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Session 84I
TRENDS IN AUTOMATED UNDERWRITING

Track: Education & Research/Computer Science

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Panelists: JOHN GALLO†
HANK GEORGE‡
ERNEST TESTA§

Summary: Many insurers are migrating toward Web-based interactive underwriting systems in order to economize and streamline the underwriting process. This requires some radically different techniques well beyond the time-honored traditional approaches.

MR. DAVID L. SNELL: Hank George is the founder and chair of the International Underwriting Congress, and, he's the co-author of *Getting it Issued*, the only book ever devoted to life and disability underwriting.

Next, we have John Gallo. John is the general director at John Hancock Life Insurance Company in Boston, Massachusetts. He currently works for the Hancock Service Company, where he's responsible for long-term care service and operations and commissions processing for all the products and producer licensing and appointments.

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Note: The chart(s) referred to in the text can be found at the end of the manuscript.

Ernest Testa has over 25 years experience in strategy, management, customer service, and operational capacities within the insurance industry. He's had extensive experience in new business and underwriting policy-making, product development, operational management and business processes design. In 1999, Ernie founded ATSET Consulting, a management consulting firm located in suburban New Jersey, that later merged to become InTelia Information Technology & Management Consultants. He's a partner in this new firm.

Ernie has also written extensively on a variety of risk classification and management topics. His articles and writings have appeared in *National Underwriter*, *On The Risk*, *The Journal of Insurance Medicine* and LOMA'S *Resource* magazine.

I'm honored today to be here with this panel of nationally known experts on automated underwriting. These are guests of the Society who have come to share their time, expertise and knowledge with us. I'd like to start out by giving them a hearty welcome.

Hank, I've enjoyed past sessions with you in St. Louis for the St. Louis Actuaries Club. You noted that the interest in automated underwriting was burgeoning. Life actuaries were thinking that by minimizing the dependence upon agents, and even underwriters, they could vastly increase business and profits. Essentially, they could have their cake and eat it, too. What can you tell us about the likelihood of that?

MR. HANK GEORGE: What can I tell you? I answer your question in the context of my presentation, which I decided to call by the title of an article I wrote for *Contingencies* two years ago, called, "Having Your Cake and Eating It." This is a prelude to what my colleagues John and Ernie are going to talk about. They're really the experts on the technology, the implementation, and the process. I'm an itinerant speaker who has done all these things in the past, and will give you a prelude to what's coming up.

Back in the late 1990s, PMSI, a company based in Waco and led by forward-looking EVP Mike Gaines, invited me and a number of other individuals, including underwriters, actuaries, and a medical director, to spend a few days talking about the future of underwriting. When our group got together, we had to decide what to call ourselves. We came up with Task Force 72.

The "72" was based on the mean from all the members' estimates of the number of hours it would take to issue a $500,000 life insurance policy on a 35-year-old man measured from electronic input of an application through the approval phase of the policy in the year 2003, which, then, was five years into the future.

We're looking at a vast metamorphosis from the days, weeks, and sometimes months it takes now while an application file is in orbit around an underwriter's cubicle, to a mean time of just 72 hours, in only 5 years time!

Right now the creation of the successor to Task Force 72, which we'll call the Future Group, will take this issue from 2002 and forward. As Chair of this group, you can be sure I will continue to investigate ways to enhance and also speed up underwriting. I'll give you a few reasons now why this is so very necessary.

Number one: We need to do it because we're developing many new modes of distribution, such as bank insurance, the Internet and telemarketing. The "not-taken" rate on this business becomes obscene after three days from the time of application and sometimes even sooner. We need to find ways to issue business faster, with fewer traditional, slow requirements.

Number two: We have the technology. It would be a shame to have computer science that is designed to enhance our business potential and not make use of it!

Number three: I think it's about time we sustain our late twentieth-century overtures toward customer friendliness (as in smoker/nonsmoker and later preferred/super preferred pricing). It would be refreshing for all of us, I am sure, if the life and health industry could outdistance the banks, instead of merely the tobacco companies, in terms of consumer approval!

We will soon experience a great downturn in our historically convenient access to medical records. Some of this will be propelled by genetic testing, and some will be driven by the Health Insurance Portability and Accountability Act (HIPAA) and other initiatives going on regarding the confidentiality of medical records.

Simply stated, it will become more difficult, not less in the years ahead, to get the physician's report. And we will need to find, hopefully proactively, a surrogate or an alternative. It may be an entire new paradigm to price insurance effectively and eliminate excess risk.

Failure to underwrite will lead to a process we call anti-selection. This will, if left unchecked, unravel our best efforts at making our products available and affordable to consumers. So, the need to preserve underwriting is now called risk management.

Back in the early '90s, a concept was given birth at the Prudential Insurance Company which had really caused a metamorphosis in the thinking of the underwriting community. This concept came to be known by the moniker "tele-underwriting."

The idea was to take out the producer as key factor. Many companies have, for want of a better term, exploited the producer by making him or her be both a sales agent and a gopher, running between client and home office to get a variety of documents signed and other requirements fulfilled!

Now we need to change that to free the producer up to sell more and provide more revenue for the company or give way to other sales modalities that are more cost-effective.

And we need to change the role of the home office underwriter from that of simply appraising data gathered in by others to being a true case manager. This person would manage the entire process, from application input to delivery, until an underwriting decision is made and the client is happy.

During the last meeting with one of my study groups, I asked 30-some companies represented by chief underwriters if they have yet implemented or were now in process of implementing, tele-underwriting. The positive response was unanimous, from the small fraternal organizations to the large mutuals and ex-mutuals combined. This tele-underwriting concept appears to be a universal force gathering steam in the industry.

