



 Mortality and Longevity

# Simplified Issue Underwriting



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# Simplified Issue (SI) Underwriting

Definition, Developments, Characteristics, Challenges, Current Practices, Assumptions and Data Elements for SI

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## Executive Summary

The term *simplified issue* does not have a single, common definition in the industry. In general terms, it refers to either a product type or an underwriting method that involves less than full underwriting. So, for example, it may involve questionnaires but not physical exams or collection of fluids. Further details on industry definitions are provided in this report.

The products to which SI underwriting generally applies are Term, Whole Life, Final Expense and some types of Universal Life.

For SI underwriting, physical examinations and fluids are not required. Typically, a health and lifestyle questionnaire is used to determine insurability and in many cases is supplemented with third-party health data. Generally, SI underwriting will result in fewer distinct rate classes than full medical underwriting at lower maximum face amounts.

A [definition](#) of SI is provided in this report. Additional aspects of SI underwriting that are important are the distribution channel, target market and method of sale. Because SI underwriting has fewer tools available (than full underwriting) to segment risk and to mitigate adverse selection, those aspects have a large impact on the mortality risk in the product.

By leveraging technology and additional third-party data sources, SI underwriting is evolving into more accurate and faster rating classifications for larger face amounts than historically seen.

From a regulatory perspective, SI underwriting has similar restrictions as regular underwriting in that carriers need to be careful of unfair discrimination. For New York-issued policies, the recently issued NY circular letter (2019 No. 1) regarding use of external consumer data and information sources in underwriting for life insurance must be taken into account.

Some current developments for SI underwriting include:

- Carriers are using new automated approaches, leveraging underwriting “engines,” which use data to predict mortality. This has been a trend for the past few years.
- Carriers are trying to improve mortality selection through new data sources, such as medical billing data, and through mortality risk scores.

Generally, the target market for SI products is middle-market customers who prefer a fast or easy buying experience or, in some cases, applicants who don’t qualify for insurance under full underwriting. There is a wide range of distribution methods, including direct to consumer, affinity groups, agents, online, banks and so forth.

It's also somewhat an avenue for small companies to write business since the amount of staff can be limited and the decisions can be made at point of sale.

An advantage of SI products is access to risk pools that might lose interest when presented with a long and invasive underwriting process. A disadvantage is some insurers have expressed concern with the brand impact from a product intended for the middle market, if they currently serve affluent customers. This is because if distribution is usually to affluent customers, branching out to other markets can cause some marketing confusion to existing customers.

Some of the main challenges of SI products include:

- Adverse selection is driving worse than expected mortality due to a simpler process that is less accurate.
- Misunderstanding the target market and risks to which the insurance company may be exposed that aren't clear on the surface may make it difficult to underwrite using a simplified process.

- Pricing can also be a challenge. Some SI products have pricing limits on the extent to which higher mortality assumptions can be incorporated. If the target market is quite unhealthy, there is a possibility that the decline rate can be much higher than expected.

With regard to pricing assumptions in general, mortality and lapse tend to be higher, while expenses tend to be lower.

With SI underwriting, a decision of whether an applicant is approved for coverage is usually made at the time of application, whereas full underwriting can take months.

This report also covers other aspects of SI underwriting including risk classification, minimizing anti-selection, use of industry tables and applicant information gathered.

## Section 1: Introduction

The Society of Actuaries (SOA) sponsored this research study (hereafter “the Study”) to discuss SI and research its recent developments, characteristics, challenges, current practices, assumptions and data elements. Risk & Regulatory Consulting (RRC) carried out the main objectives of this project, including background research, interviewing panelists and developing this report. The objectives of the Study were to do the following:

1. Perform research regarding SI underwriting in the life insurance industry, including details of how it is applied, and include any observations on the benefits, drawbacks and prevalence of its use.
2. Identify and interview a broad group of panelists with strong industry representation to avoid any bias in the results.
3. Supplement the research with results of the interviews, including any theoretical and practical issues noted.
4. Summarize the results of the research and interviews, including the approach, the information gathered and the conclusions generated. The summary includes the following:
  - Pricing assumptions
  - Approaches for gathering applicant information
  - Types of nonmedical information used
  - Underwriting rules and criteria for approval
  - Valuation standards, including principle-based reserves (PBR)
  - Regulators’ perspectives
  - Target market and product distribution
  - Definition of SI and differentiation from other streamlined issue products and other types of underwriting, including accelerated underwriting and full underwriting
  - Experience monitoring

Based on the results of the research, RRC has summarized the approach, information gathered and conclusions. The summary includes information that is responsive to each of the objectives outlined above.

RRC is an insurance consulting firm serving the regulatory community and has performed a range of research projects for the SOA. Information regarding RRC can be found on its website, [www.riskreg.com](http://www.riskreg.com).

## Section 2: Methodology

### 2.1 Initial Research

The researchers conducted an initial review of the existing literature regarding industry approaches for SI underwriting. The papers and research documents used for this purpose are included in the [References](#) section of this report.

### 2.2 Questionnaire and Interviews

The researchers developed an interview questionnaire based on the initial review of the literature to obtain additional information from a group of selected panelists. The questionnaire covered topics such as the following:

- Marketing and sales of SI life insurance
- Underwriting techniques, including data sources used to make underwriting decisions
- Development and refinement of pricing assumptions
- Valuation standards
- Monitoring development of actual experience

Fifteen panelists were interviewed through the questionnaire and were chosen based on one or more of the following characteristics:

- Practical experience with SI in the life insurance industry
- Background in actuarial science, education or underwriting
- Experience researching and developing theoretical methodologies for SI underwriting
- Experience relating to regulatory requirements that involve SI underwriting

The panelists provided their opinions relating to SI underwriting use in the insurance industry by responding to multiple questions within a questionnaire in writing or by phone discussions. The researchers then consolidated all questionnaire responses. Since the sample size was small, and the questions were open-ended, the responses were not conducive to presenting a distribution of results.

### 2.3 Panelists' Backgrounds

The panelists' backgrounds included both theoretical and practical experience for insurance companies, reinsurance companies and consulting firms. Many have used SI underwriting techniques over many years. Some of these panelists have also published papers on the topic.

The range of use of SI underwriting in life insurance encompasses many products and disciplines. The focus of this paper is the use of SI underwriting in the life insurance industry.

The panelists were asked what type of organization they work for (insurance company, consultant or reinsurer) and their role within the organization.

The panelists' experience includes developing and/or implementing SI programs in the life insurance industry. Some have been members of committees that have set professional standards. The breakdown of the types of companies the panelists work for is as follows:

Type	Count
Insurance Trade Association	2
Reinsurer	4
Consultant	1
Insurance Company	8

The panelists' experience in SI covers a broad range of areas (theoretical, practical or both). Some specific examples of areas where they have applied SI concepts include:

- Product research manager, actuary (2)
- Life appointed actuary
- Actuarial, reinsurance, analytics and underwriting for product development within the organization's digital channels
- Actuary within a corporate oversight group
- Product manager and actuary responsible for SI business (2)
- Chief actuary involved in looking at underwriting tools
- Mortality research actuary focused on underwriting impacts to mortality
- Pricing actuary for SI direct-to-consumer products
- Other product development/pricing actuarial roles (4)
- Actuary on product solutions team

## 2.4 Summary of Research and Results of Questionnaire

The researchers then summarized the research and enhanced the results of the research based on the panelists' responses to the questionnaires.

## Section 3: Summary of Results

The information contained throughout this section represents summarized results of the panelist responses, along with additional supplemental information gleaned through research of articles and white papers. In general, panelist commentary is introduced as such. In instances in which a minority of panelists expressed a point of view, the results are described as being the view of a few panelists or a single panelist. **In each section, once the panelists' comments are introduced, the remainder of that section represents panelists' views.**

### 3.1 General Information on SI

#### 3.1.1 Definition SI

The researchers and POG collaborated to come up with a standard definition of SI to be distributed within the questionnaire.

#### *Definition*

SI underwriting is the simplest type of underwriting that produces the least protective underwriting value as compared with other underwriting programs. It is different from accelerated underwriting in that it is not targeting fully underwritten mortality. It also does not require information that is collected through medical exams or bodily fluids.

