



Winning New Technologies

For 26th Pacific Insurance Conference:

Plenary Session 1:
Conquering the Next 50 Years

Introduction:
Fifty Years of the PIC and the Evolution
of Distribution – the Past, the Present,
the Future

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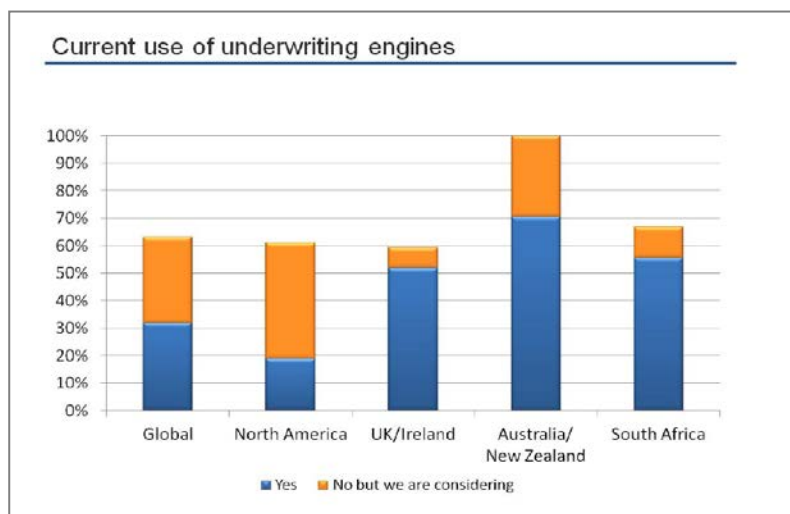
New technologies are changing how consumers and intermediaries engage with life insurers. Insurance companies need to adopt quicker, easier entry points and invest in new capabilities to extend their reach and increase market share. New business and underwriting automation has a strategic and pivotal role to play in helping insurance companies reach a broader base of potential clients and grow their business profitably in the digital world.

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New business and underwriting automation – a strategic imperative

New business and underwriting automation is the growing trend as insurers seek increased sales, efficiency and consistency. Automated rules engine development is globally becoming a high priority. A 2011 survey of life insurers conducted by U.K. Consultancy SelectX and U.S.-based Hank George Inc. found that 50 percent of life insurers in the U.K. and Ireland have implemented automated underwriting. This compares to 55 percent in South Africa and 70 percent in Australia and New Zealand and less than 20 percent in North America. The survey also found that a large number of American insurers are now considering implementing an automated underwriting rules engine.



Source: Select X – Underwriting engines: the new strategic imperative in life and disability business

In mature markets such as Australia and the UK, automation has already eclipsed paper-based underwriting. Here, service propositions focusing on speed of issue, optimal process efficiency and cost-effectiveness have convinced insurers, distributors and customers alike.

Our own customer base is rapidly growing and we now have insurance clients in 19 countries including Japan, China, Taiwan, Hong Kong, Singapore and India.

The move to electronic new business is driven by different needs in different markets but it is usually a combination of:

- A need to increase sales
- Providing better tools for the sales force and channel partners
- Streamlining business operations

There are many good reasons why life insurers should consider implementing new business and underwriting automation.

Fewer errors, faster decisions, lower acquisition costs, and increased sales

Point of sale underwriting enables quick processing of applications and consistent underwriting, while largely freeing insurers from the costly and time-consuming paper-based underwriting process. Improved response time reduces incomplete applications and sales leakage, and enables insurers to process increasing volumes of new business efficiently.

Opening new distribution channels

Underwriting automation opens up new sales channel options, such as tele-underwriting and direct-to-consumer, and allows insurers to capitalise on the cost efficiencies of doing more business online.

Reaching new markets

Underwriting automation provides new opportunities to reach a new generation of customers accustomed to a wide range of choices and instant access to information. There is a growing market of Internet consumers that expect not only the convenience of shopping for insurance without leaving their desk, but also the best price. The rapid growth of online purchasing will result in a seismic change in how life insurance is purchased. The adoption of mobile devices such as laptops, smartphones and tablet computers has led to the creation of an instant-access society where consumers demand to purchase whatever and whenever they like. The proliferation of these devices presents huge opportunities to reduce the sales cycle and enhance the customer experience of purchasing life insurance.

Better customer service

Underwriting automation has a key role to play in raising the standard in service to insurance customers and intermediaries. By generating faster decisions and fewer delays, it can help increase the attractiveness of life insurance products and make it easier for insurance customers and intermediaries to buy/sell life insurance products. Automation also provides a solid basis for launching simple life products in the individual and group markets, and an opportunity to develop more tailored customer and distributor propositions using innovative and client-centric sales processes.

