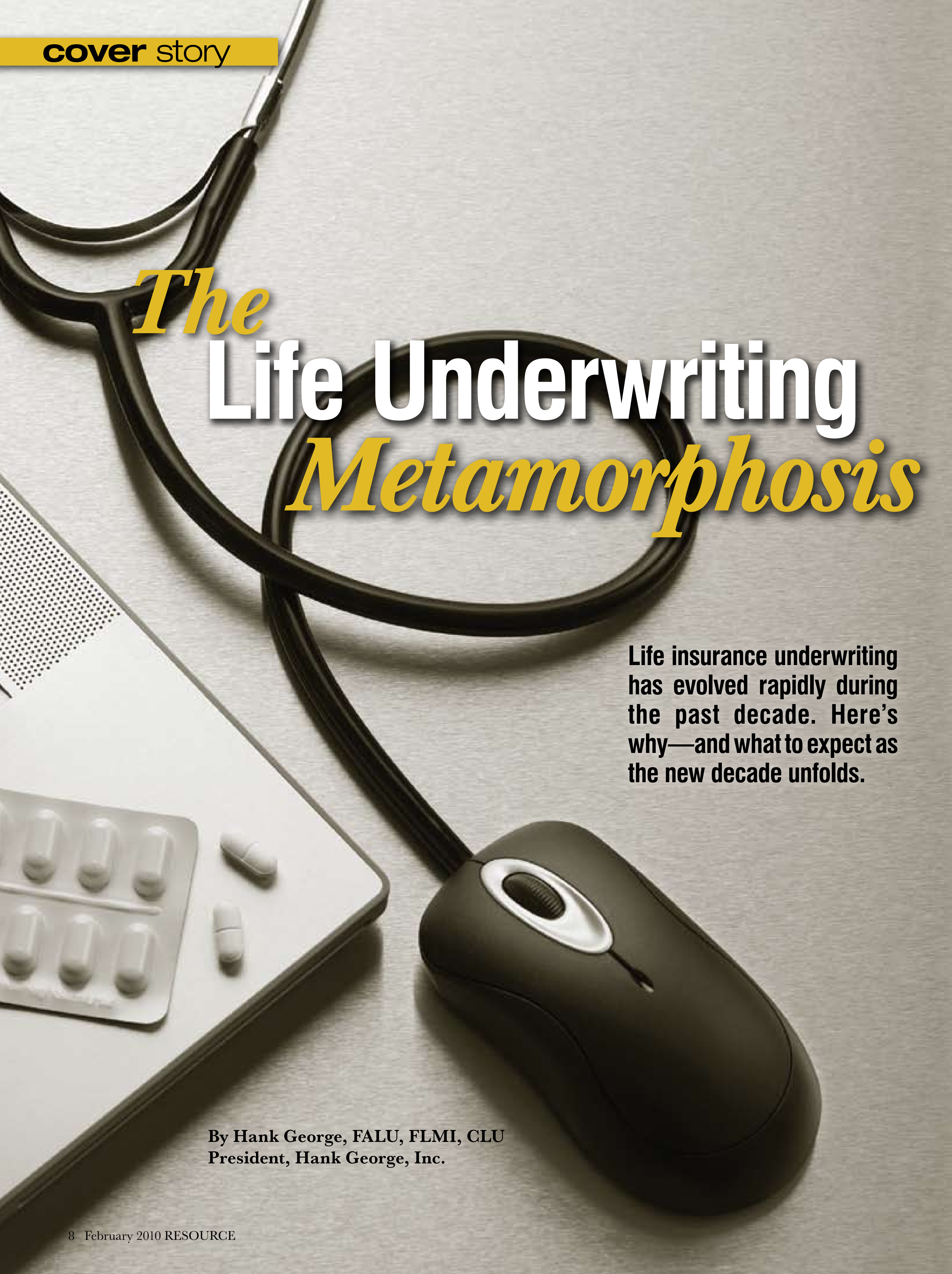


The Life Underwriting *Metamorphosis*

Life insurance underwriting has evolved rapidly during the past decade. Here's why—and what to expect as the new decade unfolds.

By Hank George, FALU, FLMI, CLU
President, Hank George, Inc.

