BEST'S REVIEW® ISSUES & ANSWERS:

• Data

• Asset Management

Industry experts discuss leveraging privacy-conscious data for underwriting and pricing, as well as asset management strategy and the outlook for 2024.

Interviewed Inside:

Arun Balakrishnan
Xceedance

Tim Antonelli, CAIA, CFA, FRM, SCR
Wellington Management

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Technology Revolution

Arun Balakrishnan, CEO and co-founder of Xceedance, advocates a transformative approach for insurers. In this interview, he emphasizes the need to challenge traditional processes and embrace innovation, reimagining underwriting frameworks, leveraging privacy-conscious data, and expediting claim settlements through strategic data use.

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Arun Balakrishnan
CEO and co-founder
Xceedance

"Leveraging privacy-conscious data for underwriting and pricing is crucial, and modern technology enables this without privacy infringement."

Visit the Issues & Answers section at *bestsreview.ambest.com* to watch an interview with Arun Balakrishnan.

Can insurers effectively leverage data and analytics for better underwriting processes?

Xceedance has been approached by various companies wanting to use data and AI to automate underwriting processes. The common focus is automating responses to underwriting questions using web and public data sources. Xceedance suggests reconsidering the relevance of these questions, which were created decades ago when data availability was limited. Xceedance proposes designing tailored underwriting questions for the current data-rich world. This approach is less explored, but Xceedance believes there's significant potential for insurers to improve by reimagining underwriting frameworks and incorporating diverse data sources like consent-based mobile data. Despite some challenges, Xceedance sees an opportunity for innovative companies to reshape underwriting paradigms.

Can insurers strike a balance between privacy and data security in meeting their customer needs?

Leveraging privacy-conscious data for underwriting and pricing is crucial, and modern technology enables this without privacy infringement. Transformative models like word2vec convert words to numbers for analysis without personal data involvement. Insurers possess unmatched data, making them prime innovators. Advanced technologies allow data utilization while respecting privacy. Insurers need awareness and adoption of these methods to enhance their processes.

How can insurers use data and analytics to enhance the speed of settling claims?

Efficient and timely resolution of insurance claims benefits both policyholders and insurers. Prolonged claim resolution escalates costs for insurers. Swift reporting and data analytics can expedite the process by capturing real-time incident details via tools like smartphones. Leveraging publicly available data can supplement adjusters' decisions. While pace is vital, hasty settlements are not ideal. Instead of hurrying adjusters, the emphasis should be on swiftly collecting comprehensive claim information from claimants and public sources. This approach enhances the industry's pace without compromising due diligence.

How is Xceedance helping insurers meet their technology and data and analytics needs of the 21st century?

An excellent illustration of this concept can be seen through our preference for collaborating with companies that acknowledge the importance of embracing a digitally driven operational approach. Such enterprises aspire to integrate a target operating model infused with digital advancements. This extends beyond mere customer interactions and encompasses the reformation of internal team dynamics. Consider the interactions between operations, technology, actuarial and underwriting teams. At its core, Xceedance endeavors to partner with insurance companies, facilitating the establishment of seamless digital workflows across all internal teams. This highlights our commitment to fostering digital transformation within the insurance industry.

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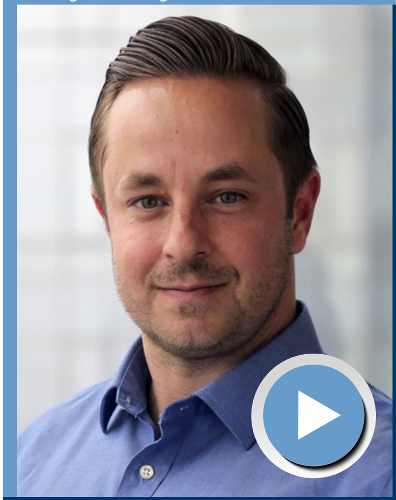
Asset Allocation Strategy

Tim Antonelli, Head of Insurance Multi-Asset Strategy and Portfolio Manager for Wellington Management, shares the top trends he's seeing across insurers of all sizes and types, views on inflation, and ideas on how to navigate 2024.

WELLINGTON MANAGEMENT®

Tim Antonelli, CAIA, CFA, FRM, SCR
Head of Insurance Multi-Asset Strategy and Portfolio Manager
Wellington Management



"I suggest that insurers manage liquidity in a way that will allow for nimble implementation as opportunities arise, and consider broadening the illiquid invested asset universe."

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What are you hearing from clients?

I've had the pleasure of speaking with well over 100 insurers on a year-to-date basis. The overarching theme of these conversations is uncertainty, and we've experienced an uptick in requests from insurers to help with strategic asset allocation and stress testing. On the underwriting side, the property and casualty industry has been hit by a high number of convective storms this year; as you'd expect, despite premium gains, rising claims and inflation costs have negatively impacted the bottom line. In health insurance, while Medicare utilization affects profitability, the overall impact remains manageable. The life and annuity industry is moderating after a few years of strong premium growth post-COVID. We're also noticing more utilization of reinsurance than in past years.

From an investment perspective, the dominant theme continues to be the relative attractiveness of core fixed income, and we've seen a dialing down of existing risk by increasing credit quality. Second, we've seen continued growth of illiquid assets in portfolios despite attractiveness of public yields and we have not seen signs of that interest moderating; one exception is that we have seen life insurers reduce allocations to mortgage loans or direct mortgages in places that have substantial exposure to office property. Third, we continue to see demand for asset classes that could provide uncorrelated return streams and diversification to traditional asset classes. Some examples include convertible bonds as well as hedge funds, particularly macro hedge funds, which play off rate volatility and more dispersion across central banks.

What about inflation? Are concerns subsiding to some degree?

While inflation has moderated since mid-2022, the last mile could be difficult. We have seen steady declines in core goods pricing—auto sales and lower food prices in particular—and a contraction in airfares pushing down overall inflation. However, given increases in commodity prices, some of those trends may unwind. Shelter costs are worth monitoring as it's the largest component in the CPI index, interest rate sensitive, and a significant portion of total net worth. Longer-term structural shifts such as deglobalization and onshoring as well as increased spending on climate transition could also keep the inflation run-rate higher than 2%. If you couple these trends with the impact of inflation on claims of many insurers, this could be a longer-term issue that deserves more attention.

What's your outlook as we move into 2024?

I suggest insurers monitor three major themes:

1. Will the Fed be comfortable letting rates persist at elevated levels until the inflation story has had a chance to play out?
2. How will the looming maturity wall and refinance activity be impacted by higher for longer rates?
3. How will the election results impact fiscal spending?

With that as the backdrop, I'm suggesting insurers consider four things, which I offer in the full video interview.