The applicant is either accepted or rejected and not triaged to full underwriting. The policies that are written using SI underwriting are usually characterized by lower coverage, higher premiums and/or policyholders with a broader array of health conditions. The applications used for this type of underwriting typically contain a shorter list of questions, which may be the same for each applicant, and decisions are made based on a very limited criteria.

Many of the panelists stated the definition was a good description.

### 3.1.2 Products to Which SI Applies

Most life insurers offer an SI product in addition to their fully underwritten traditional life insurance products.

Panelists were asked about the products to which SI applies.

Most panelists responded that SI applies to term; whole life, including final expense; and some universal life (UL), including current assumption UL. One panelist indicated that applicants generally apply for the standard SI whole life product, simplified issue whole life, but if requirements are not met, some may still qualify for an alternative product, graded benefit whole life, in which the death benefits in the first two policy years are reduced (death benefits are 35% of face in year 1, 70% in year 2, 100% in years 3+).

A few panelists stated that they no longer sell what is traditionally considered SI business and have been introducing more accelerated underwriting approaches recently.

One panelist's company sells an individual voluntary payroll-deduction work site whole life product sold through the agent distribution channel. They also sell group term and group whole life coverage sold through a direct-to-consumer distribution channel.

### 3.1.3 Description of SI

This section covers the description of SI underwriting and how it differs from other forms of underwriting.

The process of getting a life insurance approval can be nerve-wracking and very long. A large number of people don't buy life insurance because the process is too long.

With SI life insurance, the applicant can get life insurance quotes with no medical exam instantly and be covered the same day.

SI underwriting can be as simple as an insurance company approving an application based solely on information it pulls from a database and/or a telephone interview. This process of underwriting is much faster than the fully underwritten method.

SI underwriting involves a limited number of health questions, perhaps up to 15, and uses third-party evidence, collected electronically, to produce a quick decision—with few, if any, risk classes. No attending physician statements or paramedical exams/labs/urine are used. Face amounts are typically fairly low. Premiums per unit of insurance are higher for SI than fully underwritten and accelerated underwriting products because of the wider acceptance of health conditions, fewer questions, broader target markets and the convenience factor. SI underwriting uses a significantly shortened application, where affirmative responses are treated almost exclusively as declines.

Panelists were asked to describe SI. Below are the summarized responses.

SI is designed to allow insurers to provide producers with quick response times on underwriting decisions, ideally (as an aspiration) while the producer is still with the client. It is moving to the phasing out of reliance on client responses (e.g., on application or telephone interview) and looking to information gleaned from available databases to render an underwriting decision. Basic third-party database checks such as Medical Information Bureau (MIB), Motor Vehicle Report (MVR) and prescription histories (Rx) are often performed (although credit-based scoring is becoming more prevalent in the SI space). Parsing of risk classes is not as refined as that of full underwriting. It is more of an accept/reject decision on risks.



SI underwriting can be described as limited medical underwriting typically based on self-disclosed medical information as reported on a short application and as found from third-party database checks. This method of underwriting falls between guaranteed issue (no underwriting, highest premiums) and full/accelerated underwriting (more underwriting, lowest premiums); however, underwriter review is sometimes necessary with SI.

One panelist stated that they get a risk score from a third-party vendor. If that score, plus other data (under certain face and age thresholds), comes back in their acceptable range, they will waive the paramedical exam.

### 3.1.4 Regulatory or Actuarial Guidelines

The increased access to personal data through third parties creates privacy concerns for insurers. This is particularly true because such privacy regulations are generally regulated by state law and, therefore, make it difficult, if not impossible, for insurers to establish nationwide privacy practices. In addition, insurers will likely have significant expenditures to protect against insureds' private information being improperly revealed or otherwise obtained through hacking practices. Lastly, the ability to obtain personal information through third parties without the insureds' direct knowledge may create customer trust issues.

The increased utilization of e-signatures has also created practical concerns for insurers. Most notably, the increased use of e-signatures has left insurers more susceptible to fraud in the insurance application process. This is true because fraudulent insurance practices thrive on the anonymity achievable through e-signature authorizations. Fraudsters can therefore potentially commit the following acts through the use of e-signatures:

1. Obtain insurance policies for fictitious beneficiaries;
2. Open and subsequently cancel an insurance policy for the benefit of an insurance agent; and
3. Modify insurance information in order to reduce premium payments owed thereunder.

Panelists were asked to list any regulatory or actuarial guidelines that apply to the use of SI underwriting in the insurance industry. Below are the summarized responses.

SI products are in general subject to the same regulations as other forms of life insurance. Guidance can be found in Actuarial Standard of Practice (ASOP) 12, *Risk Classification*, and the Fair Credit Reporting Act (FCRA). Naturally, ASOP 23 (Data Quality) and ASOP 41 (Actuarial Communications) apply more generally.

In terms of regulations, the SI product is well established in regulations. As for data that is allowed to be used during the underwriting process, this falls under state-specific regulations and the FCRA. Of course, general considerations, such as privacy, also apply but are not specific to SI. To the extent that an SI program uses external data sources, authorizations and disclosures are required as outlined by state law and the FCRA.

Some states have legislation pending that limits a company's ability to use electronic data with algorithms that may discriminate or skew results against protected groups. New York has concerns about what information is gathered beyond traditional underwriting sources (e.g., social media, credit score). The New York insurance circular letter regarding use of external consumer data and information sources in underwriting for life insurance advises insurers on the use of external data sources, algorithms and predictive models.

Of course, mortality and lapse assumptions used for whatever purpose (statutory reserving, GAAP reserving, cash flow testing) must be appropriate for the expected mortality of these less-than-fully-underwritten products.

One panelist noted that they don't use specific SI guidelines but rather apply the usual regulatory requirements with modifications appropriate for SI—for example, use of ultimate-only commissioner standard ordinary (CSO) tables for compliance with nonforfeiture and net premium reserve requirements. For SI illustrated products such as the SI band of their UL product, they test for compliance with the NAIC Life Insurance Illustrations Model Regulation, as they also do for fully underwritten illustrated products. There are limited underwriting tables created by the SOA for use in reserving for these policies. Due to the IRS definition of life insurance, these products follow nonforfeiture rules as if a (full underwriting) CSO table were in use.

### 3.1.5 Current Developments

Enhanced customer experience, emerging consumer demand, the ability to use more data-driven approaches and cost-efficiency are driving the shift toward less reliance on traditional underwriting. As many insurers shift toward a consumer-centric approach, a globally emerging trend is for less reliance on “one-size-fits-all” products and a renewed focus on more segment-specific strategies.

The use of third-party database checks, predictive analytics and other fraud protection strategies is becoming more common. Post-issue Rx and MIB record follow-up, identifying individuals seeking coverage due to new but undisclosed illnesses, is gaining momentum. There may be additional checks of social media sites and database checks for lifestyle issues. Companies are using information they would not have used in the past as information becomes more available. It used to be that financial data was used only to set limits on face amount, but now credit scores or financial history can be used to determine whether a policyholder is likely to pay premiums on time. While some may have heard of facial recognition being used to determine tobacco status, few, if any, are using this technology in life insurance.

A report produced by KPMG (2017—“Enabling the Future of Underwriting”) looked at the future of underwriting. The report says that “due to changing consumer preference and the growing number of tech savvy Millennials, insurers are changing their growth strategies,” and it has “become imperative for insurers in general, and underwriters in particular, to respond to these changes.”

Panelists were asked about the current developments in SI. Below are the summarized responses.

One panelist noted that there is research demonstrating that culture influences whether people feel everyone should pay a similar price (more like guaranteed or simplified issue) instead of a more individualized price. The United States is among the latter, favoring individualized pricing. So, as companies gather more information about a consumer, they will likely begin offering them a more individualized price and higher coverage. The downside is that less healthy individuals may end up paying more or potentially get excluded from (i.e., priced out of) the market.

