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## Session 123PD
## Nontraditional Approaches to Getting Underwritten Products Issued—Fast

**Track:** Nontraditional Marketing/Product Development


**Moderator:** MARIA N. THOMSON
**Panelists:** JOSEPH E. PAUL
MARIA N. THOMSON



*Summary: This panel discussion focuses on how the confluence of cost-effective distribution, rapid new-business processing and products tailored for the middle-income market can lead to profitable sales of smaller policies and expanded mid-market penetration. Attendees leave with a better understanding of how mid-market policyholders can be effectively reached.*


**MS. MARIA THOMSON:** They had three sessions on quick issue yesterday, plus a few other sessions that are related to that topic. I thought I'd broaden it out a bit to "Effectively Marketing Insurance Coverage for All," which does cover quick-issue underwriting, and also ties in a few other things with that.

I'm Maria Thomson from Thomson Management Solutions. I have a management-consulting firm here in Massachusetts that focuses on the insurance industry and on resolving some of the most difficult issues life and health insurers face.

My co-speaker is Joe Paul, who is vice president of product management at Clarica Life Insurance in Fargo, N.D. He's in charge of underwriting as well as product management, so he's uniquely positioned to talk to us about Clarica's considerations in trying to speed up underwriting and issue. He's going to go through a case study with you regarding the thought processes that Clarica went through as it was speeding up its issue processing.

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Joe and I and many of you attended all three quick-issue sessions yesterday. Because there was so much on this topic, I'm not going to go into too much depth on some of this stuff. I'm going to tie some things together that might not have been discussed yesterday, and there will be some repetition in my talk. It's an overview of what you saw. Joe is going to be covering material that you haven't seen before.

My basic premise, which I don't think too many people will argue with, is that insurers seem to have fallen in love with the affluent. There's been a big drop in sales over the last several decades to people with lower incomes and significant increases in insurance coverage to people who have lots of money. According to the IRS, people with incomes of $80,000 or more are in the top 10 percent of the population. As an industry, we have been relentlessly moving to selling to the richer and richer end of the market. In the process, we've been abandoning the bulk of the population, the 90 percent of us who aren't high income or high assets. As a result, most Americans are not well covered.

Life insurance ownership has been dropping. Figure 1 shows that only about 76 percent of the population has life insurance coverage of any sort today. About 25 percent of the population are getting all their life insurance from the group insurers, and this insurance generally is only one or two times salary. For most of us, that would not be considered adequate. You see in the shaded column at the end, individual coverage is 80 percent of what it was in 1984. Even group coverage is down a little bit, which is amazing. You may think that group is becoming more and more prevalent, but it's not. In total, life insurance coverage has dropped by 6 percent in the last 14 years.

Figure 1

## Life Insurance Ownership

**Percent of Households Owning Life Insurance**

| | 1960 | 1984 | 1998 | 1998/1984 |
|---|---|---|---|---|
| **Individual** | - | 62 | 50 | 81 |
| **Group** | - | 54 | 52 | 96 |
| **Any Life Insurance** | 83 | 81 | 76 | 94 |

Source: LIMRA

Health-insurance ownership is also quite modest. More people have medical insurance than any other type of coverage. But I think most people feel that having 15 percent of the population uncovered is not acceptable.

What concerns me even more is that 15 percent or less of the working population have disability-income insurance. I feel that that's an extremely important coverage for all working people to have. But no insurers seem to want to sell it, except a select few like UnumProvident. As a result, there just isn't much disability being offered in the market today. Long-term-care insurance is on the rise, but only 1.2 percent of the population has it at this time. Of course, not everyone in the population should have it? it tends to be sold primarily to an elderly population.

My question to you is, do we care? I've heard a number of people say that folks don't want life insurance or health insurance. Do you feel that this is an issue? Do you think that maybe people just don't want insurance anymore? I take from your silence that you feel that it is important for the public to have insurance. Do you think there's still a market? I'm seeing heads nod. So we should care about that. What about insurance companies? Total revenues to insurers have been increasing every year, so do you think insurance companies need to be concerned about the fact that we don't know how to sell to the general population anymore? You say yes.

One reason I think it is a matter of concern is that in 11 years, from 1988 to 1999, we lost 873 insurers. The problem with everyone selling to the affluent end of the population, which is the top 10 percent, is that just a few companies can dominate that market. In fact, 30 of the largest insurance conglomerates write over 70 percent of the premium that's written today. There are 1,400 insurers, so that leaves you with over 1,000 insurers that are trying to get the remaining 30 percent, almost all of which is large group or the affluent end of the market. We've got over 1,000 companies fighting over a very, very small share of the market. I think that can explain a lot of the issues that we're having with tight pricing and narrow margins. We're all scraping for the same little sliver of the market. We are all fighting to make our products super competitive and attract the agents to sell our products instead of being able to sell to a larger population in a bigger pool, which would give us all more to go after. That's what causes the difficulties that insurers are running into today.

