

Report
of the
Society of Actuaries
Simplified Issue
Survey Subcommittee

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Executive Summary

Some of the key results of the Simplified Issue Survey are highlighted below. The percentages and numbers in this summary reflect the proportion of all respondents or products responding to a particular question. Note that most of the report is presented as the percentage (or number) of products that fall into a category rather than the percentage (or number) of companies responding. We recommend reading the full report to better appreciate the statements below.

Company Information

- In August 2004, a survey was sent to actuaries and chief underwriters at U.S. life insurance companies requesting data on simplified issue (SI) products written in the U.S. The survey covered products marketed during 2004, but introduced prior to 2004. The survey also requested some general information on the number and types of SI products sold by each company.
- Twenty-seven companies responded to the survey with 21 providing data on two of their top selling SI products. The number of responses to each question varied. There were only a few questions with responses for all 48 products or from all 27 companies.

Product Characteristics

- Over 75% of the respondents offered more than one SI product, with two SI products being the most common number offered (35%).
- Premiums varied by age (97%), sex (86%) and smoking status (64%).
- Maximum face amounts ranged from under \$25,000 to \$2,000,000.
- Respondents offered SI products to a rather wide variety of markets. The senior market (43%), blue collar (41%) and middle class/income (41%) were the most common. The *primary* target market most frequently chosen was Financial Institutions Customer (26%).

Underwriting Requirements and Criteria

- The most common types of application questions used to underwrite SI products are listed below (used by at least 80% of the products):
 - Gender;
 - Use of tobacco products;
 - Alcohol or drug use/abuse;
 - Recent hospitalization or alternative care utilization;
 - Personal history of heart disease, stroke, internal cancer or melanoma, HIV/AIDS, blood disorders, kidney conditions, Alzheimer's disease or dementia, diabetes, liver conditions, or respiratory conditions.

- All of the respondents asked applicants about personal history of heart disease or stroke.
- It was common to automatically reject or decline applicants who had an adverse history of the following:
 - Convictions for driving under the influence of drugs or alcohol (86%)
 - Drug abuse (85%)
 - Alcohol abuse (80%)

Assumptions and Experience

- The most common underlying base mortality table was the SOA 1975-80 Basic Select and Ultimate Table (46%).
- The top two leading causes of death were heart disease and cancer.
- Mortality assumptions for pricing SI products varied considerably. This was not surprising given the diversity of products in the survey. For example, the expected mortality rate for a male, age 65 in duration 1 ranged from 1.02 per 1,000 to 76.26 per 1,000.
- Lapse assumptions also varied considerably among the products. For example, the expected lapse rate for a male, age 65 in duration 1 ranged from 1.3% to 34%. For those respondents providing actual experience, actual lapse experience exceeded expected except at the later durations (6 and 10).

Technology and Process

- Fifty-six percent responded that an automatic underwriting system was used to process SI product applications. Eighty-seven percent of those with an automatic system allowed the system to make the final underwriting decision at least part of the time. The automated decision, when allowed, was either accept or reject.
- Half of the respondents indicated they exclusively used paper applications for their SI products. Only one respondent indicated that they exclusively used an electronic application and two exclusively used a phone application.
- Actual underwriting and total turnaround time tended to exceed expected underwriting and total turnaround time, respectively.
- The main technology used in the SI underwriting and issue process was imaging (81%).

Introduction

This report presents the results of a survey on U.S. SI products that was conducted in August 2004 by the Society of Actuaries Committee on Life Insurance Mortality and Underwriting Surveys. It is based on SI products offered in the U.S. during 2004 with sales prior to January 1, 2004.

Twenty-seven companies responded to our survey, providing information on a total of 48 SI products. We asked for information related to a company's top two current selling SI products. We asked for more than one product to try to better capture the marketplace due to the wide variation in SI products. Products without sales prior to January 1, 2004 were asked to be excluded. A list of the companies which participated in the survey can be found at the end of the report in Appendix A.

While a few questions requested information related to all SI products the company issued, the majority of survey questions asked for information that was specific to an individual product. Therefore, most data tables in this report show the percentage (or number) of products with a specific characteristic. These tables also display the total number of products for which responses were provided on a question. In certain situations where a survey question was relevant to all SI products issued by a company, the table displays the percentage and number of respondents instead of products.

Note, in some instances, the percentages shown in a table do not add to 100%. This is either due to rounding or because a particular question allowed respondents to select more than one response.

The phrase "simplified issue" can mean different things to different people. To provide as consistent a survey as possible with meaningful results, we asked respondents not to provide information on products with any of the following characteristics:

- Nonmedical band of a fully underwritten product
- Routinely required paramedical examinations
- Routinely collected bodily fluids; however, respondents were asked to include products with agent-collected oral fluid or urine
- Guaranteed issue products
- COLI/BOLI products
- Credit insurance products
- "Group" products other than affinity groups solicited by mass marketing
- Juvenile-only products (e.g., under age 16)
- Annuity products

The intent of the survey was to gather information on the many variations in SI products, including product types, target markets, underwriting requirements and criteria, related pricing assumptions and actual experience, and the utilization of technology in their underwriting processes. The Simplified Issue Survey Subcommittee believes the results of this survey will be of interest to a diverse audience, as the material covers a broad spectrum of issues related to SI products.

The intent of this report is to provide an objective observation of what U.S. life insurance companies are doing with respect to SI products. The Subcommittee did not try to offer explanations or interpretations of the respondents' answers.

The report is divided into five sections:

- Product Information
- Underwriting Requirements and Criteria
- Assumptions and Experience
- Technology and Process
- Cross Sectional Analysis

While we suggest that the report is read in its entirety, the reader can quickly find an area of interest by referring to the Table of Contents on pages 2-4.

Caveats

While we anticipate and hope that the results prove useful for the industry, there are a few caveats that must be made:

- The data the Subcommittee received, while fairly comprehensive, is by no means a look at the whole industry or all SI life insurance products in the marketplace.
- The results are indicative of the SI products and underwriting practices as of January 1, 2004. While SI life insurance products have been sold for many years, relatively recent and continuing advances in technology and underwriting systems allow for frequent changes in product design and open up new markets and methods for their distribution (e.g., internet or banks). Therefore, SI products and underwriting practices continue to evolve and may have changed since the survey was conducted.
- Terminology and the definition of "simplified issue" vary from company to company and even product to product. The lines are blurry between small face amount or nonmedical products, simplified issue, guaranteed issue, quick issue products, etc. There are also diverse definitions of the standard rate class and even a preferred rate class among these product types.
- The Subcommittee relied on the accuracy of the data provided by the respondents.

Acknowledgments

The Subcommittee would like to thank all of the companies who participated in this Survey. We also thank those who helped us review this document and offered helpful suggestions and comments. Finally, the Subcommittee thanks a number of the Society of Actuaries staff for their help in completing this project, especially Jack Luff and Korrel Crawford, without whose help this could not have been completed.

Comments on this report and suggestions for another simplified issue survey are welcome and can be addressed to the Committee on Life Insurance Mortality and Underwriting Surveys, c/o Jack Luff at The Society of Actuaries.

Disclaimer

This Survey is published by the Society of Actuaries (SOA) and contains information based on input from companies engaged in the U.S. life insurance industry. The information published in this Survey was developed from actual historical information, and does not include any projected information. The SOA and the participating companies do not recommend, encourage, or endorse any particular use of the information reported in this Survey. The SOA makes no warranty, guarantee or representation whatsoever and assumes no liability or responsibility in connection with the use or misuse of the survey results.

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Product Information

This section of the survey gathered basic product information relating to product design, riders, marketing, and compensation.

The Survey asked respondents for the number of SI products offered at their company. Over 75% offered more than one SI product, with two SI products being the most common number offered (35%), as shown in Table 1.1.

Table 1.1 – Number of SI Products Offered

Number of Products	Percentage
1	23%
2	35%
3-4	23%
5+	19%
Number of Respondents	26

Respondents were next asked in what year their company began selling the SI products for which they responded to in this Survey. Seventy percent were introduced since 1999, as shown in Table 1.2.

Table 1.2 – Year Began Selling Each SI Product

Year	Percentage
1991 to 1995	10%
1996	8%
1997	6%
1998	6%
1999	10%
2000	10%
2001	15%
2002	19%
2003	13%
2004	2%
Number of Products	48

The Survey asked for the number of policies issued in 2003 for each SI product. There were a wide variety of responses to this question. Responses ranged from less than 100 to over 10,000, as shown in Table 1.3.

Table 1.3 – Number of Policies Issued in 2003

Number Issued	Percentage
< 100	13%
100 - 499	17%
500 - 999	15%
1,000 - 2,499	13%
2,500 – 4,999	10%
5,000 – 9,999	23%
10,000+	10%
Number of Products	48

The Survey asked respondents to indicate how many of each SI product they *expected* to issue in 2004. Results again were fairly wide and similar to what was issued in 2003. Table 1.4 shows the results.

Table 1.4 – Number of Policies Expected to Issue in 2004

Number Issued	Percentage
< 100	9%
100 - 499	9%
500 - 999	13%
1,000 – 2,499	18%
2,500 – 4,999	13%
5,000 – 9,999	22%
10,000+	15%
Number of Products	45

The Survey asked for the plan type of each product. Table 1.5 shows that term (35%) was the most common product chassis, followed closely by whole life (30%) and universal life (24%).

Table 1.5 – Plan Type for Each SI Product

Plan	Percentage
Term	35%
Whole Life	30%
Universal Life	24%
Graded Benefit Whole Life	11%
Number of Products	46

“Other” comments included *Interest Sensitive Whole Life*.

The Survey asked respondents to provide the graded period for those products that utilized a graded benefit whole life design. Table 1.6 shows the results. Of the five companies responding to this question, a two-year graded benefit (60%) was slightly more common than a three-year graded benefit (40%).

Table 1.6 – Length of Graded Benefit Period

Length	Percentage
2 years	60%
3 years	40%
Number of Products	5

In addition, for those products that utilized a graded benefit whole life design, the graded benefit structure was evenly split between returning the premium plus interest and paying a percentage of the face amount. One company indicated that they utilized both structures. Table 1.7 below shows the results.

Table 1.7 – Graded Benefit Structure

Structure	Percentage
Return of Premium Plus Interest	40%
Percentage of Face	40%
Other	20%
Number of Products	5

“Other” comments included *combination of return of premium plus interest and percent of face*.

For the 41 products that utilized a plan type other than graded benefit whole life, 98% of the products used a level benefit face amount pattern and 2% used an increasing face amount pattern.

The Survey asked respondents about the premium structure of their SI products. The next three tables summarize the responses.

With respect to premium pattern, the most common patterns were level for life (40%) and level for term (35%), as shown in Table 1.8.

Table 1.8 – Premium Pattern

Pattern	Percentage
Level for Life	40%
Level for Term	35%
Increasing	7%
Decreasing	0%
Other	18%
Number of Products	40

“Other” comments included *Flexible Premium*.

With respect to the premium payment period, the most common period was for the life of the policy (44%), as shown in Table 1.9

Table 1.9 – Premium Payment Period

Period	Percentage
Paid for Life of Policy	44%
Single Premium	17%
Paid for Limited Period	0%
Other	39%
Number of Products	23

“Other” comments included *Flexible Premium and offer multiple payment period options including single premium, paid for life or limited pay*.

Table 1.10 shows that premium rates were frequently varied by age (95%), sex (84%) and smoking status (62%).

Table 1.10 – Factors Used to Vary Premium Rates

Vary By	Percentage
Age Distinct	95%
Sex Distinct	84%
Smoker Distinct	62%
Face Amount Band	11%
Attained Age Band	3%
Other	5%
Number of Products	37

“Other” comments included *banded by initial credited rate*.

