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sorel life insurance company: improving underwriting performance

Shu Cha wrote this case under the supervision of Professor P. Fraser Johnson solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On the morning of Monday, July 23, 2018, Chloe Min, operations manager at Sorel Life Insurance Company (Sorel), sat in her Montreal office reading an email from her boss, Rodrigo Garcia, vice-president of operations. Chloe had joined Sorel in May 2017, after graduating with an MBA degree, and was starting to wonder if she should have taken a position with a different company. The email from Rodrigo contained the following:

The results for the second quarter just came in and the performance of the underwriting group has continued to decline. Compared to Q3 [third quarter] last year, our market share has dropped 15 per cent, policy completion time has increased by seven days and we processed about 2,500 fewer applications. We are getting complaints from agents about our poor turnaround time. Something has to be done about this situation; otherwise, some of us will be looking for a new job.

Ever since we installed the new system last year, you have been concerned about our staffing levels in the underwriting department, but when I look at the numbers, we have more than enough people. If anything, you might be overstaffed in some areas.

I want to meet on Friday at 9:00 am to discuss the situation. We need a solution, so come to the meeting with specific suggestions.

After reading Rodrigo’s email, Chloe reviewed the operating results for the second quarter of 2018 (see Exhibit 1), wondering what recommendations she could provide in the meeting at the end of the week.

CANADIAN LIFE INSURANCE INDUSTRY

More than 22 million Canadians owned some form of life insurance in 2017, paying approximately $21.4 billion[[1]](#footnote-1) in premiums.[[2]](#footnote-2) Although most people purchased life insurance to provide financial protection for their family in the event of premature death, life insurance was also used as an investment vehicle, for estate and retirement planning purposes, among others. A wide variety of life insurance products was available to meet the needs of all consumers. Generally, however, life insurance fell under three broad categories: term, permanent, and whole life insurance.

Life insurance was usually bought on an individual basis, through an agent or advisor who helped clients select the appropriate product based on their needs and financial circumstances. Agents and advisors typically had a relationship with several insurance companies, which helped them compare coverage and premium options for clients. Insurance companies paid a commission to the agent or advisor when a client purchased a life insurance policy.

Sorel was a mid-sized insurance company, headquartered in Montreal, Quebec. Its main product was universal life policies, a form of whole life insurance where the customer selected investment options and the insurer assumed risk related to death. Sorel relied on a network of more than 10,000 independent insurance agents and advisors across the country for sales.

The company categorized applications as simple or complex. Generally, simple policies provided basic coverage, with a total value of $500,000 or less. In contrast, complex policies had a value greater than $500,000, with an average of approximately $10 million. Clients who purchased complex policies were usually high-net-worth individuals who used these products as part of a strategy for estate and retirement planning. The features of complex policies were customized to the individual needs of the client. Although complex policies represented less than 10 per cent of total volume, they accounted for more than 40 per cent of total revenues.

UNDERWRITING PROCESS

The process of insuring a risk, which included assessment and pricing, was the responsibility of the underwriting department. Applications were received either through an online submission or on paper. Paper submissions accounted for approximately 60 per cent of all applications. They were usually scanned and sent via email by the insurance agent or advisor to Sorel, where the information was manually entered into the system. Conversely, the information submitted through online applications did not require data entry.

Rule engine software screened all applications before they were sent to the initial review stage. Generally, 5 per cent of simple applications were declined by the rule engine software, whereas complex applications were almost always sent for an initial review. At the initial review stage, an assessment was made for medical tests required to underwrite the policy, which could include blood, urine, vitals, or electrocardiography tests. In some situations, statements from the client’s physician could also be requested. Collection of the data was outsourced to a national health care services firm, who provided a turnaround time of 15 working days. In some cases, clients did not make arrangements for medical tests, and these applications were withdrawn from the process. Approximately 90 per cent of clients submitted medical tests for simple policy applications, compared to 95 per cent for complex policy applications.

Underwriters were responsible for evaluating and pricing the risk, using the information provided by the client on the application and the results from the medical tests. In early 2017, Sorel installed a new information system to improve the speed and quality of the underwriting process. The new system used artificial intelligence technology to automate the process and standardize the decision-making process. Ultimately, underwriters decided whether to accept the risk and how it should be priced. Applications that were deemed too risky were declined, whereas accepted applications proceeded to be printed and mailed to the insurance agent or advisor. About 80 per cent of simple applications were accepted by the underwriting department and were then printed and mailed, compared to 50 per cent of complex applications.

The company tracked three factors to measure the performance of the underwriting process. The first factor was average number of business days for completion. This measurement tracked the average amount of time required from receipt of an application to mailing out to the agent. The second factor was the placement ratio. This measurement tracked the number of policies accepted by clients as a percentage of the total number of policies printed and mailed. The third factor was overall market share for new policies. This measurement represented sales, in dollars, of Sorel’s new policies as a percentage of total industry sales of new policies in the universal life segment. Completion time, placement ratio, and market share data were compiled by quarter (see Exhibit 1).

EVALUATING RECENT PERFORMANCE

The underwriting department’s total number of staff positions was 33.5. The department’s employees worked from 8:00 a.m. to 5:00 p.m., with 30 minutes for lunch and two 15-minute breaks (see Exhibit 2). Employees were categorized as either junior or senior. Junior staff had less than five years of total experience in the underwriting department and were usually responsible for clerical tasks, such as data entry and printing and mailing, or for initial review and underwriting of simple applications. Senior staff were responsible for handling initial review and underwriting for complex applications. Not including benefits, junior staff in data entry and printing and mailing were paid $45,000 per year. Junior staff in the initial review area received an annual salary of $50,000 and senior staff were paid $55,000. Junior underwriters were paid a salary of $60,000, while senior underwriters were paid $70,000.

After the new information system was added in 2017, Rodrigo implemented a strategic plan to reduce the total number of staff positions in the underwriting department by approximately 20 per cent. The strategic plan affected mainly senior employees, who were offered early retirement packages. To evaluate the productivity benefits of the new system, Chloe had recently completed a study of average processing times for each activity in the underwriting department (see Exhibit 3). Her conclusion from the study was that gains in productivity were close to the expectations when the system was implemented.

However, despite the apparent improvements in productivity, the performance of the underwriting department was declining. The backlog of applications had grown, average processing times had increased, and both placement ratio and market share were in steady decline. As Chloe looked at the information at departmental performance for the last four quarters, she wondered what, if anything she could recommend to Rodrigo in Friday’s meeting to help improve the situation.

Exhibit 1: Quarterly Data for Applications Volumes, Completion Times, Placement Ratio, and Market Share



Note: Q = quarter; each quarter had 13 weeks

Source: Company files.

Exhibit 2: Staffing Levels for the Underwriting Department



Source: Company files.

Exhibit 3: Average Processing rates for the Underwriting Department



\* Number of applications per hour per person

Source: Company files.

1. All currency amounts are in CA$ unless otherwise specified. [↑](#footnote-ref-1)
2. Canadian Life and Health Insurance Association, *Canadian Life and Health Insurance Facts: 2018 Edition*, accessed March 7, 2019, http://clhia.uberflip.com/i/1030763-canadian-life-and-health-insurance-facts-2018/0?target=\_blank. [↑](#footnote-ref-2)