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"Real Time" Insurance Sales: Jet Issue Life

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Banks, brokerage houses and other financial institutions are eager to sell life insurance and other insurance products to their customers. However, the vast majority of life insurance policies offered by insurance carriers require time-consuming underwriting as well as inconvenience and delay for the insurance applicant. This translates into lost sales, not to mention frustration and consternation on the part of the consumer. Financial institutions are not interested in alienating their valuable customers in an attempt to generate a little extra revenue by selling life insurance. Customer relationships are hard-won and should be continually cultivated, not potentially compromised.

Financial institutions are desperate for a competitively priced life insurance product which can be issued quickly, with little hassle and without the invasive procedures routinely performed in the paramed exam required by many insurance carriers. While traditional simplified issue term life insurance products have been around for some time, financial institutions are less than enthusiastic about the limitations contained in most such products, such as high premiums and limited face amounts. What's really needed is a product that capitalizes on the pricing of a traditionally underwritten product but which jettisons the hurdles of the run-of-the-mill simplified issue policy. Fortunately, the Internet and today's advanced electronic capabilities provide an opportunity for the development of just the sort of product financial institutions are hungering after, a jet issued product.

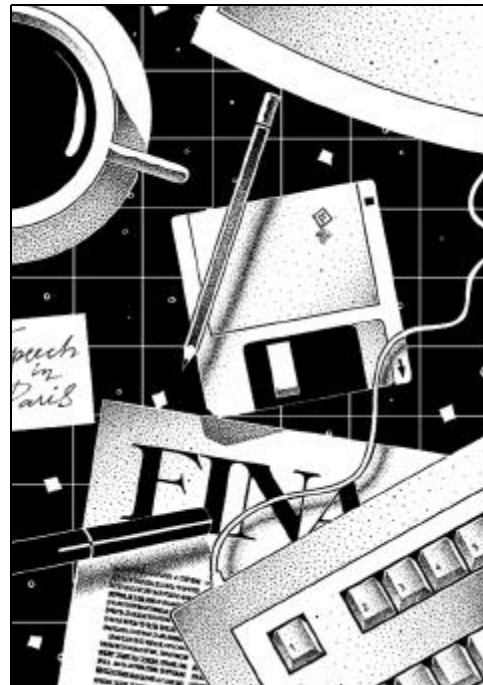
Jet issued life insurance marries the speed and simplicity of a simplified issue product with the higher face amounts and competitive premiums of a fully underwritten product. Importantly, the product does not require a Paramed exam, thus obviating the need for a blood draw and the time required to submit to such an exam, not to mention the four to six weeks it typically takes an insurance carrier to underwrite and act on a submitted application.

Jet issued products start with the premise that the insurance applicant possesses most of the information

that the insurance carrier needs to make an underwriting decision. If the applicant answers all of the questions posed by the insurance carrier truthfully, then the carrier can usually decide whether to issue a policy and what premium to charge.

Applicants are initially queried about basics such as height and weight, prescription drug treatments, blood pressure and cholesterol levels, and family history, as well as aviation, driving, travel and avocation. These are basically the same questions contained on most insurance carriers' standard applications.

Most traditional underwriting is consumed with attempting to confirm the accuracy of the information supplied by the applicant. This can take weeks as the insurance carrier gathers lab test results, attending physician statements, investigative reports, credit reports, motor vehicle reports (MVRs), court records, MIB results and other information deemed relevant by the underwriter. In the end, the applicant is either found to be truthful or not. Occasionally, some additional information is discovered which was unknown to the applicant when he or she completed the application, but this is generally the exception, not the norm. However, the insurance carrier sometimes uncovers some piece of information which the applicant was trying to conceal through false or misleading answers.



Jet issued products effectively address the latter situation by submitting the application completed by the insurance applicant to a comprehensive yet relatively quick “integrity check.” This is where the Internet and current electronic capabilities come into play. In a matter of a few hours, or at most, a couple of days the insurance carrier can perform a number of database searches which will validate or refute the vast majority of information supplied by the applicant. In particular, databases containing information on the applicant’s credit, motor vehicle and prescription drug histories can be accessed and reviewed as can information contained in the MIB’s database. If all of the databases searched confirm the information supplied by the applicant, the insurance carrier is in a position to issue coverage. If any information is discovered which contradicts or raises questions about the information supplied by the applicant, then the applicant is merely afforded the opportunity to have his or her application underwritten in the traditional manner, which may include a paramed exam.

By dispensing with the costly accumulation of traditional underwriting documents, the insurance carrier has more leeway to increase the mortality charges in a jet issued product without a concomitant increase in the premium. It has been Pivot’s experience that approximately 70% of life insurance policies are already issued as applied for. The motivating force behind jet issued life is the desire to take advantage of this seventy percent without paying for all of the underwriting costs. Consider the pricing basics for a 20-year term policy as shown in the table below.

	YR 1	YR 2	YR 3	YR 4
Premium	\$300	\$300	\$300	\$300
Paramed	\$90			
Labs	\$50			
Mail/Image	\$25			
Underwriter	\$25			
Mortality	\$75	\$80	\$85	\$90

Assuming a seventy percent placement rate, \$270 is the cost of underwriting (the \$190 of up-front underwriting costs in the table above divided by the 70% placement rate), while the present value of mortality over four years is \$250 at a 15% discount rate. Therefore, if we are able to eliminate traditional underwriting cost and replace it with prescription drug database, MIB, credit reports, etc. at an approximate cost of \$20 it would allow for a 100% increase to



mortality costs, without increasing the premium. In other words, the present value of mortality can be increased from \$250 to \$500 without impacting premium, because the present value of underwriting costs has been reduced from \$270 to \$20. The above example uses a four-year policy duration rather than the traditional six years because it is reasonable to assume that policyholders will replace policies more frequently than they do today if they are not required to undergo invasive and time-

consuming testing in order to procure a new policy.

Beyond customer retention and convenient technology, another key benefit to the jet issue product is control. Carriers do not have to sacrifice important control factors while they gain online technology capabilities. The loss ratio is controlled by adjusting the underwriting class mix; the risk is controlled by adjusting the integrity filter, and limiting age, face and duration guarantees.

Banks and brokerage financial centers have not captured a significant share of the total life market to date. Jet issued life insurance products could be just what they need to dramatically increase revenues in this market. Insurance carriers willing to move rapidly to the forefront with jet issued products will establish valuable and potentially long-lasting relationships with key banks and other financial institutions.

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