The Survey asked for the number of lives covered under each SI product (excluding riders.) Among 46 products, 98% covered one life and 2% covered two lives.

The Survey asked for the minimum issue age for each SI product. The minimum issue age ranged from 0 to 50. The most common was age 18 (31%), as shown in Table 1.11.

Table 1.11 – Minimum Issue Age

Minimum Issue Age (years)	Percentage
0 - 5	24%
15	7%
18	31%
20	17%
40 - 50	21%
Number of Products	46

The Survey also asked for the maximum issue age for each SI product. The maximum issue age ranged from 50 to 90. The most common were age 85 (24%), age 70 (17%), and age 80 (17%), as shown in Table 1.12.

Table 1.12 – Maximum Issue Age

Maximum Issue Age	Percentage
50 - 59	9%
60 - 65	24%
70 - 75	24%
80	17%
85	24%
90	2%
Number of Products	46

The Survey asked whether issue age limits varied. Nearly three-fourths of SI products did not vary the issue age limits. Of those that did, the most common variable was face amount (17%), as shown in Table 1.13. The responses indicated that no products varied issue age limits by either Target Market or Distribution Channel.

Table 1.13 – Factors Used to Vary Issue Age Limits

Varied By	Percentage
Do Not Vary	72%
Face Amount	17%
Length of Level Term Period	9%
Risk Class	7%
Other	2%
Number of Products	46

“Other” comments included *premium funding pattern*.

The Survey asked for the minimum face amount issued for each product. Table 1.14 shows the results. The minimum face varied from zero to \$50,000. The most common minimum was \$10,000 (20%), followed closely by \$25,000 (17%) and \$5,000 (15%).

Table 1.14 – Minimum Face Amount Issued

Minimum Face Amount	Percentage
< \$5,000	32%
\$5,000	15%
\$10,000	20%
\$25,000	17%
\$50,000	9%
Other	7%
Number of Products	46

The “Other” responses based minimum face amount on a minimum premium. These responses included *minimum premiums of \$5,000 and \$10,000*.

The Survey also asked for the maximum face amount issued. The maximum face varied from less than \$25,000 to \$2,000,000. Fifty-six percent of the products had a maximum face amount of \$100,000 or less, as shown in Table 1.15.

Table 1.15 – Maximum Face Amount Issued

Maximum Face Amount	Percentage
< \$25,000	9%
\$25,000	17%
\$25,001 - \$50,000	17%
\$50,001 - \$100,000	13%
\$100,001 - \$200,000	24%
\$200,001 - \$300,000	11%
\$2,000,000	4%
Other	4%
Number of Products	46

The “Other” responses based maximum face amount on either *maximum net amount at risk or on maximum allowable premium based on issue age*.

The Survey asked respondents whether they varied face amount issue limits. Table 1.16 shows that over one-half did not vary the face amount limits. Of those that did, the most common approach was to vary by issue age (37%).

Table 1.16 - Factors Used to Vary Face Amount Limits

Varied By	Percentage
Do Not Vary	52%
Issue Age	37%
Benefit Structure	4%
Risk Class	2%
Target Market	2%
Other	22%
Number of Products	46

“Other” items by which issue limits varied included *state of issuance, gender, premium funding pattern, issue type and premium and specific instances of each case.*

The Survey asked what riders were offered with each SI product. Table 1.17 shows the results. The most common riders were accidental death (53%) and child rider (44%). Note that for more than one-fourth of the SI products, riders could not be attached. The survey results indicated no products offered an unemployment waiver of premium rider.

Table 1.17 – Riders Offered on SI Product

Rider	Percentage
Accidental Death	53%
Child Rider	44%
Waiver of Premium for Disability	36%
Accelerated Death Benefit	36%
Spouse Life	27%
Return of Premium	7%
Disability Income	4%
Critical Illness	4%
Long Term Care	2%
Unemployment Waiver of Premium	0%
Other	13%
None	27%
Number of Products	45

“Other” riders included *guaranteed additional purchase rider, coverage extension, increased benefit rider and charitable benefit rider.*

The Survey asked for the markets where these SI products were offered. Table 1.18 shows that the senior market (43%) was the most common, followed closely by the blue collar and middle class/income markets (41% each). The responses indicated that no products were offered to the military market.

Table 1.18 – Markets Where SI Product Is Offered

Market	Percentage
Senior Market	43%
Blue Collar	41%
Middle Class/Income	41%
Final Expense	35%
White Collar	35%
Financial Institution Customers	28%
Burial	20%
Mortgage Holders	20%
Affinity Group Members	13%
Pre-Need	11%
Other	26%
Number of Products	46

“Other” responses included *worksite, substandard, educational, small groups and associations and non-qualified executive benefit plans.*

The Survey then asked for the *primary* target market. The most common were financial institution customers (26%), middle class/income (17%) and senior market (15%), as shown in Table 1.19.

Table 1.19 – Primary Target Market

Market	Percentage
Financial Institution Customers	26%
Middle Class/Income	17%
Senior Market	15%
Final Expense	11%
Mortgage Holders	7%
White Collar	2%
Affinity Group Members	2%
Pre-Need	2%
Other	17%
Number of Products	46

The worksite market was the most common “Other” response, while educational, small groups and associations, non-qualified executive benefit plans and substandard were also identified.

The Survey asked what distribution channels the products served. Table 1.20 shows that independent brokers (50%) were the most common, followed by career agents and PPGAs (28% each).

Table 1.20 – Distribution Channels Served by SI Product

Distribution Channel	Percentage
Independent Broker	50%
Career Agent	28%
PPGA	28%
Direct Mail	24%
Worksite Marketing	22%
Bank Platform	20%
Company Direct to Customer	20%
Other Financial Institution	15%
Statement Stuffer	13%
Internet	9%
Stock Broker	9%
Funeral Director	4%
Number of Products	46

The Survey then asked for the *primary* distribution channel. The most common were independent broker and direct mail (17% each), followed by bank platform (15%), as shown in Table 1.21.

Table 1.21 – Primary Distribution Channel

Distribution Channel	Percentage
Independent Broker	17%
Direct Mail	17%
Bank Platform	15%
Career Agent	13%
PPGA	13%
Worksite Marketing	13%
Company Direct to Customer	9%
Funeral Director	2%
Number of Products	46

The Survey asked respondents the basis of compensation for the channel that wrote the most business. Table 1.22 shows the most common basis was paid premium (87%).

Table 1.22 – Basis of Compensation for Top Distribution Channel

Compensation Basis	Percentage
Premium	87%
Placed Policies	7%
Face Amount	2%
Other	20%
Number of Products	46

“Other” bases included *list fees, trailer commission on cash value, salary plus first year premium bonuses and no compensation paid on direct mail business.*

The Survey asked for the compensation for durations 1, 2, 6 and 11 as a percentage of premium. Table 1.23 shows the results for Duration 1. There was a wide range of compensation being paid. Of those responding, 40% indicated the first year compensation as a percentage of premium was in the 76-100% range. Those products with a single premium structure had Duration 1 compensation in the lowest range.

Table 1.23 – Duration 1 Compensation as a Percentage of Premium

Duration 1 % of Premium	Percentage
≤ 10%	20%
11% - 50%	13%
51% - 75%	15% *
76% - 100%	40% +
101% - 130%	13%
Number of Products	40

* One company indicated *Duration 1 compensation was different for the 10-year vs. 20-year product.*

+ One company indicated *the average Duration 1 compensation was in this range, while the actual levels varied outside this range.*

Table 1.24 shows the compensation as a percentage of premium results for Durations 2, 6 and 11. Compensation for durations 2 and later was considerably lower than in the first year. Approximately 80% of the products had compensation after the first year between 1% and 20% of premium. The majority of the SI products that had 0% compensation after the first year were single premium products.

Table 1.24 – Compensation as a Percentage of Premium

% of Premium	Dur 2 Percentage	Dur 6 Percentage	Dur 11 Percentage
0%	18%	20%	25%
1% - 5%	30%	35%	55%
5.1% - 10%	28%	33%	18%
11% - 20%	23%*	13%	3%
21%+	3%	-	-
Number of Products	40		

* One company indicated *Duration 2 compensation varied by age.*

Further, 30% of the products for which compensation responses were provided had level commission rates for durations 2, 6 and 11. Another 25% had level rates for durations 2 and 6 and then appear to step down at duration 11. Finally, one product had level commission rates for durations 1, 2, 6 and 11.

The Survey asked respondents why their company entered the SI market. Respondents were allowed to indicate more than one reason. Table 1.25 shows the most common reasons were to enter a new target market (69%), agent demand (50%) and to issue policies quicker (46%).

Table 1.25 – Why Company Entered SI Market

Why Entered SI market	Percentage
Enter New Target Market	69%
Agent Demand	50%
Quicker Issue	46%
Target New Distribution Channel	38%
Competitive Pressure	35%
Expense Reduction	11%
Offer Alternative Product	4%
Other	12%
Number of Respondents	26

“Other” reasons included *staffing issues* and *suitability with markets in which the company operates.*

The Survey then asked respondents for the *primary* reason their company entered the SI market. Table 1.26 shows the most common reasons were entering a new target market (35%) and agent demand (23%).

Table 1.26 – Primary Reason Entered SI Market

Primary Reason	Percentage
Enter New Target Market	35%
Agent Demand	23%
Target New Distribution Channel	15%
Expense Reduction	11%
Competitive Pressure	4%
Quicker Issue	4%
Suits the Market	4%
Offer Alternative Product	4%
Number of Respondents	26

Underwriting Requirements and Criteria

This section of the survey gathered information on nonmedical and medical underwriting requirements and criteria.

Nonmedical Information

The Survey asked what types of nonmedical information were requested in underwriting each SI product. The Survey provided the choices shown in Table 2.1. The most common types of requested information were sex (92%), build (73%), country of residence (67%) and occupation (54%).

Table 2.1 – Nonmedical Information Requested

Requested Information	Percentage
Sex	92%
Height and Weight	73%
Country of Residence	67%
Occupation	54%
Total Coverage in Force and Applied For	25%
Citizenship	21%
Income	21%
Foreign Travel	6%
Number of Products	48

One comment included adding a question regarding tobacco/nontobacco usage to the application during 2004.

The Survey asked whether the application contained a question regarding whether the applicants had been declined or rated for other life or health insurance. If this question was asked, the Survey asked for an indication of the underwriting action taken given an adverse response.

Of the 14 products where this question was asked on the application, Reject (50%) was the most common action taken, followed closely by No Action (43%) and Other (36%), as shown in Table 2.2. Responses total more than 100% because some companies answered with more than one possible action

Table 2.2 – Underwriting Action Based on Rating or Declination

Percentage with Underwriting Action				Number of Products
No Action	Reject	Offer Alternative Product	Other	
43%	50%	7%	36%	14

“Other” actions included *depends on reason for decline at other insurer* and *length of time since decline*.

The Survey asked whether the application included a question about being actively at work on a full-time basis. Thirty-five percent of 46 products indicated that they did ask this type of question.

The Survey then asked if additional details were requested about employment status. Of the 16 products where it was indicated on the application, 31% asked for additional details about employment status. The Survey then asked what underwriting action might be taken for each employment status shown in Table 2.3. For each listed employment status, the most common action was Reject.

