By Hank George

The process of life underwriting continues to evolve. Today's marketplace demands speed, without sacrificing protective value.

Faster, Cheaper, Better

Thesis: To establish insurability for life insurance, underwriters must seek out a bevy of information, including medical examinations, medical tests, inspection reports, and, above all, physicians' reports. To do otherwise is folly.

This was the mind set of life underwriters and of those to whom they answered, for most of the 20th century. Long intervals from application to policy approval were the norm. Medical tests trickled in and were painstakingly evaluated. Physicians' reports often took a month or longer to procure and assess.

Agents and brokers somehow managed to keep clients appeased long enough to place some policies that were eventually issued.

Antithesis: With the rise of nontraditional distribution (bancassurance, telemarketing, site sales, retail branding, Internet sales), these long intervals between application and issuance became anathema.

In the 1980s, insurers began to offer lower premiums to those who abstained from cigarettes. This quickly was expanded to encompass abstention from all forms of tobacco. Customers gave them a thumbs-up for this innovation. In the 1990s, life insurers began selling "preferred risk" coverage to those who met strict criteria consonant with enhanced longevity. This soon enlarged to "super-preferred," "preferred smoker," and so on. Customers gave them another thumbs-up for these innovations.

In the mid-1990s, companies introduced a new approach to underwriting, which soon came to be known as "teleunderwriting." This curious entity was propelled by the need to jump-start producer productivity, the desire to issue policies faster, the need to address perceived—and very real—threats to insurer access to applicant medical records, and the need to show good faith with customers who liked what they'd seen and wanted more.

Synthesis: The New Age of Underwriting

In 1980, at the Canadian Life Insurance Medical Officers Association annual meeting, Robin Leckie, an actuary with Manufacturers Life, proposed a radical idea: infusing lifestyle considerations into insurability. If you substitute "health habit" for "lifestyle" (to sidestep misperceptions), you have what is rapidly being recognized as the natural evolution of what began as smoker/nonsmoker.

Fact: There are compelling data to support the premise that insurers can—and should—embrace a broad range of health-habit factors when assessing risk. Such factors include leisure physical activity, dietary proclivities, prescription compliance, willingness to have screening tests—such as pap smears and sigmoidoscopy—when advised by physicians, indulgence in healthful interventions that decrease one's risk of disease, alcohol intake, and even, believe it or not, pet ownership. The list goes on and on.

What would make this feasible? Changing the primary means by which information is gathered. Which, of course, is what teleunderwriting is all about in the first place. That's "tele," as in "telephone."

Even if there is inherent value in traditional underwriting tools, there is equal if not greater value in newer, more innovative alternatives.

What advantages might accrue to such a risk-selection metamorphosis? Under the present system, producers divert huge amounts of time and resources hunting for answers on medical questionnaires, making paramedical appointments, pressuring physicians to send their reports, to name a few. In a teleunderwriting model, producers are liberated to do what they do best: sell. Therefore, wherever teleunderwriting is embraced, one ominous issue confronting agent productivity would, in part at least, be addressed.

Acquisition costs are an Achilles' heel for traditional insurers. With teleunderwriting, the implications of these costs are somewhat assuaged because (1) producers are free to spend more time selling and (2) faster underwriting decisions mean higher policy "taken" rates.

It is said by some that our traditional underwriting tools confer too much protective value to be cast aside in favor of "unproven" innovations.

Really?

This underwriter wonders how many studies purporting to show great value from chest X-rays, EKGs, medical exams, inspection reports, blood profiles and even physicians' statements, accurately reflect the true costs of these labor-intensive, time-consuming, sale-jeopardizing entities. Even if there is inherent value in some of these traditional underwriting tools, the fact remains that there is equal if not greater value in newer, more innovative alternatives.

And these alternatives just happen to be faster, cheaper and much more conducive to reducing acquisition costs. BR

Hank George is the principal in his own consulting and training firm, Hank George Inc. He may be reached at insight@bestreview.com.