Next year, we're going to do a one-day seminar in Chicago on tele-underwriting. It will focus on all the process issues as well as the underwriting science issues. And the response, already six months out, is enormous. Therefore, it's clear to me that this is going to drive the risk management process in the 21st century.

As it happens, people are going to have to confront one critical issue, which is whether or not to have much of this information-gathering and managing process handled in-house. People must decide whether to bite the bullet on the expense and administrative problems connected with having an in-house tele-underwriting operation, or to outsource the process.

And, paradoxically, no demarcation distinguishes those companies that insource it from those that outsource it. Very large providers in the top ten outsource this function; and very small companies, although the economists would argue to the contrary, keep it in house.

When I talk to people who are doing this, I find that the issue of insourcing versus outsourcing is driven, first and foremost, by those I call the "control people." The mythology is that having the real underwriters, along with the information gatherers, juxtaposed within feet of each other, instead of thousands of miles apart, will somehow embellish the process.

Right now, the biggest obstacle in automating the underwriting process is clearly reliance on the Attending Physician's Statement (APS).

When I spoke last week in Los Angeles to 600 or so of my colleagues in the underwriting community, I referred to the "APS over-dependence syndrome." We suffer from that syndrome.

We're taking some steps to modify that in the industry now, to accommodate the changes that are going on. And among them are attempts to speed up the APS process or replace it. But I am quite sure the bottom line is that we're going to have to greatly decrease our emphasis in this domain of information on risk.

I have found as a consultant that virtually every company is looking at some way of turning back its excessive use of physician reports. Some companies have ambitious goals of eliminating 80 or 90 percent. Others expect more modest cuts, especially companies in the older age and the higher face amount markets. But, clearly, everyone is going to do something significant here.

The tool they will use to replace the less-than-essential physician's record, while maintaining the same level of effective value, will be the telephone interview. It's a phone contact, mediated by a person who has a pleasant voice, asking a series of questions, and reporting the answers.

If someone says "yes" to a condition, the person is drilled down until they find a profile of the proposed insured. This, then, is passed along to the underwriter who can review the answers and hopefully make an effective triage of the risk.

The downside of this, if there is a downside, is that we'll be inundated with so much more protective information! We will need to retrain our underwriters to use this new resource, the phone interview, so the effective emphasis can be on taking action, not ordering additional tests or more MD reports!

I'm reminded of a time years ago when I worked for a very classic, successful company, and twice a year, during a very intense period of time that we called Operation Issue. We turned up the steam considerably and blitzed a lot of cases, which historically would have been underwritten for a long time, in the usual slow manner. And I don't think our mortality suffered. That was my first vision, back in the late '70s and early '80s, of what was possible if we had more insight into the applicant, which is what the telephone interview provides.

The other innovation that is intriguing is accessing pharmaceutical database records on insurance applicants. Using these data, which are now commercially available to insurers from at least two providers, we're talking about being able to forego many doctors' reports.

And then there is the evolution of "jet" underwriting concepts. For those of you who don't know our particular products, these concepts are modes of moving "clean" cases along very quickly to approval. Back in the 1970s, we synthesized a paper-driven version called *The Progressive Appraisal Division,* at Northwestern Mutual. And that, of course, has given way now to an electronically mediated version in many companies.

You will find the jet underwriting model will become intrinsic to what we do in the future, but it will extend to risks beyond what it was originally intended to address. I'll leave you to reflect on that in discussions back home, with my addendum on how you might underwrite it for a later time.

The last piece of the puzzle is to solve the equation of the minimum amount of necessary surveillance of bodily fluids without resorting to the same in-depth science that we've used historically. Back in those days the blood profile became the anchor of all underwriting for face amounts around $100,000 or less at ages 18 to wherever we stopped risk management.

Today, alternative fluids are being proposed. Another way of saying that is we'll accomplish the essential part of laboratory testing, especially at younger ages where medical disease risk factors are less numerous. And we'll get the job done on a more customer-friendly basis, perhaps, with a little less acquisition cost. And it will certainly be faster, mainly because of the potential for the use of collected samples. I don't think we want agents collecting blood samples. No one has that much liability insurance. But collecting an oral fluid sample, for example, becomes a relatively simple process.

Now, with oral fluid testing, we can screen for Type II diabetes, in addition to screening for HIV infection, smoking, and cocaine use, and accomplish quite a lot of underwriting quite rapidly, for low cost.

To close, I will quote John and say that there are some people who do not see the forest through the trees where this important issue is concerned. I hope that you will see the forest.

MR. JOHN GALLO: I want to share some of Hancock's experiences over the last year-and-a-half and also some of the places that we're going.

I first want to start with one of my core beliefs. I've been in the insurance business now for about six years, having come from other parts of the financial services industry. And as I look at what we do at Hancock, and what I see at other companies, I think there's a huge opportunity to change the customer experience. We can look at the way we spend money and be much more effective and efficient in the way we do this. I also think there is a whole other way of looking at how we create and administer life insurance products.

I think that when marketing people get together with underwriters, and actuaries are brought in, all involved can actually start to think in an entirely different fashion. That really needs to be the goal of these meetings—people come together and gather facts and ideas.

If you go back to your company and look at what and how you produce, and think that there's a different way to do things, then the presentation has been successful.

If you goes back and say it was interesting, but keep doing the same thing as yesterday, then you're going to deliver the same products to the same customers. And that vast untapped population of people who could be buying life insurance products is still going to be excluded from the process.

We look at two things at Hancock. We look at financial investments and then we look at strategic investments. I think that when we attack the new business, underwriting and policy delivery processes, we really focus on both of those. Every idea that we come up with needs to be grounded in some sort of financial return.

Is this going to improve the way we spend our money? Are we going to lower the costs? Improve the process? Are we going to take money out of a new business process so that we can re-invest it someplace else, whether that is in lower pricing to the consumer or an enhanced experience?

