

Increasing Insurability Through Accelerated Underwriting in the Era of Covid

The global COVID-19 pandemic created the urgent need for life insurance companies to quickly adjust to government mandates for social distancing and stay-at-home measures. Companies pivoted to manage applicants refusing to allow examiners into their homes, paramed examiners fearful to travel due to Covid, and agents pressuring direct companies to issue policies without completed paramed examinations. Companies not already working in the modern era of accelerated underwriting (AUW) were finally being forced to join (or at least consider) the new paradigm of fluidless underwriting.

The pandemic also highlighted the known coverage gap, demonstrating the need for American households to purchase life insurance.^{1,2} Prior to COVID-19, the Life Insurance and Marketing Research Association (LIMRA) statistics showed 46% of American adults do not own life insurance, and of those who do, many are underinsured.^{3,2} Approximately 48% of U.S. households are at financial risk if their primary wage earner dies unexpectedly due to an average life insurance coverage gap of \$200,000 U.S. dollars, which amounts to more than \$12 trillion in total market need.¹ Particularly concerning is that only 34% of millennials own individual life insurance policies.²

Although the COVID-19 pandemic brought the need for life insurance to the forefront, it concurrently increased the potential for anti-selection for the life insurance industry. Existing applications contained no questions specifically related to Covid exposure or diagnosis; thus, if permitted, carriers began adding questions to address this new risk.⁴ Both direct companies and reinsurers suddenly needed to balance the risk of COVID-19 related anti-selection with the push to approve applications without fluids at even higher face amounts than normally used in the accelerated underwriting process.

Therefore, the pandemic presented the life insurance industry with both a tremendous opportunity and challenge as increasing numbers of Americans seek coverage in the new era of Covid. Even prior to the pandemic, LIMRA research found almost half (45%) of all U.S. households said they planned to buy life insurance in the next year, which was an 80% increase from 2010. This increase was found among younger households (under age 45) and married couples with children. Generationally, many Millennials became adults during the Great Recession of 2008, which resulted in elevated concern for financial well-being; this concern increases Millennials receptiveness to financial advice.^{3,5} Other sources also showed pre-COVID-19 sales information demonstrating increases in Millennial and Gen X buyers in November 2019.⁶

Unfortunately, although the pre-COVID-19 research indicated interest in buying life insurance, there truly had been no increase in market coverage prior to the pandemic. The additional 5 million households that were insured by 2016 as compared to 2010 reflected population growth coverage. Approximately 30% of US households remain uninsured according to LIMRA, while other studies showing even higher percentages to greater than 40%.^{3,7} However, it is possible the Covid-19 pandemic may inadvertently help to close the coverage gap by increasing insurability as Americans better understand the need and have more options for coverage using accelerated underwriting pathways.

Why the Coverage Gap Exists

The life insurance coverage gap is multifaceted in causation. A lack of consumer knowledge and understanding prefaces an unsavory, timely process, ultimately resulting in inadequate coverage. Additionally, many Americans rely upon group life insurance coverage through work to cover their needs, but the pandemic has left millions unemployed and without the coverage they thought would protect their families.

Historically, the life insurance buying process has not been a consumer-friendly experience.² Applicants suffered through blood draws, provided urine specimens, and answered sensitive medical questions asked by a stranger. Underwriting often takes weeks to months, leading to lost business due to incomplete underwriting, equating to lost premium and revenue.

Inaccurate public perception also creates the coverage gap.^{1,8} Research has shown there is a public perception that life insurance premiums are cost prohibitive and are much higher than the actual cost.⁸ Consumers overestimate the cost of life insurance coverage up to 300% of actual premiums.^{3,1}

Addressing this inaccurate perception has been challenging even from a grassroots sale perspective. Agency-based, traditional sellers of life insurance are reduced as newer generations demonstrate less interest in brick and mortar business, opting for use of technology through the internet to sale financial products.^{5,9,10} However, the use of social media to gather information on financial topics has substantially increased and presents an opportunity for the life insurance industry to educate consumers.¹ Continued use of computer technology has fueled the Direct-To-Consumer (DTC or D2C) trend as it continues to accelerate in recent years since younger consumers prefer low-touch, faster gratification experiences (such as the Amazon sales experience) instead of the traditional insurance agent customer transaction.^{10,1,2}