Better data, better decisions

Underwriting automation alone will not transform an insurer's underwriting process. It is the underwriting philosophy that will ultimately determine results. Insurance executives understand the importance of reviewing underwriting data and rule sets regularly to improve the profitability, speed, and efficiency

of underwriting decisions. Making good decisions is critical in underwriting, but making those decisions quickly is taking on added importance given the complexity and competitiveness of today's insurance marketplace. Quality underwriting technology gives underwriters complete control and visibility into the effectiveness of the rule sets that support their underwriting decisions. It allows underwriters to analyse the underwriting process and iteratively improve the rules and questions. Getting the right information depends on asking the right questions and understanding how those questions can influence the underwriting process.

The availability and processing of electronic data enhances a company's ability to successfully understand its target market, become more client-centric and react to any anti-selection risks. It also provides business stakeholders with valuable strategic insight that helps them make informed decisions to drive sustainable growth in their business.

Speed with accuracy

With the emergence of Big Data, most of the information life insurers need to underwrite an application is becoming available from various electronic data sources. This electronic data can be processed by automated underwriting technology and can be utilised without manual intervention to assess the risk more accurately and facilitate rapid decision making and quick policy issuance. Insurers can modify applications as they mine electronic databases while assessing the predictive value of questions, removing those that don't significantly predict mortality or mortality.

Using Big Data in the underwriting process - The US example

In the US, some insurers are innovating looking for surrogates for traditional fluids. The underwriting evidence requirement is evolving from fluids and medical records that can take months to process to real-time electronic databases. The first third party electronic data sources to gain acceptance in individual life insurance underwriting over the past 10 years were driving records, pharmacy data, medical records and lab tests. As lab results are becoming available electronically, utilisation of traditional tools such as paramedical exams is waning. And, with the use of short form applications growing—enabled by automated rules engines—underwriting automation provides an opportunity to implement fully automated processing of more traditional evidence, removing some of the manual processes associated with traditional underwriting and helping underwriter do their job better and faster.

Example - Pacific Life Insurance Company

Founded in 1868 and claiming more than half of the 100 largest United States companies as clients, Pacific Life Insurance Company is a long standing insurance industry leader in the US.

The company needed a new business and underwriting system that could help increase speed-to-issue, improve back office efficiency and enhance the customer and agent experience. They implemented Allfinanz from Munich Re to support their strategic initiatives of transforming the way life insurance is sold and new market expansion. The solution is helping Pacific Life deliver more efficient and consistent underwriting with reduced processing time.

The solution consists of a underwriting rules engine; an Underwriter Workbench to improve manual underwriting efficiency; a business analytics module to identify areas of improvement in rules and questions; and an Evidence Analyzer module to collect and process third party electronic data automatically. The solution integrates with third party data providers such as Hooper Holmes, Milliman, MIB and Lexis Nexis, and automates the collection and processing of every requirement so underwriters and agents don't have to.

Using third party data in the underwriting process provides a much higher level of protective value, even at low sum insured rates. It also helps reduce the number of questions in the application. All this data is then available for analysis to help identify areas that can be improved in the new business process.

For more information about the Pacific Life implementation, please watch this presentation at the ACORD-LOMA Forum on May 6-8 in Las Vegas: <http://vimeo.com/69883640>

The automation of the underwriting process is also critical when experiencing underwriting skills shortages. Underwriting engines can be used to automate all or parts of the underwriting process. This gives underwriters more time to focus on the more complex or high value cases and develop relevant and unique underwriting approaches for new products and sales channels.

By taking advantage of underwriting automation, life insurance companies can proactively measure risk and constantly fine-tune their application process, product lines and prices and ensure that the premiums being offered are competitive while minimising turnaround time. The potential of automated underwriting for reducing costs and improving customer service is just the beginning: a plan designed for an innovative sales process can offer the agent and insurance customer a different, more attractive purchasing experience which in turn makes the product new and individual. Unique products promise more market value, profitability and staying power than their standard counterparts.

New business and underwriting automation – Asia trends

Now let's have a look at some of the trends in Asia. We also see an increasing focus on electronic new business processes.

The Japanese example

SONY Life - Deploying automated underwriting on tablet PCs for its tied agents

In October 2012 SONY Life Japan introduced a paperless life insurance application process which allows their network of tied agents called Life Planners to automatically underwrite policy at the point of sale using their Sony tablet PCs. SONY Life has over a sales force of 4,000 Life Planners working from about 90 field offices spread all over Japan.