Accelerates

When teleunderwriting began to disseminate in the late 1990s, life insurance underwriting began a literal metamorphosis. The net effect has transformed risk assessment more in the last decade than it changed over the second half of the last century. For compelling reasons, this process will accelerate in 2010 and beyond.

What is driving this change?

With current economic woes, the pressure on senior management to control business acquisition costs has never been greater. Aside from commission structure, the only viable way to favorably impact these costs is by meshing the latest technologies with novel underwriting resources.

Application-to-issue turnaround time has been a perennial albatross for insurers. It remains the rule rather than the exception for fully underwritten cases to linger in "underwriting purgatory" for 20+ days as requirements trickle in.

The only way to materially speed this up is to reconfigure our paradigms, replacing tediously slow assets with those offering hope for significant reductions in cycle time. This initiative is gaining traction every day, due in part to reinsurer support for innovative approaches taken by their clients.

Besides its sluggishness, traditional underwriting puts off customers by imposing demands incompatible with the financial services concept. Given the importance of cultivating new business—not to mention producers who deliver it—insurers need to recognize and then deal with prevailing practices which complicate and encumber the purchase of life insurance.

Sweeping advances in technology are at hand to help solve all of these problems. Insurance executives recognize they must consider every prudent technological option, separating marketing hype from authentic potential. The most dramatic shift here is the growing willingness of many to explore the automated underwriting options many had once rejected.

Transformation Catalyst

In the late 1980s, a handful of proactive carriers experimented with a then-radical alternative to traditional risk history-taking. Instead of relying on producers, paramedical technologists and M.D. examiners to ask the essential questions framing the proposed insured's medical history, they opted for interviews over the telephone.

By the mid-1990s, their success inspired others to delve into what soon came to be known as teleunderwriting. It was clear by then that applicants' comfort zones for complete and truthful disclosure were maximized with teleunderwriting.

The bounty of protective information yielded by drilldown questioning of "yes" answers to application questions allowed underwriters to forego many physicians' reports they would otherwise have needed. This served to lower cost (Attending Physician Statement fees continue to rise) and expedite decisions (the APS is the slowest appraisal tool we use).

The magic of teleunderwriting was not lost on the rest of the life insurance world. Today, it plays a proportionally larger role in the United Kingdom than in the United States. An in-depth survey recently conducted by this underwriter and the U.K. consulting firm SelectX at the behest of SCOR Global Life Re provides our first hard data on the global impact of teleunderwriting.

Probing every salient aspect with over 360 respondents on six continents, this on-line survey reveals that over 75 percent of insurers in North America, the U.K., Ireland, South Africa, Australia and New Zealand currently use teleunderwriting. In some other markets, usage already exceeds 30 percent and the majority of carriers not doing it are either weighing its merits or already at the pilot stage.

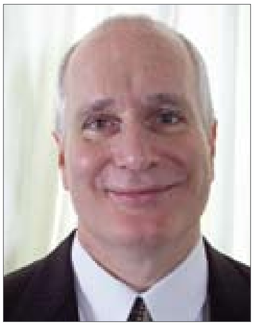
New teleunderwriting entrants report benefits transcending original motives for changing to teleunderwriting. They cite major advantages accruing from reduced antiselection and nondisclosure, as well as superior customer service.

"In all mature teleinterview markets," says SelectX cofounder Susie Cour-Palais, "more than three-quarters of companies reported improved disclosure. Companies also told us emphatically that the quality of disclosures has improved compared to conventional modes of history-taking."

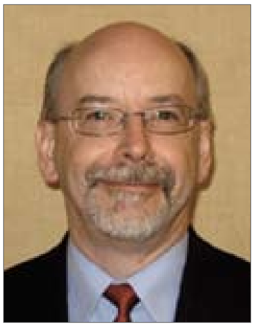
It is particularly encouraging in this regard that survey respondents believe truthful disclosure of smoking habits has increased markedly with the use of teleinterviews. This has also been observed elsewhere with regard to reporting accurate weight (when compared to APS content and other sources of information).