Table 2.3 – Underwriting Action for Employment Status

Employment Category	Percentage with Underwriting Action			
	No Action	Reject	Offer Alternative Product	Other
Self-employed	20%	40%	0%	0%
Retired	0%	100%	0%	0%
Temporary	0%	60%	0%	0%
Unemployed	0%	100%	0%	0%
Student	0%	60%	0%	0%
Part-time	20%	60%	0%	40% *
On Disability	0%	80%	0%	0%
Other	0%	20% **	0%	0%
Number of Products	5			

*30 hours +

**Hospitalized within last six months

“Other” comments to this question included:

- *Additional details were requested if the individual was not working due to injury or illness. This clarification was needed to determine the possible action (accept, reject, or offer alternative product) was needed.*
- *An individual was considered only if part of a group of five or more.*
- *Part time was considered as less than 1000 hours annually. If an individual was identified as disabled, wanted to know if confined to hospital or nursing facility or if use of a wheelchair was required.*

The Survey asked if the application included a question about driving record. There were responses for 34 products; of these, 41% asked this type of question. The Survey then asked what underwriting action might be taken given an adverse response to the types of driving record questions shown in Table 2.4.

For excessive driving citations, there was a fairly even distribution of possible actions with 29% rejecting and 29% offering an alternative product. For those applicants with a suspended or revoked driver’s license or those convicted of driving under the influence of alcohol or drugs, the most common action was to reject the application, this being done for 71% and 86% of the products, respectively. Note that for a suspended or revoked driver’s license, all products took some action.

Table 2.4 – Underwriting Action for Driving Record

Type of Driving Record Question	Percentage with Underwriting Action			
	No Action	Reject	Offer Alternative Product	Other
Number of driving citations or moving violations	7%	29%	29%	14%
Suspended or revoked driver’s license	0%	71%	21%	0%
Convicted of driving under the influence of drugs or alcohol	7%	86%	29%	0%
Number of Products	14			

“Other” comments included that *action depends on response*.

The Survey asked if the application included a question about felony convictions. There were responses for 48 products; of these, 23% asked this type of question. The Survey then asked what underwriting action might be taken if there were felony convictions. The most common action was Reject (100%) as shown in Table 2.5. Note that no products took No Action.

Table 2.5 – Underwriting Action for Felony Convictions

Percentage with Underwriting Action			
No Action	Reject	Offer Alternative Product	Other
0%	100%	9%	18%
Number of Products		11	

“Other” comments included *on point of sale telephone interview, not on application; and unless felony was more than 10 years ago.*

The Survey asked if the application included a question about aviation. There were responses for 46 products; of these, 24% asked this type of question. The Survey then asked if additional details were requested about aviation. Of the 11 products whose application asked about aviation, 36% asked for additional details.

The Survey then asked what underwriting action might be taken for each aviation category shown in Table 2.6. For all categories, the most common response was to take no action. Also, several utilized an exclusion rider for all of the aviation categories.

Table 2.6 – Underwriting Action for Aviation Type

Aviation Type	Percentage with Underwriting Action				
	No Action	Reject	Offer Alternative Product	Exclusion Rider	Other
Student Pilot	0%	9%	27%	18%	18%
Private Pilot	45%	27%	27%	18%	18%
Commercial Pilot or Crew	55%	18%	18%	18%	18%
Crop Duster	18%	27%	27%	36%	18%
Military Pilot or Crew	18%	27%	9%	18%	0%
Airline Transport Pilot or Crew	55%	0%	0%	18%	0%
Helicopter Pilot or Crew	36%	27%	9%	18%	18%
Other	9%	0%	0%	0%	0%
Number of Products	11				

“Other” actions included:

- *Student Pilot: \$3.50 / thousand flat extra;*
- *Private Pilot: Depends on details as to standard vs. rating;*
- *Commercial Pilot or Crew: Depends on details;*
- *Crop Duster: Rated to decline;*
- *Helicopter Pilot or Crew: Depends on details;*
- *Action depends on the frequency of flying activity;*
- *Risk may be accepted depending upon amount of flying; otherwise an alternative product is offered.*

The Survey asked if the application included a question about avocation. There were responses for 48 products; of these, 27% asked this type of question. The Survey then asked if additional details were requested about avocation. Of the 13 products where an avocation question was on the application, 62% asked for additional details. The Survey then asked what underwriting action might be taken for each avocation category shown in Table 2.7. For all, the most common action was Reject.

Table 2.7 – Underwriting Action for Avocation Type

Avocation	Percentage with Underwriting Action				
	No Action	Reject	Offer Alternative Product	Exclusion Rider	Other
Motorized Racing	8%	54%	15%	8%	15%
Hang Gliding	8%	39%	15%	8%	8%
Ballooning	15%	31%	8%	8%	8%
Skydiving	8%	39%	15%	15%	8%
Parachuting	8%	31%	15%	15%	8%
Cliff Diving	0%	23%	15%	8%	8%
Mountain or Rock Climbing	8%	39%	15%	8%	8%
Scuba Diving	8%	31%	15%	0%	15%
Bungee Jumping	8%	39%	15%	8%	0%
Ultralight Flying	8%	23%	15%	8%	8%
Other	0%	0%	0%	0%	0%
Number of Products	13				

“Other” actions included that it depended on details as to rating and for scuba diving, that they *may rate up*.

The Survey asked if a question concerning military service was on the application. Among all 48 products, no applications included this type of question.

The Survey next asked whether applicants were asked questions about either alcohol use/abuse or drug use/Abuse. The Survey then asked what underwriting action might be taken given an adverse response.

Of the 39 products where an Alcohol Use/Abuse question was asked on the application, Reject (80%) was the most common action taken, as shown in Table 2.8. Of the 39 products where a Drug Use/Abuse question was asked on the application, Reject (85%) was the most common action taken, as shown in Table 2.8.

Table 2.8 – Underwriting Action for Alcohol or Drug Use / Abuse

Question	Percentage with Underwriting Action			
	No Action	Reject	Offer Alternative Product	Other
Alcohol Use/Abuse	3%	80%	26%	18%
Drug Use/Abuse	3%	85%	26%	15%
Number of Products	39			

“Other” actions for Alcohol Use/Abuse included:

- *Depends on details as to standard vs. rating or decline;*
- *If we can get details either in the written explanation, on the application or over the phone, we decide based on the details, otherwise we decline;*
- *Questions are asked through a telephone interview. Questions are asked from an alcohol usage questionnaire. Prospective insured is accepted or rejected based on questionnaire responses.*

Comments for “Other” actions for Drug Use/Abuse were identical to those for Alcohol Use/Abuse. “Other” comments included:

- *If treated/diagnosed as abuse in last five years;*
- *Questions asked on the questionnaires are based on usage in the past five years;*
- *Underwriting action depends on circumstances, and if on-going or occurred in the past.*

Medical Information

The Survey asked whether the application inquired about prescription medications. There were responses for 16 products; of these, 33% asked this type of question. The Survey then asked what underwriting action might be taken when the medication was associated with a *non-ratable* impairment (e.g., birth control pills, allergy medication, etc.). No Action was the most common response at 88%, as shown in Table 2.9.

Table 2.9 – Underwriting Action for Prescription Medication Associated with a Non-ratable Impairment

Percentage with Underwriting Action			
No Action	Reject	Offer Alternative Product	Other
88%	13%	0%	19%
Number of Products	16		

“Other” comments for non-ratable impairments:

- *If the impairment is non-ratable, the underwriter reviews the information and the policy is issued;*
- *No action in 90% of the applications. Reject if medication is specifically listed on our knockout list.*

The Survey also asked what underwriting action might be taken when the medication was associated with a *ratable* impairment or other significant medical condition (e.g., heart disease, hypertension, elevated cholesterol, etc.). As shown in Table 2.10, the most common action was Reject (69%), but several indicated the underwriting action depended on the details.

Table 2.10 – Underwriting Action for Prescription Medication Associated with a Ratable Impairment

Percentage with Underwriting Action			
No Action	Reject	Offer Alternative Product	Other
7%	69%	0%	56%
Number of Products	16		

There were multiple responses in addition to several comments to clarify the “Other” category. For most, the action to be taken depended upon overall history and the answer given on the application. For others, action depended upon the extent of follow-up or review of a requested APS. Another comment was to *allow inclusion if the policy would be rated a Table 4 or less*.

“Other” comments included:

- *We have a drug knockout list;*
- *A question is asked about any prescription medication taken for six months or longer during the past five years;*
- *Decline for heart disease; remaining conditions depend on specific circumstances;*
- *If treated/diagnosed in last five years.*

The Survey asked whether there was a question regarding hospitalizations or alternative care. There were responses for 48 products; of these, 79% asked this type of question. With respect to the 38 products with questions related to recent hospitalizations, the Survey then asked for an indication of the timeframe used to define a recent hospitalization. The most common timeframes used were six months or less (32%) followed by 12 months or less (26%), as shown in Table 2.11.

Table 2.11– Timeframe Used for Recent Hospitalizations

Timeframe	Percentage
6 months or less	32%
12 months or less	26%
24 months or less	24%
Other	16%
Number of Products	38

“Other” comments included *five years or less* and *currently confined or hospitalized more than two times in the past two years*.

The Survey then asked if additional details were requested about recent hospitalizations or alternative care. Of the 38 products asking these types of questions, 50% asked for additional details. The Survey asked what underwriting action might be taken with respect to each type of alternative care category shown in Table 2.12.

The most common underwriting action was Reject. This was most often used if applicants were either recently hospitalized (47%), in a long term care facility (63%) or a home health care facility (32%).

Table 2.12 – Underwriting Action for Hospitalization or Alternative Care

Hospitalization or Alternative Care	Percentage with Underwriting Action			
	No Action	Reject	Offer Alternative Product	Other
Recent Hospitalization	11%	47%	3%	42%
Been in a Nursing Home or LTC facility	5%	63%	3%	21%
Home Health Care	16%	32%	3%	18%
Been in Other Type Facility	21%	16%	3%	21%
Currently Disabled	8%	26%	3%	11%
Wheelchair Use	5%	29%	3%	21% *
ADLs*/IADLs**	11%	24%	3%	21%
Other	0%	0% **	0%	0%
Number of Products	38			

*ADL = Activities of Daily Living; **IADL = Independent Activities of Daily Living

“Other” comments indicated that *many of the possible actions which could be taken for all categories depended upon response to specific details which were often requested.*

“Other” actions related to Recent Hospitalization:

- *Underwriting activity for recent hospitalization depends on circumstances;*
- *If for mental or nervous disorder;*
- *If past 12 months;*
- *If we can get details, either in the written explanation, on the application, or over the phone, we decide based on the details, otherwise we decline;*
- *May offer rating, depends on medical records;*
- *Reject if currently hospitalized;*
- *Recent hospitalization or nursing home and LTC facility = 6 months.*

“Other” actions related to Nursing Home or LTC facility:

- *If past 12 months;*
- *May offer rating, depends on medical records;*
- *Reject if currently in nursing home or LTC facility.*

“Other” actions related to Home Health Care:

- *Depends on particular situation;*
- *If past 12 months;*
- *May offer rating, depends on medical records.*

“Other” actions related to Other Type of Facility:

- *May offer rating, depends on medical records.*

“Other” actions related to Wheelchair Use:

- *Reject if currently confined to wheelchair.*

“Other” actions related to ADL / IADLs:

- *Depends if assistance needed in these.*

Next, the Survey asked whether there was a question about consulting a physician or health professional. There were responses for 48 products; of these, 58% asked this type of question. With respect to the 28 products with underwriting questions about consulting a physician or health professional, the Survey then asked for the timeframe specified within the question. The most common timeframe used was 12 months or less (39%), as shown in Table 2.13.

Table 2.13 – Timeframe Used for Consulting with Physician

Timeframe	Percentage
6 months or less	4%
12 months or less	39%
24 months or less	11%
36 months or less	4%
60 months or less	21%
Other	29%
Number of Products	28

“Other” comments included *10 years and the applicant is asked if he/she has consulted a physician more than once during a 12 months period other than for colds or flu.*

The Survey then asked whether additional underwriting information was requested to obtain details about consultations with Physicians or Health Professionals. Of the 35 products with questions about these consultations, 66% asked for additional underwriting information. Among the 23 products on which the application asks for additional information, APS (57%) and PHI (48%) were the most common types of additional information requested, as shown in Table 2.14.