And then, secondly, we look at strategic value. We demutualized a little more than a year ago, in 2000. And as we looked at the market values of life insurance companies, and as we competed for capital, one of the things we realized was that we needed to create a view of ourselves as innovative and progressive if we were going to attract capital to our business. This way, we could continue to invest and develop.

When we look at opportunities to automate, we focus on process and then we look at how we support that process with people and technology. We talk about defining success. Business cases look at saving time and money; the ability to use the same amount of capital to do more. And then there's a strategic component. And finally, I will jump into some specific examples.

We will look at these three elements: We will look at new business processing (and we'll talk about what that is). We talk about risk assessment. And then we will talk about policy delivery. So those are the three elements of the new business and underwriting process as we view it in Boston.

We do business processing. We talk about data capture. We look at case management and then we look at the application form itself. With data capture we really try to look at the ability to capture each piece of information once, then store it in a repository that's accessible to lots of different people for lots of different uses.

With case management we really tried to take a unique or a different approach to how we manage the flow of business through the company. Looking at our organization four or five years ago, files came in, they were distributed, and they were assigned to people. No one was ever really taking a holistic view of all of those cases as they moved to the new business and underwriting process. If the case stayed in the company for a long period of time, someone from the outside usually yelled at the manager, who then scurried around to figure out the status of that case, then tried to accelerate it through the process. That's how cases were managed.

Therefore, we decided we could take a much more active role in managing those processes. The idea was that we could reduce the costs as we controlled the process better. Then we could use that money to either push down pricing, which was one of the things that we did with some of our direct-to-consumer products, or we could use it to make additional investments in the experience.

The last thing that we really focused on under the new business process was separating the application from the data gathering. I think that traditionally, using an agent business or an agent-controlled business, the application was the data gathering mechanism.

We looked at how we gather data without using an application, so we could be much more responsive to information we learned in real-time. Then we figured out how to create an application. So one of the benefits of tele-underwriting is the ability to modify the questions—the initial questions, the drill-down questions, the focused questions used to clarify an illness, an ailment, a lifestyle or a habit, and being able to do that in real time.

This is so you can look at results from the last four, five, or six months, the last year, or last two years, and start to see that there's a big gap there. I've been getting an APS to answer this specific question. Is there a way to answer that question when I talk to the consumer directly, to avoid getting an APS?

With risk assessment, we focused on a couple of things. We looked at our ability to segment cases by complexity. We looked at historical databases. And then we looked at the ability to segment customers into different types of more finely tuned cells.

Let's start with the bottom—segment customers into these small and more finely tuned cells. Not only at Hancock, but in some of the meetings I've had with other people, there's a theoretical discussion about whether pricing and risk need to be discreet, or could they be continuous?

I think that technology, as well as changes in business process, can lead us to a place where one could move to not only continuous pricing and risk assessment models, but could also look at a real-time pricing model for those risks. And what do I mean by that? I mean the ability to look at information gathered about a person's lifestyle, profile, and health in order to categorize him or her into a more accurate risk profile.

Then the second thing is the ability to look at how you earn a return or make money with the life insurance products. So when investing in certain securities, if your ability to price a security today is different than how it will be priced tomorrow, the impact of that difference could be factored into the way to determine risk and charge a premium. I think that these thoughts are out there, which are very forward-thinking, but it starts with a base understanding of how the process works, so that if you understand how it works, it can be torn apart and then assembled in a different way.

The historical database, we think, is probably one of the biggest things that we've done, which means we don't throw anything out. That really has only come as a result of the ability to store huge amounts of information. The change in processing speed allows one to evaluate that information, not necessarily only in real time, but also just once a week, once a month, or once a day, to grind through all of that information and figure out what it's saying.

It also changes the organizational approach. One of the things that we've talked about is who runs the database, and who looks at it. Is it traditionally trained actuaries? Is it underwriters? Is it statisticians? Who comes in and starts to understand how all this data could be put together in a different way?

The last thing is that we really changed the way we organize internally at John Hancock. Traditional methods of organization have been around—perhaps a distribution channel or a case complexity based on file thickness, or whether it has an APS, or a manager has to pull every single file and say, for example, "Jean can do this one, this is good for her. This is more complex, let me give it to Terry."

We've really looked at developing a series of triggers that allows us to automatically assign cases to underwriters based on a variety of factors. So if, from a training point of view, someone is really having issues with this type of ailment or this illness, how can I help that person? By giving him or her more cases that have a certain criterion in it. Complexity, different skill sets, and regional distribution are all factors that come into the formula of how we assign cases today.

The last thing is policy delivery, and this has been the hardest element for us. We talked a lot about financial gain, financial return, and strategic investment. We're grappling with how we invest in this area, because we have such a difficult time really defining the value back to the organization or the consumer. We could point to a lot of things about a nicer looking policy or a policy that's delivered electronically to an electronic safe deposit box.

All of those things are out there and people are talking about them and experimenting with them. But I'll say this from an economic and strategic point of view—this has been the hardest thing for us to figure out—how to define and invest in them, in order to demonstrate that it's truly valuable to either the organization or the consumer.

We've taken a multi-year approach at Hancock. We started by looking at some simple products like term insurance (Chart 1). We moved to our variable lines:

variable life and variable estate protection. We started with what we thought were progressive channels or channels that were not used to traditional methods of information gathering.

Now, we're in the process of wrapping up phase one and moving into phase two, so long-term-care insurance is now on the table. We're evaluating how we manage that process and what we do. We're also looking at expanding the distribution channels. Then we'll probably start planning phases two and three in mid-2002, carrying us probably through 2003 and 2004.