Access to outsourced teleinterview pro-

Susie Cour-Palais



Jeffrey Shaw



Mark Dion

viders has sped up the process in markets where this service is available. Unfortunately, lack of adequate external resources in Europe, Asia and Latin America has hindered insurers intent upon moving ahead with teleunderwriting. A grand opportunity awaits entrepreneurs who deliver this service to those markets.

Not unexpectedly, a number of concerns also emerged from this survey.

First, half of companies in established markets allow producers to decide whether a given case is submitted via teleunderwriting or in the traditional manner. While insurers may be reluctant to impose teleunderwriting for fear of push-back, this concern needs to be balanced against overwhelmingly positive feedback from customers whose risk histories were taken over the telephone. Moreover, it also raises the specter of producer-mediated antiselection.

It is equally disconcerting that fair number of companies permit producers to be present during teleinterviews. It is difficult to see merit in this when one of the goals of teleunderwriting is to separate the producer from the risk-information gathering process.

Lastly, many companies direct a disproportionate share of teleunderwriting at younger applicants. The argument advanced against routine use of teleinterviews at older ages rests with the high prevalence of cases where medical records are needed.

While this is true, it begs the question. Risk history-taking is obligate and teleinterviewing of elders has repeatedly been shown to yield far superior disclosure when contrasted to histories taken by para-medical and physician examiners.

Underwriting Engines

The notion of "straight-through" new business processing holds understandable allure in terms of both cost and turn-around time. To optimize this approach, insurers in the U.K., Australia and other countries have turned to so-called "underwriting engines". These may be home-grown or purchased software providers. The number of such providers has grown all-but-exponentially since the turn of the millennium.

The desirability of accelerated underwriting has been recognized for decades. The "jet underwriting" process has consistently allowed insurers to issue up to 30 percent of new business without hands-on intervention by underwriters.

With engines, teleinterviews are meshed with automated analysis of key requirements. In theory at least, this could lead to "straight-through" processing well over half of new applications.

Insurers seek to expand their pursuit of middle market business. When doing so, they need to be exquisitely attuned to both cost and turnaround time. It is here that engines offer the greatest potential. And that potential is most dramatically realized with newer "super-simplified" products.

Traditional simplified issue underwriting is based entirely on a handful of "knock out" questions. Recent innovative approaches using rapid-access requirements allow for more attractive premium rates and also conserve business forfeited in the past. All this is optimized when done in tandem with engines.

The importance of this is underscored by Jeffrey Shaw, CLU, ChFC, executive director of the Life Insurers Council (LIC). "Companies processing a high volume of simplified issue contracts face different challenges that traditional methods don't always address," says Shaw. "From an actuarial perspective, the single most important factor affecting profitability on a small face life product is mortality."

With the plethora of underwriting engines now on the market, insurers must proceed carefully, asking and answering the right questions, because these engines are not merely "plug and play" resources. Engines need extensive customization by every user and the commitment to ongoing monitoring and fine-tuning cannot be taken lightly.

One major advantage of underwriting engines is the business information they generate, providing unprecedented insights for users. The more credible data the better, which means this capacity in any engine undergoing scrutiny needs to be fully apprehended and compared with what competitor products accomplish.

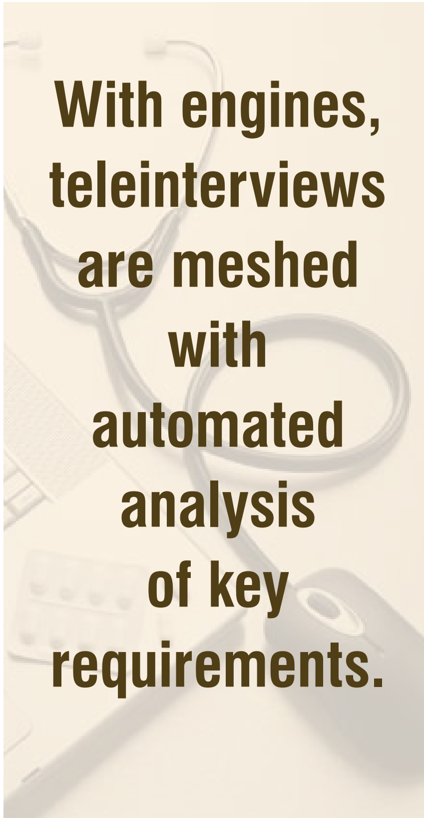
Mark Dion, FALU, FLMI, assistant chief underwriter at RGA Re, sums up the prospects of engines this way: "The technology has matured, the economics have changed considerably to enable carriers to seriously consider this option, and underwriters are seeing these engines as reasonable mortality assessment tools, not threats, and appreciating the opportunities they provide to analyze underwriting data efficiently."