Companies are increasingly incorporating more data sources into SI underwriting. This trend, along with possibly increasing the number of health questions asked, could make these programs look more like fully underwritten products. In a 2016 LIMRA study on SI products, the majority of carriers’ accessed prescription databases, and nearly half used motor vehicle records. There is interest in other data but also regulatory scrutiny in some states. The requirements by the New York Department of Insurance to justify the use of appended data may spread to other states. Similar developments in fully underwritten business to streamline the purchase and decision process could attract more consumers to a more individualized price where higher coverage amounts are available. This could impact the underlying risk pool of SI products. In addition, as companies offering SI gather more information about applicants, this might impact who they approve/decline.

Most developments are attempting to tap new information sources (e.g., medical billing records) and/or using artificial intelligence and other algorithms to establish previously unexamined correlations to mortality incidence. So, long term, we can expect to see a confluence of “simplified underwriting” and “accelerated underwriting.”

One panelist’s company has taken a more liberal stance on a few medical conditions than some of their competitors, rating certain conditions at a Table 4, whereas they may actually be closer to a Table 5 (the table refers to extra mortality in 25% increments). Another recent advancement has been the increase in SI face amount limits. The larger carriers that are offering higher limits tend to make use of predictive underwriting in addition to credit scoring and also the usual databases (Rx, MIB, etc.).

Another panelist notes that in some cases, SI products are distributed by agents, but more typically they are sold direct to consumer, without an agent intermediary. Typically, to limit risk, face amounts are capped, so the target market is low- to middle-income consumers.

### 3.1.6 Target Markets and Distribution

Over the past couple of years, the Marketing and Distribution Section of the SOA has supported research and initiated discussion about the underserved middle market. One of the keys to reaching the middle market with a life insurance solution is marketing quality SI insurance products efficiently and effectively.

Common among successful SI sales and marketing efforts are the following:

- A streamlined sales process
- A well-defined market
- A distribution network suited to the product and market
- A carrier with strengths developed for the SI market

Providing a positive customer experience is key for any sales process. This is especially so for the SI sale. Of course, the objective is to have a satisfied customer at the end of the sales process, but a necessary requirement is that the customer is happy to go through the process.

One main part of the sale is the application. SI applications should be short on underwriting questions—say three to 12 questions—compared with a full underwriting application with a full page or two of questions. This small number of questions should be designed to avoid insuring those with the most severe health conditions. The goal here is to manage, not eliminate, the risk.

Additionally, follow-up or recursive questions should be limited. Asking five lead-in questions with a large amount of follow-ups doesn't really fit with customer expectations for a "simplified" process.

Another significant part of most SI sales is database checks. The standard checks match the applicant with records in MVR, MIB and prescription histories. One popular use of these checks is to identify risk characteristics of the applicant. Another is to test the reliability of the applicant's answers to underwriting questions.

The SI sales process should allow for quick time to coverage, say hours or days, as compared with weeks for fully underwritten products. This is an area where utilizing technology properly can make a significant difference. Accessing the databases mentioned above allows for a significant amount of data to be gathered and analyzed in a matter of minutes, or even seconds. Electronic delivery of applications and disclosures combined with voice signatures or electronic signatures allows for the applicant to glide through the process anytime, from any place.

Any marketing plan needs to have a target market that can support the price of the product and the minimum viable sales volume. SI underwriting cannot be expected to provide the same level of detail as full underwriting due to the additional risks involved in this method of underwriting, thus per-unit mortality costs will be higher for SI products. So SI marketing should target applicants who value and are willing to pay a sort of convenience charge for immediate coverage.

Just as important, since the decision to purchase life insurance can be an emotional one, and that emotion can fade quickly, marketing focus should be on applicants who are willing and able to pay immediately. SI marketing also commonly focuses on those who are interested in small- to moderate-sized face amounts, because at some threshold of coverage, full underwriting becomes more economical for all parties involved. Other marketing approaches target those who exhibit certain healthy behaviors or fall within a narrow range of ages.

There are many distribution methods for life insurance, three of them being face-to-face agents, direct to consumer, and call center agents. Each presents its own opportunities and challenges in the SI market.

Face-to-face marketing is often expected by the consumer, as that has been the traditional method of life insurance distribution. The emotional sale of life insurance tends to be aided by in-person connections. It also allows for strong two-way communication about product features, which is very important for complex products. But the face-to-face distribution is tough to make work in an SI environment because the face amounts tend to be low, resulting in lower

commissions than the time spent by the agent would be worth. The commissions are lower due to lower face amounts, but in general, SI usually does have higher commission rates when sold through an agent distribution.

Direct-to-consumer marketing can reach enormous volumes of potential applicants at low costs, and it doesn't have to overcome the low-commission challenge of face-to-face agents. Direct marketing also allows for a great opportunity to present all the necessary information to the applicant and utilize technology, such as e-signatures and electronic delivery of important documents. However, this distribution method lacks the personal connection between the agent and the applicant. This method generally results in a lower proportion of leads completing applications. It also requires significant technology costs to develop and maintain a consumer-driven platform.

Call center distribution can achieve a blend of the two above. It allows for an agent to connect on a fairly personal level with a large number of potential applicants. Reaching a large number of applicants can take care of the low premium and commission challenge noted above. Effective call centers often work better with less-complex products that are easier to describe verbally. Technology that allows for voice and/or e-signature options is very important to call centers.

Another key to SI distribution is having controlled distribution. The relationship between the carrier and distributor needs to be strong to properly align distribution practices with the goals of the carrier.

Understanding several basic aspects of the product's target market is essential. For example, a product intended for a specific group of individuals—such as, say, physicians or nurses who are part of a medical association or insurance brokers, all of whom would be expected to have a certain level of educational achievement as well as knowledge of medicine and insurance—might be quite different from one intended for the general public. Intended age cohort and gender are also important considerations. Young or middle-aged adults will clearly have considerations different from those of pre-retirees or retirees.

This information will have a significant impact on the design of the simplified product. It will influence both the questions to be asked and the most appropriate language to use in framing the questions in order to ensure clarity. How will the product be distributed? The distribution channel (or channels) for a simplified product, whether that of intermediaries, such as insurance agents or financial advisers, or distribution directly to consumers via the internet or direct mail, will impact the product's structure in several ways.

If the sale is intended to be direct, with no one advising the applicant, instructions for completion of the application must be clear, concise and self-explanatory. Language must also be incorporated that explains clearly the importance of answering each question as accurately as possible. It would also be advisable to write the questions using layman's language instead of medical jargon to ensure that applicants clearly understand the intent of each question. For example, when asking about neurological disorders, the words "numbness and tingling" or "a feeling of pins and needles" are preferable to the term "paresthesia." Any restrictive clauses, such as pre-existing conditions exclusions or limitations, also need to be expressed in clear and simple language to ensure that the applicant understands the product being bought.

Panelists were asked what target market is served by SI products and how products are distributed. Below are the summarized responses.

Many companies target the middle market broadly with these products. SI products are best for low-face, less-price-sensitive markets. Some sell SI products to middle-aged and older clients as a way to cover final expenses. Often SI can be tied to mortgage leads. The target market for SI products is typically individuals who prefer not to go through the medical and lab requirements (e.g., bloodwork, medical exams, fluids) associated with fully underwritten products or have time-sensitive needs for acquiring insurance (e.g., term insurance on a mortgage) or have busy lifestyles and prefer the ease of business associated with underwriting an SI product.

For the most part, SI is for a lower socioeconomic customer with distribution geared to that market. Term and UL might reach middle-class markets since face amounts could go higher and application gathers more information than final expense and monthly debit. Direct-to-consumer and internet target markets are most commonly served by SI. These products also may be made available to an existing agent field force, but that is not typically the primary distribution channel.

At one panelist's company, their main SI distribution is through a call center. On their final expense and substandard products, the target market is issue ages 50+. On their term product, the target market is low-face-amount term, middle America (or sub-middle America).