There are three major elements that I'll talk about: our case management system, our historical database, and our requirements management tool. First is case management. The focus is on reducing overall cycle time and increasing individual capacity by eliminating redundant tasks.

How do I manage workflow to make it smoother or easier to follow? How do I look at the value that everyone gives to the organization to figure out if I am assigning tasks to the right people? If I pay someone $30,000 as a salary, am I getting my $30,000 worth? If I pay someone $60,000, that person had better not be sitting next to the $30,000 employee doing the exact same thing, because I can no longer afford that.

We've focused a model around submitting what we call a "short" application, and we write that with a little A. It's not the application that we file. If you go to our Web site or you do one of our tele-underwriting processes, you will find that we don't actually use the term "application" at all. It's really a fact-gathering tool.

In Boston, we have a lot of brokerage business, and a lot of informal requests come in. So one of the things that was really killing us, which was a great opportunity for us in the process management area, was to be able to track those informals. This was not just to figure out where they were in the process. One of the things that was really killing us was we were creating these alliances, these relationships with producer groups who were sending us vast numbers of cases.

Then we started looking at the profitability of that business and saw that we really didn't have tools (Chart 2). But when we finally started looking at the issued policies and premiums that these companies were delivering, it really changed our view as to what kind of service model we were giving people. We modified our service approach based on the amount of business and the quality of that business we were getting from some producer groups.

Everything comes down to money. If it can't be measured, you don't really know where it is being spent. I think that was probably one of the biggest revelations for us. We thought we were spending money wisely. We thought we were investing in all the right areas. We thought we were doing all the right things. But a lot of it was based on intuition. A lot of it was based on knowledge about how the business worked from the personal history of long-term employees.

We started to ground everything in reports, develop some metrics, and compare those actual results to goals and expectations. Then we were able to figure out if we were truly doing all of the right things in terms of risk management, product design and development, product delivery, customer expectations, and experience.

The requirements management tool is the second big area in which we've invested. How do we order requirements electronically? How do we receive them electronically? How do we take those pieces of information and feed them into decision-making tools? There are rules engines that look at certain criteria and determine whether to keep moving or to stop. Often a human set of eyes is needed to take a look at this and figure out what it means, if it can't be broken into discreet values. That all happened with our requirements management tool. Now all of that information is stored in the database.

Another hard area for us has been in looking at our staff, looking at what we've expected people to deliver for the last 10, 12, or 15 years, then turning around and bringing in some new tools. How do we give people a different set of skills so that they can change what they do, use these different tools, and actually bring more value to the company?

This has been a hard thing for us, because we've brought in some new tools. This involved asking people to do different types of predictive value studies, a different type of analysis, and more real-time assessment. We brought people in to try to create conversations around what tools work and what tools don't work, and have that grounded in some facts as opposed to people's personal opinions and assessments.

This has also been a great tool for consistency. One of the other things that you can start to do once you store, collect and analyze information is to start to look at whether two underwriters looking at very similar cases are making similar decisions. You can also look to see whether two underwriters looking at two cases are making similar decisions and using the same tool set.

You could also look to see whether two underwriters viewing two similar cases are making the same decision using the same tool set and taking the same amount of time. Before we couldn't do that. Some people may be able to do that now, but for us it was very enlightening. It really changed the way we moved toward standardization and it changed the way we train people at the company.

MR. SNELL: Okay. You've heard about how John's underwriting database affects how we do business in a big way. Right now you've just heard some of the specific companies and how they've done this. The next thing on your mind might be the traditional life insurance company. How could I get this done? How long will it take? Ernie's going to tell us that. He's a consultant who does that for companies.

MR. ERNEST TESTA: I am going to discuss tele-underwriting. I know that the meeting program suggests that we're going to tell you all kinds of good stuff about addressing system technology that can economize and speed up the underwriting process, but I really want to focus on business process. So we'll talk about tele-underwriting and the keys to automated risk selection.

Why do I want to focus on process rather than technology? Mainly because I'm a strong believer that tele-underwriting, which is the process that I'm going to talk about today, is a business issue and not an information technology issue. Tele-underwriting is truly about finding a better way to conduct business. Now, the fortunate thing is that tele-underwriting does provide an excellent platform for including and utilizing technology in the process, so during the course of my comments I'll touch on that a bit.

But the focus will be primarily to provide some ideas and suggestions, so that if anyone is thinking of implementing a tele-underwriting function, this information may be useful. Or, if one has already implemented a tele-underwriting function, it may be time to revisit it, and see if it can be improved.

My comments will also be very strong about suggesting that in order for a tele-underwriting function to work effectively, one has to be very radical in redesigning the existing processes and the underwriting rules that drive the process. Now, why is that?

You are a bright group of people, as Hank mentioned before. We certainly admire you from the underwriting side of the house. And it will come as no surprise to you that the convergence of the financial services sector has really created a different kind of an environment out there.

Insurance products are now being sold by just about anyone in a largely saturated marketplace. And I strongly believe that in this new environment, process efficiencies that focus on fast and flexible service delivery to customers and agents are the only way for companies to succeed in the future.

Now, about 30 years ago when I started in this business as an underwriting trainee, it took an average of about five weeks to process and issue a life insurance policy. Do you know how long it takes today? Anybody want to take a guess?

FROM THE FLOOR: Five weeks.

MR. TESTA: You got it, five weeks. We've really come a long way, haven't we? And what about flexibility? How flexible do you think we've become over the last decade? We collect ocean tankers full of urine specimens. We subject clients to chest x-rays, stress Electrocardiograms (EKGs), Prostate Specific Antigens (PSAs) and more.

I'm not trying to be insensitive here. All I'm simply trying to suggest is that we are not easy to do business with. We are not a flexible industry. And in order to succeed we have got to look at processes that will enable us to be more flexible and do it faster than we're doing it today.