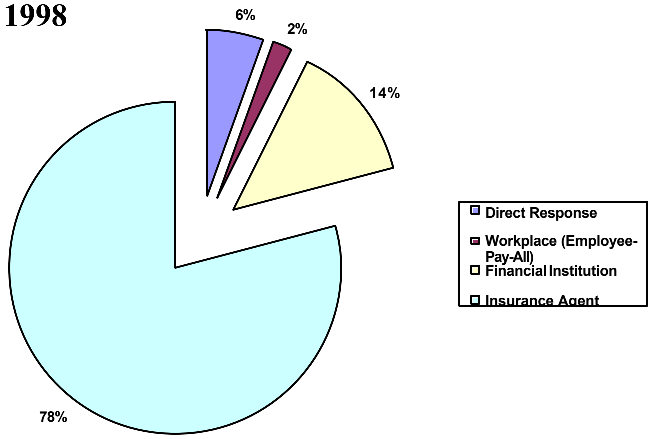
What's the answer? What will lead to survival? Bigger market plus profits—but how do you get there? That's the issue. A number of people, usually insurance agents or marketing people, tell me that it's all a matter of how you sell the business. If you teach enough agents how to sell or if you have the right distribution, that will take care of the problem.

Alternate distribution has been around now for several decades. Figure 2 shows that 78 percent of the business that's sold today is still sold by an insurance agent. Direct response is 6 percent, 2 percent is workplace, and 14 percent is financial institutions. The problem with selling through an insurance agent? the most effective thing we've come up with today? is that it's a very premium way of selling insurance. They even come to the house to sell the insurance, like a personal trainer would. It's a very expensive, very time-consuming one-on-one sale. It made sense to come out with alternate distribution, which is more cost efficient. But for some reason, it's not making the kind of headway that we would have liked to have seen in the last few decades.

Figure 2

# Is Alternate Distribution the Solution?

**Life Insurance Premium Production by Sales Channel, Circa 1998**




Source: Life Insurers Distribution Strategies – Testing the Waters, 1999 by Conning & Co.

As you can see in Figure 3, alternate distribution has had success in penetrating the mid-market. There's no question it's getting after that underserved population that we're trying to penetrate. Furthermore, most alternate distribution sells a lot of health insurance, which we saw was an extremely undercovered area. Alternate distribution sells a lot of worksite coverages and direct mail coverages of what we would call "supplementary health" of various sorts.

Figure 3

**Success in Mid-Market**

- 2/3 of direct mail sales & ¾ of worksite are mid-market
- Home service and worksite, together, reach 50 percent of the under-$50M market
- This is probably both life & health

Also, as you can see in Figure 4, a number of countries overseas, in Europe and Asia, have had great success with bancassurance. It has been a tremendous way for them to sell life insurance. In Spain, all types of insurance and securities get sold through its banks, because Spain has combined financial institutions.

Figure 4

**Great Convergence Success Overseas**

- 60-70 percent of French life sales from bancassurance
- Most Spanish L&H insurance & securities sales from integrated firms
- Asia, Europe & Mexico generating lots of business from integrated firms

It would suggest that we should be able to sell through alternate channels, particularly financial institutions, but we're not making any headway with that. Since the Gramm-Leach-Bliley Act passed, the banks went to casualty insurance in droves. They all immediately started selling property and casualty (P&C). Many of their P&C agencies will sell life insurance, in theory, but in fact, they are selling very little.

We can't quite seem to get there from here. What's the problem? We've tried all the different ways of selling, and we still can't seem to sell to anybody but the affluent. Mid-market penetration is still shrinking, in spite of the fact that, alternate distribution has matured and gotten much better. When I was first doing worksite in the 1980s, you couldn't find enrollers, you couldn't find administrative systems to handle the business, and now most of those problems have gone away. Yet we're still dealing with this problem of shrinking mid-market penetration.

I'm proposing that the primary culprit is risk selection. Trying to get an insurance policy is about as much fun as going to the doctor and getting stuck with a needle. Neither the insurance agents nor the customers want to deal with it. By the time they have to answer all the questions, and you get the fluids and the attending physician's statements (APS), only about 80 percent of the business gets issued. After the agent goes through all that, he doesn't want to sell it and the customer gets halfway through the process and says, "Forget it." Experience shows that no matter how much something is needed, people tend to avoid taking care of it if it's painful. You could have an aching tooth, and if you didn't have an anesthetic, you wouldn't see the doctor. You put things off that are unpleasant. I think that is a major obstacle to selling insurance to the mid-market today. What are the answers? We all know that the consequences of minimal underwriting are high premiums and low benefits, which mean uncompetitive coverages. This was covered yesterday in the talks. In spite of that, carriers who do minimal underwriting tend to lose money.

So we went to maximum underwriting for most of our business. The results are shown in Figure 5. It takes, on average, six weeks to issue a policy. There are lots of agent follow-ups; the agent has to work hard on this. There is 20 percent application (app) fallout. Only 5 percent of that is declines. Another 9 percent say the insurance company is hassling them too much about incomplete information and so they say to forget it. Another 6 percent say that they're sorry, they've gone on and found another insurer or they just decided not to bother anymore. So you're losing 20 percent of your business after the agent sells it.