Table 2.14– Additional Underwriting Information for Consultations

Types of Additional Information	Percentage
Attending Physicians Statement (APS)	57%
Personal History Interview (PHI)	48%
Teleunderwriting	17%
Motor Vehicle Report (MVR)	13%
Pharmaceutical Database (Prescription History)	9%
Other	22%
Number of Products	23

“Other” comments included:

- *Depends on reason, possible APS;*
- *Details section of application;*
- *Attending physician’s statements and “Other” are checked but seldom utilized. They are used for cause only and are not standard age or face amount underwriting requirements;*
- *Paramed;*
- *Physical measurements, urinalysis, and blood chemistry profile.*

The Survey further asked what underwriting action might be taken if the additional details about the physician consultation revealed any adverse medical information. As shown in Table 2.15, the most common action was Reject (61%), but 61% also indicated that the underwriting action depended on the details (shown as Other).

Table 2.15 – Underwriting Action with Adverse Medical Information

Percentage			
No Action	Reject	Offer Alternative Product	Other
4%	61%	9%	61%
Number of Products	23		

“Other” actions:

- *Action based on response details. Could be accept, reject, or rate;*
- *Depends on condition;*
- *If reason to believe health question on app answered incorrectly;*
- *Or offer a rating;*
- *Possible rejection;*
- *Rate or reject;*
- *Reject if greater than Table 4;*
- *UW action depends on case circumstance;*
- *Underwriter evaluates information and makes decision to either accept standard, rate or decline;*
- *Whether a prospective insured is accepted or rejected depends on the level of risk. Those categorized at Table 4 or below are accepted.*

Medical History

The Survey asked whether the application inquired about any of the health conditions shown in Table 2.16. There were responses to 47 products; of these, all asked about at least one of the listed health conditions. Health conditions that were commonly asked about included medical history of heart disease (94%), internal cancer or melanoma (92%), stroke (89%), HIV/AIDS/ARC (89%), liver disease (79%), respiratory disorder (79%), diabetes (77%), kidney disease (72%), dementia or Alzheimer’s (72%), nervous system disease (66%), mental or psychological disorder (66%) and hypertension (51%).

The Survey then asked to indicate the underwriting action that may be taken given an adverse response regarding history of a health condition. Responses are also summarized in Table 2.16.

For a more significant health history, the most common action taken was to reject the application, i.e., disease or disorder of the heart (60%), internal cancer (62%), stroke (57%) and HIV/AIDS/ARC (79%). None indicated rejecting based on high cholesterol.

Table 2.16 – Underwriting Action for Medical History of Health Condition

Health Condition	Percentage with Underwriting Action			
	Percentage asking about	Reject	Offer Alternative Product	Other
Disease or disorder of the heart	94%	60%	15%	23%
Internal Cancer or Melanoma	92%	62%	11%	26%
Stroke	89%	57%	15%	19%
Tested positive for HIV or diagnosed or treated for ARC or AIDS	89%	79%	4%	6%
Disease or disorder of the liver	79%	43%	23%	15
Disease or disorder of the respiratory system	79%	40%	19%	32%
Diabetes	77%	40%	19%	34%
Disease or disorder of the kidney	72%	47%	19%	23%
Dementia, Alzheimer's, or other neurological disorder	72%	40%	17%	23%
Disease or disorder of the nervous system	66%	34%	19%	21%
Mental or psychological disorder	66%	38%	13%	19%
Hypertension	51%	21%	6%	30%
Disease or disorder of the blood	49%	28%	17%	15%
Disease or disorder of the gastrointestinal system	26%	13%	4%	6%
Other	13%	9%	0%	6%
Sexually transmitted disease or disorder	11%	9%	4%	4%
High Cholesterol	9%	0%	0%	9%
Number of Products	47			

“Other” actions:

- Offer fully underwritten product with APS and possible blood work/physical;
- Reject if greater than Table 4. Typically a yes to any above is a reject.

The Survey asked whether a question concerning Family History was on the application. The survey results indicated no applications included this type of question.

Underwriting Requirements

The Survey asked which of the underwriting requirements shown in Table 2.17 were *routinely* ordered as part of their guidelines. There were responses for 48 products. Thirteen percent indicated there were no routine underwriting requirements other than the application. For the 42 products with routine requirements, the most common requirement was Medical Information Bureau (MIB) (93%), as shown in Table 2.17.

Table 2.17 – Routine Underwriting Requirements

Routine Underwriting Requirements	Percentage
Medical Information Bureau (MIB)	93%
Teleunderwriting	24%
Personal History Interview (PHI)	19%
Attending Physician’s Statement (APS)	7%
Motor Vehicle Report (MVR)	7%
Inspection Report	5%
Pharmaceutical Database (Prescription History)	2%
Agent Collected Urine Specimen	0%
Agent Collected Oral Fluid	0%
Credit Report/Scoring	0%
Number of Products	42

The Survey also asked which underwriting requirements were ordered on a *reflex* basis. There were responses for 46 products; of these, 43% did not have any requirements ordered on a *reflex* basis. Among the 26 products with reflexive requirements, the most commonly ordered reflex requirement was Attending Physician’s Statement (APS) (81%), as shown in Table 2.18.

Table 2.18 – Reflex Underwriting Requirements

Reflex Underwriting Requirements	Percentage
Attending Physician’s Statement (APS)	81%
Personal History Interview (PHI)	31%
Motor Vehicle Report (MVR)	23%
Inspection Report	19%
Other	15%
Pharmaceutical Database (Prescription History)	12%
Credit Report/Scoring	4%
Medical Information Bureau (MIB)	0%
Number of Products	26

“Other” reflex requirements included:

- *blood profile/urine sample;*
- *city/county arrest record;*
- *physical measurements, urinalysis and blood chemistry profile.*

Additional comments regarding Underwriting Requirements:

- *Inspection Report is a POSI at application time;*
- *If the applicant requests coverage that exceeds both the face amount and premium limits provided in the employer offer letter, traditional requirements based on age and amount are utilized;*
- *If there is a hit on the MIB, application is rejected but will offer fully underwritten policy with APS and possible blood work/physical.*

The Survey asked whether there were any other methods employed to minimize antiselection.

Comments included:

- *In order to provide “agent management”, a drug knockout list and point of sale interview was required;*
- *For all approved applicants, follow-up calls were made verifying the answers on the questions;*
- *Confirm that agents asked the questions properly;*
- *MIB report;*
- *Use of actively at work question;*
- *If the applicant applies for a policy for a spouse or child, the applicant must also apply for a policy on himself/herself;*
- *Occupation in relation to face amount (reasonable relationship between estate value and amount of coverage);*
- *Simplified issue is only offered in corporate sponsored multi-life cases. Ten life minimum and face amount based on non selective criteria, such as salary, or set deferral, etc.*

Risk Classes

The Survey asked whether the application included a question about Tobacco Usage. There were responses for 47 products; of these, 72% asked about tobacco usage. Next, the Survey asked for the specific types of tobacco products considered.

As shown in Table 2.19 the most common tobacco product considered was Cigarettes (97%); however, Pipes (76%), Cigars (76%) and Smokeless Tobacco (71%) were also routinely considered.

Table 2.19– Tobacco Products Considered

Tobacco Products	Percentage
Cigarettes	97%
Pipes	76%
Cigars	76%
Smokeless Tobacco	71%
Other	18%
Number of Products	34

“Other” comments included:

- *Any nicotine product, including patch, gum, etc.;*
- *Any type of nicotine;*
- *Nicotine substitutes;*
- *Snuff;*
- *Have you smoked or used tobacco in any form;*
- *Nicorette gum-patch;*
- *Product added tobacco/nontobacco in 2004.*

The Survey asked which of the premium risk classes listed in Table 2.20 were available on SI products. There were 45 responses to this question. The most common risk classes were standard (71%) and tobacco/nontobacco (53%). Very few (4%) offered a preferred risk class.

Table 2.20– Premium Risk Classes

Premium Risk Class	Percentage
Standard	71%
Tobacco/Nontobacco	53%
Substandard	36%
Smoker/Nonsmoker	20%
Preferred	4%
Other	0%
Number of Products	45

“Other” comments included:

- *Products are unitobacco-aggregate rates with no distinction for tobacco;*
- *Nonsmoker/preferred, standard, substandard---smoker-standard and substandard;*
- *Product has four classes for both tobacco and nontobacco. The best class is for standard through Table 4, then Table 5 to Table 8, Table 9 to 12, and Table 13 to 16;*
- *Substandard is the “alternative product” which is basically guaranteed issue so not included in the survey.*

The Survey asked for the maximum table rating that would still qualify an applicant as a standard risk. Note that one table equals 25 debits. There were responses for 42 products. The most common maximum was Table 4 (40%), as shown in Table 2.21.

Table 2.21 – Maximum Rating to Qualify as Standard

Maximum Rating	Percentage
No substandard allowed	14%
Table 1	2%
Table 2	10%
Table 3	7%
Table 4	40%
Table 6	10%
Table 12	5%
Table 16	2%
Number of Products	42

“Other” comments included:

- *No specified maximum table;*
- *Table ratings not determinable from limited application. If all questions are “No,” applicant qualifies;*
- *These products are either issued standard or offered graded death benefit.*

The Survey asked which of the options shown in Table 2.22 were used to make the product available to substandard risks. There were responses for 34 products. The most common response was Table Rating (32%).

Table 2.22– Method of Offering to Substandard Risks

Substandard Risks	Percentage
Table Rating	32%
Flat Extra Rating	24%
Graded Death Benefit	24%
Other	24%
Offer Alternative Product	21%
Number of Products	34

“Other” comments included:

- *Two special risk classes;*
- *Additional classes;*
- *Interest and COI changes;*
- *Two special risk classes-one which covers Tables 5 and 6, the second which covers Tables 7 and 8;*
- *Accept/Reject action based on level of risk. Those applicants classified as Table 4 or below are accepted. Those classified above Table 4 are rejected;*

- *At times applicants may qualify for an underwritten product with a rating;*
- *Substandard cases are included only via fully underwritten version;*
- *Reduced crediting rate and higher cost of insurance would apply;*
- *The premium includes a built-in assumption for the substandard nature of the typical insured.*

Miscellaneous

The Survey asked for the maximum amount of insurance offered on conditional insurance receipts or temporary insurance agreements. There were responses for 41 products; of these, 49% indicated they did not offer conditional receipts or temporary insurance agreements. Among the remaining 21 products, the maximum amounts for insurance receipts are shown in Table 2.23. Twenty-five thousand dollars (29%) was the most common response.

Table 2.23 – Maximum Amount of Insurance on Insurance Receipts

Maximum Amount	Percentage
\$10,000	10%
\$15,000	5%
\$25,000	29%
\$50,000	5%
\$99,999	5%
\$100,000	10%
\$150,000	19%
\$180,000	5%
\$300,000	10%
Number of Products	21

Temporary insurance agreements (TIA) were offered by fewer respondents than conditional receipts. Of the 29 responses regarding TIAs, 66% indicated they did not offer a temporary insurance agreement (TIA). The remaining 34% offered one at varying amounts of maximum coverage. The range was from 25,000 to 1,000,000.

“Other” comments included:

- *Accidental death benefit is also available;*
- *Only temporary insurance agreements are used with simplified acceptance policies here;*
- *Subject to \$500,000 across all policies and all carriers;*
- *These are the product maximums.*

The Survey asked which of the forms of reinsurance were used for SI products. Of 48 products, the survey results indicated that 52% were not reinsured. Of the other 23, 70% used first dollar and 26% used excess retention.

