

The fast track to new business

New products, target groups and sales channels plus greater efficiency – the key ingredients of healthy business development are the same across virtually all industries. This success formula is just as valid for life insurers – and automated underwriting is one of the best tools for putting it into action.



Swiftness is a key success factor:
speed of issue is vital in today's world
in order to secure market position.

Rudolf Lenhard and Andrew Rear

The global life insurance market has seen vigorous growth over the past several years. Despite the partial slowdown triggered by the recent financial and economic crisis, the upward trend continues. Two of the main reasons for the robustness of the life segment are demographic change in mature regions and strong demand in emerging markets.

As welcome as this growth is, it has also brought challenges: gone are the days when managing the risk per se was enough for healthy life business. Competition is becoming increasingly fierce. Expectations placed on service, accessibility and processing swiftness are rising. To secure long-term profitability, insurers must not only enhance efficiency and productivity – especially in the area of new business – they must also set themselves and their products apart from the competition.

More and more companies are responding to these challenges by implementing a solution that revolutionises the sales process, enhancing the attractiveness of existing products and paving the way for new covers: automated underwriting. In some 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.

Automated underwriting in practice

In 2009, an innovative life insurer in Asia approached Munich Re with a problem: it consistently launched new and successful products only to see them copied by competitors within just a few months. Operating in a price-driven market dominated by independent brokers, the insurer saw no way of setting its new covers apart from the many “me too” products that followed on their heels.

In a series of three workshops held over a period of about two months, representatives from the client company and experts from Munich Re’s Automation Solutions Division worked alongside our local market team to analyse the situation and establish a clear picture of the client’s needs and goals. Two main objectives emerged: to protect products and sales processes from easy imitation by competitors and to achieve a stronger position in the context of independent sales channels.

“Customers clearly appreciate this new system. It enables them to provide us with medical information in a much quicker and easier way. And as a consequence we can more quickly provide them with clarity about the acceptance of the risk.”

Valentina Visser, Manager – Health & Income Protection, De Goudse, The Netherlands

In intensive and open dialogue, the teams from both companies jointly evaluated the client’s existing product development process and sales approach. A mismatch was revealed: the insurer was equipped to develop innovative products, yet its sales processes followed conventional practices, allowing little room for competitive differentiation. This analysis served as a starting point for exploring possibilities and collecting ideas for potential solutions.

It became clear that innovative products alone were not enough: the client’s continuously updated range of covers needed the support of a highly attractive new business process in order to secure a competitive advantage. To ensure maximum buy-in and strong support at the sales level, independent brokers would have to be involved in the design process at an early stage.

“We wanted to introduce tele-underwriting, but didn’t have the necessary interview script with corresponding decisions. To this end, the Munich Re rules set was our first choice. Its intelligent questioning technique and easy-to-understand language allow tele-interviewers to reach differentiated decisions for instant issue of policies.”

Alexander Graf, Head of project automated underwriting, AXA, Germany

Automated solutions to meet every set of needs

Point of sale (POS) underwriting

By placing automated underwriting tools at the point of sale, a life insurer can shift much responsibility for processing the majority of applications to agents and sales staff. Specialised underwriters are freed of routine tasks, yet remain available for consultation in complex cases.

Effectiveness of POS automated underwriting hinges on the quality of the solution: user interfaces must be straightforward, operation absolutely trouble-free. Technical aspects and medical conditions must be well structured and described in easily understandable terms. Only then is optimal support of the sales process guaranteed.

When successfully implemented, this type of automated system is welcomed by sales staff (as indicated in a study conducted by Munich Re), who appreciate the empowerment and knowledge gain as well as the added convenience and time that has been freed up to do more selling. Straight-through processing (STP) rates are boosted and customer satisfaction increased.

Tele-underwriting

Specially trained contact-centre staff members use computer-based tools to process applications, enabling them to reach most underwriting decisions immediately. In telephone interviews, customers answer a series of questions supplied by the IT system. The questions vary depending on the cover or combination of products applied for, and thus provide a realistic assessment of the risks represented. Sales staff concentrate on the pure sales process, while underwriters handle complex cases only.

Complete reliance on tele-underwriting (big-T tele-underwriting, or scripted drill-down questioning) is especially suitable for bancassurance or internet-based business models. While a Munich Re study carried out by YouGovPsychonomics in Germany showed that agents were sceptical about possible relinquishment of authority, bank employees welcomed the concept. Many applicants appreciate the relative anonymity of the telephone interview situation and medical knowledge of the call-centre staff, especially when personal health aspects are involved.

Provided it is well structured and organised – and a good fit with the sales channel – this automation approach can effectively raise STP rates.