So let's talk about tele-underwriting, because I believe it provides a good foundation. It's not the answer to everything, but it does provide a good foundation to be able to improve the process from a speed perspective, from a cost perspective, and from a customer interaction perspective. Now, just to be sure, let's define what tele-underwriting is from my point of view so that we're looking and reading from the same music sheet.

Tele-underwriting is a process in which underwriters or other trained personnel interview clients over the telephone to gather the application and/or medical underwriting information needed to insure applicants. Now, if that is all you want to do, tele-underwriting can end right at that point. However, I strongly suggest to you that the process design can be expanded to include all sorts of other things that are part of the process of acquiring new clients and insuring new clients.

Now, in the interest of time, I'm only going to touch on the elements tele-underwriting can support that are of particular interest, so that we can have some time at the end of my comments for a question and answer session for Hank and Jay.

You can certainly order medical reports from doctors and hospitals through the process by creating the kind of technology and rules that will drive doing it automatically, again, saving time.

I do not recommend for doctors and hospital reports to be a part of the mechanization here. I agree with Hank in that you need to find a way to eliminate the almighty APS from the process, but one of the ways that this can be done is by, in fact, mechanizing the function.

What I have found, both when I was on the insurance side of the business and when I was on the consulting side of the business, is that in most companies there is no control as to who orders the APS. It's widespread. Agents can order them. Underwriters can order them. And, in companies with an agency field office system, the field office personnel can order them. So, generally, what you will find is that there are more APSs being ordered than you actually need.
You can also access the Medical Information Bureau (MIB) dynamically, which really enables the interviewer to drill down on more specific issues. In today's environment, you have the case and the medical history. That's usually the first thing collected by the agent. By the time you get the MIB response and find out

that the customer has a medical history that has not been disclosed on the application, you are no longer in contact with the customer.

So now you wonder, is it the agent who didn't gather the information correctly? Is it the agent who didn't record the information? Or, was it the client who just decided to withhold the information?

In a tele-underwriting environment, the client is on the phone. You can continue to drill down until you get the information. If, at the end of the day, the customer is not going to be forthcoming, is that really the kind of customer to do business with? It really puts things in a different perspective.

You can schedule paramedical and medical exams. Hank reminded me that probably before the end of 2003, medical exams done by actual medical examiners, MDs, will go away, and the paramedical exam will probably take on some other form.

You can certainly schedule laboratory specimen collection, order inspections, motor vehicle records, and a credit bureau report. That, again, could be done in real time, which enables you to assess the risk in a dynamic fashion. Certainly, this is where lots of technology can be integrated—the utilization of expert systems—once the interview is completed and the information has been collected.

Moving on, you can also add compliance and product suitability elements to the tele-underwriting process. You can train interviewers, whether in-house or outsourced. You can develop the rules to have them actually make the underwriting decision, so that the only cases they may need to move on to a full-fledged underwriter are the cases that fall out of the acceptable criteria. And I think Jay talked about policy delivery and contract to the customer.

Look at the typical environment today in an agent type of environment. Face-to-face, the agent has probably seen that customer at least two or three times. Does he want to go back again to deliver the policy? Or, better yet, think of yourselves. It's 6:00p.m. You come home after a tough day in the office. Do you really want to see that guy one more time? Chances are you don't. And really, through tele-underwriting, we can find more effective ways of getting the policies to the customer, either electronically or by mail, but the process can control the actual placement.

And we're talking to the customer. Why not build in some additional customer-focused activities? That can certainly enhance the way we're viewed by the customer. And how about the kinds of things that can enhance our opportunity to create marketing opportunities? You can certainly support marketing and sales activities.

If you license the interviewers, you can actually sell life insurance products or any insurance products over the telephone. Exactly how much is done or included on the tele-underwriting function is entirely up to the person. More importantly, the scope of the tele-underwriting function should support the decision that first and foremost, tele-underwriting is the right solution for the company and the organization.

It's critically important to establish some objectives first. There are a number of reasons why people look at tele-underwriting as a way to process their business going forward. One, it improves cycle time. The other thing that people focus on most often is that it reduces cost. But I suggest really looking at some more important and driving business issues they want and then drive the needs to want to take on such a change, because this is a very large undertaking.

First, understand what tele-underwriting is all about and understand if it's the right thing for the organization in moving forward. It is not a silver bullet. It's more than just placing people on the telephone. I'm afraid many companies make that very mistake without looking at the process first. As I said at the very beginning, it requires radical changes in the process and in the rules to drive you on the right policy.

Know systems capabilities. If you're considering using the existing front-end application system, don't think about it. It's not going to work. Tele-underwriting is an interactive process. The process itself, and the technology in the front- and back-end systems, have to provide a seamless experience for the customer.

If technology is not seamlessly integrating, that's not going to happen. Regarding the back-end system, make sure that any new technology that is placed on the front-end can actually be integrated with the back-end system. There are many old legacy systems out there that do not support new processes very effectively. They're overburdened. They're brittle. They're too old.

Know strengths and weaknesses. Assess organizational readiness. For instance, does the pricing of the product support a radically different underwriting policy that should be focused on simplifying the process, if not eliminating any complexities entirely? Is the staff properly trained to execute the new process? And what risks is the new tele-underwriting function going to pose to the distribution system, staff, and customers?

Certainly you needs to define the strategy. Are you considering tele-underwriting to penetrate a new market? Does the company intend to use tele-underwriting for only some portion of the existing markets for certain products? Or, is tele-underwriting the way to process your entire business going forward? A clear strategy will help management and the organization better understand the scope of the initiative, the resources needed to build it, the resources needed to support it, and the budget required to develop and implement the process.