Figure 5

**Consequences of Maximum Underwriting**

- Slow issuance
- Lots of agent follow-up
- 20 percent app fall-out*
    - 5 percent declined
    - 9 percent incomplete or withdrawn
    - 6 percent not taken
- Expensive

*LOMA 2001 Survey

Also, if you're trying to do alternate distribution, this maximum underwriting is a major problem, especially for an agent-free sale. How are you going to go and get all those requirements if you're doing direct response, Internet or one of those approaches? It doesn't lend itself to worksite, either. It's expensive. The longer it takes to process the policy, the more information you go after, the more expensive it is. For those reasons, we've all started selling to the higher and higher end. It's just not worth all the expense, time and loss of business, unless you're going after a very big-ticket sale.

The solutions, fortunately, are emerging. Rapid issue *with* quality risk selection. This is the idea, of course, and it's becoming possible very quickly. We have much better tools on the market today, as shown in Figure 6, and they're going to be getting better very rapidly as companies start to embrace them. One thing that's developing is rapid underwriting tools. Some of the speakers talked about that yesterday. Underwriting databases are available now on motor vehicle records, credit data, (found to have a good correlation with insurance risk) and the pharmaceutical databases (we have one company coming up with that and another company is coming up with that soon). Personal history interviews (PHIs) have been found to be very useful as a replacement for APSs in many situations. Getting oral fluid, instead of blood, allows the agent to take the fluid and get much quicker turnaround. Finally, risk-assessment software, where the computer makes the decision, can allow for an instantaneous evaluation of an applicant.

Figure 6

**Better Tools**

- Rapid underwriting tools
- Rich POS software
  - Needs analysis
  - Illustrations/rates
  - PHI
  - Expert underwriting
  - Electronic data transmittal
  - Policy issue

Also, a lot of new technology coming to market is point-of-sale (POS) software. Most of this is based on the application service provider (ASP) model. It's on the Internet, and the agent logs in and runs through the POS software. There are various features that the software has; most of these packages don't have all of them. The software could have needs analysis. It could have the illustration profit built in. It might have the PHI. Usually if they do a PHI, it's in conjunction with expert underwriting. The electronic data transmittal is the electronic app. There are a number of packages out there now like POS software that do an electronic app with or without the expert-underwriting feature. If it has the expert-underwriting feature, then potentially you can do an approval or decline right at point of sale and do a policy issue. I don't know of anyone who has gone this far today. But this makes it theoretically possible to do it. The software is there. The question is, is anyone comfortable with it? Is anyone ready to go that far with it? My company is conducting a research study right now on expert-underwriting software. We are trying to come to an evaluation of whether there's anything on the market that customers are happy with, that they have validated and have found to be good, functioning evaluation software.

Another way to go that's a little more comfortable for some companies is to streamline things at the home office end, as shown in Figure 7. That includes document processing from app-in to policy-out. That can be if you take an electronic app or if you faxed apps in and do image processing, you can get it in the computer and send it through the system. It can be more efficient and cause a lot fewer errors to process using some of this software.

Figure 7

**Better Tools (cont.)**

- HO software
  - Document processing from app-in to policy-out
  - Expert underwriting
  - Automatic pre-fill of administration system with e-app data

Expert underwriting can be run out of the home office. If you're doing teleunderwriting, you can have the teleunderwriters work with expert-underwriting software to assist with the evaluations. Also, you can put in some middleware that will allow you to pre-fill information from the application right into the admin system, so the policy-issue people don't have to do re-entry.

Figure 8 lists the implications of faster issue in underwriting. Direct sales and higher benefits in alternate channels are a lot more feasible. In other words, you're talking about a faster issue process with much more thorough underwriting. Instead of offering high premiums with minimal benefits, you can offer higher benefits and lower premiums and still make money. Agents can offer a range of product types with basic training. This premise is based on the idea that the agent has software tools that help walk him through the needs analysis and the sale. If you're back in the mid-market, you are presumably selling simpler and more straightforward products.

Figure 8

**Implications**

- Direct sales more feasible
- Higher benefits for alternate channels
- Agents can offer range of product types with basic training
- No agent sales follow-up needed
- Lower issue cost or claims
  - Lower premium rates
  - More profitable

No agent sales follow-up is needed if you're dispensing with most of your APSs and your fluids and exams. If you can use these alternate underwriting tools, and the agent can issue within a couple of days, then he makes the sale and moves on. The home office takes care of the rest. The agent is done; he doesn't have to fuss with it.

There are definitely lower issue costs. The less hands-on, the less time spent in the home office, the less time chasing requirements, then the less it's going to cost to issue. If you're doing an electronic app, you're eliminating the mailroom, and that eliminates a lot of processing. If you're doing expert underwriting, that eliminates a lot of your underwriting time and personnel. You can potentially drop your issue costs dramatically by using some of these techniques.

