

Underwriting The New Paradigm

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Advances in product development, medical underwriting and automated underwriting have created a win-win climate for insurance companies and consumers. For the particulars, read on.

The new underwriting paradigm is an evolution that provides cost efficiencies for life and disability income insurers and a much better customer experience for the applicants. With insurers looking to make better pricing and risk assessments, brokers asking for faster decisions, and consumers demanding a hassle-free application process, product development and underwriting automation play a strategic and pivotal role in streamlining the new business acquisition process and helping insurance companies reach a broader base of potential clients. Most importantly, both can serve as the route to growth in large and underserved customer segments, including the individual middle market and group voluntary market.

Product Development

Underwriting needs in the life and disability income markets, and the individual and group segments, are diverse with little in common in the way of risk assessment (mortality versus morbidity). However, convergences exist that create opportunities to build a single application and align automated rules engines for simultaneous enrollment. Examples include chronic debilitating conditions such as diabetes or kidney disease, which often result in long-term disability (LTD), life waiver and premature death claims.

Life and disability insurers have tailored underwriting guidelines of existing products in an effort to drive new business in the underserved markets. Where individual life simplified issue products were once underwritten using “knock-out” questions and price loading, they now have shifted toward real-time databases with pricing moving closer to fully underwritten standard rates. As pricing and underwriting models continue to be refined, pricing will continue

to move toward that of fully underwritten policies, making simplified issue products more competitive with fully underwritten business.

Many individual disability income products also have simplified underwriting programs geared toward faster turnaround times. Maximum issue amounts are modest—between \$3,000 to \$6,000 per month—with routine medical exams and financial requirements waived. Cases are evaluated based on a full application and telephone interviews, although medical records can be obtained as necessary. Underwriting outcomes can include exclusions, ratings, benefit period limitations, or any combination of these.

Group life and disability insurers long ago streamlined their guaranteed issue procedures. For example, medical underwriting isn’t required when employees apply for and/or receive life or LTD benefits up to the guaranteed issue (GI) limit. Employees acquired through merger or acquisition and currently enrolled in an existing benefit plan are typically grandfathered in at their current benefit level, whether below or above GI limits. Medical underwriting and GI limits typically apply to new employees, as well as employees applying for or increasing benefits outside of the enrollment period. Still, insurers are looking for new ways to automate the medical underwriting process. The few applicants who are medically underwritten usually have the highest potential to negatively impact profitability (e.g., high amounts, older ages).

With the focus on the middle market, life and disability income products have become more attractive and competitive. Historically, individual life policies for this market covered individuals aged 21-40 with a maximum benefit of \$250,000. Now, the age range has expanded to ages 18-50 with a maximum benefit of \$500,000. With employees



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extending their careers into later ages, and continued improvements in underwriting and pricing, the range could increase to ages 18-60 years and maximum life benefits could reach \$1 million.

At the same time, straight through processing (STP) rates have showed steady increases. Whereas STP rates were usually low due to the uniqueness of this process and lack of expertise, now STP rates of 70 percent are being reached. It's not out of the question to think that higher STP percentage rates are achievable in the future.

Predictive modelling has also been widely adopted in the life and disability income markets. While property and casualty insurers have utilized predictive modelling for years to underwrite auto and homeowners policies, life and disability income insurers have begun using predictive modelling to increase sales by making recommendations on similar products already purchased by the consumer. Stronger modelling could be used for front-end processes such as marketing and underwriting and back-end processes like claims.

Medical Underwriting

The medical underwriting process for individual life and disability income insurance is not dissimilar to group life and long term disability. The real differences occur once the medical underwriting decision is made. Unlike individual life policies, rejected applicants applying for group coverage are still eligible for coverage amounts up to the GI limit and at the same rates offered all other employees.

No matter the market or product, underwriting manuals are consistently utilized. Today, the hard copy manuals and spreadsheets have given way to web-based manuals that are accessible through desktop, laptop and tablet computers. Many manuals have the same search functionality as Google, with calculators covering a wide array of conditions and maladies. Reference materials and medical images are commonplace with manuals, along with the annotations of critical data and notes. And, like most software applications, underwriting manuals are constantly adding and updating content through regularly scheduled updates and special releases.

Mature age underwriting in the individual and group life markets has seen some of the most significant advancements in the past few years. Due to the aging workforce, delayed retirements, and lack of new hires, group life risks are changing, with most group life plans including different

GI limits for older ages (e.g., age 65 or 70). Extended age reduction schedules have been introduced to accommodate extended career duration. Other products being introduced include retiree coverage and 30-year term life policies starting at age 60.

With changes in automated underwriting and more competitive product offerings, changes also needed to occur with the medical review process. Established underwriting requirements such as chest x-rays, stress tests and fluids exams are giving way to real-time access to electronic databases, including the motor vehicle reports (MVR) and pharmacy data, along with self-reported blood pressure and cholesterol levels.

To support the streamlined medical underwriting process, consumer accessibility is changing through the acceptance of e-applications and e-signatures by most major carriers, as well as government regulators. While these offer increased efficiencies for the consumer and carrier, laws will have to be updated to support certain processes such as e-delivery of policies.

Automated Underwriting

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.