How AUW Can Change the Coverage Gap

The ongoing Covid-19 pandemic presents the life insurance industry with both a tremendous opportunity and challenge as the need to life insurance is brought to the forefront of daily life. Increased consumer comfort with online financial transactions and availability of technology support the shift in how the American public is purchasing life insurance. According to LIMRA research, about half (47%) of American consumers find accelerated or simplified underwriting more appealing than traditional underwriting.⁸ less than half of people surveyed stated they preferred to use an agent, which is the traditional method of purchasing life insurance. The specific preference for online purchasing also doubled to 29% from 2011 to 2020. During the beginning of the Covid-19 pandemic, LIMRA research showed an increase in online applications as well, which mirrors the new public desire to purchase life insurance using simplified underwriting.¹

The new underwriting paradigm of accelerated underwriting utilizes more efficient, less expensive, and more convenient methods that provided similar protective value. Similar to motor vehicle records, financial and prescription database checks are used in conjunction with predictive modeling.

Accelerated underwriting offers an improved consumer experience in several ways.

- **Convenient:** Digital applications are done at the time of the applicant's choice, day or night.
- **Timely:** Real-time risk assessment provides the applicant a decision within minutes.
- **Elimination of invasive testing** (e.g., no blood draws).

AUW enhances the underwriting process for insurance companies in various ways as well. Companies can benefit from:

- **Reduced underwriting acquisition costs on underwriting requirements:** Database checks are less expensive than traditional underwriting requirements such as paramed exams, fluid testing and medical records.
- **Improved turnaround time (TAT):** Quick decisioning greatly reduces the typically long (30 days or more) underwriting cycle.
- **Decreased acquisition costs:** New preferred distribution methods like DTC result in lower acquisition costs since agent sales commissions are reduced. Companies should consider the cost of paying digital distributors as well as budgeting for DTC marketing costs.
- **Lower employee costs:** Although an initial investment is required to set up an AUW process, larger volumes of applications can be processed without human intervention. Underwriters can then focus their skills on more complicated financial and medical applications.

Increase Sales Through End-to-End AUW Adoption

Despite the benefits of AUW, life insurance sales have not increased. Understanding and addressing the reasons for this are vital to maximizing the benefits of AUW. Although underwriting processes and requirements have changed, most other pieces of the insurance puzzle have stayed the same, including lead generation, marketing, distribution, rate setting, inforce and claims management. Build a strategy to make your AUW product generate the revenue you need.

Here's a summary of tips on how to adapt your existing AUW process to drive sales:

- **Exercise your muscle:** Established life insurance carriers have a tremendous advantage to start-ups due to brand recognition and large existing or former customer databases. However, continued innovation from startups, insurtech and other disrupters is gaining market share and drives traditional carriers to radically rethink, reposition and introduce new products.
- **Change your marketing strategy:** Adopting AUW means implementing a digital marketing game plan. Traditional product marketing programs do not reach tech savvy consumers. Social media should be leveraged as an insurance industry asset for consumer education, needs analysis and sales. This new knowledge outlet will help the general public understand their needs and the benefits of insurance.
- **Update your products:** Create innovative new products using living benefit riders to entice consumers to travel down your AUW pathway. Expand your product inventory to include coverage for non-traditional risks that you may not be currently considering, such as event coverage.
- **Educate your agents on the value of AUW:** Insurance sales distribution has been slow to see the value in AUW and accept the format since it is new and different. Your agents may not understand predictive models and likely want to retain "control" of the case.
- **Engage existing distribution in your sales process:** Provide open communication on how agent adoption of AUW opens new market segmentations for them. Provide concrete examples on how agents can sell AUW products to local consumers by simply talking about the process to friends, neighbors, or professionals in their communities. Provide consistent, positive, frequent business communications to your distribution force and ensure they can ask questions to a centralized person.
- **Invest in & upgrade your IT platforms:** Executives need to invest in updating IT platforms for their areas of business, not just for AUW. System upgrades that coordinate and synchronize different areas of business will provide continuing returns on investment. The life insurance industry has been plagued with inefficiencies caused by systems that do not "talk" to each other. Without proactive IT consideration, carrier and distribution legacy IT platforms may not even be capable of performing tasks required for AUW programs.

Maximizing Your AUW Program

Companies are at differing points in the AUW journey. AUW offerings vary from simplified issue to full end-to-end AUW processing to only partial acceleration or automation. No matter where you are at in adopting AUW, here are a few tips for maximizing your AUW program.