Hybrid solutions

A third category of automated solution combines POS underwriting with tele-underwriting. It brings together the advantages of both forms: an automated POS solution enables sales staff and agents to finalise most applications without further intervention, while optional tele-underwriting (small-T tele-underwriting, or discretionary interviews carried out by underwriting or medically trained professionals) makes specialists available for more complex cases. When detailed medical questions are involved, the external underwriters assume responsibility for contacting the applicants and completing the risk assessment process.

This approach to automation places sales staff in a strong position, as the vast majority of applications can be handled without referral or review. At the same time, expert support is there when needed. Its acceptance among agents is accordingly high.

A combination of automated POS underwriting and small-T tele-underwriting is convenient for customers and employees. It can streamline new business and boost STP rates.

New process, new sales expertise

The design process was set in motion, based on the general concept of a point of sale (POS) solution and involving carefully selected independent brokers. It was agreed that the new process would place some underwriting functions directly in the hands of agents at the POS, thus enhancing their expertise and authority. Brokers would not only be able to give final quotes, but also to offer alternatives in cases where loadings, exclusions or declined covers made the original product unsuitable. A smoother sales process and reduced processing time would make the solution more attractive to customers and agents. Once up and running, the system would facilitate new

product launches, as POS underwriting would already be in place.

The POS underwriting system Allfinanz Interview Server was implemented in conjunction with a comprehensive set of Munich Re underwriting rules. Munich Re's Allfinanz Business Analytics software, installed in the background, was continuously fed underwriting and performance data from Allfinanz Interview Server and produced regular reports (see box on page 42).

Implementation took place within just months, backed by Munich Re's experience in comparable projects. A roadshow accompanied the process to

further secure acceptance among independent brokers. Allfinanz Business Analytics provided key information after implementation, notably in terms of monitoring the various sales channels. This allowed timely removal of any barriers within the sales process as they emerged.

Benefits for the insurer and agents

The sales approach, unique in the life insurer’s marketplace, significantly enhanced its attractiveness among independent agents. A key factor in achieving this was the greater speed and efficiency with which policies could be issued – and thus commissions earned. Although protection of product designs remained an issue, the company’s competitive lead increased and newly launched covers retained their unique position in the marketplace for a longer period, resulting in higher overall sales volumes.

A further benefit of the improved convenience and swiftness of the sales process was cross-selling: the client experienced a marked increase in riders sold. Positive side effects included optimised efficiency and cost reduction.

The success of the project was built on a number of strengths. Perhaps most important was the relationship of trustful collaboration between the client and Munich Re. This was supported by on-site work that began in the early analysis phase and continued throughout the solution-finding stage, right up to the implementation itself. This intensive dialogue enabled Munich Re’s experts to gain a deep understanding of the client’s situation and, ultimately, to develop a tailored end-to-end solution in response.

But this would not have been possible without Munich Re’s underwriting experience and know-how in translating technical underwriting guidelines intended for specialists into easy-to-understand questions and instructions for use at the point of sale – without compromising risk assessment quality.

“Adviser productivity has benefited most. We know advisers’ dollars in per-hour has risen. One adviser received our e-mail notifying him of further underwriting requirements while still meeting with that client. That is fast service.”

David Denison, Head of Product, TAL, Australia

Munich Re has a strong track record of enabling insurers and banks worldwide to boost STP and “instant issue” rates. The company’s clients typically set the benchmark for STP rates across various markets and segments – e.g. 95% STP rates for the bancassurance channel, or 45% for complex, high-advice (and income protection heavy) products, near 100% for direct, underwritten products. In addition, Munich Re was in a good position to supply cutting-edge IT-based tools that ensured comfortable day-to-day functionality coupled with monitoring and evaluation features. These open the door to increased transparency, which in turn can drive rapid operational responsiveness.

“Pretty rapidly, we achieved 50% of applications becoming straight-through processing and we have continued to build on that success. We’re enjoying the experience.”

Andrew Potterton, Chief Medical Underwriter, Unum, UK

Fig. 1: Automated and manual underwriting in comparison

Underwriting stage	Days	Industry norm	Target with 4th generation URE*
1. Base questions	1	14%	60%
2. Further questions	-	-	-
3. Manual underwriting	31	52%	30%
4. Tele-underwriting	-	-	-
5. Medical evidence	82	34%	10%
Average duration (norm)	52	100%	-
Average duration (target)	18	-	100%

The table illustrates how reducing the referral rate significantly accelerates average policy issuance time.

* Underwriting Rules Engine

A perfect solution means a perfect fit

The case is just one example in the wide spectrum of automated underwriting scenarios. A bancassurance sales situation, for instance, has a different set of demands: a POS system such as used here can be counterproductive in bancassurance, as applicants are often uncomfortable giving detailed and personal health information to bank staff. An effective alternative in bancassurance can be tele-underwriting, which connects applicants with trained experts in an anonymous telephone interview situation.