Next, the Survey asked for those using reinsurance to indicate their retention in dollars. The lowest minimum specified was \$5,000 and the maximum was \$2 million, as shown in Table 2.24. The most common retention amount was \$100,000 (22%).

Table 2.24 – Reinsurance Retention

Retention Amount	Percentage
\$5,000 - \$50,000	17%
\$100,000	22%
\$150,000	17%
\$250,000	11%
\$500,000 - \$2,000,000	22%
Varies by Issue Age	11%
Number of Products	18

The Survey asked those who used first dollar reinsurance, what percentage of risk was retained. Retention ranged from 10% to 55%, and the most common retention was 50% (by 41% of the products), as shown in Table 2.25.

Table 2.25 – Retained Percentage on First Dollar Reinsurance

% Retained on First Dollar	Percentage
10%	18%
15%	6%
20%	18%
25%	6%
30%	6%
50%	41%
55%	6%
Number of Products	17

“Other” comments included:

- *Always 50%. Revised product introduced on June 1 has no reinsurance;*
- *Our retention limit is higher than the maximum issue amount for these policies;*
- *We use co-insurance at 50% reinsurance;*
- *Products have the following retention limits based on issue age:*
0-60 = \$230,000
61-70 = \$130,000
71+ = \$80,000

Assumptions and Experience

This section of the survey gathered information on pricing assumptions and experience results.

The Survey asked who was involved in setting the pricing assumptions. Respondents could choose more than one person. The pricing actuary (92%) was the most common response, followed by underwriting (56%) and the chief actuary (46%), as shown in Table 3.1.

Table 3.1 – Who Is Involved in Setting Pricing Assumptions

Who	Percentage
Pricing Actuary	92%
Underwriting	56%
Chief Actuary	46%
Consultant	27%
Sales / Marketing	23%
Reinsurer	21%
President / CEO	13%
Risk Management	4%
CFO	2%
Number of Products	48

Mortality and lapse assumptions varied by a number of different factors. As shown in Table 3.2, the most common factors used to vary mortality assumptions were issue age (94%), policy duration (94%), sex (91%) and tobacco usage (70%). The most common factors used to vary lapse assumptions were duration (100%) and issue age (74%). Attained age was one of the factors included in the survey; however, the Subcommittee felt the assumption was subject to multiple interpretations by the respondents and was, therefore, excluded from Table 3.2.

Table 3.2 – Factors Used to Vary Pricing Assumptions

Assumption	Percentage	
	Mortality	Lapse
Policy Duration	94%	100%
Issue Age	94%	74%
Sex	91%	11%
Tobacco Usage	70%	11%
Risk Class (other than tobacco)	21%	0%
Face Amount Band	13%	7%
Distribution Channel	6%	20%
Target Market	0%	4%
Other	0%	7%
Number of Products	47	46

“Other” comments included that *lapses may also vary by premium payment method, mode and period.*

The Survey asked for the percentage of submissions to the underwriting department that fell into several categories. Results are shown in Table 3.3.

The Survey then asked for these percentages to be split into accepted and not taken. These results are shown below in Table 3.3.

As shown in Table 3.3, the most common result when a SI application was submitted to the underwriting department was for it to be approved as applied for (median of 85%). The next most common response was to be declined or rejected.

For 57% of the products reporting results, submissions were approved as applied for in 81-100% cases. Another 38% of the products reporting results, had submissions approved as applied for in 61-80% of the submissions. On the other hand, 89% of the products responding offered a rating or an alternative product on only 0-10% submissions and 68% of the responding products declined or rejected 0-10% of the submissions. In other words, approved as applied for was by far the most common action taken on a submission while declining, rejecting, offering an alternative product and offering with a rating were not commonly done among the products reporting.

Table 3.3 – Distribution of Submissions to Underwriting Department

% of Submissions	Percentage of Products			
	Approved as Applied for	Offered with a Rating or Alternative Product	Declined/ Rejected	Other
0%	0%	36%	0%	11%
1% – 10%	0%	54%	68%	63%
11% - 20%	0%	11%	24%	26%
21% - 40%	0%	0%	8%	0%
41% - 60%	5%	0%	0%	0%
61% - 80%	38%	0%	0%	0%
81% - 100%	57%	0%	0%	0%
Number of Products	37	28	37	19
Low (not 0)	55%	0%	1%	0%
Median (includes 0)	85%	2%	8%	8%
High	99%	18%	30%	19%
Most common (not 0)	85% (6)	5% (4)	Tie: 6% and 10% (5 each)	Tie: 5% and 8% (3 each)

“Other” comments included *incomplete, withdrawn and postponed.*

Table 3.4 shows that while there was a wide range of responses, the median not taken rate was 10% for business approved as applied for and 28% for business offered with a rating or alternative product. These percentages must be viewed cautiously; however, due to the low number of responses.

Table 3.4 – Distribution of Not Taken

	Percentage Not Taken	
	Approved as Applied for	Offered with a Rating or Alternative Product
Low	1%	5%
Median	10%	28%
High	66%	82%
Number of Products	25	10

Of the claims that occur in the contestable period, the Survey asked for the percentage (by number) contested. Table 3.5 summarizes the percentage of contestable claims that were actually contested by respondents. Note that a couple of respondents indicated they “*reviewed*” or “*investigated*” all contestable claims; we have included these in Table 3.5 at 100%. The results varied from 2% to 100%; the median result was 35%.

Table 3.5 – Percentage of Contestable Claims That Were Contested

% of Contestable Claims Contested	Percentage of Products
0% - 10%	19%
11% - 20%	3%
21% - 40%	32%
41% - 60%	10%
61% - 80%	16%
81% - 100%	19%
Number of Products	31
Low	0%
Median	35%
High	100%

We also asked for information regarding the amount of the claim payment on contested claims. As shown in Table 3.6, very few reported settling contested claims for a reduced amount; instead, most either pay contested claims in full or returned the premium. Additional comments are provided following Table 3.6. The overriding comment was that the product was still too new and had no or very few claims so far.

Table 3.6 – Amount Paid on Contested Claim Settlements

Percentage of Contested Claims	Percentage of Products			
	Paid in Full	Settled for Reduced Amount	Return of Premium Only	Other
0%	7%	68%	11%	86%
1% -10%	25%	21%	0%	14%
11% - 20%	0%	11%	7%	0%
21% - 40%	21%	0%	18%	0%
41% - 60%	21%	0%	14%	0%
61% - 80%	14%	0%	29%	0%
81% - 100%	11%	0%	21%	0%
Number of Products	28	28	28	28
Low	0%	0%	0%	0%
Median	36.5%	0%	63.5%	7.5%
High	100%	15%	100%	10%

Clarifying comments were not provided on the “Other” responses.

Additional comments with respect to contestable claims included *have not had claims on product yet, review all claims in contestable period, percent represents number of contestable period claims for which medical records were ordered, and do not have contestable period.*

The Survey asked for the top three leading causes of death on each SI product and the percentage (by number) that these causes represented relative to all deaths on each product. Some respondents were not able to provide the leading causes for their two top selling SI products, but instead provided information for all SI products they sold. These numbers are included in Table 3.7. In several instances, we put the specific category provided into a broader category. For example, “*lung cancer*” was coded as Cancer and “*auto*” was coded as Accidents.

The leading causes of death were heart disease and cancer. The only other cause of death that was reported as a leading cause was accidents. Respiratory was the cause of death that was most commonly chosen for third place.

Table 3.7 – Top Three Leading Causes of Death

Cause of Death	Percentage of Products		
	Leading Cause of Death		
	First	Second	Third
Heart	61%	18%	14%
Cancer	29%	54%	18%
Accident	11%	11%	0%
Stroke	0%	14%	0%
Suicide	0%	4%	0%
Respiratory	0%	0%	50%
Neurological	0%	0%	7%
Other/Unknown	0%	0%	11%
Number of Products	28	28	28

“Other” comments were that *there were few or no deaths yet on these products*.

Table 3.8 shows the total percentage of the top three leading causes of death.

Table 3.8 – Total Percentage of Top Three Leading Causes of Death

Total Percentage Range	Number of Products
21 – 40%	2
41 – 60%	8
61 – 80%	10
81 – 100%	4
Low	24%
Median	67%
High	90%

Eighteen of the products (75%) had a total percentage of the top three leading causes of death between 41-80%. The median percentage of the top three leading causes of death was 67%.

Respondents were asked to provide the percentage (by number) that these causes represented. We had limited responses to this question. Of those that responded, Table 3.9 shows the top two leading causes of death were heart disease and cancer.

Table 3.9 – Prevalence of Leading Causes of Death by Cause

Cause of Death	Percentage of Deaths			Number of Products
	Low	Median	High	
Heart	6%	26.4%	50%	22
Cancer	4%	21%	80%	25
Stroke	13%	16.5%	20%	4
Respiratory	2%	15%	16%	12
Accident	10%	10%	30%	3
Neurological	7%	7%	7%	2
Suicide	13%	13%	13%	1
Other/Unknown	10%	10%	11%	3

The Survey asked respondents what underlying mortality table formed the basis for their pricing assumptions. Respondents could choose more than one mortality table. Table 3.10 shows the results. The SOA 1975-80 Select and Ultimate table was most commonly used (46%), followed by a select and ultimate internally developed table (26%). Note that the underlying table is often adjusted based on experience.

Table 3.10 – Pricing Mortality Table

Pricing Mortality Table	Percentage of Products	
	Select & Ultimate Table	Ultimate Only
SOA 1975-80	46%	9%
Internally Developed Table	26%	2%
SOA 1985-90	2%	11%
SOA 1990-95	4%	7%
1980 CSO	2%	2%
Number of Products	46	

Comments with respect to mortality table dealt with *adjustments that were made to the underlying table*. It was mentioned that *an anti-select & ultimate table was used, which means rates during the select period are flat or decreasing*.

Respondents were asked whether they used Age Last Birthday (ALB) or Age Nearest Birthday (ANB) for the pricing mortality assumption. Among 46 responses, 80% indicated they used ALB.

The Survey then asked respondents to provide expected and actual mortality for several specific issue ages and durations based on their primary distribution channel and target market. Tables 3.11, 3.12 and 3.13 show the expected mortality results for a nonsmoker male issued standard at ages 25, 45 and 65, respectively. The mortality expectations varied widely. We did not receive sufficient actual experience; therefore, we are not able to show actual mortality results.

Table 3.11 - Expected Mortality for Male Issue Age 25

Mortality Rate per 1,000	Percentage of Products			
	Duration			
	1	3	6	10
< 1.00	83%	76%	79%	54%
1.00 – 1.99	10%	17%	10%	32%
2.00 – 2.99	0%	0%	3%	4%
3.00 – 3.99	0%	0%	0%	4%
4.00 – 4.99	3%	0%	0%	0%
5.00 – 9.99	0%	3%	3%	4%
10.00 +	3%	3%	3%	4%
Number of Products	29	29	29	28
Median	.51	.72	.85	1.00

Table 3.12 - Expected Mortality for Male Issue Age 45

Mortality Rate per 1,000	Percentage of Products			
	Duration			
	1	3	6	10
< 1.00	38%	6%	3%	3%
1.00 – 1.99	35%	35%	15%	3%
2.00 – 2.99	9%	35%	32%	16%
3.00 – 3.99	3%	9%	21%	19%
4.00 – 4.99	6%	3%	9%	22%
5.00 – 9.99	6%	9%	15%	25%
10.00 +	3%	3%	6%	13%
Number of Products	34	34	34	32
Median	1.12	2.32	3.16	4.48

Table 3.13 - Expected Mortality for Male Issue Age 65

Mortality Rate per 1,000	Percentage of Products			
	Duration			
	1	3	6	10
< 1.00	3%	3%	0%	0%
1.00 – 1.99	6%	0%	0%	0%
2.00 – 2.99	6%	0%	3%	0%
3.00 – 3.99	6%	3%	0%	0%
4.00 – 4.99	19%	0%	0%	0%
5.00 – 9.99	28%	28%	14%	3%
10.00 – 19.99	16%	44%	41%	23%
20.00+	16%	22%	44%	73%
Number of Products	32	32	32	30
Median	5.82	13.17	19.48	29.34

The Survey asked a similar question on expected and actual lapse rates. Tables 3.14, 3.15 and 3.16 show expected lapse rates for a nonsmoker male issued standard at ages 25, 45 and 65, respectively. The median lapse rates decreased with both increasing duration and increasing age.