Rapid Access

The "ball and chain" of underwriting might aptly be dubbed the APS dependency syndrome. It is anchored in the staunch if increasingly-dubious tenet that one cannot do adequate risk analysis without perusing applicant medical records.

Teleunderwriting has made great strides in unmasking this flawed perception. Many medical conditions once compelling underwriters to write to the insured's physician now can be fully assessed with teleinterview drill-downs. Others, like invasive cancer and heart disease, are not candidates for final decisions solely on such interviews.

To maximize the payoff from teleunderwriting, American insurers have embraced rapidly-accessed sources of risk information. Medical Information Bureau (MIB) and motor vehicle reports are two rapid-access tools with which we have been blessed for years, while a newer one has made the greatest contribution of all.



With engines, teleinterviews are meshed with automated analysis of key requirements.

Insurers doing U.S. business can get pharmaceutical use histories on upwards of 70 percent of applicants. These are called pharmacy (Rx) profiles and based on data garnered by firms known as pharmacy benefit managers (PBMs).

A typical Rx profile details all prescriptions filled over an interval of one or more years. In addition, it also reveals additional (and oft under-appreciated) details. Knowing drug dosage and times taken per day gives underwriters insight into the nature and severity of any impairment. The Rx profile also identifies the prescribing physician, a major benefit when further information is needed. Most importantly, the profile tells us whether or not the proposed insured is Rx-compliant.

Why is adherence to a drug use regimen singularly valuable?

Most life companies will insure at least some applicants on a preferred basis even if they are on treatment for hypertension and high cholesterol. While the rationale for this is soundly evidence-based, its practice has a rather blatant Achilles' heel.

Is the individual taking the medication as prescribed? If not, the risk is anything but preferred! In fact, recent epidemiological insights suggest non-compliance may have implications transcending medication use only.

Research shows that upwards of 40 to 50 percent of middle-aged and older patients do not take many widely-used drugs anywhere near as often as one might think. This practice looks to be a harbinger for other unfavorable health habits as well.

One example is failure to have advised screening (Pap smear, stool occult blood, mammography and so on) at the intervals advised by their doctors. Other implications include active versus sedentary lifestyles, dietary choices and, if they smoke, how much they consume. All of this is dubbed the "healthy adherer effect" and it relates directly to one practice: Rx compliance.

The only widely-recognized issue with Rx profiles is the shortfall in underwriters' knowledge bases where medications are concerned. With well over 1,000 different medications being frequently encountered, it is a heady challenge to keep abreast of all the factors impacting their insurability significance. Guidelines from providers and those in reinsurance manuals have yet to adequately deal with this problem.

Deployment of Rx profiles in all domains of life and morbidity underwriting is escalating rapidly. Because of instantaneous delivery, low cost and substantial protective value, they are melding with teleinterviews to change the face of American underwriting.

Valuable Information

So what makes an underwriting resource desirable? When insurers modernize and enhance their risk screening paradigms, the primary focus is invariably on protective value, typically in a cost/benefit context. Given the dearth of published protective value studies, companies must undertake in-house evaluations before they can be comfortable in making major practice changes.

Reinsurers only care about mortality outcomes. Other considerations flowing from changes in underwriting requirements, however significant to their customers, are largely off the radar screens of reinsurers.

Some of these resonate with the broad concerns of senior management:

- What is true cost of the requirement?
- Does it impact processing times; if so, how?
- Will it win over new producers or drive existing ones to other carriers?
- How will it be regarded by customers?
- All things considered, is it the best use of our precious resources?

Some current requirements fare better than others.

While we may pare back the volume of medical reports we order, they remain indispensable on cases where the nature of the risk is unclear and/or worrisome. Companies doing teleunderwriting typically report decreases of 20 to 50 percent in APS ordering but there is an inevitable ceiling on how far this can go.

