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The Future of Underwriting: a Reinsurer Partner's View

An Interview with Joe Gilmour

Joe Gilmour, FSA, FCIA is Chief Executive Officer of SCOR Global Life Americas, overseeing all aspects of SCOR's life reinsurance business in the Americas, including operations in the U.S., Canada and Latin America.

In the following Q&A feature, Joe Gilmour, the CEO of SCOR Global Life Americas, shares his views on innovation in the underwriting arena as a key to growth of individual life insurance in the U.S. market.

Q: The protection gap—the large group of uninsured people in the United States—has received a great deal of attention over the past few years. Can the industry reach them?

Joe Gilmour: I believe today's insurance industry (composite) can reach the under-insured but we must also be watching for the disrupters who have an existing business model which reaches consumers en masse.

The protection gap exists in both the middle market—where financial planning is relatively simple—and the affluent market—where financial planning is relatively complex. They're different but not mutually exclusive. By that I mean a solution in reaching the middle market could likely be leveraged into the more affluent markets.

Q: Focusing then on the middle market, what do you think is the formula for success?

While this market has many segments, I believe there are five key commonalities for success: 1. a simple product, 2. a simple application, 3. a competitive price, 4. a simple acceptance process, quick and non-invasive, and 5. advocates of good/great standing.

Insurers in the United States and abroad have already shown that large and viable businesses can be built by companies selling many small-amount life insurance policies (and related coverages).

For existing distribution, the traditional acceptance process is too time consuming and costly. We will always need traditional underwriting for important segments of the market, but to successfully penetrate the middle market we also need a very quick and non-invasive sales process.

Q: What do you mean by quick and non-invasive?

A: By quick I mean at the **point of sale**, which obviously has significant market penetration possibility if the distribution channel is aligned with the target market. And non-invasive means a simple application without collecting private medical information.

We have examples of organizations that are reaching the middle market for financial products. They perform needs analysis efficiently and quickly, usually through electronics. They reach out to different consumer groups with producers who understand what makes that customer tick.

Does the evidence suggest we still need to offer the middle market purchaser more competitive rates?

The evidence is mixed, though if rates that are close to larger size traditionally underwritten policies suddenly become available, then I expect the answer will be obvious.

To be competitive I believe we need electronically available data sources and an underwriting algorithm. We may not be talking *Flash Boys*[i] technology. I'm essentially talking about replacing an underwriting manual with an algorithm that makes mortality risk decisions in real time, including financial assessment. The only way an algorithm can do this is by having electronic data available on an applicant at the time of underwriting, which is greatly enhanced if also at the time of application.

Pricing the mortality risk, of course, is dependent on the validity of data that is available. When underwriting electronically, the biggest risk is not effectively filtering out the poorer risks that normal underwriting would catch—because letting in a few bad risks can have significant impact.

Q: Are sufficient data sources available to underwrite at the point of sale?

JG: Data sources are growing quickly and in ways that can be delivered in an algorithm-readable format. Full geographic coverage is advancing as well. We now have prescription drug records available for a majority of the population (which are priced for consumption on a per transaction basis). This has enabled replicating underwriting algorithms to move forward at the standard underwriting classes.

In the future, underwriting algorithms with sufficient data have the ability to make instant underwriting decisions on a very large percentage of applicants. Perhaps not 100 percent but it could be very high—85+ percent for term products. For the remaining non-decisions, the algorithm can serve as triage to other underwriting processes.

Replicating underwriting performance through algorithms and electronic data isn't fiction, but has a long way to evolve. Early findings, based on broad mortality pools, are promising. As we narrow the pool definitions to preferred and sub-standard rate classes, we will need more electronic data per applicant to offer competitive rates.

Q: How do you put all these things together?

JG: In order to sell life insurance at the point of sale and at competitive rates you need an algorithm and the technical support behind it. The algorithm can't be perfect right away. There will be some element of trial and error, a constant refinement from parallel testing with traditional underwriting and to mortality experience. Having an alignment of parties will be key—distribution, insurer and (perhaps) a reinsurer with experience and know-how so new underwriting risks can be covered.

Q: How much of an issue is cybersecurity?

JG: The security of data and the ability to move it around at the point of sale is a critical component of this business model. Fortunately, the cloud offers a whole new level of security and some very able providers are offering OpEx type cost structures.

Q: You listed "Advocates of good/great standing" as one of the components of successful middle market formula. Can you expand on that?

JG: It's no secret that the life insurance industry needs to build up our reputation in the consumer market place. One of the surest ways to do this is to extend our reach through the internet and other alternative means. We need people talking about how easy and affordable it is to get a great life insurance policy, no matter what the size.

Q: In your vision of the future, what does simplified issue look like?

JG: I'm being a bit facetious, but it may come down to a one question application: Can I access your e-records?

Mr. Gilmour was named CEO in October 2013, following SCOR's acquisition of Generali U.S., which established SCOR as the leading life reinsurer in the U.S. market. In 2008, Mr. Gilmour joined the senior management team of Transamerica Reinsurance, which was acquired by SCOR in August 2011. He was previously with New York Life International, where he served as Chairman and CEO and, before that, as Chief Financial Officer. He also served in various senior positions at Canada Life.

Mr. Gilmour holds a Bachelor of Science degree from the University of Toronto, is a Fellow of the Society of Actuaries and a Fellow of the Canadian Institute of Actuaries.

ENDNOTES

1 *See http://www.lifepolicygroup.com/press/market-rocked-as-21st-services-changes-mortality-tables*
2 *See Siegert, Paul Evolution of Life Expectancies in the Life Insurance Secondary Market, Insurance Studies Institute, 2010.*
3 *Rebello, R. How Poor Actuarial Practices result in Multi-Million dollar losses for Life Settlement Investors, Colva Insurance Services*
4 *See Bauer, D., Russ, J. A New Methodology for Measuring Actual to Expected Peformance, 2012, http://www.ifa-ulm.de/downloads/DCLE.pdf*
5 *Ibid.: "Due to size of portfolio, deviations that would be considered small by practitioners would be statistically significant."*
6 *Consider the case of a patient upon whom a life-saving operation needs to be performed. Assume that the outcome of that operation will either be the patient's death or the patient's complete recovery. It is clear, in this case, that not all mortality rates are equally affected.*
7 *It is assumed that T_1,T_2,… are independent.*
8 *See e.g. Green, W.H. Econometric Analysis, 7th Ed., 2012.*
9 *With a further simulation study it can be shown that the estimates for the variance of do not vary too much, themselves.*