Unfortunately, automation is lagging in North America. A 2011 survey of life insurers conducted by U.K. Consultancy SelectX and U.S.-based Hank George Inc. found that less than 20 percent of life insurers in North America have implemented automated underwriting. This compares to 50 percent in the U.K. and Ireland, 55 percent in South Africa and 70 percent in Australia and New Zealand. The survey also found that a large number of American insurers are now considering implementing an automated underwriting rules engine. There are many good reasons why they should do so:

- **Fewer errors, faster decisions, lower acquisition costs, and increased sales.** Automation and modeling is the growing trend as insurers seek efficiency, consistency, and timeliness, and automated rules engine development is a high priority. Insurers can modify applications

as they mine databases while assessing the predictive value of questions, removing those that don't significantly predict mortality or mortality. Automated 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. Automation opens up new sales channel options, such as tele-underwriting and direct-to-consumer, and allows insurers to capitalize on the cost efficiencies of doing more business online.

- **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. Modern underwriting technology gives underwriters complete control and visibility into the effectiveness of the rule sets that support their underwriting decisions. It allows underwriters to analyze the underwriting process and iteratively improve the rules. 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 growth in their business.
- **Better customer service.** The customer experience must be changed for the benefit of the applicant and the life insurance industry. 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. Now more than ever there is a need

for intelligent technology to support more varied sales strategies that will make it easier for insurance customers and intermediaries to buy/sell life insurance products. A survey of 103 financial advisors taken by Saybrus Partners during the 2012 Financial Advisor Retirement Symposium found that more than 56 percent of financial advisors are uncomfortable speaking about life insurance to their clients. "The process is cumbersome; the applications are long; the underwriting process takes so long. You're putting the client through exams. It's intrusive," said Kevin Kimbrough, national sales manager for Saybrus Partners. Automation also provides a solid basis for launching less complex 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.

- **Speed with accuracy.** Today, most of the information life insurers need to underwrite an application is available from various electronic data sources. The underwriting evidence requirements have been changed from fluids and medical records that can take months to process to real-time electronic databases. This electronic data can be processed by automated underwriting technology and can be utilized without manual intervention to assess the risk more accurately and facilitate rapid decision making and quick policy issuance. The first data sources to gain acceptance in individual life insurance underwriting over the past 10 years were MVR, pharmacy data, and MIB, and group insurers are increasingly using these data sources in their underwriting procedures. As lab results are becoming available electronically, utilization 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.

- **Reach new customers.** The 2012 Conning Research & Consulting study Opportunities in Reaching the Middle Market with Life Insurance: New Pathways to Growth found that the protection gap for the middle market is now estimated at \$10.2 trillion.



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The 2010 Trends in Life Insurance Ownership study, conducted every six years by research and marketing group LIMRA, found that only 44 percent of U.S. households have individual life insurance and the number of U.S. households that have no life insurance whatsoever is growing. Underwriting automation provides new opportunities to reach a new generation of customers accustomed to a wide range of choices and instant access to information. Attempts were made to reach these customers with simplified underwriting. The driving factor in the evolution of the simplified underwriting process was the advent of selling life insurance on the Internet. This evolution made it necessary to simplify and speed up underwriting for busy consumers who want to buy life insurance within a few minutes. The accepted wisdom with simplified underwriting was that by avoiding full underwriting with medical exams, the insurer was at greater risk, and therefore had to charge higher premiums. However 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. This has given rise to the need to bring premiums for simplified issue policies back in line with fully underwritten policies, and this cannot be achieved without better risk assessment. By taking advantage of underwriting automation, life insurance companies can proactively measure risk and constantly fine-tune their product lines and prices and ensure that the premiums being offered are competitive while minimizing 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.

- **Meet changing consumer needs.** For most consumers, life and disability income products aren't viewed as investments, but rather as income replacement and debt protection alternatives. Both the individual and group segments have struggled in marketing and meeting these basic needs. Along with simplified and guaranteed issue policies, insurers have introduced products to capture that once-thought unprofitable business. Single-need business products such as disability buy-out and key person disability income, along with retirement security and lump sum

disability income (DI) products reflect the industry's move to more customization of a historically standard product. In developing simpler and more attractive products with quick turnaround, insurers have to develop new approaches that are driven by consumer behaviors and needs rather than sales imperatives. New technology is driving consumer's needs, and they are demanding a different buying experience. Today's consumers expect rapid delivery and having their individual needs met. To attract new customers, life insurers need to adopt quicker, easier entry points and develop more varied sales strategies. Mobile and social media is the way the world is communicating, and this needs to be incorporated into the conversation between agents and underwriters. Producers should seek new ways to communicate with consumers so they can better understand their needs and create more tailored solutions. New web technologies are transforming the insurance purchasing model. Empowered by the web, consumers are looking for the best deals and are expecting the same price transparency from life insurers.

These trends in product development, underwriting and automation have paved the way for cost and operational efficiencies with life and disability insurers, while meeting the needs of a broader and more educated consumer market. Competitive pricing and faster, sound decision-making has enabled insurers to enter markets once believed to be unattractive, with individual life insurers gaining significant momentum in the middle market.

The group market is also developing automated underwriting capabilities, having lagged behind the individual market for years. Group insurers have the benefits of "lessons learned" from the individual market, and can make careful decisions on the most effective processes and procedures. This is essential for voluntary and worksite products, where medical underwriting is more commonly required at lower face amounts.

What's next? Many factors will answer that question. Health care reform and other regulatory issues will have an effect on all markets, especially group. Consumer need, as always, dictates the direction of the market. But, more than anything else, the continuing fusion of strong underwriting rules and technology will, for the immediate term, play the largest role in the individual and group life and disability markets. ◆

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