Decades ago, medical examinations played a dominant role in underwriting. Today, comparatively few are ordered in part because fees continue to rise. Paramedicals, on the other hand, are both affordable and cost-effective, at least in terms of their physical measurements and fluid specimen collecting.

There are several questions yet to be addressed about paramedicals, among them:

- Should history-taking be dispensed with in favor of teleinterviews?
- Are there potential enhancements to improve the pay-off from physical measurements?
- Are drawbacks in mobile paramedicals significant enough to explore a fixed-site alternative?

All three fluid profiles we use—blood, urine and oral fluid—provide excellent overall value as screening tests. With the exception of oral fluid, however, the vast majority of this value is realized at ages 40 and over. In spite of this, most carriers remain inveterate "flat-liners", using blood and urine tests at the same threshold at age 25 as they do in late middle-age.

For decades, insurers have used so-called reflexive tests. They are completed on the basis of automatic criteria triggered by abnormal screening findings or ordered individually by underwriters on a "for cause" basis.

Some reflexive tests have greater value than others. Just because an insurance laboratory offers a test does not mean it is inherently worth using.

Insurers need to make wise choices here, based on sound evidence. The importance of this cannot be overstated given the frequency of present reflexive-test ordering which accomplishes little while delaying the decision-making process.

For decades, insurers have relied on two screening tests whose place at the 21st century table is open to serious question: the treadmill stress test (TST) and chest x-ray (CXR). Their historic role was driven by lack of viable alternatives for cardiovascular risk screening.

Both tests collide head-on with every driver of change:

- Their out-of-pocket cost is untenable.
- They rival the APS in terms of delay.
- They are hopelessly subjective.
- Exposure to ionizing radiation is unconscionable.
- Mandating performance on a treadmill to acquire insurance is the antithesis of customer friendliness.

We tolerate all of this despite the fact neither test has been deemed appropriate for routine patient screening in clinical medicine for over a quarter century!

The good news here is that insurers now have access to a blood test that more than compensates for any alleged protective value from these obsolete entities. In fact, a robust argument can be made for discontinuing use of the resting electrocardiogram (ECG) as well due to the remarkable pay-off from a cardiac test called NT-proBNP.

Deployment of Rx profiles in all domains of life and morbidity underwriting is escalating rapidly.

NT-proBNP red flags heart muscle dysfunction incurred from any and all significant causes. Dozens of published studies have proven its value in scenarios analogous to those where it is now beginning to be used by insurers.

Heritage Labs' Medical Director Dr. Dave Winsemius is spot on target with this revelational prognostication: "Judging from the accumulating evidence in the medical literature, it's only a matter of time before NTproBNP's more favorable cost-benefit and acceptability profile leads insurers to switch away from the traditional EKG and treadmill requirements."

On balance, the prospect of combining NT-proBNP with one or more additional markers (cystatin C and hemoglobin A1c are legitimate candidates) will allow certain direct costs in older age screening to drop like proverbial stones.

Intensive cost-cutting has inflicted serious consequences on competent underwriting, impinging upon networking and continuing education. Can we afford the consequences in today's highly competitive, ever-changing world?

Attendance at valuable underwriting events has declined precipitously, depriving chief underwriters of the opportunity to interact with peers. The implications of this should be plainly apparent to every executive in the industry.

Similarly, many insurers have diverted resources needed to sustain and enhance underwriting skills. The watershed effect of this comes back to haunt their bottom lines. This will be most notable and devastating on older age/higher risk business, where "winners" (placing the case) often wind up "losers" (early claim).

This unrelenting pace of change in underwriting will accelerate in the next five to ten years. Savvy insurers taking advantage of the latest in technology and underwriting science will realize lower operating costs, faster business flow and more satisfied producers and customers. ◆

***About The Author:** Hank George is a self-employed underwriting consultant and educator. His new book for producers, Underwriting: What Every Producer Must Know, is available at www.hgipress.com and he may be reached at hankgeorge@aol.com.*

***Related Article**: Read a reinsurers's view on underwriting in the new Reinsurance section of Resource, on page 16.*