Today's market for SI is low- to middle-income post-baby boomers. Baby boomers are more comfortable talking with an agent. Younger generations are demanding changes to the traditional processes and, since they are comfortable sharing copious amounts of data, don't see this as the intrusion that boomers do. These consumers also expect the near instantaneous decisions and shipping they get with Amazon or other retailers. Life insurance companies are just starting to catch up. Agents would prefer that small-face-amount policies have a simpler process, since they are paid less for the same amount of handholding as the large policies.

Newer distribution channels include direct-to-consumer online and through digital channels such as banks, financial techs, and/or online aggregators and digital brokers.

### 3.1.7 Insurer Characteristics

The SI market has many similarities to other life insurance markets, but there are a few nuances that make the difference between a strong SI program and an unsuccessful one. A carrier in the SI market should have the following capabilities:

- Flexibility with the application process: Carriers should be prepared to make adjustments—to processes, application forms, the product, premiums, etc. It is critical to enhance what works well and fix what doesn't, considering both the distributors' and the applicants' viewpoints.
- Fraud prevention and detection: Carriers can prevent fraud from the sentinel effect (the tendency for human performance to improve when participants are aware that their behavior is being evaluated) of informing the applicant about the database checks and that those checks will identify inconsistencies in the application answers. Also, in a call center environment, carriers can record and store sales calls to protect both the company and the agent from fraud.
- Claims review: This is a subset of fraud prevention. Applicants do lie, especially in SI situations. So a strong review and validation of claims is critical to an SI program.
- Insuring the proper risks: Recall that risk management, not risk elimination, is the goal of SI underwriting.
- Efficiency with database checks: Fast processing and better data reviews lead to greater customer satisfaction and a less risky pool of policyholders.
- Agent selection: A successful SI program requires the carrier to maintain strong relationships with agents who share their core values and who also are a good fit with their products and sales processes.

An SI program can be effective at serving the middle market, among others. For the best results, a strong carrier in the SI market will want to make sure the elements of its program are all in sync.

Panelists were asked about the characteristics of an insurer that would use SI for some or all of its products. Below are the summarized responses.

Many companies that offer SI products also offer other types of insurance. For example, companies that offer workplace supplemental benefits also offer SI life insurance. There are also major carriers that offer SI life in addition to a full suite of other products. The supplemental benefit application process is frequently simplified or guaranteed issue, which is a good fit with SI life insurance.

Generally, SI product-issuing insurers tend to be smaller companies due to product simplicity and lower face amounts. Some companies primarily sell SI products. Other companies sell SI products as part of their more diversified product portfolio. Some innovation/use of technology is necessary, depending on how the product is sold (e.g., direct to consumer). Insurers trying to engage in direct-to-consumer marketing or certain distributions channels (e.g., banks) that are more comfortable with transaction sales would probably be most inclined to be innovative in uses of SI. SI

programs generally involve insurers who are not as invested in traditional broker/general agent distribution or not as invested in high-net-worth customers. It typically works best for simple and easy-to-explain products.

SI products can be used by smaller insurance niche players without much innovation. SI products work well for middle market, where the industry is simply not reaching these consumers. These consumers are looking for a relatively quick sale. It also works well for final expense, due to its nature of small face amounts, where the high costs associated with fully underwritten business would be inconsistent.

SI products historically used to be the niche of small to medium-size carriers. Now many larger carriers have also entered that space to gain small-/middle-income market share. It is no longer only the local Midwest small-town carrier offering SI, but your large insurance companies of the world are now also in the game. SI underwriting can have a role to play within a company's overall risk portfolio/strategy regardless of its size, location, etc. Historically, SI distributors were small and targeted substandard or older populations, with a particular focus on telephone-based distribution and direct mail. Newer SI offerings involve online distribution and can focus as much on providing an easy experience as specifically serving a substandard or older population.

### 3.1.8 Advantages and Disadvantages

According to many panelists, some of the advantages of SI are instant answers of approval or decline, a very small amount of underwriting, and the insured being able to make payments and have proof of coverage the same day.

There are several reasons people would want to look at an SI term life insurance policy:

- Prefer not to take a medical exam
- Can't wait for three to 12 weeks for a life insurance approval
- Don't like needles
- Not in the "best of health"

There are some wrinkles to the simplicity that an SI life insurance plan provides. The main catch is that they're more expensive than a fully underwritten life insurance plan. With a fully underwritten plan, the insurer is doing their due diligence and getting a comprehensive look at medical status and history. They have a pretty good idea of how risky the applicant is to insure and can provide a more accurate premium quote. With the limited information they get from a standard issue plan, insurers err on the side of caution and charge a little more.

According to the panelists, the advantages and disadvantages of using SI programs for an organization are as follows:

#### ***Advantages***

- Companies often look to SI as a way to reach customers outside of their traditional markets and diversifying their insurance portfolios.
- Product simplicity, shorter/less underwriting, less expensive to issue (excluding commissions) and different target markets.
- There is less need for underwriting expertise, knowledge of substandard conditions.
- Easier to scale up production in SI due to marketing structures.
- Generally, premiums are more than adequate to cover mortality costs, so it can be easier to earn a profit in SI.
- Lower dropout rate of applicants during process.
- Provides coverage that might not otherwise be able to be provided.

- Can appeal to customers and agents/brokers who want a quick and easy underwriting experience with no medical exams.
- For an organization focused on a sale to someone for whom there is no long-term relationship, these products work well, since the goal is to quickly get the policy issued.
- It may be more cost-effective to use an SI process. It may also help with placement rates, as companies lose too many applicants when it takes 90+ days to issue a policy.
- Simple to launch and relatively simple to administer.
- Very low selection expense due to the absence of a medical exam, human underwriting and other costly underwriting requirements that you find in fully underwritten products.
- SI underwriting is faster and less manual, and it is attractive to clients who don't want to go through a lengthy and invasive underwriting process.

### ***Disadvantages***

- Higher premiums due to greater uncertainty, less competitive compared with fully underwritten business.
- Anti-selection risk/higher mortality due to less underwriting, higher lapse rates due to price, and increased surplus strain (commissions are often high).
- Investment in products with higher premiums that may eventually be replaced by products fully underwritten on simplified, accelerated platforms.
- Less experience to develop pricing assumptions.
- More volatility with less certainty.
- Fraud is more prevalent. The organization will need to invest in a robust claims management and investigation and be willing to rescind early claims to maintain profitability. There is also increased reputational risk for the organization as a result of rescinding early claims.
- For an organization focused on long-term relationships between producer and customer, these products may actually detract from fostering and growing those relationships.
- Difficult to distribute through traditional life insurance channels, such as career advisors or brokers who focus on ensuring that their customers can get the best price possible.
- It offers a less accurate risk assessment than full medical underwriting and may be less attractive to healthier consumers looking for the cheapest price or higher face amounts.

### **3.1.9 Challenges**

Some of the challenges in executing SI programs, according to panelists, are described below.

On the risk side, companies must be aware that when developing an SI framework, anti-selection is a real risk. Simplification of the application process must be balanced in ways that will mitigate this risk. If an application only has five questions instead of 25, it would be substantially more difficult to blame an applicant for withholding information.

Applicants are not obligated to disclose specific aspects of their histories if the insurer does not ask about them. In addition, because simplified underwriting generally requires no screening tests or supporting evidence, insurers have fewer opportunities to discover undisclosed risks during the application process. This includes risks the applicant might have chosen to withhold, risks not picked up in the brief application, and risks of which the applicant might not be aware. In fact, a simplified product might have been chosen because of questions not asked. For example, a question about prior insurance history might be worded "In the last five years, have you ..." instead of "Have you ever ... ." Or,

if applicants are not asked about the previous times coverage has been declined or whether a policy has been issued to them with modifications and/or exclusions, there would be no impetus to disclose that history.

Also, if an applicant was treated for colon cancer six years ago and the simplified application wording asked only about cancer history “in the last five years,” the applicant would not be obliged to disclose that history, which would be very anti-selective.

For SI, it is difficult to set the price correctly. With SI, there is a lot more variability and it is harder to set expectations or assumptions, which change over time, and measuring those changes can be challenging. Experience reporting and comparing with pricing assumptions is essential. If using an agent distribution, the agents need to be monitored closely for possible abuse/anti-selection. Some distributors are riskier than others. Their business may skew to healthier individuals or to people who cannot afford their policies. If lapse rates exceed expectations, mortality is likely to suffer.

