Insurers are applying new rules of the road in attacking underwriting

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Executive summary

In a time of rapid and profound change, life and annuity insurance companies are seeking any and all means to improve business performance. One area receiving considerable attention is the updating of underwriting and pricing technologies and processes. Forward-looking firms are working directly on such enhancements through internal change initiatives or collaborating with external service providers to improve capabilities. More importantly, some insurers are turning to underwriting and actuarial teams and leveraging their knowledge of product development, pricing and sales to drive innovation.

Insurers — as well as groups within large enterprises — have different levels of maturity in technology. Advancements in data and analytics promise to deliver significant improvements in the speed and reliability of decision making, and offering insurers competitive advantage as a result.

This paper highlights five recent underwriting trends with potentially positive implications for insurers seeking to boost performance. Specifically, it will outline five distinct ways forward-looking insurers are seeking to increase profitability and generate business value through refreshed underwriting and pricing operations:

1. Real time becomes the rule

2. Data and analytics get predictive

3. Reducing risk with rules-based systems

4. Getting personal with millennials

5. Distribution goes digital

1 Real time becomes the rule

Real time becomes the rule

Rules-based review, electronic applications and e-signatures

Real-time underwriting, quoting and pricing at the point of sale have become essential steps to streamline the new business process. Electronic applications with e-signature capabilities are integral to a better front-office process. Open data exchange standards, such as the non-profit insurance association ACORD, make it possible for carriers to quickly and simply integrate with external partners and internal systems.

Bringing rules-based systems to the front office enables risk and pricing evaluations at the point of sale. Based on these rules, a system may issue an application immediately, adjust to product maximums or minimums, decline or send it to an underwriter for evaluation.

The benefits are clear. Point of sale, real-time quoting and underwriting can shorten the time frame for issuance from weeks or even months to hours or minutes. Products distributed directly or through group programs might be issued with a limited set of questions through call centers or online channels. For captive and non-captive agents, point-of-sale vetting can significantly enhance the ease of doing business, raising both consumer and agent satisfaction, while still managing risk and ensuring regulatory compliance.

More consistent outcomes are also part of the story. With the elimination of individual or subjective underwriting criteria and process automation, insurers can codify and systematically deliver superior underwriting performance.

Insurance companies that implement point-of-sale automation, electronic application acceptance, and e-signature capability can expect:

- An increase in agent adoption rates
- Better agent visibility within the business process
- Higher acceptance rates for applications
- Fewer non-issued applications
- Reduced processing costs
- Shorter policy issuance cycles

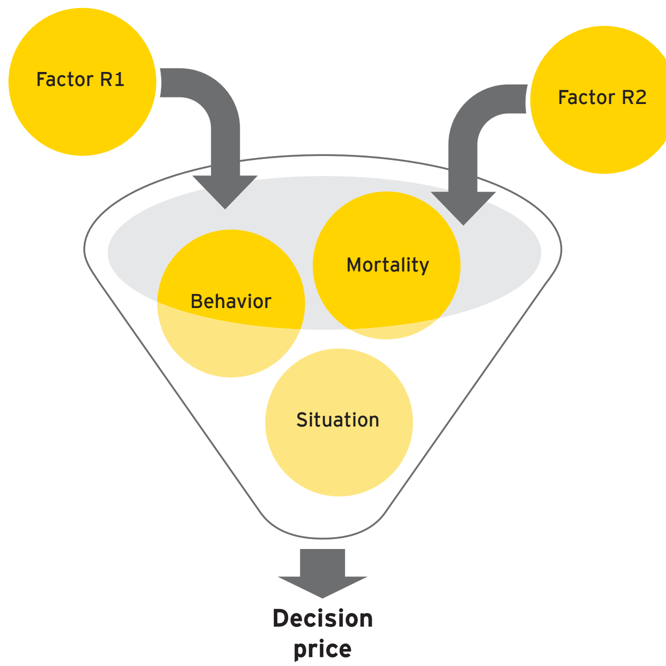


Figure 1: Automation and real-time underwriting capabilities can lead to the systematic delivery of consistent outcomes

2 Data and analytics get predictive

Data and analytics get predictive

Predictive analytics

Predictive analytics capabilities proactively provide decision data to rules-based systems. For life products, this can eliminate the need for blood tests and medical exams, which deter consumers from buying life insurance by making the application process slower and more expensive. Bringing information from motor vehicle records, financial records, credit history, demographic information and personal lifestyle choices into a rules-based system can also reduce the number of cases that require review by underwriters because these factors help predict mortality accurately for individual applicants.

For annuity products, point-of-sale systems enhanced with analytic intelligence can use predictive data to provide revised pricing to avoid fraudulent submissions, offer alternative products or re-direct sales that may otherwise be lost.