If you were doing simplified underwriting or minimal underwriting? three questions and accept/reject? and you go to a process that allows for use of some of the alternate underwriting data (some of the databases, for instance) or that builds in a personal history interview, you can drop your claims levels. That results in lower premium rates and higher benefits, as well as a more profitable policy sale .

Now that you're doing a better job, you're back in the mid-market and you're having some success, what do you sell? This gets back to my earlier question. Does the public care that it doesn't have insurance? I've actually had people tell me that nobody wants life insurance anymore. Insurance was a social cause in the early days when Elizur Wright was pursuing legal life insurance reserves to protect the insurance industry. It was a social mission for him to protect widows and orphans. There was a serious problem with people being left destitute because the breadwinner died or became disabled. It was a very important thing to develop a viable insurance industry. Even today, we'd all agree that if a breadwinning member of the family dies or becomes disabled or has serious medical problems, it is still going to cause great financial hardship, and the need for insurance still exists. I don't think it's the lack of need or the lack of desire that is hurting our salesmen in the mid-market.

It's important to remember that the average person doesn't have enough money to be concerned about asset accumulation (at least in the early days of his or her career) or tax dodging. People need to meet basic needs. They need to protect themselves from loss of income. Some of the ways you can do that in a financially viable way is to shorten up your benefit period. Instead of offering disability to age 65 for people who can't afford it, give them a five-year option. Give them some longer waiting periods. Give them something they can afford to buy that will provide them some coverage in case of need. Who can afford medical insurance on an average income anymore? I buy my own medical insurance because I have my own business. I had to drop the pharmaceuticals because I was paying $9,000 a year. Now I'm down to $7,000 a year. This is way beyond the budget of many people.

Critical illness and catastrophic medical are not junk insurance to people who cannot afford medical insurance and whose employers are not offering it. It's better than nothing. You need to change your attitudes that it's not worth selling supplementary, that it's not fair to the consumer. To the consumer who cannot afford those premium coverages, supplementary products are better than nothing.

Life insurance is covering the thing that's least likely to happen. In our lives, we're more likely to be disabled or have medical problems. Hopefully, most of us aren't going to have to worry about death until our 50s or later. We're living longer and longer today. That is not the number one basic need, particularly if you're looking at people in their 20s and 30s.

Keep the product simple. Don't offer too many options. If it's a flex product, package it with just a few options of cash value versus death benefits so it's not too complicated. You're trying to simplify this sale. You don't want the agent to have to spend two hours going through options with the customer. If they're on the Internet, that's even more reason to keep it simple. You can design flexibility in the product without making it complicated. You can offer benefit riders after the fact. After they've bought the base policy, you can send them offers for the riders. You can make it easy for them to make policy changes, so they don't have to keep dropping policies and buying new ones. Try to make this more of a lifetime kind of product design. The result of all these actions should be a resurgence of the life and health insurance industry and insurance coverage for all!

**MR. JOSEPH E. PAUL:** I thought I would do a presentation entirely devoid of formulas, derivatives and anything that involves stochastic scenario testing. This is a talk on efficiency; this is not a talk on anything having to do with very heavily technical information.

I'm the vice president of product management. At Clarica, the vice president of product management is in charge of product compliance, product development and underwriting. Any time an agent has any kind of a problem, they have one number to call. It's mine. Clarica has enjoyed some pretty good sales over the last couple of years. We are looking forward to joining Midland National Life, pending approval.

Maria went through a fair bit of information on why it is important to be fast in underwriting. I thought I'd reiterate a few comments. As far as getting business in the door and out the door as quickly as possible, it is very important to be able to minimize the number of cases that are in process at any point in time. If you're issuing 2,000 cases a month and it takes four weeks to process them, at any point in time your service people are juggling 2,000 cases. If they can cut that in half, they're only juggling 1,000 cases at a time. You can provide better service to your producers and better service to your policyholders if you are able to get the business issued faster. It's been mentioned before that you get better placement rates if you're issuing business as quickly as you possibly can. Obviously, the faster you get it out and the more efficient you are, the lower your costs are and the easier it is for you to profitably support the middle market.

This is the great new business debate at Clarica. As I lay out a few of the opportunities that Clarica has examined, it will be clear that the use of the term "debate" was not a random selection. You'll see that there are, regardless of the option selected, very strong positives and very strong negatives to any option that's selected. There are no "slam dunks" in this market. Before we go any further, I do want to clarify exactly what I'm talking about as far as the new-business processing goes. I am not talking about jet issue, expert underwriting, group underwriting, guaranteed issue minimum-benefit type stuff. I'm talking about full underwriting and full benefits in my presentation.

Figure 9 gives you a little background on Clarica, not for any promotional reasons, but simply to explain how we thought of some of the opportunities that we came to. Clarica is in five different product lines, including bank-owned life insurance (BOLI). This talk will have nothing to do with BOLI, but some of the concepts that we thought of were derived from our experience working in the BOLI market. We've got two different types of annuities, and the salient feature of annuities is the transactional nature of the new-business processing there and the efficiency that one needs to drive for in order to be profitable in the annuity market. Term insurance is somewhat the same way? with competitive term rates and very low margins, you really do need to be efficient in getting your business processed. Universal life is our fifth product line.