Everyone has to understand that claims will “get through.” Actuaries and underwriters tend to be conservative, and management has a tendency to get concerned about early duration claims. A mindset change is needed for a carrier used to fully underwritten products to enter this marketplace.

Fraud is a real concern. For example, if the press talks about how to get around the smoker application questions, smokers will be buying nonsmoker policies. People who claim to have a body mass index (BMI) of 21 and really have a BMI of 31 will be insured. Insurers will start to insure people who claim to not be scuba divers but be required to pay claims related to diving accidents.

One panelist stated that they are very new to the SI space, so their biggest challenge right now is understanding exactly what the mortality experience will be. They have run a large number of simulations, but the data on which they can perform simulations isn’t perfectly aligned to that of an SI applicant population.

### 3.1.10 Situations Where SI Is Not a Good Choice

SI life insurance could be right for applicants under the right circumstances. If they are looking to get coverage quickly, SI insurance is their best bet. Since much of the full underwriting process is taken up with scheduling your paramedical exam, waiting for results, potentially needing more information from the doctor, and having that all reviewed by the insurer, cutting out the exam can save a lot of time.

There is also the issue of simply not wanting to take the paramedical exam. Despite it being a relatively basic checkup, some people find the process invasive, especially if the insurer requires a more detailed look at the health history. It could also be the case that the applicant does not have time to wait around for the exam to be scheduled.

Overall, though, if the applicant does not mind the paramedical exam, a fully underwritten insurance plan is their best bet. It will provide more accurate coverage and will almost always be cheaper for healthier individuals. Plus, they are basically getting a “free” physical, and it’s always nice to check up on health. If given the choice, the applicant should probably take a pass on SI to get the most out of the life insurance. But if taking a paramedical exam is out of the question, it’s good to know there’s an option that still offers some level of protection.

According to the panelists, situations where SI is not a good choice from the insurer perspective are as follows:

- SI may not be a good fit from a carrier perspective based on the target market of the insurer, such as more affluent markets.
- SI would not be a good choice for certain types of products (whether as stand-alone or riders on life policies), such as disability insurance or long-term care. Other more complicated products where SI may not be a good fit include UL, variable or indexed life insurance.
- Higher-face term market may not be a good option due to competition and price sensitivity.
- For an insurer focused on high-net-worth/long-term-producer/client relationships, these products don’t really work. Introducing them (generally to distribution other than what such a company is used to) may even cause conflicts with the primary distribution channel.



- The product may not fit into the overall risk strategy (e.g., does not align with overall ERM), pricing risk, adverse selection, and lapse risk.

Situations where SI is not a good choice from the insured perspective is as follows:

- If insureds can get through the fully underwritten process, they can generally get a cheaper price and/or more coverage.
- Once a high enough face amount is reached, the convenience of SI underwriting is no longer worth the additional premium versus if they had gone through full underwriting.
- If the insured is middle-aged or older, then SI is especially expensive relative to what they could get with a medical exam. For younger applicants, the product is more expensive but is still relatively cheap given the younger age. SI is not a good choice for high-earning families who are looking for a large amount of life insurance to cover lost income in the case of an unexpected death, as very few companies offer SI products over \$500,000.
- An insured who thinks he or she is in perfect health will want to go through a full underwriting process, leaving less healthy insureds in the SI cohort. SI is not good for someone who could otherwise qualify for better rates due to better health status. That said, some insurance is always better than no insurance.

## 3.2 Current Practices

### 3.2.1 Thresholds

This section covers the maximum face amount/coverage amount or premium amount that serves as a threshold for using SI.

According to the research, the coverage received is also more limited with an SI plan. Again, the insurer knows relatively little about the applicant, and they don't want to cover them with a million-dollar policy. Some insurers offer as high as \$500,000 coverage, but most top out closer to \$100,000.

From the panelist responses, most companies that participated cap at \$250,000. Some will go as high as \$500,000. For final expense products, the maximum face is around \$35,000.

Most insurers also vary the amount of insurance available by age. For ages 0 to 15 or 56 to 75, the face amount is usually limited to around \$100,000, where at 16 to 55, it goes to the \$250,000 maximum.

One panelist pointed out that they go to \$250,000 right now, but it really depends on the market. An insurer would never want to have the highest SI face in the market because they would likely get anti-selected against. However, if all the SI writers are going beyond \$250,000, then it's not as problematic. They are seeing the same thing in accelerated underwriting right now, where carriers are continually pushing up their maximum face to keep up with the rest of the industry.

### 3.2.2 Risk Classifications

Panelists were asked about risk classifications used for SI with the summarized responses below.

Unismoke has historically been the most prevalent in SI. Most carriers have since moved to smoker distinct, and two risk classes are now the most common (smoker and nonsmoker standard), with sex-distinct prices. Some SI product carriers also have one preferred nonsmoker class. The increase in third-party data has allowed for some preferred classification. It should be noted that many insurers' standard classes go to Table 4, or a 100% increase in expected mortality over a true standard risk. The classes do allow for some substandard lives, but they are still grouped into the standard class.

### 3.2.3 Minimizing Anti-Selection

Application questions, including medical, financial and lifestyle, can help limit anti-selection. Other information from the following is also useful in minimizing anti-selection: MIB, MVR, prescription histories, tele-underwriting, which can be used for drill-down questions or simply verification of previously obtained data. Also, incorporating cognitive testing for older ages is useful. Other useful tools include personal history interview (PHI), background check, consumer database check and credit score.

Careful design of an application also means that in addition to being brief and simple, the application and the policy contract should:

- Use language appropriate for its target market(s).
- Be comprehensive enough to capture all relevant risks.
- Limit legitimate opportunities for applicants to withhold information.
- Give adequate instructions, including information about the duty to disclose.
- Include restrictive clauses such as a pre-existing condition exclusion, as well as other exclusions or limitations, to mitigate risks. Such clauses should be clearly spelled out. For example, specific risks such as aviation or alcohol or drug abuse could be excluded.

Panelists were asked what the approaches to minimize anti-selection are. Below are their summarized responses.

As companies incorporate more data sources, they can use them to validate the health questions asked. For example, if an applicant indicates that he or she does not use tobacco and a data source or model developed from data suggests otherwise, that may raise a red flag. Companies can also incorporate a margin for anti-selection into their mortality assumption when pricing these products.

Companies may be very selective in distribution channels as well as obtaining third-party evidence, such as MIB, third-party tools, prescription histories, MVR and random phone interviews. They are also selective with producer monitoring where experience is monitored routinely and agents with unusually high mortality are terminated. Also, post-issue monitoring tools such as Rx recheck and MIB Plan F (MIB follow-up) can be helpful. Instant identification checks can help minimize fraud. Also, being aware of SI competitors in the market and their maximum face amounts and questions asked is useful. An insurer should never want to be the outlier in the sense that they are the only SI carrier NOT asking about a specific impairment.

Any discrepancies (such as between an application answer and Rx information received) should be referred to an underwriter. Also, for senior SI products (final expense and senior life whole life products), it is beneficial not to issue prior to issue age 50, due to poor experience at those younger ages. In addition, one panelist's company has a three-year period on its substandard life product, where if the insured dies in the first three years, the face amount paid is return of premiums plus interest.

Companies can minimize anti-selection by updating applications to clarify and strengthen questions and avoiding weaknesses compared with competitors. It is also crucial that they monitor agents with metrics, use trained telephone interviewers and increase efforts on contesting claims.

Thorough claim review leads to a more robust application with less potential or perceived gaps and ambiguity. Insurers should ensure that they understand all potential gaps in their application and/or SI process. They should also ensure that the Rx provider offers high rates of prescription validation so that if there is nondisclosure, it can be caught with the Rx database.

### 3.3 Assumptions

#### 3.3.1 Mortality, Lapse and Expense

Mortality outcomes for any underwriting regime are based on many selection levers. Due to these levers, two seemingly similar programs may not result in a similar mortality outcome. Key determinants to mortality outcome include application structure, target market, distribution method, individual selection criteria, claims adjudication policies and program management.