Pre-Issue

- **Product Development:** Consider developing unique insurance products such as life event coverage. Think individual pricing for life insurance like automobile insurance. These new processes and products will become the new norm with the result being increased sales.
- **No-Touch Lead Generation:** Leverage new real-time data such as information lists from subscriptions, memberships, registrations, and life event information for no-touch lead generation and needs analysis. These data points relate to insurance needs and can be leveraged without negatively impacting the customer experience.
- **Thoughtfully Build Your IT User Interface:** Ensure user interfaces track process percentage completion and offer chatbot options for FAQs. Even though automation is being used, access to a real-time call center access if requested by the applicant is also vital to ensuring the overall program success.

- **One Touch Underwriting:** Scrutinize your A UW process to maximize in real time to determine how Straight-Through-Processing (STP) rates of both approvals and declines can be improved. Make the A UW Program Goal to be instant approval (or declination), policy issue and policy delivery. This is absolutely essential.
- **Evaluate Third Party Vendors & Compare Options:** Review vendors' offerings and decide which is right for your A UW program. Aim to use innovative vendor products to refine underwriting results that can better segment mortality, particularly for populations with both prescription and credit data.

Post-Issue

A UW opens a whole new world of opportunities to connect with customers. Policy retention concerns have always been a concern for companies, and the underwriting paradigm provides new methods to retain customers.

If you are not already implementing these measures, consider the following:

- **Wearable Wellness Incentive Programs:** Implement programs to keep your customers who have purchased term products engaged with wellness incentives.
 - Continued contact with your insured via wearable wellness incentive programs improves the insured relationship with the carrier. Grow your connection with your insureds to daily contact versus limited contact, when the only points of connection were with the agent during the initial sale, annual premium payment, and at final death claim.
 - Gamification of biometric wearable device data to encourage lifestyle improvements also provides an avenue for continued customer engagement. Consumer rewards for goods, services or premium reductions can be earned, thereby lowering lapse rates and increasing the level of life insurance in force. This data can be self-reported, device generated, data mined or from a data vendor. Ensure that any programs you are using are compliant with underwriting and unfair trade practice requirements.
- **Wearable Device Programs without incentive:** Biometric data from Internet-of-Things smart devices, and wearables with little-to-no insured interaction will increase the accuracy of medical risk assessment and pricing. This will result in lower rates for better risks.¹¹
- **Business Analytics Program:**
 - Implementing Random Hold Outs (RHOs) provides a sentinel effect and enables tracking A UW KPIs, with minimal lost business due to dropouts. RHO incomplete cases may identify applicants with a higher percentage of misrepresentation.¹²
 - Obtaining Post-issue Attending Physician Statements (APS) is an important component of post-issue business analytics to monitor A UW results.¹² This can be done in conjunction with RHOs to provide different insights in your A UW business.
 - MIB Plan F provides data on other insurance application(s) post-application. This provides information on application "shopping" and possible over insurance scenarios.
 - Prescription (Rx) Recheck lends insight into medications prescribed post-application or around the time of application. This helps determine medical elements of anti-selection.^{13,14}
- **Post-level Term Program:** Data analysis and predictive modeling of A UW program business can indicate which post-level term risks carriers want to retain with minimal-to-no insured contact. This process helps carriers keep profitable business in force.

Accelerated Underwriting: Looking Forward

Accelerated underwriting brings an incredible opportunity to solve the insurance gap in the U.S. Life insurance carriers in the U.S. must address consumer needs and promote A UW as a financial solution. Otherwise, market disrupters such as start-up companies and new innovative incumbents will continue to offer their own solutions and capture new market shares. This happened with premium financing/stranger-originated life insurance (STOLI) business in the in the past, leading to long lasting impact to the life insurance industry.

Additionally, there would be tremendous value if a national marketing campaign were utilized to promote life insurance. A new “One Less Worry” campaign promoting AUW life insurance applications would be ground breaking in bringing the message to uninsured Americans. Such a campaign would need the power of multiple by insurance associations, including LIMRA, Life Office Management Association (LOMA), American Council of Life Insurers (ACLI), Association of Home Office Underwriters (AHOU), Society of Actuaries (SOA), National Association of Independent Life Brokerage Agencies (NAILBA), Academy of Life Underwriting (ALU), American Association of Insurance Medicine (AAIM), among others.