Figure 9

**Background: Who is Clarica?**

Product Lines:

- Bank-Owned Life Insurance (BOLI)
- Equity-Indexed Deferred Annuities
- Fixed-Interest Deferred Annuities
- Term Insurance
- Universal Life Insurance

Distribution, the means you take to generate your more efficient processes for new business, has an impact. We've got two different distribution systems, and the most important point in Figure 10 is actually the numbers. In the BOLI distribution, we have 50 producers. We know these 50 producers very well. We know exactly who they are and what types of sales they do. In our other marketing companies, we have 10,000 producers. There is no way to know precisely the markets, the motives and the intentions of all those 10,000 agents. That has an impact on our ability to improve the new-business underwriting speed.

Figure 10

**Background: Who is Clarica? (cont.)**

Distribution:

- BOLI distributed through two specialty marketing companies with approximately 50 producers
- Other products distributed through 70 marketing companies with approximately 10,000 producers

Your competition strategy has an impact on what types of things that you'll take on in order to improve your underwriting speed. As you see in Figure 11, in our BOLI market, we focus on personalized service. Customization is not a price game. It isn't as valuable for us to improve the time service on the BOLI side, because we're merely fulfilling the customization that the sales process generates. So our focus has been, in the marketing company channels, to focus on price and to focus on personal service. Being a North Dakota company, we do have a good reputation for being able to talk to the agents on the phone. The focus is not on getting automated answers to questions; it is definitely on personal service. The common theme in both marketing channels is efficient, low-cost, personalized service. That's the basis for some of the decisions that we made with respect to how we were going to improve our speed of getting business issued.

Figure 11

**Background: Who is Clarica? (cont.)**

Competition Strategy:

- BOLI competes in the market with a focus on customization and personalized service.
- Other products compete in the market with a focus on price to the consumer and personalized service.

With that as the background, I'll give you the first option that we took a look at. We took a look at field data collection for all the underwriting requirements. The concept here is that some of the marketing companies have two or three thousand producers. Their marketing pitch to agents is to say, "From the time the app comes in until the policy is issued, we'll take care of that for you." Their way of handling that is hiring case manager staff to request all the underwriting requirements, put a package together and ship it to the insurance company for underwriting. Basically, the other means they use to attract agents is to say, "Insurance companies have had a hundred years to improve their data collection? the underwriting requirement collection? and they haven't done it. Give us a chance. We will do a better job than an insurance company in collecting the information and making it a much smoother process." The marketing companies are actually competing with insurance companies' new-business processing in order to attract agents.

Obviously, there are pros and cons to this one. I'll point out some of the pros. It's a really nice package for the insurance company; it gets a file that is completely ready to underwrite. You don't run it through all your systems; you just give it right to the underwriter for a decision. The producer is in control of the speed. The producer isn't calling up the home office wondering where the APS is or whether the paramed has been out to visit. That's entirely outside the insurance company's control; its dealings are directly with the marketing company. It is required to do business with some of the larger marketing companies. This is the way they want to operate and you play by their rules or they don't produce in significant volume. You'll still be able to work with the marketing companies, but you won't be one of their "primary carriers." By getting involved in a situation like this, you *can* be one of the inner circle of the marketing companies' preferred insurers.

Obviously, there are downsides. Marketing companies don't work for free. They require more commission for providing this service for the agent and for the insurance company. There are issues of handling cash with application. If the case is sitting with the marketing company for two weeks with a check in hand, and you've got a temporary insurance agreement, then you've got a risk there that you have no idea what the health of the individual is. Is it appropriate to keep the check when you have no information on the health of the insured?

Finally, you have to work with your lawyers on this next one. The marketing company has access to health information on the applicant that's for the benefit of the insurance company. You have to make sure that you are comfortable with any Gramm-Leach-Bliley Act privacy issues.

I will touch on two more cons real quickly. One is the file quality upon arrival. I've seen some applications that agents write that are incomplete. We may know the name of the insured, but that's about it. When you get a package of information, you have to make sure that the marketing company is able to put together a quality amount of information. If some of the requirements aren't there or if you're missing certain disclosure statements, you're just making it a much more labor-intensive process for the home office to correct the issues that arose in the collection of the data from the marketing company.

Finally, when the marketing company has all the information in the file, it can easily send it to my company or to other companies. The marketing company can really get into some rate shopping or underwriting shopping at that point in time on this type of business.

There are pros to being involved in this type of a program and there are also some things you have to watch out for. I've listed a few more here as well.

**MS. THOMSON:** You're allowing the field to collect the requirements in some cases. Are all your producers doing that or just some of them?

**MR. PAUL:** Some of them. We've got 70 marketing companies. We *have* elected to do this. About five of the marketing companies do.

**MS. THOMSON:** How long have they been doing that for you?

**MR. PAUL:** About six months.

**MS. THOMSON:** What's your experience so far? Do you like it better, do you think it's worse, or do you not care either way?