Tables 3.17, 3.18 and 3.19 show actual lapse rates for issue ages 25, 45 and 65, respectively. Here also, the median lapse rates generally decreased with increasing duration and increasing age; however, there were several exceptions to this in duration 10. In general, caution should be used when viewing these results as the experience is somewhat limited, particularly at the later durations.

The median expected lapse rate in Tables 3.17-3.19 was computed only for those products for which we had been provided the actual lapse rate as well. This is to facilitate the comparison of median expected and median actual rates. Note that for a few products, the actual lapse results were provided, but the expected lapse rates were not provided. The median expected lapse rate for the products where an actual result was provided was generally higher than the expected median for all products. We then compared the actual to expected lapse rates. Overall, actual experience was reported as above expected, except for the early durations at age 65. Note, this result does not mean that every individual company's lapse experience was above expected, but rather only that the median actual results were higher than the median expected rates.

Table 3.14 - Expected Lapse Rate for Male Issue Age 25

Lapse Rate (%)	Percentage of Products			
	Duration			
	1	3	6	10
< 5.0	14%	14%	21%	21%
5.0 – 9.9	11%	32%	57%	57%
10.0 - 19.9	25%	39%	21%	21%
20.0 – 29.9	25%	14%	0%	0%
30.0+	25%	0%	0%	0%
Number of Products	28	28	28	28
Low	2%	2%	2%	2%
Median	20%	10%	7%	7%
High	60%	27%	15%	15%
Most Common	10% (4)	7% (4)	7% (6)	7% (6)

Table 3.15 - Expected Lapse for Male Issue Age 45

Lapse Rate (%)	Percentage of Products			
	Duration			
	1	3	6	10
< 5.0	16%	16%	25%	22%
5.0 - 9.9	9%	41%	56%	59%
10.0 – 19.9	31%	38%	19%	19%
20.0 – 29.9	31%	6%	0%	0%
30.0+	13%	0%	0%	0%
Number of Products	32	32	32	32
Low	2%	2%	2%	2%
Median	18%	8%	7%	6%
High	45%	21%	15%	15%
Most Common	25% (5)	10% (8)	7%, 8% (5 each)	5% (8)

Table 3.16 - Expected Lapse for Male Issue Age 65

Lapse Rate (%)	Percentage of Products			
	Duration			
	1	3	6	10
< 5.0	19%	29%	35%	32%
5.0 - 9.9	19%	42%	55%	52%
10.0 - 19.9	29%	29%	10%	10%
20.0 – 29.9	29%	0%	0%	6%
30.0+	3%	0%	0%	0%
Number of Products	31	31	31	31
Low	1.3%	2%	2%	2%
Median	17%	7%	6%	5%
High	34%	19%	15%	20%
Most Common	18%, 20% (3 each)	4%, 10% (5 each)	2%, 7.5% (4 each)	5% (8)

Table 3.17 - Actual Lapse Rate for Male Issue Age 25

Lapse Rate (%)	Percentage of Products			
	Duration			
	1	3	6	10
< 5.0	6%	8%	0%	0%
5.0 - 9.9	29%	17%	40%	33%
10.0 - 19.9	12%	33%	60%	66%
20.0 – 29.9	0%	42%	0%	0%
30.0+	53%	0%	0%	0%
Number of Products	17	12	5	3
Low	2%	2%	7.1%	8.6%
Median of Actual Rates	30%	18%	14%	15%
High	44%	28.3%	15%	15%
Median of Expected Rates	20%	11%	8%	7%
A/E of Median	152%	164%	183%	214%

Table 3.18 - Actual Lapse Rate for Male Issue Age 45

Lapse Rate (%)	Percentage of Products			
	Duration			
	1	3	6	10
< 5.0	19%	27%	57%	25%
5.0 - 9.9	14%	20%	0%	25%
10.0 - 19.9	10%	40%	43%	50%
20.0 – 29.9	38%	13%	0%	0%
30.0+	19%	0%	0%	0%
Number of Products	21	15	7	4
Low	0%	2%	1.1%	4%
Median of Actual Rates	21%	12%	5%	12%
High	36%	21%	15%	15%
Median of Expected Rates	18%	10%	7%	6%
A/E of Median	120%	120%	64%	215%

Table 3.19 - Actual Lapse Rate for Male Issue Age 65

Lapse Rate (%)	Percentage of Products			
	Duration			
	1	3	6	10
< 5.0	20%	53%	64%	57%
5.0 - 9.9	10%	6%	9%	14%
10.0 - 19.9	30%	29%	27%	29%
20.0 – 29.9	25%	12%	0%	0%
30.0+	15%	0%	0%	0%
Number of Products	20	17	11	7
Low	0%	0%	0%	0%
Median of Actual Rates	16%	4%	3%	3%
High	50%	20%	15%	15%
Median of Expected Rates	15%	7%	7%	5%
A/E of Median	105%	60%	35%	60%

Comments with respect to mortality and lapse information were *little or no experience on product yet, pricing assumptions adjusted to reflect actual experience, and this is considered proprietary information.*

The Survey then asked how often experience was formally studied. Results are shown in Table 3.20. The most common response was to study experience at least annually. The next most common response was “As Needed” for early duration claims (31%) and cause of death (26%).

Table 3.20 – Frequency of Formal Experience Studies

Frequency	Percentage of Products				
	Not Taken Experience	Early Duration Claims	Cause of Death	Mortality Experience	Lapse Experience
At least once per year	50%	47%	43%	63%	70%
At least every 2 years	6%	3%	0%	0%	5%
Less than every 2 years	3%	3%	6%	7%	2%
As needed	13%	31%	26%	14%	14%
Don't review	16%	6%	20%	7%	0%
Other *	13%	11%	6%	9%	9%
Number of Products	32	36	35	43	44

* Monthly

The Survey also asked when experience was last reviewed. The most common response for all categories was within the last year, as shown in Table 3.21.

Table 3.21 –When Experience Last Reviewed

Last Reviewed	Percentage of Products				
	Not Taken Experience	Early Duration Claims	Cause of Death	Mortality Experience	Lapse Experience
Within the last year	78%	84%	76%	79%	86%
1 – 3 years ago	3%	10%	10%	3%	2%
More than 3 years ago	3%	0%	7%	3%	2%
Other – Within the last month	6%	6%	0%	5%	5%
Other – Never*	9%	0%	7%	10%	5%
Number of Products	32	31	29	38	42

* Too new or for other reasons.

Respondents were asked whether they had plans to reprice or revise the products and, if so, what types of changes were planned. Table 3.22 shows the results. Forty-five percent indicated they had no current plans to reprice or revise their products, while the rest indicated they planned to make changes within the next year (25%) or next 1-3 years (30%). The three most common changes to be made were to pricing (43%), underwriting (27%) and the application (27%).

Table 3.22 – Plans to Reprice or Revise the Product

When	Percentage
In the next year	25%
In the next 1 – 3 years	30%
No current plans	45%
What	Percentage
Pricing	43%
Underwriting	27%
Application	27%
Design of Product	18%
Replacing Product	16%
Age / Amount Limits	9%
Distribution Channel	7%
Target Market	0%
Discontinuing Product	0%
Other *	14%
Number of Products	44

* Would have no plans for change except for 2001 CSO considerations; product was approved in 2004; answer reflects this pricing; will not know what changes to product until we begin the exercise; tobacco/nontobacco product replaced previous product; Product was already repriced in April of 2004. Won't be repriced again until at least 2006.

Technology and Process

The purpose of this section was to explore the ways in which companies are using technology to enhance their SI processes.

Automated Underwriting Systems

The Survey asked whether respondents used any kind of system in which the underwriting decision was not made by a human underwriter (hereafter referred to as an “automatic system”). Respondents indicated an automatic system was used for 15 SI products. Among these, 20% had applications subjected to a manual system before the automatic system was applied.

The Survey asked whether the automatic system always, never, or sometimes made the *final* underwriting decision. For 87% of the 15 products for which an answer was provided, the automatic system sometimes made the final decision, as shown in Table 4.1.

Table 4.1 – Automatic System Makes Decision

Frequency	Percentage
Sometimes	87%
Always	7%
Never	7%
Number of Products	15

The Survey further asked whether the automatic system was used only in the context of accept/reject underwriting, or whether it was used to distinguish preferred or substandard risks. Among 14 products for which an answer was provided, all respondents said that their system was used only for accept/reject underwriting.

The Survey asked how automatic systems were used among the choices shown in Table 4.2. While the most common single response was to use the automatic system for all business written (33%), the majority of products used an automatic system for only limited portions of the business. The most common limited way the automatic system was used was by distribution channel.

Table 4.2 – How Automatic System Used

System Used For	Percentage
All business written	33%
Only certain distribution channels	27%
Only certain face amounts	20%
Only certain target markets	13%
Other – Certain face amounts or issue ages	7%
Number of Products	15

The Survey asked for the percentage of applications which were expected to be issued automatically and how this compared to the actual percentage issued automatically. There was a wide range of responses to this question, as shown in Table 4.3.

Table 4.3 – Percentage of Applications Issued by Automatic System

	Minimum	Median	Maximum	Number of Products
Expected % issued automatically	30%	70%	100%	16
Actual % issued automatically	28%	72%	100%	9

Among the seven respondents for which both expected and actual percentages were provided, 57% indicated they issued fewer automatically than expected, 29% issued what they had expected and 14% issued more automatically than expected.

The Survey asked whether automatic systems were developed internally or purchased from an outside vendor. Among the 13 products for which an answer was provided, 85% developed the automated system internally, while 15% purchased it from an outside vendor.

The Survey asked for the percentage of each kind of application received. Respondents indicated they did not utilize voice signatures on their SI applications, as shown in Table 4.4. Note, one respondent indicated that a fax application with wet signature was used. We counted that response as an all-paper application.

Table 4.4 – Applications Received by Type

Type of Application	Minimum	Median	Maximum
All paper applications	25%	100%	100%
Phone application with wet/written signature	5%	50%	100%
Electronic application with wet/written signature	75%	88%	100%
Electronic application with electronic signature	1%	6.5%	70%
Electronic application with voice signature	0%	0%	0%
Phone application with electronic signature	0%	0%	0%
Phone application with voice signature	0%	0%	0%
Number of Respondents	24		

The Survey also asked about the distribution of application types by medium. Fifty-two percent of the products used a paper-only application, as shown in Table 4.5.

Table 4.5 – Application Types by Medium

Type of Application	Percentage
100% paper	52%
100% phone application with wet/written signature	7%
100% electronic application with wet/written signature	5%
Combinations	36%
Number of Products	42

Of those who used more than one method of taking applications, the Survey asked for the reason. The most common response was having different distribution channels (64%), as shown in Table 4.6.