Advanced analytics can be configured to go a step further. For instance, it can predict the decision a life underwriter would previously have had to make, not using mortality, but by using more external information such as economic indicators, consumer marketing data and social media activity. Rules-based expert systems that employ advanced statistical algorithms can evaluate the mass of data.

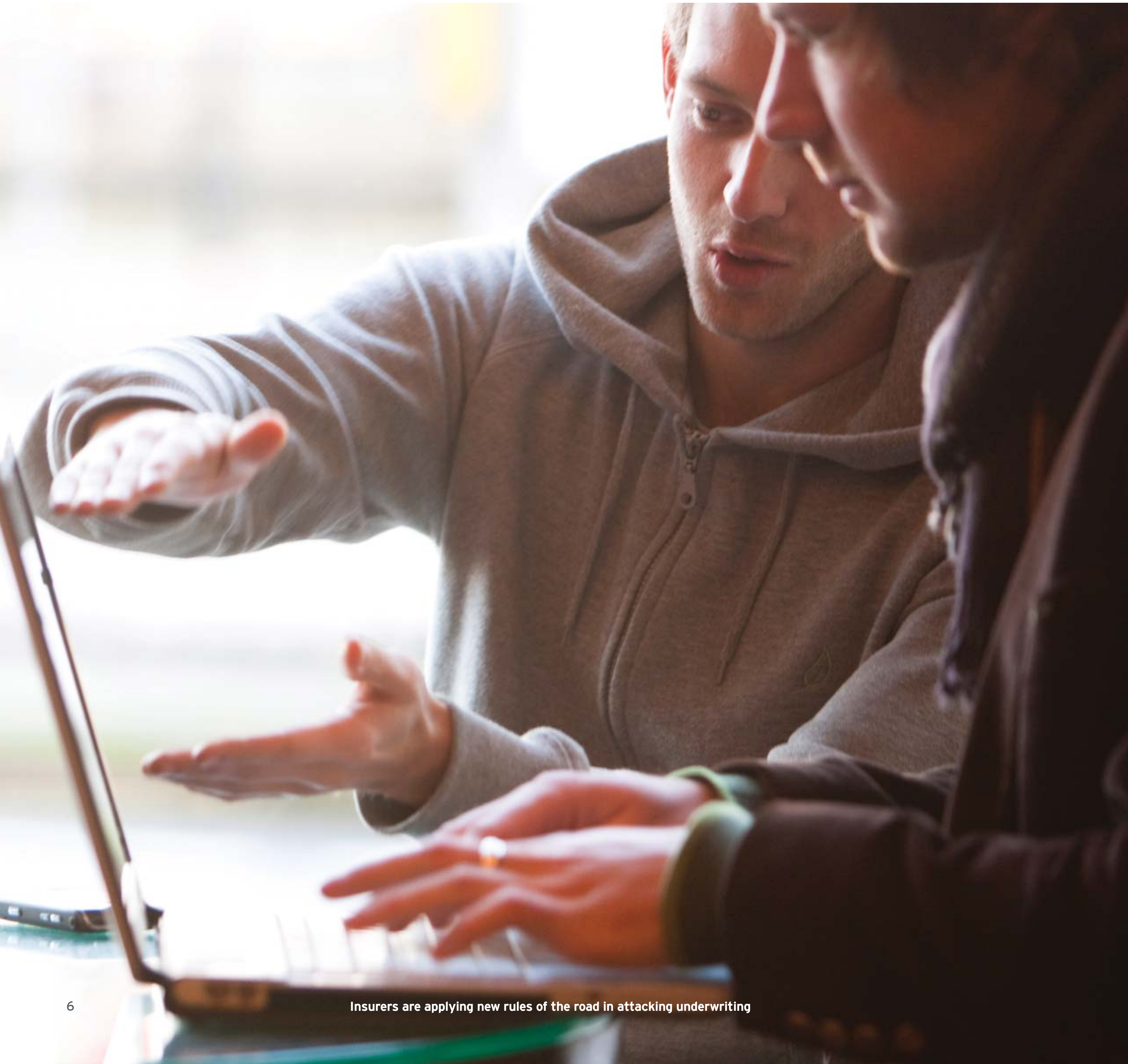
Internal and third-party data feeds

The automated delivery of additional information – whether from internal systems or third parties – also streamline decision making by reducing unnecessary data-gathering delays. For example, data from licensing systems or health risk assessment providers can be integrated into new business systems, delivering data needed to verify information provided by applicants. Insurers with real-time, service-oriented system architectures have a clear advantage when it comes to process efficiency.

