Accelerated underwriting:

Revolutionizing commercial insurance underwriting with alternative data

The commercial insurance landscape is undergoing rapid transformation. With more than 5 million new businesses entering the market every year since 2021,[1] the demand for efficient, accurate, and cost-effective insurance underwriting has never been greater. Traditional approaches struggle to keep pace with the complexities of today's economy, especially when it comes to identifying, verifying, and underwriting businesses quickly and accurately. However, alternative data and new technologies — like AI and machine learning — are emerging as solutions to these challenges, offering the promise of faster underwriting, enhanced risk management, and an improved customer experience.

Overview of the commercial insurance landscape

The commercial insurance market is becoming more and more diverse. Historically, insurers relied on established businesses with predictable risks, underwriting them based on years of financial statements, loss histories, and industry data. However, the current landscape is shifting. A surge in small businesses, many of which operate in gig or digital-first economies, has complicated the underwriting process.

This new era presents a unique set of challenges for commercial insurers. With 5.5 million new U.S. business applications in 2023 alone,[2] insurance companies are primed to underwrite more new business policies. However, the proliferation of businesses with varying models, from gig economy freelancers to rapidly growing startups, makes it increasingly difficult for insurers to identify and assess new businesses in need of insurance. Additionally, understanding the dynamic and evolving risks associated with these businesses that often do not fit into traditional insurance risk categories is becoming more and more challenging.

Challenges in commercial insurance underwriting

Acquisition of new accounts

One of the primary challenges facing insurers today is how to acquire new business accounts. The sheer number of small and "gig" (e.g., anything from influencers to dog-walkers) businesses flooding the market can overwhelm traditional acquisition methods. Insurers need to sift through a sea of new, emerging, and established businesses to identify the ones that are worth underwriting. With limited time and resources, prioritizing businesses that represent viable opportunities can be a significant hurdle.

Complex underwriting process

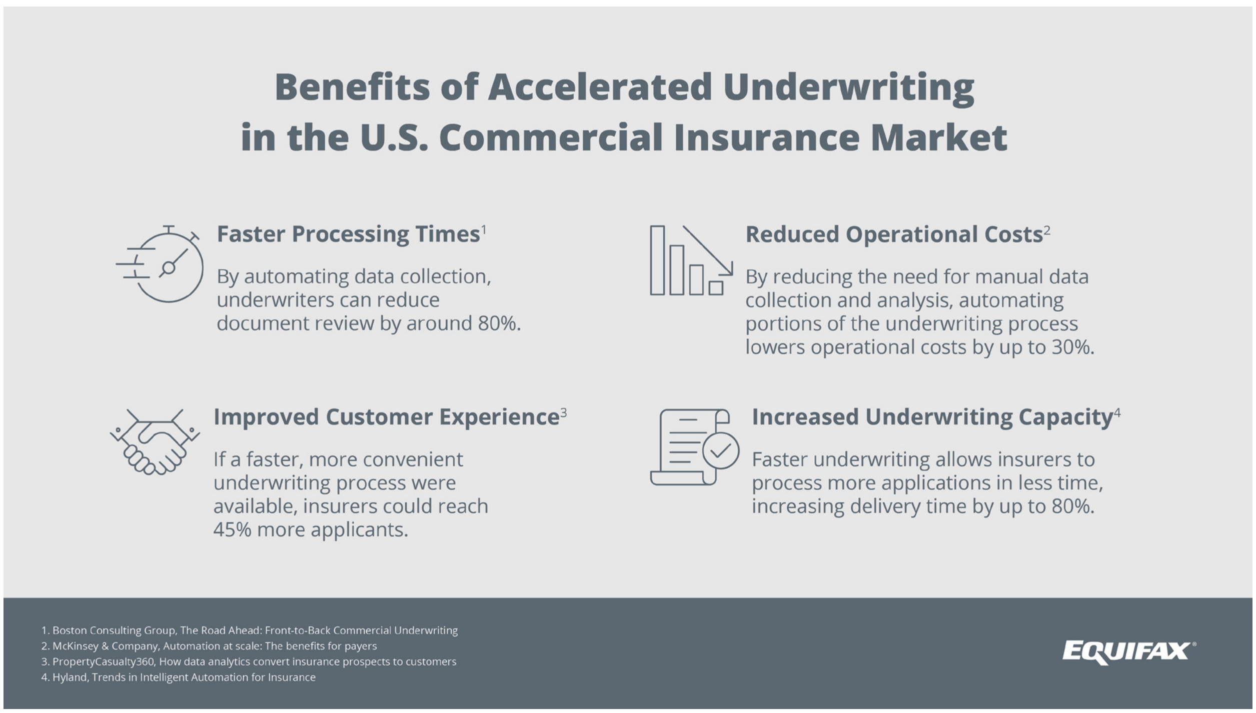
Once an insurer identifies potential new accounts, the underwriting process can be time-consuming and resource-intensive. Unlike consumer policies, which are relatively straightforward, commercial policies often require an in-depth analysis of various factors, including:

- Business longevity
- Financial health
- Industry-specific risks
- Market dynamics
- Fraud potential

When it comes specifically to fraud, the rates are increasing.[3] According to the FBI, non-health insurance fraud costs insurers $40 billion per year; this then trickles down to those actually paying their premiums, costing them an average of $400 to $700 more per year.[4]

For new businesses, especially those without a long operational history, verifying legitimacy and predicting future performance can take underwriters considerable time, increasing the probability of complications. Utilizing and integrating emerging technologies can help solve these problems.