Table 4.6 – Reason for Using Multiple Methods

Reason	Percentage
Different Distribution Channels	64%
Different Face Amounts or Issue Ages	7%
Different Target Markets	0%
Other	29%
Number of Products	14

“Other” reasons included *agent choice* and *recent installation of an electronic system*.

Turnaround Time

The Survey explored what total turnaround time and underwriting turnaround time companies targeted and actually realized for their SI business. Total turnaround time was defined as the time elapsed between receipt of application and when the policy was issued or declined. Underwriting turnaround time was defined as the time elapsed between when full information arrived in underwriting and when the underwriting decision was made.

The first set of questions (regarding all applications) was for every product. Succeeding questions about turnaround were for those which used an automatic system. Very few respondents answered these succeeding questions and, as a result, the results are not tabulated here.

Sixty-four percent of products had target *total* turnaround time of 5 days or less, as shown in Table 4.7. Sixty-two percent achieved *total* turnaround time of 5 days or less, with 32% indicating actual turnaround times of over 10 days, as shown in Table 4.8.

Table 4.7 - Target Total Turnaround Time for All Applications

Range	Percentage	Median
< 1 hour	8%	10 minutes
1 hour to < 1 day	0%	-
1 day	17%	1 day
2 days	6%	2 days
3 – 5 days	33%	3 days
6 – 10 days	17%	7 days
More than 10 days	19%	17.5 days
Number of Products	36	

Table 4.8 - Actual Total Turnaround Time for All Applications

Range	Percentage	Median
< 1 hour	9%	10 minutes
1 hour to < 1 day	0%	-
1 day	12%	1 day
2 days	12%	2 days
3 – 5 days	29%	4.2 days
6 – 10 days	6%	6 days
More than 10 days	32%	17.3 days
Number of Products	34	

All of the products had target *underwriting* turnaround time of 5 days or less, as shown in Table 4.9. Ninety-one percent achieved *underwriting* turnaround time of 5 days or less, as shown in Table 4.10.

Table 4.9 - Target Underwriting Turnaround Time for All Applications

Range	Percentage	Median
< 1 hour	23%	10 minutes
1 hour to < 1 day	10%	1 hour
1 day	23%	1 day
2 days	17%	2 days
3 – 5 days	27%	3 days
6 – 10 days	0%	-
More than 10 days	0%	-
Number of Products	30	

Table 4.10 – Actual Underwriting Turnaround Time for All Applications

Range	Percentage	Median
< 1 hour	27%	15 minutes
1 hour to < 1 day	3%	6 hours
1 day	24%	1 day
2 days	6%	2 days
3 – 5 days	30%	3.8 days
6 – 10 days	3%	6 days
More than 10 days	6%	14 days
Number of Products	33	

Application Intake and Delivery

The Survey asked who completed the application for each product. Some respondents indicated more than one person could complete applications. The most common responses were Agent/Producer (80%) and Applicant (55%), as shown in Table 4.11.

Table 4.11 – Who Completed the Application?

Person	Percentage
Agent/Producer	80%
Applicant	55%
Teleunderwriter	5%
Other	7%
Number of Products	44

“Other” persons included *call center and other employees*.

The Survey then asked about policy delivery, both from the company to the producer and from the producer to the policyowner. The most common medium for delivering the policy to the producer was paper (84%), as shown in Table 4.12. The most common medium for delivery to the policyowner was also paper (89%), as shown in Table 4.13. Note, the Survey listed Electronic Medium to deliver both to the producer and to the policyowner, but this medium was not selected.

Table 4.12 – Delivery Medium to Producer

Medium	Percentage
Paper	84%
No Agent/Producer	11%
Not Applicable	5%
Number of Products	44

Table 4.13 – Delivery Medium to Policyowner

Medium	Percentage
Paper	89%
Agent’s choice	11%
Number of Products	44

Underwriting Requirements

Next, the Survey asked for the average length of time to receive each type of the underwriting requirements shown in Table 4.14. The most common sources of underwriting requirements were MIB (82%), APS (55%) and PHI (45%). For some respondents, APS and MVR turnaround times were long.

Table 4.14 – Time to Receive Underwriting Requirements

Requirement Source	Average # of Days to Receive Requirement			Number of Respondents
	Minimum	Median	Maximum	
Medical Information Bureau (MIB)	0.0	0.0	1.0	18
Attending Physician Statement (APS)	10.0	15.0	40.0	12
Personal History Interview (PHI)	0.0	1.5	10.0	10
Motor Vehicle Report (MVR)	0.0	1.0	45.0	6
Medical Claims History	*	*	*	2
Pharmaceutical Database/History	*	*	*	1
Credit Reports	*	*	*	1

Number Less than 1 day was treated as 0.

* Due to the limited number of companies that indicated a turnaround time for this data source, length of time is not provided.

The Survey also asked whether respondents used more than one vendor/source for underwriting requirements. For APS and Medical Claims, the number of respondents using a single source versus more than one source was nearly equally divided, as shown in Table 4.15. A single source was predominately used for PHIs and MVRs.

Table 4.15 – Vendor/Source of Underwriting Requirement

Type of Data	Percentage			Number of Respondents
	One Source	More Than One Source	Do Not Use	
Attending Physician Statement (APS)	30%	22%	48%	23
Personal History Interview (PHI)	41%	9%	50%	22
Motor Vehicle Report (MVR)	29%	5%	67%	21
Medical Claims History	9%	14%	77%	22
Pharmaceutical Database/History	17%	0%	83%	6
Credit Reports	9%	0%	91%	23

Respondents were asked to provide further details on how they obtained the types of data shown above; however, the responses were not clear so the results are not included.

Of those respondents who obtained underwriting requirements from third parties, we asked for the type of vendor. Third Party Administrator was the most common vendor type, as shown in Table 4.16.

Table 4.16 – Type of Third Party Vendor

Type of Requirement	Number of Respondents	Percentage of Respondents Using Vendor			
		Third Party Administrator	Software/Technology Firm	Reinsurer	Other
Attending Physician Statement (APS)	9	67%	11%	0%	22%
Personal History Interview (PHI)	6	50%	17%	0%	33%
Motor Vehicle Report (MVR)	7*	57%	43%	0%	14%
Medical Claims History	0	0%	0%	0%	0%
Pharmaceutical Database/History	2	100%	0%	0%	0%
Credit Reports	1	0%	100%	0%	0%

* One responder indicated that *MVR data was obtained from more than one source.*

Finally, the Survey asked what kinds of technology respondents employed in the underwriting and issue processes for SI products. By far, the most commonly employed technology of those asked about was imaging (81%), as shown in Table 4.17.

Table 4.17 – Technology Used in SI Underwriting and Issue Processes

Technology	Percentage
Imaging/Scanning	81%
Expert System	31%
1-D Bar Code	25%
File Transfer Protocol (FTP)	25%
Secure Extranet Website	25%
Secure Intranet Website	19%
Extensible Markup Language (XML)	13%
Optical Character Recognition (OCR)	13%
Public Website	13%
2-D Bar Code	6%
Text Translation/Semantic Analysis	0%
Voice Recognition	0%
Number of Respondents	16

Cross Sectional Analysis

This section examines the survey information on a cross sectional basis. The objective is to comment on any noteworthy relationships between information provided in one part of the survey to related information provided in another part of the survey.

There is a fair amount of information that can be gleaned from looking at responses across the sections. However, when comparing data across sections, the number of responses becomes quite sparse. Many refined categories do not have enough responses to maintain a degree of credibility and anonymity. Therefore, the analysis in this section will focus on broad categories surveyed, and will only be reported when there are at least four product responses available. Most of the analysis will be relative to expected mortality.

The areas analyzed in this section are:

- Expected Mortality by Expected Policy Size
- Primary Target Market
- Primary Distribution System
- Automatic Underwriting
- Teleunderwriting

Expected Mortality by Expected Policy Size

The three charts below show expected mortality by average policy size and duration for issue ages 25, 45 and 65, respectively. The charts are for a male standard nonsmoker. Expected mortality for average policy sizes of \$100,000 and greater were not shown due to credibility. However, relative to the lower policy sizes, the average expected mortality rate was lowest for the policy sizes of \$100,000 and greater.

All three charts show that as the policy size increases, expected mortality decreases. At issue age 25, the expected mortality for the \$0-9,900 group is significantly higher than the larger policy sizes. The difference is even more pronounced at the early durations, suggesting a degree of antiselection was expected for younger individuals with low policy sizes.

While one would generally expect lower mortality for higher policy sizes, there are other factors that influence actual results such as product type, target market and distribution channel. The pattern of lower expected mortality with higher policy sizes is prevalent among the survey responses.

Although the responses for *actual* mortality experience (vs. expected) would have been interesting, the data is too sparse to be analyzed by policy band or any other subcategory.

