology to measure and monitor cybersecurity risk and adjust premiums accordingly, in real time.

8. **Encourage and equip your people to do what humans do best.** AI/technology and data – the "science" – are certainly critical for underwriting. But human experience and ingenuity – the "art" – still forms the heart of the insurance industry. Remember this as you seek to attract and retain talent, and train your people accordingly, in both the art and science of the profession, Front to Back, throughout the enterprise.

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