At InTelia, we have been working with a number of new business re-designs with both large and small companies. What we typically find, is that in most companies, underwriting is very similar in process. Unfortunately, we also find that some of the complexities and deficiencies are also fairly common across the industry.

I will share with you some things that we have been finding. Clearly, the one thing that most processes have in common is that they are the result of decades of incremental changes. No one person or organization is accountable for this. This has been happening over time, over years, and lots of people have contributed to the state that we're in today.

We find that most organizations are still largely paper-based. Clearly, probably over the last 10 or 15 years there have been tremendous drives toward a paperless environment, mechanizing many of the requirements that are part of the underwriting process. Unfortunately, many of those efforts have failed.

They've failed, primarily, because they focused on replicating the paper form on a computer screen. And the end result was that whenever people wanted to use the technology, they didn't. They actually printed the forms, filled them out, then sent them in, in the old fashioned way. There are multiple system interfaces that rely on paper input. As I said, the technology is old, brittle and overburdened. The process is labor intensive, slow and costly. And there are extensive handoffs that really add to the overall cost, the complexities, the errors and the problems.

Now, a word about the technology—I will go back a bit—is that in a typical environment, what happens is there's lots of focus on either building or acquiring new technology to solve the business process problems. And, unfortunately, very little focus is given to the business process itself. What normally happens once a new technology is in place is it does not support the business function. And then what happens after that to further complicate matters is that more technology is layered on and the integration becomes even more difficult.

The general rule of thumb that I suggest is that process drives technology and not the other way around. If you focus on keeping that simple rule in mind, especially while developing a tele-underwriting function, you will find that it will help to avoid bringing more technology that complicates an already overcomplicated underwriting process.

What about the agent? I think we find that the agent's role is certainly complicated in this environment. The agents are burdened by forms, underwriting rules and guidelines that are complex and difficult to follow. The end result—and I think Hank touched on this—is that there is a decrease in effectiveness for the agents to do what we have hired and trained them to do: sell and service clients. And, sadly, the process is just not customer-focused. The overall process for acquiring customers in most companies takes a very long time, is very complex, and is very intrusive. These are not elements that provide a favorable customer experience.

You may wonder how tele-underwriting is going to fix all this. I truly believe that tele-underwriting is a better way to conduct business, and I'll share some reasons why. Tele-underwriting can certainly enhance the customer satisfaction environment—the customer's experience during the process—but the tele-underwriting process must be properly designed to accomplish that.

In a properly designed tele-underwriting environment, it will reduce the amount of plan information that the agent needs to capture at point-of-sale. The client is asked the medical history only once, it is recorded only once, and the underwriting process can move forward.

A properly designed process will certainly increase agent productivity. Again, it reduces the agent's need to complete multiple, complex forms at point-of-sale. It eliminates the need for taking the medical history, which relieves the agent of a time-consuming, and sometimes embarrassing situation which can impact a sale. So the bottom line is that agents are really no longer administrators of the underwriting process. They focus on just servicing and selling to customers.

A well-designed tele-underwriting process will promote more accuracy. Better client information is developed through a focused interview process. Again, all the questions are answered completely the first time, by using drill-down technology tools, operated by trained professional personnel.

And tele-underwriting is certainly faster. When properly designed, tele-underwriting will eliminate redundant steps in the process and methods of verifying the medical history. It will also reduce dependency on traditional tools such as APSs, hospital reports, inspections, and medical exams.

Certainly, tele-underwriting can be less costly than today's underwriting process. A well-scripted interactive process, coupled with effective drill-down technology, will support gathering sufficiently detailed data to process large portions of the business without need for outside, costly, and time-consuming information.

Also, you can enhance regulatory compliance. How can that be done? For one thing, you place a disinterested party between the agent and the client. The ability to verify the purchase by the client is improved and the ability to make sure that the customer understands the purchase is certainly improved.

Let's face it; in a tele-underwriting environment, at the end of the day, you will be assured that every one of the questionnaires, every one of the medical questions and applications questions will be asked every time, of every customer. And I don't think we have that assurance today in a non-tele-underwriting environment. The process can be flexible. It can be flexible enough to be used in the traditional environment that you may be in, or if you want to migrate to the different distribution systems.

What about mortality impact? Here's a shocker. I'm going to suggest that tele-underwriting is mortality neutral. In fact, I believe that through a tele-underwriting process, you can improve the mortality picture. Let me explain how I believe that, because I've been saying to be radical in changing underwriting requirements.

There's no question that the kinds of changes that you have to implement to effectively have a tele-underwriting process are going to challenge a traditional way of underwriting business today. But it's important to keep in mind that in a tele-underwriting environment, you are now collecting information on a centralized basis by individuals who are trained to gather the kind of information needed to underwrite the risk.

The other point is that in a tele-underwriting environment or in a typical underwriting environment, the mere existence of an underwriting requirement will deter clients from providing misleading information. Thus, this will reduce the potential for anti-selection, which is really the sentinel effect of risk classification functions.

Now, in a tele-underwriting environment, the intangible value of the sentinel effect is not lost by reducing the underwriting requirement. I argue that it is strengthened by having underwriting personnel or other trained professionals obtain sensitive information through direct contact with a customer, and by actually removing it from the sales process.

I will quickly share some results of implementation of tele-underwriting, then move on to questions and answers. In one company that we worked with, we were able to substantially reduce the dependency on their medical and underwriting requirements; we were able to save in the neighborhood of more than $12 million.

Now, granted, they had a very large medical expense fee budget; but in fairness, they were very courageous in focusing on really radical change in the process. In this company we were able, through a tele-underwriting application, to re-deploy the work. We did this from a dispersed group of agency offices around the country, to a more direct point of information gathering, to a point of decision making. Through that process we were able to reduce operational costs by $27 million.