Chart 1 – Expected Mortality by Average Size – Issue Age 25

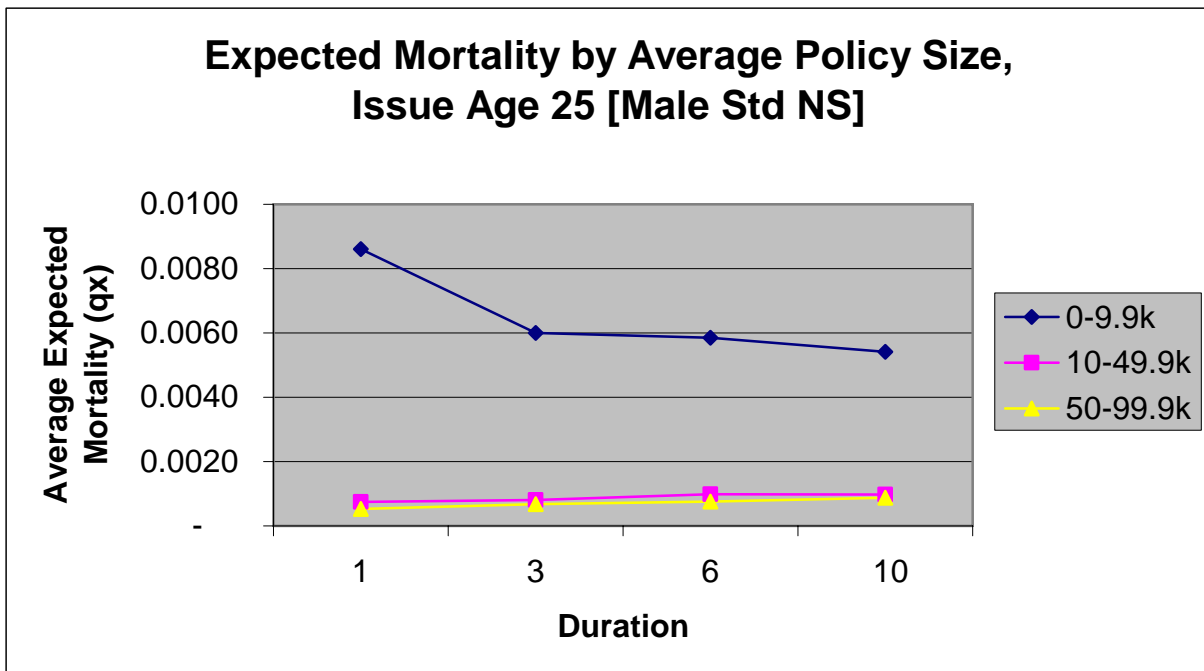


Chart 2 – Expected Mortality by Average Size – Issue Age 45

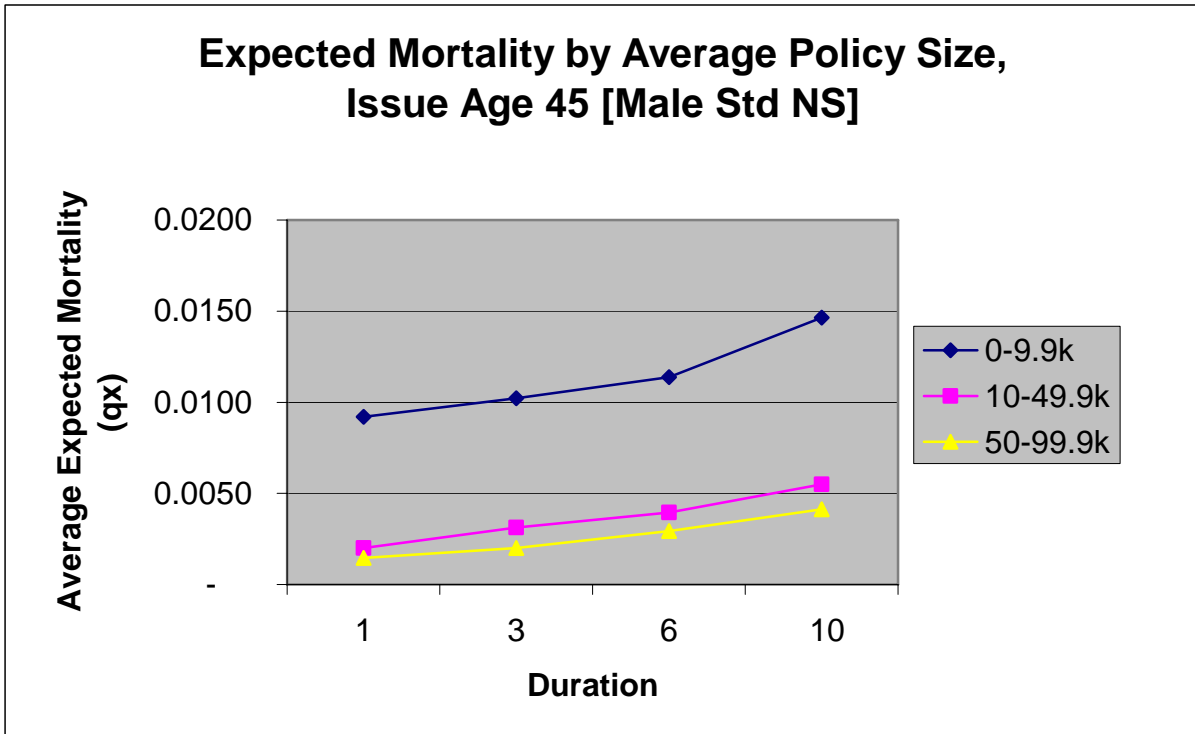
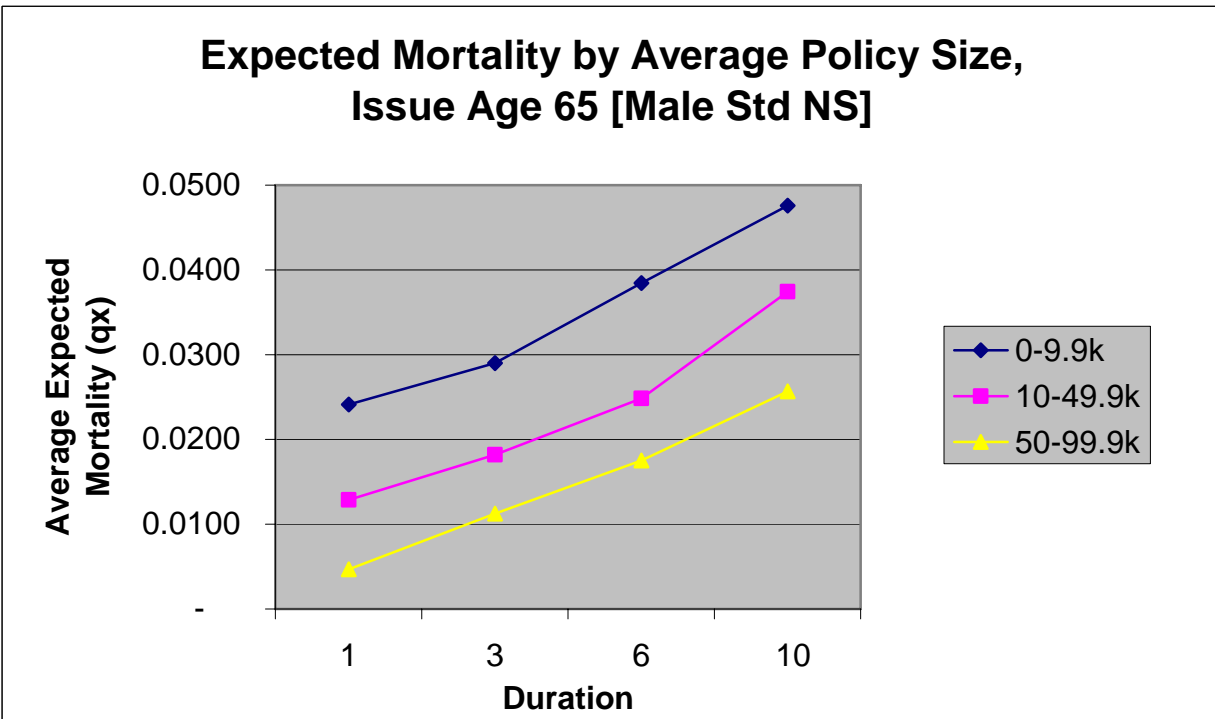


Chart 3 – Expected Mortality by Average Size – Issue Age 65



Primary Target Market

The three largest primary target market groups were analyzed:

- Financial Institution Customers
- Middle Class/Income Market
- Senior Market

Financial Institution Customers

Of the 12 products with financial institution customers as the primary target market, there were ten responses to the question on expected mortality. For issue age 45 duration 3 (which will be used for comparison purposes in this section), the average expected mortality was 0.0019. Table 5.1 provides the distribution by policy size for the ten product responses.

Table 5.1 – Distribution of Average Policy Size, for Products with Financial Institution Customers as the Primary Target Market (Issue Age 45, Duration 3)

Average Policy Size	Percentage
\$0 – 9,999	10%
\$10,000 – 49,999	0%
\$50,000 – 99,999	20%
\$100,000+	70%
Number of Products	10

Seven of the 12 products with financial institution customers as the primary target market indicated the bank platform was the primary distribution system. The remaining five indicated direct mail as the primary distribution system.

Middle Class/Income Market

Of the eight products with middle class/income as the primary target market, there were six responses to the question of expected mortality. For issue age 45 duration 3, the average expected mortality was 0.0021. Table 5.2 provides the distribution by policy size for the six product responses.

Table 5.2 – Distribution of Average Policy Size, for Products with Middle Class/Income as the Primary Target Market (Issue Age 45, Duration 3)

Average Policy Size	Percentage
\$0 – 9,999	0%
\$10,000 – 49,999	50%
\$50,000 – 99,999	33%
\$100,000+	17%
Number of Products	6

Of the eight products with middle class/income as the primary target market, there were various primary distribution systems reported.

Senior Market

Of the seven products with senior market as the primary target market, there were four responses to the question of expected mortality. For issue age 45 duration 3, the average expected mortality was 0.0044. The expected mortality for this cell is higher for the senior market. Table 5.3 provides the distribution by policy size for the four product responses.

Table 5.3 – Distribution of Average Policy Size, for Products with Senior Market as the Primary Target Market (Issue Ages 45/65, Duration 3)

Average Policy Size	Percentage
\$0 - 9,999	50%
\$10,000 - 49,999	50%
\$50,000 – 99,999	0%
\$100,000+	0%
Number of Products	4

Seven responses for the senior market varied between company direct to customer and a producer (independent broker, career agent or PPGA).

Primary Distribution System

The three largest primary distribution systems were analyzed:

- Bank Platform
- Direct Mail
- Independent Broker

Bank Platform

Of the seven products with bank platform as the primary distribution channel, there were five responses to the question of expected mortality. For issue age 45 duration 3, the average expected mortality was 0.0015. Table 5.4 provides the distribution by policy size for the five product responses.

Table 5.4 – Distribution of Average Policy Size, for Products with a Bank Platform as the Primary Distribution System (Issue Age 45, Duration 3)

Average Policy Size	Percentage
\$0 – 9,999	0%
\$10,000 – 49,999	0%
\$50,000 - 99,999	40%
\$100,000+	60%
Number of Products	5

All the bank platform respondents selected financial institution customers as the primary target market. Also, of the four bank platform respondents to the average turnaround time question, all had an average turnaround time of less than one day.

Direct Mail

Of the eight products with direct mail as the primary distribution channel, there were seven responses to the question of expected mortality. For issue age 45 duration 3, the average expected mortality was 0.0024. Table 5.5 provides the distribution by policy size for the seven product responses.

Table 5.5 – Distribution of Average Policy Size, for Products with Direct Mail as the Primary Distribution System (Issue Age 45, Duration 3)

Average Policy Size	Percentage
\$0 - 9,999	14%
\$10,000 - 49,999	14%
\$50,000 - 99,999	71%
\$100,000+	0%
Number of Products	7

The direct mail product responses had a higher average size than other systems. Five of the eight were financial institution customers, and the remaining was middle class/income.

Independent Broker

Of the eight products with independent broker as the primary distribution channel, there were six responses to the question of expected mortality. For issue age 45 duration 3, the average expected mortality was 0.0026. Table 5.6 provides the distribution by policy size for the six product responses.

Table 5.6 – Distribution of Average Policy Size, for Products with an Independent Broker as the Primary Distribution System (Issue Age 45, Duration 3)

Average Policy Size	Percentage
\$0 - 9,999	17%
\$10,000 - 49,999	50%
\$50,000 - 99,999	33%
\$100,000+	0%
Number of Products	6

By producer group, both career agents and independent brokers sold to numerous target markets; however, of those using PPGAs, five of six had a target market of either the senior or final expense market.

Automatic Underwriting

In the Survey, the respondents were asked whether any system was used where the underwriting decision was not made by a human underwriter, considered to be an “automatic system.”

Of the 15 product responses indicating an automatic system was used in underwriting, there were 11 responses to the question of expected mortality. For issue age 45 duration 3, the average expected mortality was 0.0022. The breakdown by policy size was similar to the breakdown for all SI products. Table 5.7 provides the distribution by policy size for the 11 product responses.

**Table 5.7 – Distribution of Average Policy Size, for Products with an Automatic System
(Issue Age 45, Duration 3)**

Average Policy Size	Percentage
\$0 - 9,999	9%
\$10,000 - 49,999	18%
\$50,000 - 99,999	55%
\$100,000+	18%
Number of Products	11

Teleunderwriting

Of the ten product responses indicating teleunderwriting was used, six had either senior market or final expense as a primary target market. These six responses also had a lower policy size and higher expected mortality rate, relative to other responses.

Appendix A

Companies Participating in Simplified Issue Underwriting Survey

AEGON USA

American Fidelity Assurance Company

CUNA Mutual Group

Garden State Life Insurance Company

Genworth Financial

Gerber Life Insurance Company

Germania Life Insurance Company

Guarantee Trust Life Insurance Company

Humana Insurance Company

Indiana Farm Bureau

Investors Heritage Life Insurance Company

Liberty Life Assurance Company of Boston

Lincoln Direct Life

MassMutual

Motorists Life Insurance Company

NACOLAH

National States Insurance Company

NGL Insurance Group

Pacific Life Insurance Company

Pan-American Life Insurance Company

Protective Life Insurance Company

Savings Bank Life Insurance Company / VantisLife Insurance Company

Security Financial Life Insurance Company

State Farm Life Insurance Company

Travelers Life and Annuity Company

United of Omaha Life Insurance Company

Western & Southern Financial Group