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Share

Print-Friendly
NewsletterSearch
Back issues

IN THIS ISSUE

[Incoming Chairperson's Message](#)

by Andy Ferris

[Words From The Editor](#)

by Maria Thomson

[Characteristics Of Successful Middle Market Companies](#)

by Ben Disylvester, Chairman

[Automated Underwriting: A Survey Of Life Insurer Experience](#)

by Mike Batty

[Automating The Underwriting Process](#)

by Susie Cour-Palais

[Bank Insurance Marketing To The Middle Market Consumer](#)

by Carmen F. Effron

[Award Winning Papers](#)

[Visions For The Future Of The Life Insurance Sector](#)

by Maria Thomson

[Is There Magic in the Middle Market?](#)

by Cheryl D. Retzliff

AUTOMATED UNDERWRITING: A SURVEY OF LIFE INSURER EXPERIENCE

By Mike Batty

Life insurers looking to reach the elusive middle market must limit costs and deliver products efficiently. Generations X and Y will demand access to insurance on their own schedule, and won't tolerate the slow, invasive underwriting process of yesterday. Or so the advocates of automated underwriting would tell you. In fact, for these and other reasons, many life insurance companies continuously seek to streamline the underwriting process while preserving its protective value. Automated underwriting systems are often touted as the solution. Although these systems have been around for some time, not much is known about the industry's experience with them. Are they actually being used? Is it a growing or fading trend? How successfully do they improve underwriting efficiency? To move beyond anecdotal evidence, the Society of Actuaries' Marketing and Distribution Section Council, the Product Development Section Council, and the Committee on Life Insurance Research engaged Deloitte Consulting to conduct a survey investigating these questions.

Automation is a word that is often used liberally so we should clarify what we mean by automated underwriting. The survey focused on technology solutions which are designed to process and interpret data traditionally viewed by underwriters, thus reducing the manpower and/or data necessary to underwrite a life insurance application. These systems stand in contrast to tools which collect information and present it to underwriters in an organized format, but stop short of interpreting the data.

The research team administered the survey of large North American life insurers in fall 2009. The goals were to begin to understand what role automated underwriting plays in the life insurance industry today, and determine the feasibility of studying the mortality experience it produces. The results of the survey are detailed in a report published by the SOA in December which can be accessed here. A few of the key findings are summarized below. First, life insurers have strong interest in improving the efficiency of underwriting,

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specifically the time, cost and consistency. Second, they are intrigued by what automated underwriting systems have to offer. While the penetration of these systems is still relatively low (around a quarter of firms surveyed), another 50 percent are considering implementing a system, which points to the potential for significant growth. Third, life insurers who are using automated underwriting believe they are beneficial to their organizations. Despite some technical and other implementation and maintenance challenges, the systems do materially improve underwriting efficiency. Interestingly, even insurers who are less satisfied with their own system have not soured to the idea of automated underwriting. Given the chance to reconsider their pursuit of automated underwriting, they would choose a different system, rather than forgo the idea altogether. Finally, the research has led to an ongoing follow-up study on the accuracy and mortality results of automated underwriting. To learn more look for the full report soon to be released on the SOA Web site, and an upcoming SOA webcast.

The survey studied all automated underwriting systems, but we should also mention Deloitte is an automated underwriting vendor that agrees with its potential. Predictive models have been underwriting game-changers in the P&C industry over the last two decades, but largely absent in life insurance. Building upon our data analytics experience in P&C and many other industries, we have developed models which are beginning to make life insurers rethink how they underwrite. Using only inexpensive underwriting requirements and non-traditional data, these models are able to replicate decisions made through a fully-underwritten process with impressive accuracy. These models are allowing our clients to issue many policies at competitive rates in hours rather than weeks, and without costly medical/paramedical requirements. We believe our own experience and the survey results show automated underwriting will be an increasingly important tool to enhance the relationship between insurers and their customers.

To view the full report, [click here](#).