This new paperless process not only digitally captures answers on the application form, but also automatically generates additional questions in case of a medical history of injury or sickness, so that the declaration can be completed at point of sale. Currently, about 4,000 Life Planners are using this state-of-the-art paperless application/declaration process countrywide. A revolutionary tablet-based process which can be completed on-screen from start to end of the application was not only stimulating customers but also the Life Planners. Troublesome paperwork was simplified, enabling a smooth process which is extremely pleasing to Sony Life's customers. Thanks to this refreshing feedback from customers, this new process spread throughout Japan in no time.

Just two months after the roll-out, Sony Life completed 93% of all applications for which the paperless process can be used. This by far exceeded Sony Life's first-year target. The background of this fast penetration - without particularly forcing automation and keeping conventional processes in place - is not only due to paperless processes as such, but also due to the fact that applications with medical histories of injury/sickness can be completed at point of sale.

In 2012, Munich Re Japan carried out a survey called **"Enterprise digitisation – modern technology to improve business performance"**. This was the first industry-wide survey on new business processes and underwriting in Japan. 20 life insurers from various segments (traditional, non-life owned, foreign-owned, multiple- and single-channel) participated in this survey. In the survey, insurers recognised that moving to electronic new business processes is a valid approach to tackle growth and efficiency challenges. However, we found that limited scope initiatives seem to be the

order of the day, as insurers test the waters. This is typical of markets where insurers are at the early stage of digitisation. Given global developments with regard to mobile, Big Data and social media, together with the stage of development Japanese life insurers are in, we expect that full digitalisation and end-to-end transformation of the new business process will dominate the strategic agenda of Japanese life insurers in the coming years. For details on the survey, please contact our office in Japan or email dbordas@munichre.com.

Another Asian example – Cigna International

Munich Re Automation Solutions partnered with Cigna International to create a regional point of sale automated underwriting solution. Cigna was looking for a regional underwriting solution to develop automated underwriting tool and process at the point of sales for various distributions and products including Healthcare, Life and Accident & Health benefits. The solution will be implemented in multiple countries and languages in Asia and deployed across multiple sales channels including telemarketing, bancassurance and telesales.

Drive towards online sales channel

India is leading the way – one of our customers Aviva India recently launched an online offering called iLife. To expand growth, they became the first company in India to fully automate online customer intake and interactive underwriting at the point of sale.

New regulations, for example in Singapore may also force the hand of life insurers. The FAIR Panel has made recommendations towards the development of online sales to make life insurance products more accessible.

Paperless and Digitisation programs

Across the global life insurance industry, enterprise digitisation is gathering pace and momentum is building quickly. Moving from a paper to digital world is a staggering opportunity for insurers to gain competitiveness. On the one hand, there is the risk of project failure as well as wasted investment. On the other hand, project success lays the foundation for sustainable growth at the expense of insurers who do not embrace digitisation of their processes or implement world-class electronic new business processes. Thus, the risk of not digitising underwriting processes is far greater than the risk of actively moving with the trend, or even be a trendsetter.

Key imperatives for success

There are a numbers of key macro technology trends that are impacting life insurance distribution. These trends are creating new and compelling ways of engaging and understanding customers that should be taken into account in your new business strategy.

Key trends

1. The power of social media

Social media is creating a new paradigm of access to and interaction with customers.

Customer engagement is becoming crucial. People want to be engaged and social media can help build better profiles of your customers. Social Media will represent a rich source of Big Data consumption in the near future.

2. Big Data & analytics

Insurers need to consider how Big Data can help reduce risk and increase revenue. One of the most valuable applications of Big Data for life insurers is the ability to predicatively underwrite i.e. using electronic data to predict risk and reduce the number of questions in the life application. In the last 10 years, the number of insurance workers 55 or older has increased by 74 percent. With 20 percent of the underwriter workforce nearing retirement, we will need 25,000 new underwriters by 2014. Where will the new underwriters come from? And more importantly, what will be the impact on underwriting accuracy? Automated Underwriting plays a significant role in combating this shortage. Predictive Underwriting using analytics is helping to negate the shortage entirely. Predictive analytics uses statistical and analytical techniques to develop predictive models that enable accurate predictions about future outcomes. Incorporating predictive analytics requires an evolution in terms of people, process, and technology, and thus executive level support is important to facilitate adoption internally. Carriers who fully adopt predictive analytics are more competitive in gaining profitable market share and avoiding adverse selection as more analysis at the back end can result in better customer segmentation.