In general, claims experience for SI policies tends to be worse than for fully underwritten policies. This should not be surprising. If fewer questions are asked and less evidence is gathered, the likelihood is greater that certain important risks will not be detected during the application process. Also, some substandard and even unacceptable risks are accepted at standard rates under certain simplified underwriting processes, as what is considered “standard” in an SI product can encompass up to eight tables (up to 200% of standard mortality). In some markets, therefore, advisors might steer applicants who have been declined or rated for a fully underwritten product to an SI product.

Panelists were asked, “How do the assumptions (mortality, lapse and expense) differ when pricing SI products as compared with traditional underwriting?” The following tables show the results of the number of panelists selecting the assumption category.

##### Mortality

Lower	0
0% to 30% higher	2
31% to 60% higher	3
More than 60% higher	8

##### Lapse

Lower	0
0% to 40% higher	3
41% to 80% higher	3
More than 80% higher	7

##### Expense

Higher	0
0% to 30% lower	5
31% to 60% lower	4
More than 80% lower	3

SI products can help reduce not-taken rates. Savings come mostly from not requiring lab tests or reaching out for attending physician statements.

Expense is a very broad term. Expect underwriting expense to be lower but claims management expenses to be higher. It also varies by the distribution channel and commission structure.

Mortality differences vary by duration. For mortality, one panelist’s company uses 31% to 60% higher for SI versus full underwriting in early durations, but it declines at later durations. For lapse, their early durations are 41% to 80% higher for SI versus full underwriting, but then again the difference declines in later durations. For expenses, they use 31% to 60% lower for acquisition (in general for most of their recent pricings; they may have less difference now due to use of fully allocated expenses) and no difference for maintenance expenses.

Another panelist stated that generally their SI mortality spikes are highest in the first five durations. For later than duration five, it would be somewhere from 0% to 30% higher. There is still higher mortality for SI business compared

with full underwriting business after duration five even if the spike declines, because they use a higher relative risk (RR) version of the Valuation Basic Table (VBT) tables for SI business.

Another panelist stated that for lapse, it's generally the first two to three durations where SI is a lot higher than full underwriting. After duration 3, there is much less difference, perhaps 0% to 40% higher.

### 3.3.2 Industry Tables and Principle-Based Reserves

In a deterministic valuation under the Valuation Manual (VM)-20, the prescribed method does not fully contemplate SI business or the blurring between traditional SI business, accelerated underwriting and fully underwritten business. The RR tool does not apply for underwriting without fluids, nor does it consider new data sources. Acceptable support for use of new data sources, mortality credibility, etc. is not accounted for. There are also nonforfeiture and tax implications with blurring definitions for underwriting regimes.

Considerations for data collection under VM-51 include:

- Need different data than traditional to differentiate and understand programs and expected mortality outcomes as underwriting becomes less homogenous.
- Need definitions, as SI is not currently part of mandatory data collection.
- Frequent program modifications and refinements to predictive models in order to achieve desired mortality outcomes will create additional noise in the experience analysis and will be difficult to measure.

The 2008 VBT Limited Underwriting table may be the best available fit for term and UL SI plans. It has a more appropriate slope and shape, it is heterogeneous, there is not as much of a selection discount and it is a good reference table.

The SOA 2008 VBT Limited Underwriting table was developed using data where only limited underwriting occurred. The table is a combination of small policies, conversions and some fully underwritten business but with unknown levels of underwriting for smoker/nonsmoker split based on primary table splits. Ideally there should be variants (for example, relative risk tables) of the limited underwriting table for various broad categories of SI products and/or a way to map an SI product to the limited underwriting relative risk tables (akin to the RR tool).

Some adjustments that should be considered include:

- Bring the mortality forward to current date
- Changes to reflect the individual company (target market, distribution channel, etc.)
- Changes to reflect differences in underwriting

Panelists were asked if industry tables are a good starting point for SI mortality and, if so, which tables. They were also asked how SI mortality should be determined under principle-based reserving. Their summarized responses are below.

One panelist's company has been issuing SI business for 20+ years and now has a decent experience pool to help set mortality pricing assumptions. But setting mortality has been a significant challenge, and they have gone through several iterations. For reserves, they apply significant margins to the ultimate mortality tables. For PBR, a new table would be ideal.

Industry tables are a starting point to develop a good estimate of reserves. One panelist anticipates, depending on product and underwriting class, mortality between 130% and 200% of the 2017 CSO.

Many think SI needs its own mortality table, since the wear-off slope is different from traditional underwriting. In the meantime, a factor applied to an ultimate table could suffice, but there is preferred wear-off in SI that should just be reflected over a shorter time period (like the first 10 durations).

One panelist noted that it has been a long time since they have looked at industry SI mortality tables. They have relied on reinsurers and other experts (consultants) in setting their starting (pricing) mortality assumptions, and they look at experience annually to make any necessary changes to those assumptions.

Another panelist noted that he considers industry tables to be a good starting point. For nonmedical, other than final expense, they generally use the higher VBT RR tables for SI, plus their own additional adjustments. For example, VBT RR 140, VBT RR 150, VBT RR 160, etc. 2015 and 2008 VBT tables are currently used for their products (RR 100 version of these tables is considered to be population mortality). They do not use the VBT Limited Underwriting (LU) table, as this table is generally not considered appropriate for “nonmedical” business but is rather for SI products, which have less underwriting than their nonmedical products do. To determine SI mortality under PBR, they use the SOA’s RR tool plus their own adjustments (and additional mortality spike). The latest RR tool may not require such adjustments because it may include other options that were not available before, which was the reason they needed to add their own spike. For final expense, they are using the 2001 VBT table with many additional adjustments (more adjustments than used for their other SI products).

Many panelists agree that new tables should be developed due to expected differences in slopes. New changes to the VM require adjustments to the net premium reserve mortality when anticipated experience materially exceeds the CSO table.

One panelist stated, “It’s called ‘principle-based’ for a reason.” Actuaries should be allowed to decide this without regulatory prescription. The actuary should have to justify adjustments to an industry table, including slope changes, rather than having a flat percentage change from a CSO table. At the moment, industry practices related to SI are so varied, a single table is not practical.

Practically, given current limitations, SI mortality under PBR may be determined by studying past, relevant SI claims experience data against the 2008 VBT LU table. Assuming the claims experience is credible, the company experience assumption would be a certain scalar applied to the 2008 VBT LU table. This implies that the slope of the 2008 VBT LU table holds for the product in question, and actuaries may want to confirm the reasonableness of that assumption. The applicable industry mortality table would be informed by the same study/process. In the absence of credible experience data, pricing mortality expectations could inform the company experience assumption and the relevant industry mortality table selection (and modification).

Another panelist’s company does not use industry tables for SI mortality. They use their fully underwritten mortality as a starting point and run simulations on an adjusted subpopulation in order to estimate SI mortality. Given the wide variation in SI products over the last couple of decades (in particular, the change in distribution channel and target market), there is a concern to use any industry table that was built on past experience and does not reflect these macro-factors.

The CSO (valuation) and VBT (best estimate) tables can be good starting points. With enough experience, adjustment factors varying by age, sex and risk classification should be used to align expected mortality to experience.

### 3.3.3 Monitoring Emerging Experience

Panelists were asked about approaches to monitoring emerging experience that differ from other forms of underwriting. Their summarized responses are below.

The basic ideas are the same. Experience should be monitored by agent on SI products. Placement rates as well as early duration lapse rates provide a good leading indicator of SI mortality. Claims should be reviewed (including cause of death or acceleration requests), and reinsurers should be engaged.

For SI, companies focus more on accept or reject decisions. MIB Plan F (follow-up) and retroactive studies should be invested in even though it is more expensive to perform retroactive tests. Demographics should be monitored, including age, gender, risk class and rated. The MIB Plan F alerts insurers to any new applicant information submitted by another insurer for two years following the original MIB checking service inquiry. This offers a valuable second chance to review during the contestable period.