In other words, there is no one-size-fits-all solution. Finding the ideal approach or combination for a given company means connecting its unique mindset, demands and workflows with proven technologies and processes. And that is only possible with substantial, real-world experience.

One idea, many advantages

Automated underwriting delivers an array of benefits: it opens up new sales channel options, such as bancassurance or online; it enhances the expertise and selling power of customer-facing staff; it provides a solid basis for new products; it largely frees insurers from the costly and time-consuming paper-based underwriting process, thus enabling them to process increasing volumes of new business efficiently. And, in the case of North America, it can be the route to growth from previously unprofitable, yet very large new customer segments such as the middle market.

The Munich Re automated underwriting toolbox

Munich Re Rules Set

Munich Re offers a comprehensive electronic set of underwriting rules. It forms the basis for speed, efficiency and reliability in risk assessment via telephone, internet or POS. In conjunction with an IT tool such as Allfinanz Interview Server, it provides clearly understandable questions and decision trees to guide the user through each step of the underwriting process.

The solution covers all relevant areas of risk assessment and is adaptable to an insurer's risk appetite and product portfolio.

Allfinanz Interview Server

Specially designed for the sales situation, Allfinanz Interview Server draws on the underwriting resources of the Munich Re Rules Set. It presents its decision trees intuitively, adapted to the selected product or product combination. The risk assessment itself takes place automatically, accelerating application processing.

With its easy-to-use Rules Designer function, Allfinanz Interview Server can be adapted to an insurer's individual needs and approach. The feature requires no special IT skills or knowledge of a programming language. It shows rules, their context and interactions graphically, allowing trouble-free use by underwriters without reliance on manufacturers.

Allfinanz Decision Server

An adapted version of Allfinanz Interview Server, Allfinanz Decision Server is designed for back-office automated underwriting. Rather than rating risk-related information in dialogue with the applicant, this solution provides a decision solely on the basis of the data collected in the application form and other internal and/or external data sources.

Allfinanz Decision Server is a cost-effective and easily implemented system, and thus an attractive option for entry into the world of automated underwriting. It can be upgraded to Allfinanz Interview Server at any time and without disproportionate effort or expense.

Allfinanz Business Analytics

For sound information, analysis and reports on all aspects of new business, Munich Re offers Allfinanz Business Analytics. It operates seamlessly with Allfinanz Interview Server and Allfinanz Decision Server as well as a wide spectrum of other business IT applications.

The solution ideally complements automated underwriting, adding the dimension of ongoing, real-time intelligence. It helps insurers track which health risks lead to the highest claims, for example, the average cost of finalising a sale or which sales channel is most profitable for each product. Individually configured reports on business processes and performance are issued at regular intervals or on request. The tool is a constant source of invaluable strategic insight.

A look at the figures brings the advantages into especially clear focus: in the USA, insurers often incur printing costs as high as US\$ 50 for paper-based applications, which can take up two months to process. Close to half of applications submitted are ruled Not in Good Order (NIGO), and cost even more time and money – as much as US\$ 300 – to complete. As if these expenses were not reason enough to seek alternatives, the time taken to process applications is also directly linked to not-taken-up (NTU) rates.

But the potential of automated underwriting for boosting straight-through processing (STP) rates and sales is just the beginning: a cover designed for an innovative sales process can offer the intermediary and insurance customer a different, more attractive purchasing experience, which in turn makes the product new and individual. And unique products promise more market value, profitability and staying power than their standard counterparts.

Best-of-breed solutions go beyond automated underwriting to include real-time data analytics. This supplies management with actionable business intelligence on an ongoing basis for highly effective planning and decision-making.

With a 20-year track record of implementing automated underwriting in different regions of the world, Munich Re has earned a leading position in the field. In-depth local market knowledge enables us to support clients in making the transition and applying automated solutions to various sales and distribution channels and in compliance with different legal frameworks.

>> A study on this topic conducted on the German market can be found on our client portal connect.munichre.com

Fig. 2: New business leakage

Underwriting decision (in weeks)	Not-taken-up rate (in %)
1	9
2	12
3	12
4	16
5	24
6	23
7	25
8	27
9	31
10	36

The main determining factor in the duration of a case is whether or not it requires referral and/or a request for medical evidence. As the table shows, the longer it takes to review an application, the higher the NTU rate.



OUR EXPERTS

Rudolf Lenhard is Head of International Life at Munich Re in Munich.
rlenhard@munichre.com



Andrew Rear is Head of the Life Branch of Munich Re in London.
arear@munichre.com