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An Introduction to Simplified Issue

by Michael J. Agan

What is simplified issue (SI)? Is it the life industry's answer to faster turnaround and better market penetration? When is it used? How is it marketed?

This article explores SI as a product. There is a small-company slant toward SI whole life because the vast majority of my experience with SI is in the senior market. However, most of what will be discussed still applies to all SI.

From the life insurance perspective, SI is the purchase and processing of a "no frills" life insurance policy for the average consumer from point of sale through issuance of a paid policy. It is providing life insurance in a fast, economical, non-invasive manner.

There are three ingredients that define SI: 1) A simple product, 2) a simple underwriting process and 3) quick issue. Each of the previous items will be discussed in more detail.

A simple product is both consumer and agent friendly. A "what you see is what you get" outcome is necessary. A fully guaranteed product not requiring illustrations is a great start. A specified premium is paid, the death benefit, cash values and so forth are known at issue. There is no confusion over credited interest rates, no current versus guaranteed values. A simplified product is "no frills" life insurance.

Simplified underwriting is as important as the simple product design. Simplified underwriting demands a rapid review and an immediate decision. Underwriting should be minutes, not hours or days. This is accomplished with an appropriate balance of an effective application and efficient underwriting tools.

The third ingredient involves the speed of policy issuance. The policy must be issued quickly to complete the SI process. The quicker the policy is issued, the better. What is quick issue? If a fully underwritten policy takes "on average" 30 days to issue, an SI policy should take less than five.



Now that we have defined SI, what are the markets? SI lends itself to "niche" markets. It frequently appears in the mortgage, final expense, financial institution and work-site markets. Each of these markets demands different product offerings and selling techniques.

The mortgage market is characterized by a P&C or a bank cross sell. The final expense market is focused on aging baby boomers and seniors. The financial institution market will utilize platform salespeople or directly market to their customers. Worksite is characterized by easy enrollment and takes place at the workplace.

The primary types of SI products are whole life and term insurance. Whole life is sold in small face amounts and is primarily sold in the final expense and worksite settings. Term insurance offers a fixed or limited face amount found in the mortgage and financial institution market. The whole life and term products are typically fully guaranteed and have limited underwriting. The remainder of this article will explore SI from a senior market perspective relative to whole life insurance. The discussion items still apply to all SI.

Product design is very important. As mentioned earlier, a simple, guaranteed "no frills" product is required. Substantial pricing work will be involved, starting with market research.

Market research goes beyond identifying the end consumer. In addition, research should consider how and who will do the selling plus the competitors offering similar products. Once you have an understanding of your market, establishing assumptions is not easy, specifically mortality. Although there is general mortality information available for SI types of products, it gets sketchy when you start looking at older ages. Lapses, premiums, cash values, benefit and rider considerations all require a good understanding of your market.

Packaging is an important consideration as part of the product design. The goal is to keep it simple and provide everything necessary to increase the odds of a smooth transition from application to policy delivery. The client piece—application, disclosures and any additional forms—must be packaged such that accuracy and completeness is maximized.

The application should be brief and straightforward. The application must be thorough enough to accomplish your anticipated mortality results and minimize selection, yet short enough to keep the process simplified. This is easier said than done. The number of questions is not as important as the content. It is more simplified and effective to have five unique ailments covered in



- ▶ five separate questions than five unique ailments covered in one question. Reader comprehension is essential to accurate answers. Questions should be yes/no, not open-ended. Open-ended questions lead to open-ended answers that can lead to extended underwriting. One page (front and back) is a good rule of thumb for the application length. The result is an application that is accept/reject and can be rapidly reviewed by an underwriter, if necessary.

With a solid accept/reject application, any underwriting tools are fair game as long as they are fast in nature. A Medical Information Bureau (MIB) query and MVR are good examples of fast underwriting tools. Another would be a "drug knock-out list." An APS is a slow underwriting tool and should be avoided. One tool that has become more popular in certain SI markets is the point of sale interview (POSI). The application questions are reviewed with the prospective insured for completeness during a phone interview. In addition, the interviewer confirms with the agent the basic customer information and the completeness of the application information. The entire interview takes only five to 10 minutes and is recorded. The process provides confidence in the application and can streamline the underwriting process. The recording can be valuable to both the underwriter and the claims person if questions arise regarding the taking of the application. Recordings are available "same day as requested" which compliments the streamlined process.

The biggest benefit and one of the primary objectives of SI is fast turnaround. To be successful, the policy needs to get into the policyholder's hands as quickly as possible. Otherwise, you are defeating the purpose of a simple product with minimal underwriting. Sixty percent of our SI whole life policies are issued the same day we receive them. For the first quarter of 2005, we are averaging under two days turnaround on all simplified business.

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The learning never ends with SI. Once a product is in place you have to monitor your results and the market. Items worth monitoring include mortality, contested and denied death claims, causes of deaths, lapses, policies not taken or never issued, NSF check problems tied to the initial premium payment and the monthly electronic fund drafting after issue, average face amounts, average premium amounts and distribution results.

At the same time, you need to monitor the competition. A shift in product designs, underwriting classifications or application questions could leave your company vulnerable to anti-selection. When the market dramatically changes, you may start all over again but you'll have accumulated a wealth of knowledge to help you make better decisions on the re-design. A word of caution: don't try to introduce too many changes all at once. Change is tough on everyone. The collective changes may look very positive but, when introduced, the changes may throw your agents for a loop, possibly decreasing your business.

SI is an interesting concept. As the industry continues to look for ways to increase market penetration and to speed up the delivery of life insurance policies, the concept and creativity of SI will continue to grow. ●



Michael Agan, ASA, MAAA, is product development manager at Motorists Life Insurance Company in Columbus, Ohio. He can be reached at mike.agan@motoristsgroup.com.

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