Fortunately, with low-face-amount limited underwriting policies, experience emerges much more rapidly than traditional fully underwritten business. The key is actively refreshing and keeping an eye on emerging claims and lapses—at least quarterly, if not more frequently. Since there will be more claims than fully underwritten business, there will be access to more credible claims information quicker.

One panelist stated that they use similar methods as those deployed in other underwriting, including post-issue audits/reviews and internal models that are not part of the underwriting decision but serve as a real-time barometer for mortality. Random holdouts (in which sample policies are run through full underwriting for comparative purposes) are not used in SI, even though they are widely seen in other programs. This is because an SI random holdout would essentially be a human review prior to decision, and the protective value of that is less important than the desire for a rapid purchasing experience, especially given the ability to perform post-issue audits/reviews.

SI products mirror population trends closer than fully underwritten products given the demographics and more limited underwriting.

#### 3.3.4 Trends in Monitoring Actual to Expected Experience (A/E)

Panelists were asked about the trends they see in actual to expected experience in population that is subject to SI. There was no consensus view, as the responses were varied. Their summarized responses are below. The research tends to show that the design of the program—application, data sources and retroactive monitoring used—has a big impact on how experience will emerge. Thus, a well-designed program should see experience near expectations.

One panelist's company participated in an SI policy persistency study in 2013, but the experience is a bit dated by now, with a study period of 2005–2009 (<https://www.soa.org/resources/experience-studies/2013/2013-gisi-study/>).

Another panelist believes that there will be potentially increased claims from cancer, heart disease and chronic obstructive pulmonary disease and is concerned about the opioid crisis/suicide rates and the negative impact that will have on mortality.

As better risks gravitate to accelerated underwriting products, SI A/E ratios could increase. One panelist has noticed an increase in mortality in the third year (year directly following the end of the contestable period) relative to expectations. An insurance company may contest a life insurance policy if the policy is within the two-year contestable period. Most insurance companies have a two-year contestable period when activating a new policy, meaning that if an insured dies within two years, the company may rescind the policy entirely upon a finding of fraud or misstatements made in the original application.

Another panelist expects improving A/E experience from a baseline of moderately worse experience compared with fully underwritten, due to refinements of SI underwriting (and potential convergence with accelerated underwriting).

Lastly, for one panelist, mortality experience has generally ranged close to expectations. Increased anti-selection is seen with increasing face amounts.

### 3.4 Underwriting Approval and Data Elements

#### 3.4.1 Approved as Applied For

This section covers the percentage of applicants approved as applied for and whether it varies by product.

With SI, the applicant will be presented with a health questionnaire. They will be asked some basic questions about their health, such as if they smoke, if they are terminally ill or have been diagnosed with a serious illness, if they have AIDS or HIV, and so on. Depending on the insurer, answering yes to some of these questions will disqualify them from receiving SI insurance, or it may just raise their premiums. Large insurers estimate that around 70% of their SI applicants are approved.

Most of the panelist responses for approval rates were in the 70% to 85% range; however, it varies a little by product and number of classes available. This rate depends on the number of application questions as well. A company asking more questions would more likely have lower approval rates.

For many insurers, since there are no preferred (or substandard classes) on these products, applicants are not “applying for” anything besides a policy; for example, they are not “applying for” a preferred underwriting class.

### 3.4.2 Information Gathered

An applicant’s approval is also going to be decided based on a few specific databases that will paint a picture of how insurable they are.

These databases are usually:

- **The Medical Information Bureau.** MIB is a nonprofit organization that is composed of over 400 insurance companies that work together to determine and manage risk. They check to see if the applicant has applied for life insurance before and, if so, what the outcome was. The MIB is like a credit report for your insurance application history and outcomes.
- **Prescription Drug Check.** This is a check of the history of prescription drugs. If a prescription is filled, it will be reported as a prescription taken, even if the medicine was never taken.
- **Motor Vehicle Report.** The insurance company wants to make sure that the applicant is not a crazy driver. Car insurance companies aren't the only ones that look at driving records. They are checking for things like speeding tickets as well as DUIs and suspended licenses.

These are the most basic checks that are required before an insurance company can make a life insurance underwriting decision. This is the process almost all life insurance companies use for nonmedical underwriting.

Panelists were asked to rank the importance of the following information gathered via answers from applicants for approving/rejecting an application. The results are as follows (with the parenthetical values representing the range of responses):

Information	Rank (1, 2, 3 ...)	Average	St. Deviation
Personal history of medical conditions	1 (1,2)	1.3	0.2
Alcohol or drug use/abuse	2 (1,6)	3.1	2.3
Use of tobacco products	3 (2,5)	3.8	1.5
Declined or rated for other insurance	4 (2,8)	4.0	3.0
Disability	5 (2,6)	3.9	4.1
Felony conviction	6 (2,7)	4.5	2.3
Driving record	7 (3,8)	6.0	2.8
Actively at work	8 (5,8)	6.8	1.6
Aviation avocations	9 (5,10)	8.2	3.7
Member of the armed services	10 (6,10)	8.7	3.1

### 3.4.3 Types of Nonmedical Information

SI policies don’t require a medical exam, but they involve asking several health questions on the application. The most common questions are about medical history, recent hospitalizations, and height and weight, according to LIMRA, a life insurance research group. Most companies also ask about drug, alcohol and tobacco use.

Companies might pull other data about an applicant, such as prescription drug history, motor vehicle record and information from previous life insurance applications. Approval for a policy isn’t guaranteed. Most types of life insurance, including term and whole life, are available as SI policies. The maximum amounts of coverage available are limited, usually \$500,000 or less, depending on the company. The most common nonmedical information (per a

recent survey) are sex (92% of respondents), height and weight (73%), country of residence (67%) and occupation (54%).

Panelists were asked if they use any information from the MIB (or any other database) and, if so, to what extent they rely on that information. They were also asked what types of nonmedical information is used with SI underwriting. Their summarized responses are as follows.

Many panelists reported that their company does a telephone interview with every applicant, runs MIB and an Rx database. For the Rx database, if the applicant is taking any medication on their “knockout list,” they are not eligible for a policy. Procedures are in place if the MIB shows a prior decline of coverage, and based on those procedures, the policy may be approved, incomplete or referred to an underwriter for further review.

Other types of nonmedical information used include random phone interviews, MVRs, internet searches and third-party tools. Information discovered through these databases is confirmed by the applicant via a tele-interview. Credit-based risk scoring can also be used in SI. Criminal history checks and medical billing data have also started to become more common sources of information.

### 3.4.4 Time to Make Underwriting Decision

This section covers how long it takes to gather the information and make an underwriting decision.

Below is a chart that compares speed of issue for three underwriting approaches:

Approach	Application	Underwriting	Final Answer	Total Time
With Exam	1–5 Days	30–40 Days	1–5 Days	Up to 51 Days
No Exam	20 Minutes	8–16 Days	1–5 Days	Up To 21 Days
SI	5–7 Minutes	Real Time	Immediate	5–7 Minutes

The research shows that the SI insurance product is going to be the easiest and fastest option when it comes to getting a life insurance policy approval.

One panelist noted that a decision is made at the time of application/interview on 89% of their business. For the other business (11%), it could take up to an average of three days; however, results could take up to one month depending on what information is required and if the proposed insured cooperates and completes a PHI. Most panelists noted that a decision is usually made within minutes for most policies.

Gathering MIB, MVR and Rx data takes seconds. An automated decision (incorporating this data plus the application answers) is in minutes. However, if there is an inconsistency (such as the applicant answering “no” to a question about, say, heart conditions but there being a medication on the Rx report that could be used for heart conditions), then an underwriter needs to get involved.

While the median time for the data gathered in SI programs can be less than a minute, the distribution of this time is skewed due to overnight outages with certain data vendors and occasional downtime during services or unexpected issues.

## Section 4: Concluding Remarks

For more information on SI underwriting and techniques, please visit the [References](#) section.

For SI underwriting, physical examinations and fluids are not required. Typically, a health and lifestyle questionnaire is used to determine insurability—in some cases, supplemented with third-party health data. Generally, SI underwriting will result in fewer distinct rate classes than full medical underwriting.



