



Kemper increases insurance applications processed while reducing underwriting risk

success story:
business rules management



- Client** Kemper, A Unitrin Business, is a leading provider of personal lines of property and casualty insurance with a written premium of approximately \$994 million
- Challenge** Replace a cumbersome, paper-based manual underwriting processing system with a more efficient, streamlined and consistent underwriting approach for auto and home
- Solution** FICO™ Blaze Advisor® business rules management system for insurance
- Results** Real-time underwriting of new business, delivering a lowered combined ratio, reduced underwriting losses and improved targeting of new business



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Asst. Vice President, Underwriting,
Kemper, A Unitrin Business

Blaze Advisor system powers consistent, real-time, risk-based underwriting

» CHALLENGE

When Kemper planned a new automated underwriting system it had a long wish list of desired results. “Efficiency was high on the list,” says Patrick Madigan, Assistant Vice President in charge of Kemper’s national underwriting. “We also wanted to remove paper, update processes and apply underwriting guidelines consistently in real time.”

The personal lines business unit was using a rule-based logic that was hard-coded in COBOL throughout its legacy mainframe system. This made it impossible for the agents to make changes to the underwriting rules and limited the ability for swift, consistent underwriting across geographies and systems, as the process remained mostly paper based.

For example, as an application went through the system, if it triggered a knockout rule, the logic automatically sent a paper referral to an underwriter. If a single application triggered a number of rules, the system would generate multiple pieces of paper, potentially requiring multiple contacts and many hours of underwriting time to resolve.

Kemper sells its products through a network of independent agents that use Kemper’s own independent agency management system or, in some cases, paper interfaces.

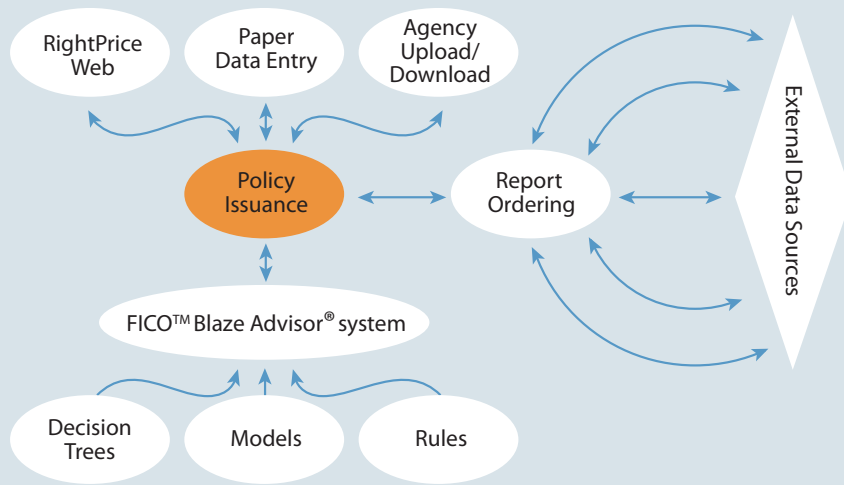
» SOLUTION

Kemper selected Blaze Advisor business rules management system, in combination with FICO’s insurance analytic models for its new auto and home insurance business. Kemper’s adoption of rules and analytics for its underwriting process took less than six months to implement because it tapped FICO’s experience in building models and integrating Unitrin Kemper’s underwriting guidelines into the Blaze Advisor system.

“Speed to market was one reason we chose FICO,” notes Madigan. “We knew FICO could do for us what they had done for numerous other companies. We got the Unitrin Kemper Decision Support System up and running quickly, and were pleased with the positive effects.”

Kemper found that the Blaze Advisor system enabled the centralization of the decision logic to make consistent underwriting decision across separate systems. In addition, external

FICO® Blaze Advisor® business rules management system enables fast, consistent decisions across channels — in real time



Once applicant information is entered, Kemper's IDS system instantly applies decision criteria (i.e., models, rules, strategies), pulls relevant outside data (insurance bureau scores, loss history, motor vehicle reports) and renders a final decision, including pricing.

data, such as IBS, CLUE, MVR and HomeValue, are included as part of the decisioning inputs. This became a big differentiator and created new opportunities for Kemper's third-party underwriting partners, such as Priority Data, to accurately provide local comparative rating for agents via RightPrice Web for specific markets. Furthermore, Kemper is now able to directly provide comparative rating partners with their up-to-date under-writing and tiering logic as a decisioning service, resulting in more opportunities for Kemper to underwrite insurance.