Wearables

Individual tracking devices and wearable monitoring technology are becoming available for widespread use in underwriting. Such devices can capture and transmit quantitative information to a central repository. The impact on underwriting is potentially transformative, enabling accuracy in niche underwriting for dangerous jobs (police officers and firefighters, for example) and tracking the activities and behaviors of applicants or insureds. They also offer a powerful tool for incenting behavioral adjustments, through incentive pricing for maintaining an active lifestyle (e.g., premium reductions based on taking 10,000 steps per day). The full possibility of this data for risk and pricing analytics is yet to be realized.

3 Reducing risk with rules-based systems



Reducing risk with rules-based systems

Streamlining systems

New business processes have been supported by rules-based systems for decades. However, many insurers continue to operate with legacy systems that are limited in scope. Other insurers that have updated their systems are not taking full advantage of features to support risk-based decision making. Rules-based systems can bring greater speed and efficiency to the new business process ranges to a complete or minimal degree. Consider that such systems can review a portion or the entirety of a case and can forward decisions for manual review and approval. They can also issue the policy, eliminating manual interventions altogether.

Overall, streamlining helps reduce fraud and omissions and minimizes the potential for manual processing error. Taking risk out of operations can, in turn, allow insurers to consider raising the risk tolerance for certain products. In this case, total risk exposure stays the same, but more business is generated.

Workflow optimization

Efficiency also helps to minimize risk in new business by reducing the likelihood of workflow errors and omissions. As cases are reviewed, new workflow tools drive assignments to the most appropriately skilled resources and balance workloads to reduce volume and time-pressure errors. Fewer errors in first-line reviews further reduce operational costs by eliminating the need for senior management involvement.

With appropriate guidelines in place for risk decision making, life insurers are raising their risk tolerance for term life policies, policies with low face values and those directed to specific target markets, such as middle markets, seniors and young adults.

