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AWARD WINNING PAPERS

VISIONS FOR THE FUTURE OF THE LIFE INSURANCE SECTOR

By Maria Thomson

The SOA held a paper writing contest to produce visions of the life insurance industry in 2020. Ten papers were published this [webpage](#), but only four were award winners (I authored one of them). Below are excerpts from each of these award winning papers to whet your appetite. Exercising editor's privilege, I have placed the excerpt for my paper first. Sharon Giffen is also a member of our section and is on the Smaller Insurance Company Section Council.

[Industry Will Experience Zippy Growth Through Zip Processing](#)

by Maria N. Thomson

In order to address processing time and cost challenges, most companies are taking advantage of technology. The most high-tech and promising solution is e-applications with expert underwriting built in. Electronic underwriting often takes advantage of e-databases such as MIB, MVR and Rx history to supplement the screening questions.

I shall call my vision of the successful company of 2020 ZIP Insurance. ZIP Insurance employs straight through processing (STP) tools to underwrite and issue policies at the point-of-sale, utilizing e-tools as described above. ZIP Insurance will not use underwriters for underwriting new business, but rather for establishing underwriting rules and updating them by analyzing data on e-application responses and keeping current on pertinent industry studies and developments.

ZIP's approach to business makes the sales process very transactional, thus lending itself well to the customer service representative (CSR) sales environments it has chosen for its distribution. ZIP Insurance software walks the agent through the sale, screening questions, payment and policy delivery. While the agent is taking the applicant through the drill-down underwriting questions

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(personal history interview or PHI), the software will automatically poll the e-databases it is programmed to access. The PHI, in combination with the e-data, will provide the software with the information needed to render an underwriting decision. If the sale is made, a credit card or electronic funds transfer payment can be accepted, and the policy will be printed or e-mailed, as the customer prefers.

The application and underwriting data is transmitted electronically to ZIP Insurance, and a new policy record is automatically set up in the policy administration system.

Thus, all manual new business functions are eliminated in headquarters. ZIP will also have the data populate a new business database to track responses to application questions in order to spot problem areas.

Maria N. Thomson, FSA, MAAA, is Board Director at RAD Insurance Holdings, Inc. in Brimfield, Mass.

Risk Management for the Individual: The Key To Life Insurer Success In 2020 And Beyond

by Ken Beckman

[The key to success] is a single product that will allow individuals and families to identify and manage the risks encountered over a lifetime. Three primary risks to financial security are mortality, morbidity and investment loss. Insurers need to become personal risk managers for their customers.

An interactive system, using the latest technology, will be used to obtain demographic, financial, health and other information. The system will then use this information to explain to applicants the implications of the primary risks they face, both at present and in the future. Next, customers will be provided with a menu of several possible insurance policies to choose from, with each policy offering protection from all the primary risks, but differing in cost and the amount of coverage provided. All the policies on the menu would be optimized, based on the applicant's risk tolerance and other variables, so that regardless of the policy selected it will provide the best possible coverage at the lowest possible cost. To achieve optimal protection, the coverages contained in each policy would be expressed in flexible terms. For example, the amount of life insurance would vary over time (possibly reaching zero coverage at some point) and correlate with specific factors such as income, family status, other assets and tax considerations.

Even after the policy is issued, the risk management system will allow the insured to view updated illustrations as circumstances and risk tolerances change. The system would continuously monitor changes in the family's risk exposure and notify the insured of coverage adjustments that might be needed.

Ken Beckman, ASA, MAAA, CFA, is Associate Actuary at New Era Life Insurance Company in Omaha, Neb.

Adjustable Biological-Age Pricing For the Global Market
by Chiu-Cheng Chang

Today we have medical devices (scans, scanners, tools, equipment, etc.) that also utilize about 20 inputs (variables, indexes, measurements, etc.) to calculate human biological ages. These devices are noninvasive and simple to use. Moreover, many studies conducted by the manufacturers of these devices confirm that the calculation results are very much consistent with today's common knowledge regarding, for example, healthy lifestyle. In other words, we can predict, based on those 20 variables, whether one's biological age will be more or less one's chronological age before we actually measure it. A human being's true biological age should be measurable or at least closely estimated, and every human being should have two (most likely) distinct ages—a chronological and a biological age.

The traditional approach to pricing life insurance products on a single fixed age over the entire policy duration is clearly outdated. Policyholders could change from being a smoker to a nonsmoker; from being obese to overweight; from being married to divorced to remarried to divorced to becoming single; or any of all the possible mathematical combinations of the above and beyond. Clearly the traditional approach is not suitable to today's highly dynamic and rapidly changing global lifestyle since it is considered piecemeal, unsystematic, static, short-term, local, regional, less scientific, too cumbersome and non-global.

Pricing life insurance products according to one's biological age (supplemented by well-established but simple underwriting tools if necessary at the very beginning of 2020) is simple, systematic, dynamic, more scientific and global. It is nothing but a simplified and unified approach to traditional risk classifications.

The adoption and popularization of the biological-age idea will have profound effects on the whole world. I will cite a few in the following:

1. We need a new definition of normal retirement age.
2. We need to redesign pension plans.
3. We need to redesign annuity products.
4. Since upward mobility is part of human nature, we will witness a healthier world with higher and longer human productivity contributing to the global good.

Chiu-Cheng Chang, Ph.D., FSA, FCIA, FAIRC, FSII, CLU, ChFC, MAAA, is Chair Professor in Risk Management at Asia University in Taichung, Taiwan.

"Sustain": An Industry Speech About Success As A Niche Player In 2020

by Sharon Giffen

Sustain sells life insurance to support our members' families in times of great need; in turn, the tax-free profits we generate are dedicated to furthering our mission of enhancing America's desire and ability to lead lives that will sustain our planet. Re-greening of the earth is a goal we can all relate to today; Sustain sponsors activities, programs and education to engage member families to change their daily lives. Living a "greener" life has become increasingly popular since the turn of the century; people are willing to volunteer and to pay more for goods and services that support sustainable living.

In the last 10 years, virtually every facet of our business has changed—distribution and administrative operations and, importantly, how we assess and manage risks to better use our capital. In 2010, we committed to truly align every activity to our mission. Our market demographic is the Internet generation who transact their personal business and social lives online, and who want to contribute to sustaining our earth for future generations. This is the middle-income market—ordinary people with straightforward insurance needs. With a low average face amount and premium and a limited product line including term and whole life insurance, we had to become a low-cost provider to survive.

Armed with that vision, we retooled our new business and administrative processes to automate everything possible. In 2011, we introduced electronic applications—the application is completed online during the sales call. We used tele-underwriting during the application process along with electronic underwriting tools. With that, we achieved about 50 percent of issues requiring no further intervention. In 2013, we introduced artificial intelligence (AI) into the process, reducing to 5 percent the applications that cannot be processed automatically. For those cases, the judgment of a skilled underwriter is needed; we buy that expertise from a service provider on a variable cost basis. From 2015, we eliminated the need for a sales intermediary—applicants can complete forms themselves and now 75 percent of applications are submitted directly. With real-time processes, once the application is complete and pre-authorized deductions from their bank account are set, clear cases are issued electronically. Formal contracting is complete upon receipt of their biometric signature using the retinal scan software that has become standard for online identification. Compliance monitoring is easy; AI won't misbehave, and electronic records are complete. Misrepresentation is reduced, as AI is persistent to ensure consistency of electronic health data and answers to questions. Post-issue service is almost exclusively self-service, online in real time—but there are exception cases. In addition, we have legacy business, administered on an old system, requiring some service staff. We built some automation to front the old system, and will let it run off there.

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