"The adoption of FICO™ Blaze Advisor® business rules management system has afforded us the efficiency we were looking for," says Madigan. "Often, the agent can write the policy while the customer is waiting in his or her office." The Blaze Advisor system decision logic automatically evaluates individual applications and delivers a quantitative measure of risk. This measurement serves as an objective standard for evaluating future book performance, allowing Kemper to track results by agent, geographical region, type of vehicle or other criteria.

» **RESULTS**

During the first year in use, Kemper was able to lower its combined ratio by eight points. Along with other technological improvement initiatives, the Blaze Advisor system is credited with helping Kemper become a more efficient underwriting organization, as the unit also met its goals for reducing underwriting losses.

Today, Kemper continues to see improvements. Other gains included efficiency and better use of resources by eliminating the manual review of clearly unacceptable and acceptable risks; instead these applications are either automatically declined or accepted. This allows Kemper staff to focus more on book management and agency performance rather than application reviews.

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Efficiency is also aided by the flexibility of centralized business rules software. No longer is it necessary to compete with other IT priorities; authorized staff can modify decision criteria without the need for a programmer. "One of the real benefits of Blaze Advisor system is the fact that we do have business people in the Underwriting Department managing our rules and the promotion of our rules into code. We don't compete for IT resources."

Through centralization, Kemper removed duplication of process and increased consistency. "From a management standpoint, we can more easily influence how things are done with one streamlined system in place," says Madigan. "The Decision Support System models apply all applicant characteristics objectively in the same way, every time. So we're treating customers consistently across multiple distribution channels."

Kemper can also target new business more effectively, resulting in a lift in the "hit ratio" that shows how many underwriting quotes are reviewed. One of the greatest contributors to this success, and an advantage of the system powered by Blaze Advisor, is the ability to add pricing tiers. Kemper has created more effective risk management and pricing optimization across auto lines by increasing from 6 pricing tiers to 48. In its home underwriting business, Kemper has increased its pricing tiers from 6 to 24. Madigan says, "We're learning more about the tool and how it translates in the market for our customers. We've been able to make adjustments to attract the specific type of customer that we want."

Kemper has received positive feedback from agents that use the new system. "Independent agents understand the relationship between credit risk and insurance risk," explains Madigan. "But they've always asked that it be one component of the underwriting process. With the Decision Support System, we use insurance bureau scores, traditional underwriting variables, and now, we are able to add more complex underwriting rules and knockouts. It's a great tool."

"The agent's time is worth money. With our underwriting rules right out at point-of-sale, the agent is confident that the majority of times the price won't change, and that policy will be accepted. We've actually seen increases in quote counts and increases in new business because the agents know that the policy's already been underwritten."

With such strong results, Kemper continues to roll out and refine its decision management technology infrastructure into other areas of the business. As it moves forward and builds new services, it has the foundation to embed business rules right into a service oriented architecture (SOA).

"The project we're working on right now with Blaze Advisor is intended to externalize the policy administration rules out of our mainframe to help us support RightPrice Web so we are not tied to the mainframe from a policy administration level."

Recent Honors for FICO and FICO™ Blaze Advisor® business rules management system

- Best Business Rules Management System for 2008—InfoWorld
- Best Business Rules-Based Decision Management for 2008—Yphise
- 2008 Innovative Implementation

Decision Yield

Precision

Kemper has been able to create a decision management strategy where it has finitely added pricing tiers for more effective risk management and pricing optimization.

Consistency

Using Blaze Advisor allowed Kemper to centralize the decision logic to make consistent underwriting decisions across systems, geographies and throughout its independent agent network.

Agility

The Blaze Advisor system provides Kemper with a significant impact to business agility, as high volume business decision logic can be created, maintained and deployed without having to compete with other IT priorities.

Speed

Underwriting rules and decision models that were previously too complicated to implement into the Decision Support System can now be added in a matter of days.

Cost

The investment into the new decision management platform has improved Kemper's combined ratio by eight points.



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