How alternative data can enhance underwriting



Alternative data overview

Alternative data refers to nontraditional data sources that can offer fresh insights into a business's financial health, operational dynamics, business history, ownership, and overall risk profile.[5] This information could include data from social media, public records, business reviews, transaction histories, and even employment patterns.

Benefits of alternative data

Based on internal Equifax analysis of latest commercial risk score versus traditional data models, utilizing alternative data can help improve the risk scoring of up to eight percent of businesses.

Broader view of business risk
By supplementing traditional data with alternative sources, insurers gain a more comprehensive view of a business's operations and risks. This insight can help improve the accuracy of risk assessments and leads to better-informed underwriting decisions.

Increased efficiency
Alternative data can significantly streamline the underwriting process. Automated data collection and analysis can replace manual efforts, accelerating decision-making.

Complement to traditional data
Alternative data does not replace traditional data; it enhances it. Combining both data types can help underwriters create more precise risk profiles and make more informed decisions.

Benefits of accelerated underwriting
The integration of alternative data, AI, and machine learning into the underwriting process enables insurers to accelerate underwriting in ways that were previously unimaginable.

- Faster processing: By automating data collection, underwriters can reduce document review by around 80 percent.[6]
- Improved customer experience: If a faster, more convenient underwriting process were available, insurers could reach 45 percent more applicants.[7]
- Reduced costs: By reducing the need for manual data collection and analysis, automating portions of the underwriting process lowers operational costs by up to 30 percent.[8]
- Increased capacity: Faster underwriting allows insurers to process more applications in less time, increasing delivery time by up to 80 percent.[9]

Strategies to incorporate accelerated underwriting
Advanced algorithms can sift through alternative data, identify patterns, and assess risks more accurately than traditional methods. AI and machine learning models can also be trained to continuously improve underwriting decisions.

By combining traditional and alternative data sources, insurers can develop a more comprehensive view of a business's risk profile. Equifax, for example, provides extensive data and analytics capabilities that streamline the overall underwriting process.

Compliance and verification
As underwriting speeds up, it is critical that compliance and verification processes keep pace. Know Your Business (KYB) requirements are essential for verifying the legitimacy of businesses, particularly in a market flooded with startups and gig economy players.

Equifax and commercial insurance

Alternative data can also play a role here. By monitoring various sources of business data, insurers can verify the legitimacy of a business more quickly, reducing the time it takes to gather and confirm essential information. Equifax verification solutions enable insurers to streamline their underwriting processes by providing access to rich data sources that offer a holistic view of business performance opportunities as well as possible hidden risk. This comprehensive data offering allows for faster, more accurate underwriting decisions, reducing the time spent on manual data collection and risk analysis.

Solutions from Equifax

Based on these challenges, there are two key areas where Equifax is able to support businesses and fit seamlessly within the commercial space: risk management and business verification. First, by leveraging comprehensive credit and risk scores for businesses, Equifax is able to help underwriters quickly assess the financial health and creditworthiness of new clients. Second, through the use of simple verification tools, insurers are able to rapidly confirm a business's legitimacy, reducing the time and effort required for due diligence.

Imagine a better way to manage risk decisions and turn them into profitable outcomes. Enter Commercial risk scoring, combining traditional credit history with unique alternative data that only Equifax offers.

By accessing one of the largest specialty finance databases, including trended credit data, Equifax can give carriers a clearer picture of creditworthiness. This insight can help provide better segmentation of applicants, enabling tailored policies and terms. The streamlined application process reduces friction and quickly determines optimal offers while also expanding to underserved populations, such as those with thin or no file businesses, and companies in credit repair, fostering greater financial inclusion.

Business Verification

In today's rapidly evolving marketplace, the number of new business applications is increasing by over 45 percent annually compared to pre-COVID times.[10] This surge makes it increasingly challenging for businesses to identify whom they are dealing with before establishing relationships. Access to current and accurate business data is essential for quickly recognizing legitimate businesses and mitigating the risks of fraud. Equifax is able to help streamline the onboarding of new business accounts and vendors efficiently by confirming the accuracy of provided information.

Whether by a simple **TIN Match** or a more comprehensive approach to business verification, Equifax can help assess the legitimacy of a business, analyze available data to evaluate potential fraud risks, identify principal owners and guarantors, screen businesses and their owners against Office of Foreign Assets Control (OFAC) lists, and more. This comprehensive approach enhances the onboarding process and helps businesses make informed decisions.

Conclusion: A new era for solutions

The commercial insurance landscape is undergoing rapid change, driven by a surge in new businesses and shifting economic dynamics. Underwriting, once a labor-intensive and time-consuming process, is being transformed by alternative data, AI, and machine learning.

These technologies are helping insurers:

- Identify and verify new businesses faster
- Create more accurate risk profiles
- Avoid fraudulent applications
- Streamline the underwriting process, saving time and reducing costs

Equifax plays a vital role in this transformation, offering cutting-edge data solutions that enhance underwriting efficiency, improve decision-making, and provide insurers with a holistic view of business risk.

For more information on how Equifax can help revolutionize your commercial insurance underwriting process, contact us at cmlmarketing@equifax.com or visit Equifax for Business. Stay informed with the latest market insights by following our Market Pulse and Equifax for Business LinkedIn pages.

SOURCES

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