**MR. PAUL:** It really comes down to the file quality upon arrival. If we're working with our marketing companies and getting good-quality files upon arrival, it really does assist us in speeding things up.

The agent? the producer or the marketing company? actually types the application into a Web screen that populates the administration system at the home office. A pro is that you really do get consistent information. You get the information immediately into the home office, and you just saved two days of mailing time on an application. We're not looking to cut our new-business processing time by 75 percent; we're trying to save days. Two, three or four days are important to us. Saving two days in getting the information is a very good benefit for us .

Anytime I put up a Web or a technology comment in any way, shape or form, you will see that the first con listed is "Technology costs money." To combine the Web with many of the legacy systems that are in place today is quite a challenge. There's really no way to actually attach any kind of a front end to those legacy systems and make the information flow freely from the Web into the home office.

Obviously, signatures are required and are an issue. In the series yesterday, the issue of signatures came up. Generally you do need the signature before you can do any 1035 processing and before you can do any kind of request for additional information.

Those are the big-ticket pros and cons here. As far as our experience, we have implemented this on the annuity side, but we've not carried it over yet to the term side. This is something that's got to be driven from the marketing company. It's a marketing company request. We can't take this and push it down on the marketing companies and say, "You must do this." At this point in time, we've had a good response from marketing companies that are doing this with the annuity business. We have not yet had as much of a demand for this on the life side.

**MS. THOMSON:** On the annuity side, is everyone doing it or only certain producers?

**MR. PAUL:** Only certain producers.

**MS. THOMSON:** Some of them didn't want to be carrying a laptop around? was that the issue?

**MR. PAUL:** In order to make this effective, the meeting has to take place in the agent's office. You can't go into a client's home and ask to hook up your computer to the client's phone lines and then make a long-distance phone call at the client's expense.

**MS. THOMSON:** You couldn't give the agent a toll-free number to dial?

**MR. PAUL:** You could. But it would be an awkward request, "Pull your phone off the wall so I can plug my laptop in."

**MS. THOMSON:** Where I am, cell reception isn't great. In areas where they have good cell reception, you could do a cell hook-up.

**MR. PAUL:** Let's move on to opportunity number three, which is producer specimen collection. This topic came up at yesterday's presentation as well. There was a proponent for having the agent do the specimen collection at the point of application in order to get the process moving. Obviously, if you are doing an agent collection, you can save the days from the date that the application is taken until the paramed finally gets out there and does the specimen collection. You are picking up some days here. Obviously this would be more effective if you have a good handle on your distributors. You don't want to be in a situation where you are questioning the quality of the specimen, which is obviously a negative on that side. With our 10,000 producers, this was not a viable concept in our mind. We couldn't trust that we would get a quality specimen each and every time from each of those producers.

On the BOLI side, we chose not to do this even though we did know our producers well, because our producers were considered to be financial advisors rather than financial and medical. It seemed to confuse the line between being the financial expert and getting involved in the medical side of the house as well.

Opportunity number four has been discussed quite a bit in both yesterday's session as well as Maria's comments this morning. There are new underwriting tests in lieu of the set that we currently use. A common one that's considered is doing more lifestyle underwriting. Do you have pets? Do you have a spouse? At the older ages, those are important questions because mortality does differ depending upon activity level and activity level implied by various lifestyle choices. For what I call "reflex" life insurance purchases, for life insurance purchases made after another financial transaction such as buying a house and getting a mortgage, or buying a car and getting a loan, you can generally assume that there is at least reasonable health there, if somebody is going out and putting himself or herself on the line for a $250,000 house. There is some value in looking at some of the reflex insurance purchases on a more liberal basis.

The whole concept here is designed to be more convenient for the applicant. It's not as painful a process. I see a few reinsurers in the crowd here. Certainly I wouldn't suggest going forward with one of these things without discussing it in detail with your reinsurers if you're expecting them to take any of the risk. They need to be kept well-informed of the underwriting that you're doing. With some of this unique underwriting testing, it would actually be beneficial for reinsurers to lead the charge in bringing it to direct companies, rather than vice versa.

On the Gramm-Leach-Bliley Act, the area there that I was concerned about was the reflex insurance purchase when it's after another financial transaction. You just have to make sure that you're not trading information outside the guidelines, as far as the privacy goes, with various financial transactions.

I said I wasn't going to involve BOLI, but I'm going to have to on this one. One thing we do in our BOLI business is that we will collect the APS rather than get additional requirements directly from the bankers. Because from the bankers' perspective, from the executives' perspective, they would rather have us deal with their physicians than be bothered in the bank. If you get the ten top executives in the bank, you've got to run them all through a paramed, which makes it inconvenient for them. They would actually prefer us to get APSs. In yesterday's presentation and from various underwriters I've spoken to, it sounded like the APS is a bad thing. But there are situations in which getting the APS in lieu of bugging the executive is more convenient for the applicant.