Suggested marketing outlets include digital and traditional media, and should include a variety of sources from mainstream media outlets to newspapers. In addition, leveraging existing affiliate programs and platforms with strong customer engagement and loyalty could provide great markets. The message of “One Less Worry” could focus educating the public on not only the importance of buying life insurance but of the new life insurance buying process of AUW. Messaging could be used such as: “One touch, real time, life insurance issuance on the device of your choice, costing less than you believe, and requiring less than 10-minutes of your time.”

In summary, technology and automation have changed the consumer purchasing process of many products, including life insurance. The life insurance industry must continue to build on existing AUW changes of life insurance underwriting. Companies have an opportunity to improve the customer experience as it relates to purchasing life insurance by creating fun, intuitive campaigns, or they will be left behind while innovative, agile start-ups address this crucial need.



Ron Schaber

FALU, FLMI, ACS, AIAA, HIA
 Second Vice President
 Underwriting Client Solutions
 Munich Re Life US

- LIMRA. (2020, June 2). 2020 Insurance barometer study reveals a significant decline in life insurance ownership over the past decade. <https://www.limra.com/en/newsroom/news-releases/2020/2020-insurance-barometer-study-reveals-a-significant-decline-in-life-insurance-ownership-over-the-past-decade/>
- Calvert, T., Gagnon, N., Kallenbach, S. & Waddell, R. (2020, June 25). Extending the life insurance value proposition. LIMRA. https://www.limra.com/globalassets/limra/research/research-abstracts/2020/extending-the-life-insurance-value-proposition/2020_limra_bcg_prevention_strategy_report.pdf
- LIMRA: Nearly 5 million more US households have life insurance coverage. (2016, September 29). <https://www.limra.com/en/newsroom/news-releases/2016/limra-nearly-5-million-more-u.s.-households-have-life-insurance-coverage/>
- Terry, K. (2020, April 9). The impact of Covid-19 on individual life sales and applications in the U.S. https://www.limra.com/globalassets/limra/research/research-abstracts/2020/the-impact-of-covid-19-on-individual-life-insurance-sales-and-applications-in-the-u.s/2020_impact-covid-19-on-individual-life-sales-applications-us.pdf
- Ramirez, K. (2018, March 2). J.D. Power: This is what consumers want from their bank. Housingwire. <https://www.housingwire.com/articles/42660-jd-power-this-is-what-consumers-want-from-their-bank/>
- Medical Information Bureau. (2019, December 9). US life insurance activity leaps forward in November reports the MIB Life Index. https://www.mibgroup.com/riskanalytics/life_index_pr.html
- MarketWatch. (2018, September 4). New study reveals more than 40 percent of Americans don't have any form of life insurance. <https://www.marketwatch.com/press-release/new-study-reveals-more-than-40-percent-of-americans-dont-have-any-form-of-life-insurance-2018-09-04>
- Scanlon, J., Leyes, M. & Fan, M. (2019, March 29). 2019 Insurance barometer study. LIMRA. <https://www.limra.com/en/research/research-abstracts-public/2019/2019-insurance-barometer-study/>
- Naujoks et al. (2018, October 10). Customers know what they want. Are insurers listening? Bain & Company. <https://www.bain.com/insights/customers-know-what-they-want-are-insurers-listening/>
- Haynor, C. (2018, December 4). A look ahead: Trends driving brands to prioritize direct to consumer in 2019. Digital Commerce 360. <https://www.digitalcommerce360.com/2018/12/04/a-look-ahead-trends-driving-brands-to-prioritize-direct-to-consumer-in-2019/>
- Chefitz, S. et al. (2018, February) Stratifying mortality risk: Using physical activity as measured by wearable sensors. Munich Re. <https://www.munichre.com/content/dam/munichre/marc/pdf/wearables/overview-using-physical-activity-as-measured-by-wearables.pdf>
- Seeman, L. & Schaber, R. (n.d.). Accelerated underwriting – The new paradigm for risk selection. Munich Re Life US. <https://www.munichre.com/us-life/en/perspectives/accelerated-underwriting/AUW-new-risk-paradigm.html>
- Hebert, M. (n.d.). An application of predictive analytics in life insurance using prescription drug information. Optimum Re. https://www.rxhistories.com/wp-content/uploads/2019/02/An-application-of-predictive-analytics-in-life-insurance_20181025.pdf
- lement, C. (2018, September 18). Milliman Risk Score 2.0 – Stratifying mortality risk using prescription drug information. Munich Re. <https://www.munichre.com/us-life/en/perspectives/alternatives-for-stratifying-mortality-risk/milliman-risk-score-2-0-prescription-drugs.html>