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Slashing New-Business Processing Costs With Point-of-Sale Technology—a Golden Opportunity for Small Insurers to Outflank the Giants

by Maria N. Thomson

LIMRA tells us that the 20 largest insurance conglomerates write 80% of the life and health insurance premium today. These insurers focus primarily on investment products, and insurance products for the affluent – the top 10% of the population. For all other insurers, survival will depend on their ability to sell insurance to the remaining 90% of the populace.

Alternate distribution alone has not solved the problem – the downward slide in people covered by any type of life insurance has continued unabated since 1980. The slow underwriting and issue process, and the 20% average application fall-out during this are the likely culprits.

New rapid underwriting and issue tools can solve the problem, letting insurers of any size dramatically cut costs by reducing their new business processing staff while providing much faster service to agents and customers.

Smaller companies, nimbler than the industry giants, are in a great position to adopt this new technology now and gain a real competitive advantage – particularly in the neglected mid-market.

Starting at the Point of Sale

Rapid issue begins with Point-of-Sale (POS) software, hosted on the web, that agents can access from their computers. A POS system captures extensive information about the applicant during the first interview. This data is sent electronically to the home office new-business system, eliminating mailing or faxing forms and reentering the information.

POS systems should have the following features:

- Simple needs analysis—the agent enters some basic data about prospects, including their

age, income, dependents and assets. The software then produces recommendations about which kinds and how much insurance the individual needs.

- Personal history interview—a series of drill-down questions about the applicant's health. The agent enters the answers in the computer. A well-constructed personal-history interview can reveal just about everything that would be revealed by the attending physician statement, but unlike the APS, can be obtained immediately and without cost. The information from this interview should automatically be used to fill in the legally filed application form.
- Illustration/rating software—the agent can provide quotes and illustrations without accessing separate software.

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After the interview has been completed, the agent can send the file to the home office system electronically, bypassing the fleet of entry clerks insurers employ today. If electronic signature capability isn't a part of the software, the application can be printed, signed, and sent to the home office to be filed with other records. However, the home office staff can have the case evaluated in the time it takes for the application to arrive. By

using oral fluids, taken by the agent, instead of blood or urine – lab results can be secured within several days of the sale.

Furthermore, in addition to the Medical Information Bureau, there are now new underwriting databases such as Motor Vehicle Records and pharmaceutical history that can be accessed before the lab results are in. All of this information provides a very good picture of an applicant's health – which should be adequate for nonmed underwriting levels, and possibly even higher.

Using this process, any progressive insurer should be able to issue a well-underwritten life or health insurance policy within two weeks.

However, *instant* field issue is on the horizon, and it promises even greater efficiency and speed.

The next generation of POS systems will feature a wireless link to motor vehicle, pharmaceutical,

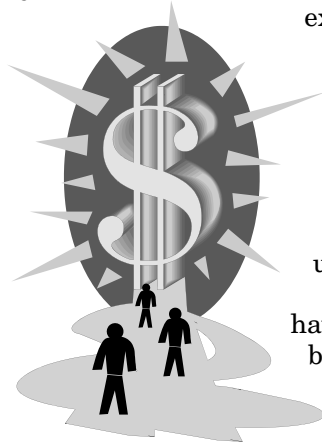
medical and credit-history databases. The agent taking the application will access these databases, perform a search and download the results within minutes. For the majority of applicants, who don't have any major problems, the computer will be able to make an immediate acceptance, utilizing an expert underwriting feature, and provide a final rate. The agent can then print out the policy with a portable printer, and a

click on an icon will transfer all the information immediately to the home office.

How Much Can You Save?

Surprisingly, POS technology isn't very expensive. If they choose the right vendor, even small companies can readily afford it. The POS vendor will charge a fee to set up the software on its system. After that, there's a small fee for each use. Since the vendor takes full responsibility for maintaining and upgrading the software, the insurer doesn't have to add expensive software specialists to its staff.

A company should be able to readily recoup its investment in streamlined processing. In a recent case story, we estimated it costs \$283 to underwrite and issue each policy under traditional "slow



issue." Instant issue could slash this to \$141.50 per policy and also virtually eliminate the applications that are lost in the issue process due to withdrawals, incomplete information and not-takens (this averages 15%). The savings can be substantial, even if somewhat higher mortality is

experienced. However, with the advance in technologies and databases, mortality and morbidity very well could be just as good as with traditional, slow methods, especially at issue ages under 40.

Even small insurers today have a large staff for new-business processing. Much mailroom work comes from taking in applications and delivering them to underwriting, and sending out policies. Additionally, the underwriting and issue areas are generally large. With streamlined processing today and instant field issue within about two years, an

insurer can eliminate most of these people, plus their attendant computers, processing software, furniture and space—saving millions annually for an average-sized insurer. If software is developed that takes information directly from the electronically submitted application and uses it to directly feed the administrative system, then all that will need to be retained of the current new-business processing personnel are a portion of the underwriters. This is because the best expert underwriting systems can usually only evaluate 50% to 70% of all apps, depending on the target market.

Faster, better, cheaper underwriting and issue is truly a survival issue for smaller companies, and those that move ahead now will be in the driver's seat to thrive in the years ahead.

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Section 7, Section 8, ASOP 7, and ACG4

by Godfrey Perrott

Recently, the NAIC substantially revised the model Actuarial Opinion and Memorandum Regulation (AOMR) eliminating the old Section 7 (which covered statutory opinions where asset adequacy analysis [cash flow testing] was not required. The Actuarial Standards Board revised ASOPs 7 and 22 and repealed ASOP 14 to update them. These revisions contemplate the 2001 AOMR but all States have not yet adopted the 2001 AOMR. How do these various forms of guidance to the actuary fit together, and which applies to each situation?

- ASOP 7 applies to any cash flow testing regardless of the purpose. ASOP 7 applies to cash flow test-

ing done for appraisals, pricing, valuation, or any other purpose. It applies to both stochastic and deterministic cash flow testing.

- ASOP 22 applies to all actuarial opinions that require asset adequacy analysis. Thus it applies to all opinions in States that have adopted the 2001 AOMR without substantial modification, and Section 8 opinions in States that have not adopted the 2001 AOMR.
- Actuarial Compliance Guideline 4 (ACG 4) of the American Academy of Actuaries applies to Section 7 opinions in states that have not adopted the 2001 AOMR and to any other circum-

stance in which an actuarial opinion on statutory reserves does not require asset adequacy analysis.

Keep this handy guideline in your pocket for future reference! (ASOP 14 is no longer applicable to anything. It was repealed since its guidance [to the extent it is still relevant] is now in the revised ASOPs 7 and 22.)

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