Opportunity number five is another one that was discussed at length yesterday—using teleunderwriting, or personal history interviews, in lieu of getting some of the additional underwriting requirements. The theory is that it's more convenient for the applicant to talk to somebody on the phone than it is to go through a full series of repetitive questions from a paramed that comes out to visit, collect doctors' records, etc. The evidence that was presented yesterday clearly says that you get better information.

The difficulty is that you get conflicting information. It may not be what the agent described in the case. If you're filling out Part Two on an application and then doing a tele-app, there was a comment at yesterday's meeting that now you may have conflicting information. The applicant told the teleunderwriter something that was not disclosed on the application or vice versa. You have to be prepared to deal with information that is not all consistent.

I've spoken with our underwriters a few times about situations in which there's too much information. This is a potential risk? getting too much information in the teleunderwriting process.

Opportunity number six is customized small-group underwriting. The agent is in a situation where he or she has a half-dozen or a dozen clients that are affiliated in some fashion. They could be employees, they could be executives or they could be any one of a number of different things. There is the opportunity to do some customized underwriting requirements just for this size of group. Maybe it's increasing the blood limits, maybe it's doing a paramed or a saliva test up to half a million, if everybody buys the same amount of coverage. When you're in a situation where there are multiple insureds involved, you're treating it more similar to a small-group case. It is effective if you know your distributor.

Basically this would be along the lines of waiving a requirement, which is something that underwriters do from time to time. It isn't applying totally different underwriting standards across various companies. It's saying that you've got 10 insureds here all applying for $250,000 of coverage and I know the exact purpose of the sale? it's for a buy/sell arrangement with these individuals. That alone is providing some protective value, so I don't need quite as much information on the health of each one of the specified insureds. Certainly if we went into a situation where we started charging different current or guaranteed values as a result of that? that's way out of bounds.

It's important up front to document exactly what the underwriting requirements were in the case and why the underwriting requirements were set where they were.

**MS. THOMSON:** I've seen a number of companies that have sort of quasi-group situations. Even though it's individual coverage, they apply special rules. Do they file that, or is that just home office administrative procedure when a company does that?

**PANELIST:** You're not changing the underwriting class. You're changing the information you request to determine the underwriting class. I don't think there's a state regulatory issue with respect to that. It's only if you have different underwriting classifications systems for one employer vs. another.

**MS. THOMSON:** You're just filing the application. I don't think you actually have any regulatory requirements on how you underwrite.

**MR. PAUL:** It's never changing the application. The application is a filed document, and that's not something we mess with. That's way out of bounds in my mind, as is creating new underwriting classes (or anything along that line) to customize for the bank or for the group.

Opportunity number seven, is direct deposit of commissions. You may be wondering what this is doing in this presentation. Actually, it's not just the direct depositing of commissions; it's direct depositing of their commissions and putting their agent statements out on the Web site. If you want to get your agents out looking at your Web site, put information out there for their benefit. The way to do that is to direct deposit their commissions and put the statement out on the Web site. They will go there in droves. There is no other information that you can put out on your Web site that's going to get more agents out visiting. This is easily justifiable. I know a number of agents are going to complain about it, but it is justifiable. The Social Security system requires new recipients of Social Security to have a direct deposit account. You're not doing anything that the government hasn't already thought of. Once you get the agents out there using your Web site and using your Web site at least every Friday, or every other Friday? it depends upon what your payment schedule is? you will get a number of hits out on your Web sites.

We have implemented this, and it's been great. The only downside is handling off-Friday requests for checks being cut. We will do that from time to time, but that's more of a manual process that we have to undertake. Not only is this a means to improve efficiency in commission payments, but it also leads to additional benefits as well.

Opportunity number eight is Web site notification on pending cases. In the past, agents called in first to get their commission check and second, to see where the case was in the underwriting process. First we put their commission information out on the Web, and the second thing we did was put the pending information out on the Web. We've cut down our phone calls dramatically by doing this. This is saving the underwriter the time of picking up the phone, answering, digging for the file, finding where the policy is, or where the application is in the process, and then either calling the agent back or having an agent on the line while looking for that information. It keeps them underwriting business. We did implement this as well. These two have been very successful. On the negative side, your underwriters are now working in a glass house. The agents can see exactly where their cases are "24/7," so if they're not pleased with the speed, you'll still get the phone call. But you do need to tell your underwriters that this is going on so that they can manage expectations as well.

When you start getting into Web sites, you get into discussions with marketing companies as to whose Web site you put the information on. Do you put it on the company's Web site or do you put it on the marketing company's Web site? We put it on our Web site, and then some of them download the information and put it on their Web sites as well. So the information is populating multiple Web sites.

Phone calls to the underwriters have dropped about 30 percent since we implemented this about two months ago. We've had direct deposit of commissions for about a year now. We are still letting producers know that there's more than just a commission statement out there. There is additional information. But we expect that phone call number to continue to improve.