In another company, we reduced cycle time from 51 days to 14 days, on average. And in this particular company we focused on a block of business that was $50,000 or less, and were able to instant issue 94% of their business. "Instant issue" is not the same as "jet issue," or the kinds of things we've talked about in the past. "Jet issue" is simply completing the transaction, but not from the perspective of the customer.

One can issue a case in five minutes. If the agent doesn't deliver the policy effectively and in a timely fashion for that customer, he or she hasn't accomplished anything. In this particular project we were able to get to an "instant issue", where the customer actually knew they had a policy, they were covered, and they could move on comfortably.

MR. STEVE KOSSMAN: Our company uses some office interviews after an application has been signed to verify the information on the application. Are you advocating that this is in lieu of medical history on the application or a similar method that we're using?

MR. GALLO: I think that the historic two-step approach has been to take part one and part two, effectively, the application—then drill the applicant down. In effect, to reprise the risk management question, then hopefully embellish on those for which we get a positive answer, will be found in the future to be a redundant effort.

And there's no reason in the world, given the technology we have and given the experience of some companies that have been on the forefront of this, that we can't merge the processes seamlessly. What would seem to many to be radical steps, like taking the medical history off of the paramedical and leaving the paramedical event as simply a physical measurement and fluid gathering exercise, and adding that to the telephone process, will become a reality. I think we have to eliminate redundancy.

MR. KOSSMAN: What's confusing to me then is state compliance. When we went to electronic applications, we saw a wide variance in different state insurance departments from those that want to see every possible drill-down screen in hard copy format. Some states are saying an application can say "in the last seven years"," in the last 10 years", or "ever". And if you're not giving the states these forms, but instead say that somebody's going to ask these questions, won't some of these states have concerns about exactly what will be asked and exactly how you will record the answers?

That's why, again, my company's basically not underwriting based upon any information that's received in the home office interview. That's just been used to verify answers on the application. The application is being used so the state understands exactly what we're using for underwriting.

MR. GEORGE: I think there are a couple questions there that really need to be touched upon. The first is to define the process and what you file in different states. What is happening today with the tele-underwriting environment world, in the electronic environment, is that we are creating specific drilldown questions for some of the medical histories.

The states are now saying that they want to see the drilldowns, so now the drilldowns become file questions. We're not protesting or pushing back hard enough to help the states understand what the process is about here.
I urge your legal department and your government affairs office to really push back on the state, because what you are actually doing by creating drill-down questions

is standardizing the process and treating everyone equally, more so than ever before. Because, in today's environment when the agent completes the medical history, you have no control over how much you're going to drill down.

When the paramedical examiner completes the medical and gets a yes answer, some may drill down more and some will just drill down less. A drill-down facility will standardize the process, and it will enable you to treat every customer in the same fashion.

MR. KOSSMAN: Has there been success in getting states like New York, New Jersey, and Pennsylvania to agree to that type of approach?

MR. GEORGE: Some states are much more pliable than others, but that really raises the other issue. I would urge anyone to be very judicious about the number of drill downs you wants to get. Some companies really feel that more is better, so for every medical history they've got several pages of drill downs.

That becomes a nightmare in terms of an operational execution. It becomes a nightmare in terms of upgrading and changing technology to support that. How much do we really need to know to underwrite a risk? I mean, basically, you have to think of the five basic questions: who, when, why, where, and how. There are three or four major medical conditions that I agree would probably cause some additional drill down, but one also has to be realistic about how much the customer will really know.

FROM THE FLOOR: Ernie, the definition of tele-underwriting is replacing the questions that used to be on the application, and having them asked over the phone. With that as the definition, how many life companies and health companies today are using that process? What percentage?

MR. TESTA: Probably somewhere in the neighborhood of 25–30% of the companies. And that 25–30% are companies that are using really thorough in-depth underwriting processes. And by the way, it doesn't replace the applications or the medical questions. They are asking the very same questions that are on the application forms.

Probably another 10–15% of the companies out there are using some form of tele-interviews or tele-interaction with a customer, and may not be going as deep as some other companies out there.

FROM THE FLOOR: You stated that tele-underwriting was mortality neutral. My question to you is, on what basis do you make that statement? As you're thinking about it, it's possible that it's mortality-neutral and that you have the same mortality in your block in the aggregate; but it's not price-neutral and, therefore, not bottom line-neutral, because you're charging different prices, potentially.

MR. TESTA: I'm not sure that a lot of companies out there have developed products that take into consideration the cost-saving element that a tele-underwriting process accomplishes, but I do think it can improve mortality.

FROM THE FLOOR: So it could improve mortality. Do you have any data that would suggest that it's mortality neutral?

MR. TESTA: I do not have any data, probably because it hasn't been in place in any one company long enough. Probably the only company that's had it long enough was my former employer, Prudential. What we saw and what we tend to see in most tele-underwriting redesigned processes is that we're getting a lot more information from customers than we really want to have, so that's an assessment on that basis. And the frame ratios that I experienced when I was back at Aetna were not any greater than before.

MR. GEORGE: Let me add one thing. Do you want to know the mortality value of tele-underwriting? I'll give you something you can't reduce to statistics that blows my doors off. There is a company that routinely drilled people down as an adjunct to the application. And they asked them about drug use. It was a pleasant voice over the telephone. They got so many confessions to the use of marijuana they took marijuana off the list of questions.

They really didn't want to know who was using marijuana, because there's equivocal mortality associated with it in the first place. But that is just one example, anecdotal, with no numbers to crunch about the caliber of the information that's acquirable, even within our existing non-health habit-driven paradigm.