4 Getting personal with millennials

Getting personal with millennials

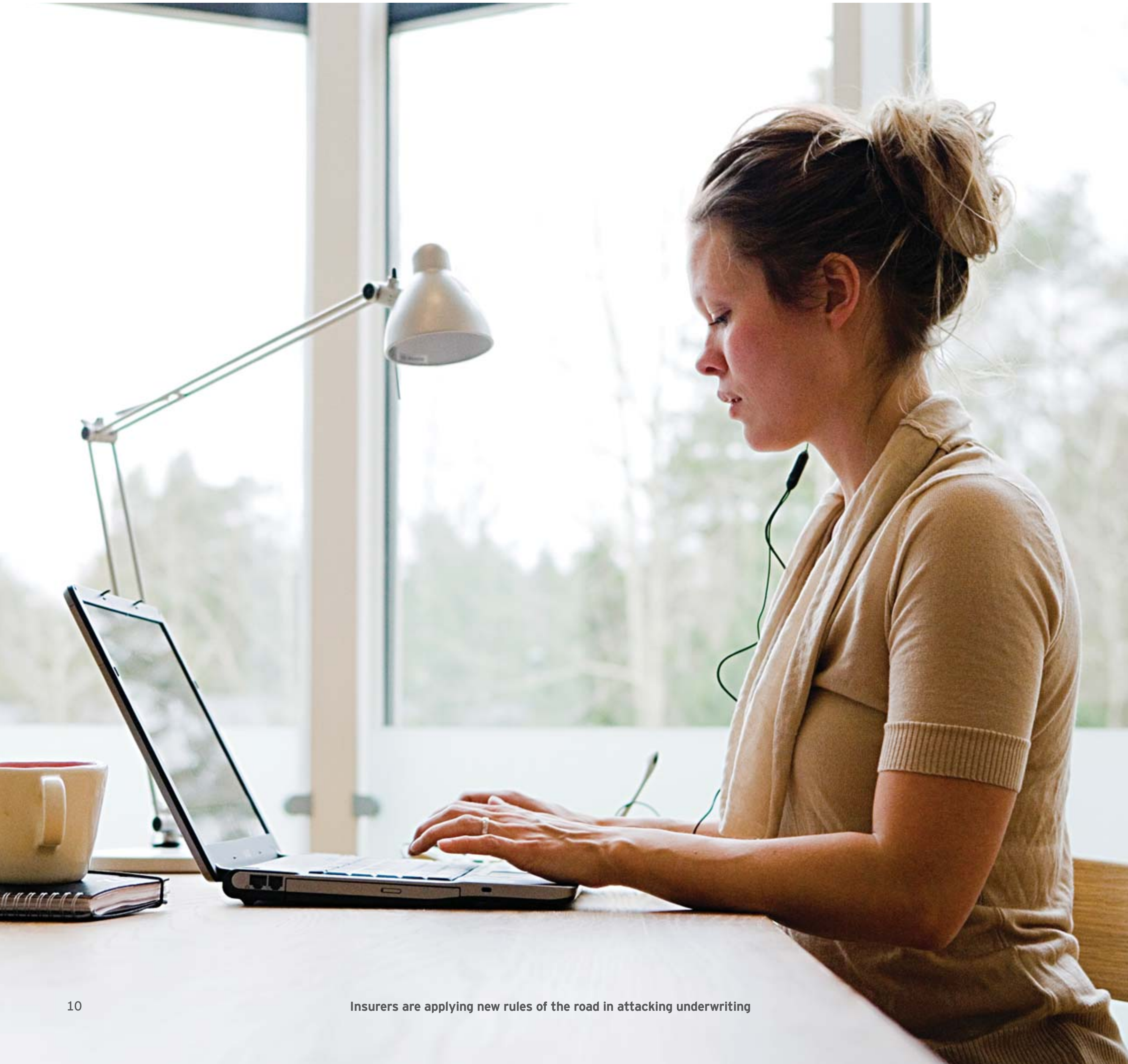
Demographic behavior

In addition to using rules-based systems to support new business efficiency and reduce risk, leading insurers are adjusting their operations to suit the buying habits of the largest impending market for life and annuity products — millennials.

Born between the early 1980s and early 2000s, this demographic group is achieving significant spending power, while exhibiting buying decision behaviors different from previous generations of insurance customers. These demographic trends call for innovative approaches to underwriting product offerings especially at point of sale. Insurers hoping to serve this market either through existing sales forces or online channels must provide simple, intuitive and objective offerings tailored to the needs of individual buyers. This ideal buying experience requires product options and real-time decisions, as well as the ability to manage transactions online.

Flexible features, such as return of premium, may require special volume consideration from pricing and underwriting teams in order to capture sales. Further, insurers should recognize the opportunities presented by the widespread adoption of wearable technology among this group, as well as the strong preference for communications through digital and social channels.

5 Distribution goes digital



Distribution goes digital

Digital, mobile and social media

Industry research indicates that in the next five years the majority of individual life products will be sold based on simplified issue.[1] Once again, insurers who make greater use of rules-based systems will be able to expand their product offerings with simplified issue. They will leverage broader market distribution in ways similar to the traditionally transactional banking entities that are further ahead in digital and mobile capabilities. In some niche markets, banking institutions employ the simpler, rules-based decision capability to distribute directly.

Content and assets are already being consumed through digital channels, and even relatively complex underwriting and sales processes in life insurance will undergo similar migration. The simple fact is that the distribution force and end customers demand a level of digital engagement. Further, they expect personalized content and offerings and tailored experiences within mass-delivery digital communications channels. For insurers, "doing digital better" will require considerable investment, as well as cultural change. But the potential upside is a resulting increase in the generation of systemic, repeatable and consistent underwriting outcomes, as well as increased consumer engagement.

Changes to leading operations align with direct and non-direct distribution strategies to better serve the customer, whether agent or consumer or partner. For example, externally facing new business applications and tools support new processes and encourage interaction, rather than deter it. Instead of lengthy, 40-question online applications used for traditional channels, independent distributors and consumers can be redirected to carriers offering simpler, easier and technology-enabled processes.

Studies show that the large market of millennials are less financially savvy than older buyers and are generally wary of financial institutions and advisors, culling most advice through social networks and online research conducted during the buying process. This tech-driven generation poses a challenge to the insurance industry.[2]

In particular, Generation Life, a new technology-based life insurance company, targets online consumers with a simple application and an automated underwriting check. No medical examinations are required and policies can be approved and issued within minutes. There is ample reason to believe that such an approach will increasingly become the rule in life insurance.

[1] Simplified Issue Survey 2012, Hank George Inc., per SwissRe, presentation "Automated underwriting: Threat or opportunity?"

[2] "Identifying Millennials' Attitudes and Behaviors," GenRe website, www.genre.com, accessed November 11, 2014.

Are you on track?

Market expectations for the buying experience are changing fast. Leading insurers must work to develop new and enhanced capabilities for assessing and pricing and placing insurance risk — or risk losing their leadership positions. The ability to respond and manage the new business opportunities are essential to continued success.

As you consider where you plan to take your business, we can work with you to provide insight, information and solutions. We listen and understand.

How EY can help

We provide strategic consulting, industry intelligence and tactical skills to:

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- Assist you in creating or adapting your roadmap to success
- Evolve your organization and procedures
- Select and implement the best tools and technologies for you
- Identify and measure your vendors and their performance
- Implement next generation capabilities to ensure your continued success

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