Let's look at opportunity number nine, policy printing at the producer's office. You can save yourself two more days from the time that the policy is approved. The portable document format (PDF) form goes out to the agent's office and things get printed out there? maybe it's a possibility. We've not pursued this one yet. We're looking for the opportunity to avoid the paperwork at the back end. I know the agents are all looking to get the case approved. Once it's approved, there's a push to be able to go out and visit with the policyholder again. What's the quickest way to get the information out to the policyholder? Do it electronically. Since we do have the Web site, the other possibility that we've been considering is putting a PDF form out there behind their secure Web site that they can print off themselves.

The issue here is the quality of the final material. It's going to depend upon the producers' printing capabilities in their offices. If you have a $99 laser-jet printer, it's not going to be the same quality as a $2,000 home office quick-printing system. But it does get the business out the door and it also keeps some of the mandatory paperwork from bogging down in the home office. The other thing you have to make sure of is that the application gets attached. You don't want to try to contest a policy without an attached application.

**PANELIST:** Have you ever thought of sending the policy electronically to the customer?

**MR. PAUL:** The agents didn't like that idea. I'm sure it's a possibility. Once it's electronic, you can send it anywhere you want. But you have to make sure that the producers are okay with that. A lot of these things you want to do at the request of the agent; you don't want to mandate them upon agents. At least with independent marketing companies, we found that to be much more successful.

**MS. THOMSON:** I suspect that as issue time drops dramatically, the agent's desire to visit the customer will drop. If you have the policy issued within three days of receiving the application, the agent may not feel the need to visit that customer again to "resell" it. But right now the agent wants to visit the customer because it's taking up to six weeks, and the agent wants to make sure the customer is still on board and is going to still want the policy. So there is a bit of a resell involved there.

**MR. PAUL:** Opportunity number ten is implementing an imaging system. I would not suggest going into this one without a significant amount of thought. We looked at doing this and we decided not to do it at this point in time. In looking at the concept, I gained a new appreciation for construction companies that rebuild bridges. Why is that? Because they have to keep traffic flowing while they are tearing things apart and putting things back together again. You have to keep your new-business processing going while you're tearing apart your entire new-business processing system and putting another one up. That is going to cause some big headaches, but there are some huge benefits to being on an imaging system. Information flows quickly, you're outside of lost paper, you're outside of trying to match requirements coming in with the original application, things going to the right underwriter and so on. When you're in this environment, it's a great place to be. Getting there is not going to be an easy thing to do. You have to make sure that you're willing to put up with what it takes in order to make this thing a reality.

You need to give your producers a "heads-up" that things are going to be a little rocky for a little while so that they are not expecting an entirely smooth system. I've talked to a number of companies and I haven't talked to anybody that's had a completely smooth transition from a paper environment to an imaging system environment.

Opportunity number eleven is a version of printing out the policy in the agent or producer's office. Why not give the clients access to the same information the customer service people have? They could save themselves phone calls. You put the policy out there, and then you send them an e-mail saying that the policy is available and if they type in a password, they've got access to their information. A nice thing about this is that all the clients' materials are in one place and they know where it is. I bet if we surveyed the audience here to see how many people know exactly where their insurance policy is and second of all, how many people have them attached to their annual statements, and any re-projections that they've requested over the years, that we wouldn't get a very good result. A lot of people store their stuff in very obscure locations. Three or four moves later, it's lost. But here, with one Web site, they would have access to all the information that has ever been generated on their policy. It's all stored in one spot. You'd probably have to keep some information from being viewed by the policyholder as well, but an imaging system is quite a good possibility both at the front end and for more efficient policyholder service in the back end.

We've implemented imaging post issue; we have not yet made *this* a reality. But once you have an imaging system in place, this is a possibility as well.

I'm serious about this next one. You want to make sure the chief underwriter is having a good day when you bring this idea up of housing an underwriter in the marketing company's office. The marketing company has 5,000 producers, they can produce 200 apps a week, or maybe even 100 apps a week? why not put an underwriter in the marketing company's office? You can get the business if you have an imaging system along with an underwriter in the office. You can get all your business issued out in the field without ever having anything come in to the home office. Obviously, you have to put some strong controls in place, you have to have good compliance, and you have to do audits, but this has been done. We have it one place where we own the distribution. It is a very valuable service to the agents to be able to talk over a case to somebody right in the marketing company's office face-to-face, even before the application comes in. This is a benefit to getting the business issued and issued out in the field.

I'll run through a quick summary. Obviously, each of these is a good idea for some. There are good sides and bad sides to each one of them. I wouldn't suggest you run headlong into any of them without careful consideration, especially those that involve technology because technology is very expensive. If you have 10,000 producers, some ideas are better than others. If you have 50 producers, some ideas are better than others. The ones you choose are going to depend upon what your product and distribution service and technology strategies are. You can't decide in a vacuum to take on or not take on any one of these initiatives. Don't try to do everything at once, especially if it involves imaging. Don't try to do them all at once because you're going to disrupt your new-business processing. It is critical when you're implementing any one of these to minimize the disruption on your new-business processing. Finally, talk to the processing staff. They are the ones who know, as well as anybody, what works and what doesn't work.