People essentially tell us the truth. They help us take a core medical history, a state-approved set of jurisdicted questions, and amplify them to the point that we haven't even begun to reach our potential for eliminating nightmares and ancient phenomena like chest x-rays, examinations by doctors, and other things. The only tenuous basis on which those persist are the mythologies maintained about their protective value, mythologies which could explode in a millisecond if we looked objectively at their true cost versus their true yield.

FROM THE FLOOR: Can I make a quick point? Something surprised me when I did this. If you have the type of marketing force that is geared toward selling to close associates, friends, et cetera, versus total strangers, one of the things that came through to me was the fact that people were admitting in the interview the things they would not tell the agent.

When you asked them why, specifically, it was because they know the agent. So, they will be far more honest and give far more information to the tele-underwriter. Some of it is not important. It just more or less embarrassing in nature. Some of it is also very important for financial underwriting. If it saves you a million-dollar claim, it's worth it.

MR. GEORGE: Absolutely. You would be surprised how many people, when tele-interviewed by a pleasant voice will disavow the answer they gave to the smoking question, when they were queried by the producer in a more typical fashion, like, "You don't smoke, do you?"

It's amazing how these things work. Here's my last comment on that: The Mayo Clinic, in a study published in their own journal a short time ago, wanted to find a way to ask patients whether or not they were indulging in alternative and complementary medicine such as taking herbs and believing in mythology. So they had the doctors in their primary care clinic in Rochester ask the patients routinely whether or not they were using alternative and complementary medicine. And 35% of the patients had the courage to stare down the white coat and say, "Yes, I take a high dose of vitamin C." Well, they believed that the prevalence of use of these entities was much higher than 35% in a community as vegetative as Rochester, Minnesota.

Therefore, they went to option B. They had, in their words, a pleasant voice call the patient in a non-threatening scenario, with no white coat, no stethoscope, and no imposing figure. The person asked a very benign set of dispassionate questions. And suddenly, 60% of the outpatients admitted to indulging in kava-kava, or reflexology, or going to a chiropractor.

Now, imagine a dispassionate M.D. insurance examiner, the caliber whose work pales by comparison with primary care physicians treating patients. Just imagine the yield we can get by adopting this modality, compared to how we historically gathered information. It is simply mind-boggling. Any other questions?

FROM THE FLOOR: Given that the answers become part of the policy and they become the basis for contestability and you're getting the answers over the phone, how do you then put the answers into a written form and send it to the person, so they can sign it and send it back?

MR. GEORGE: There are several ways in which people are doing it. Some are holding the cash in advance, sending it out, having it signed and sent back. Those are the ones that have a very hands-on type of connection with the client. Others are doing it as a delivery requirement. Ernie or John, do you know any other ways?

MR. TESTA: I urge, in a tele-underwriting environment, don't get into a process where you're taking the paper forms and sending them out, having medical examiners capture the signature. You don't have to do that.

In a tele-underwriting environment when talking to the customer, the caller is recording the information while they're speaking in a call center type of an environment. As I said, it is at the point of delivery that you really should focus on capturing the signature on the application file.

FROM THE FLOOR: I'm not talking about the signature. How do you get the answer to one of the drilldown questions attached to the policy?

MR. GEORGE: When you deliver it. You have the question there, the answer there; they sign that they, in fact, gave it.

MR. TESTA: The entire policy provision requires a copy of the application at the beginning of the policy and you put it into a computer.

FROM THE FLOOR: Transcripts of the telephone conversation on the applications.

MR. GEORGE: Actually, no. You only need to sign off on the question that is germane, not on the whole process. The client will lose interest in the deal while reading the document prior to paying for the policy.

MR. TESTA: But a point about recording the information is also warranted. Probably in the right environment, if you do record the conversation with a customer, there is now a source document. When you're finally in a situation where it is necessary to contest, in a tele-underwriting environment, you can do something you are never able to do now. When contesting a case, usually the individual who was insured is dead and not able to show up in the court. With a recording, you practically brings the customer back to life.

FROM THE FLOOR: So you do make the recording part of the application?

MR. TESTA: I suggest that you do.

Chart 1

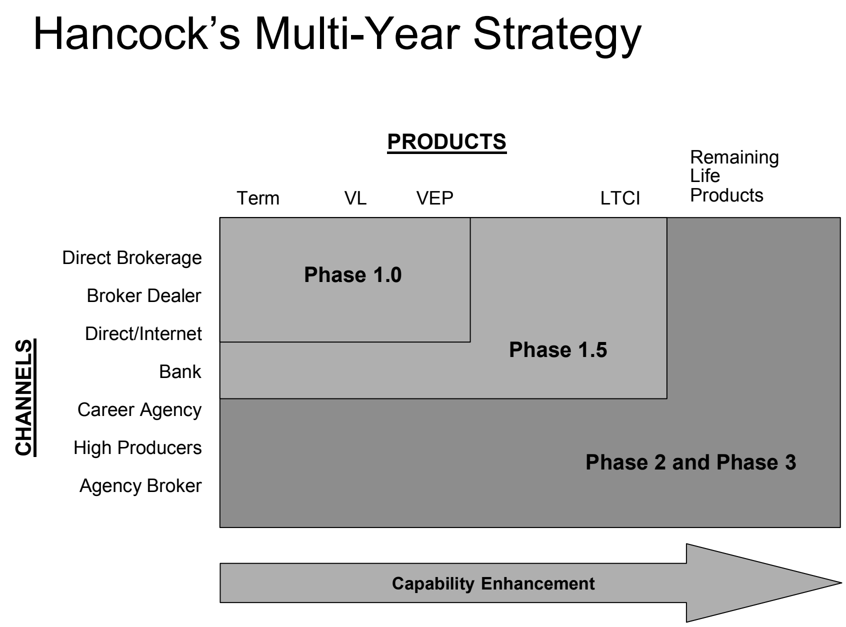

Chart 2