In some cases, an applicant will be able to go through the entire process online. The health questionnaire can be filled out at the applicant's convenience, and because they don't need to set up a paramedical exam, not all insurers will require them to speak to an underwriter.

Simplified underwriting is becoming more popular because of its significant advantages. It allows for a faster, simpler and less invasive purchase process for applicants while allowing insurance companies to issue more policies and improve operational efficiency. There are, however, risks associated with simplified underwriting, namely anti-selection risk, reputation risk and the risk of attracting and concentrating less favorable risks while steering more favorable ones to cheaper, fully underwritten products. The good news is that it is possible to mitigate some of these risks by developing strong underwriting questions and by designing products that can reduce undesirable risks. Product managers, underwriters and pricing actuaries should work closely together to ensure the simplified underwriting process will attract the expected risks and provide a positive experience for clients.

To be successful in the SI business, insurers have to keep a close eye on mortality and conduct periodic, thorough claims experience reviews. Products need to be priced accordingly and repriced as necessary. Also, insurers need to be nimble and flexible, quickly reacting to needed changes in medical condition gaps on the application (unfolding from claims experience). Every word matters on the application, and it should be reasonably clear what everything means to the applicant. Lastly, insurers need to monitor and manage agents providing low-quality business due to mortality or persistency but also due to fraud (forged signatures, etc.).

## Section 5: Panelists

Special thanks go to the fifteen individuals who took the considerable time and effort required to provide thoughtful and detail-oriented responses to the questionnaire. To protect individual company practices, panelists names have not been listed.

## Section 6: Acknowledgments

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## Appendix A: SOA Simplified Issue (SI) Questionnaire

### Project Scope

Simplified Issue is one of the life insurance industry’s versions of “quick, easy and affordable.” There is a market for streamlined data collection and a shorter underwriting process, even if it means a higher price than a fully underwritten policy. Our goal for this project is to gather industry SI information; summarize data collection and data sources, pricing and underwriting techniques; experience monitoring results and differentiation from other quick-to-issue life insurance products, approaches to mortality assumption setting and reserving; and produce a report that details observations and conclusions on the SI market, including business in force. Based on the observations and conclusions in the report, companies considering entering the SI market can benefit from understanding current practices, and companies currently issuing SI life insurance can evaluate how they compare with overall industry practice.

### General Notes on Questionnaire

Thank you for participating in this questionnaire. Please note the following:

1. If a particular question does not apply to you, please state “Not Applicable.”
2. We are seeking your personal point of view as an expert in the field. However we do encourage you to solicit feedback from others to the extent you think it will improve your response.
3. Your responses are confidential. The final research report will be based on anonymized responses, and would not involve specific information on any particular company or client.
4. This survey is intended to be updated electronically within this MS Word document. The “Response” section for each question will expand as responses are typed in.
5. For purposes of your response, please use the definition of SI below. This is intended to improve consistency.

### Definition

Simplified issue underwriting is the simplest type of underwriting that produces the least protective underwriting value as compared to other underwriting programs. It is different from Accelerated Underwriting in that it is not targeting fully underwritten mortality. It also does not require information that is collected through medical exams or bodily fluids. The applicant is either accepted or rejected and not triaged to full underwriting. The policies that are written using simplified issue underwriting are usually characterized by lower coverage, higher premiums and/or policyholders with broader array of health conditions. The applications used for this type of underwriting typically contain a shorter list of questions, which may be the same for each applicant, and decisions are made based on a very limited criteria.

### Questionnaire

#### SI Underwriting—interview questions

#### Background

1. What is your organization (insurance company, consultant or reinsurer) and your role within the organization?

*Response:*

2. What products does SI apply to for the company you work for or with?

*Response:*

**For the remaining responses, if applicable, identify differences among products.**

General

3. How would you describe SI Underwriting and how does it differ from other forms of underwriting?

*Response:*

4. Please list any regulatory or actuarial guidelines that apply to the use of SI underwriting in the insurance industry.

*Response:*

5. What are some of the current developments in SI Underwriting?

*Response:*

6. What target market is served by SI products and how are products distributed (direct to consumer, agent, electronic, etc.)?

*Response:*

7. What are some of the characteristics of an insurer that would use SI for some or all of its products (for example: size, location, use of innovation, life products only or diversified)?

*Response:*

8. What are some of the advantages and disadvantages of using SI for an organization?

*Response:*

9. What are some of the challenges in using SI?

*Response:*

10. What are the situations where SI is not a good choice? From insurer perspective and/or insured perspective?

*Response:*

Current Practices

11. Is there a maximum face amount/coverage amount or premium amount that serves as a threshold for using SI?

*Response:*

12. What are the risk classifications used for SI (smoker, nonsmoker, preferred class, substandard, etc...)?

*Response:*

13. What are the approaches to minimize anti-selection?

*Response:*

Assumptions

14. How do the assumptions (mortality, lapse, and expense) differ when pricing SI products as compared with traditional underwriting? Please check one box per table.

Mortality

Lower	
0 to 30% higher	
31 to 60% higher	
More than 60% higher	

Lapse

Lower	
0 to 40% higher	
41 to 80% higher	
More than 80% higher	

Expense

Higher	
0 to 30% lower	
31 to 60% lower	
More than 80% lower	

*Additional Response:*

15. Are industry tables a good starting point for SI mortality? If so, which tables? How should SI mortality be determined under Principles-Based Reserving?

*Response:*

16. What are some of the approaches to monitor emerging experience that differ from other forms of underwriting?

*Response:*

17. What are some of the trends you see in actual to expected experience in population that is subject to SI?

*Response:*

Underwriting Approval and Data Elements

18. What percentage of applicants are approved as applied for? Does it vary by product?

*Response:*

19. Rank the importance of the following information gathered via answers from applicants for approving/rejecting an application.

Information	Rank (1, 2, 3 ...)
Use of tobacco products	
Alcohol or drug use/abuse	
Personal history of medical conditions	
Declined or rated for other insurance	
Actively at work	
Driving record	
Felony conviction	
Aviation avocations	
Member of the armed services	
Disability	
Other (list)	

20. Do you use any information from the Medical Information Bureau (MIB) (or any other database—please specify) and if so, to what extent do you rely on that information? What are the types of nonmedical information used with SI underwriting?

*Response:*

21. How long does it take to gather the information and make an underwriting decision?

*Response:*

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The Society of Actuaries (SOA), formed in 1949, is one of the largest actuarial professional organizations in the world dedicated to serving more than 31,000 actuarial members and the public in the United States, Canada and worldwide. In line with the SOA Vision Statement, actuaries act as business leaders who develop and use mathematical models to measure and manage risk in support of financial security for individuals, organizations and the public.

The SOA supports actuaries and advances knowledge through research and education. As part of its work, the SOA seeks to inform public policy development and public understanding through research. The SOA aspires to be a trusted source of objective, data-driven research and analysis with an actuarial perspective for its members, industry, policymakers and the public. This distinct perspective comes from the SOA as an association of actuaries, who have a rigorous formal education and direct experience as practitioners as they perform applied research. The SOA also welcomes the opportunity to partner with other organizations in our work where appropriate.

The SOA has a history of working with public policymakers and regulators in developing historical experience studies and projection techniques as well as individual reports on health care, retirement and other topics. The SOA's research is intended to aid the work of policymakers and regulators and follow certain core principles:

**Objectivity:** The SOA's research informs and provides analysis that can be relied upon by other individuals or organizations involved in public policy discussions. The SOA does not take advocacy positions or lobby specific policy proposals.

**Quality:** The SOA aspires to the highest ethical and quality standards in all of its research and analysis. Our research process is overseen by experienced actuaries and non-actuaries from a range of industry sectors and organizations. A rigorous peer-review process ensures the quality and integrity of our work.

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**Quantification:** The SOA leverages the diverse skill sets of actuaries to provide research and findings that are driven by the best available data and methods. Actuaries use detailed modeling to analyze financial risk and provide distinct insight and quantification. Further, actuarial standards require transparency and the disclosure of the assumptions and analytic approach underlying the work.

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