3. Mobile / Multiple devices

The prevalence of mobile digital devices has led to a profound change in how business is now undertaken in Asia. Consumers demand products and services instantly. It is vitally important that the insurance industry takes advantage of these opportunities. Mobile is no longer the future – it is the now! Underwriters face a much more interesting and automated future. Life insurers in Asia are presented with perhaps the greatest opportunity to leverage the

synergy of the digital device revolution. Over 194 million new internet users will come online before 2020 in ASEAN, 91 million in Indonesia alone. Smartphone sales in Asia are outstripping those of any other region with 70% of the population in Malaysia and Singapore owning a smartphone as opposed to 52% globally. Tablet ownership is similar with a 27% ownership rate across the ASEAN region as opposed to a global average of 15%.

Key considerations

1. Deliver compelling user experience across all devices

The proliferation of mobile devices from providers that use various operating platforms such as Apple iOS, Google Android, Windows 8 or Blackberry OS for example, means that developing solutions for a plethora of different devices is difficult. Whilst mobile devices present opportunities to the life insurance industry, it is imperative that insurers provide a consistent user experience across multiple devices and deliver effective digital solutions to take advantage. The move to a more fluid user interface design, where screens respond to the device being used to view them, is becoming more popular within.

Perhaps the biggest advantage of mobile multi-platform digital solutions is the impact in reducing the sales cycle. Data capture mobile applications are not enough and to be truly beneficial to the agent, mobile digital solutions should harness the power of automated underwriting. This gives the agent the flexibility to close a sale in a single meeting and dramatically improve the client experience. An agent could visit a client, capture application information on his digital device and deliver an underwriting decision in a matter of minutes. Automatically underwriting the application and accepting a client at point-of-sale greatly increases the agent's chances of completing the sale.

2. Continually drive to minimise questions at the front end and use data smartly

Answering underwriting questions has been, and continues to be, the most cumbersome part of the life insurance sales process. The goal of the underwriting rules engine should be to gather all relevant underwriting information in as few questions as possible. To achieve this goal, they must consider not only what is asked, but also how and when a question is asked. Questions must be scripted such that the answers provided are specific enough for an applicant to provide an equally specific response. The more specific the response, the more effective the underwriting rules engine is at selecting good risks.

In order to get an answer as quickly as possible, underwriting rules engines must use all available information to make a decision. The availability of digitised data that can influence an underwriting decision is immense. An effective underwriting rules engine must use all available electronic data and adapt to the information gained from these other sources. If you know the

applicant is on medication for high blood pressure, this knowledge should be used in both the type of question you ask and your decision.

At the back end you can use “predictive analytics” to deliver the “reason to act” at the perfect time, on the right device and develop greater understanding of your customers and your operations.

3. Increased agility and adaptability

New business and underwriting automation is a journey. You won't know everything on day one. Underwriting is constantly evolving. Change may be driven by new research, tools, products or philosophies. Regardless of the reason for change, an underwriting rules engine needs to be easily updated in order to adapt. You need to be ready to make adjustments, learn and improve. And for that you need flexible technology that will enable you to evolve and support you through your automation journey; technology that will help you harness opportunities provided by major technology trends such as Mobile, Big Data and Social Media.

Interfaces with third party database need to be easy to configure, and underwriting rules need to be easy to change. Delays in rule changes or in configuring to new data sources can quickly cost companies in terms of missed opportunities to put good business on the books, or, worse, putting poor business on the books while rules wait to be changed or anti-selection continues.

4. Actionable intelligence for all

The final consideration is the value of your electronic underwriting data. You need to make the most of this information to understand more about your rules, about your customer, about your operations so you can make the right tactical and strategic adjustments. Actionable intelligence is key. It will guide you to the right products, agents, channels and marketing.

5. Choose your partner wisely

Of course there is no substitute to proven experience and learning from other's mistakes. You need to make sure you choose your partner wisely.

Summary

Quality underwriting rules engines produce more than just an underwriting decision. They are data facilitators, productivity enhancers, quality controllers and revenue drivers. Underwriting rules engines enhance the underwriting process by allowing the right case to get to the right underwriter with the right information at the right time. Data is leveraged to render decisions and transferred downstream for practical reporting and business analytics in order to monitor the business in real-time, allowing companies to take full advantage of rules that are easy to change and drive their business forward.

As “Big Data” gains traction and advanced technology leads to new risk management tools, tomorrow’s underwriting rules engines will become increasingly important when it comes to entering new markets, reducing costs, driving consistent mortality and morbidity results, enhancing the agent and client experience and ultimately growing your business profitably. Will you be ready?

For the latest updates on new business and underwriting automation and Munich Re Automation Solutions, please visit: automation.munichre.com