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REFLECTIONS ON SOA ANNUAL MEETING PANEL ON E-COMMERCE–RAD PIONEERS MAKING MID-MARKET INROADS

By Maria Thomson



For years I have been arguing that the best way for the life insurance industry to penetrate the mid-market would be by using CSR distribution channels (bank and P&C agents) to sell products through a simple RAD (Rapid Assessment & Delivery) process. Alas, neither as a consultant nor as a distributor, could I find a pioneering firm to try this approach.

Now the industry has two examples of pioneering firms that have tried it and have been successful. Farmers New World Life was the first, with their introduction of "Rapid Issue Term" about five years ago. This product is sold by their P&C parent's sales force, and it utilizes simplified issue automated underwriting, with the policy being issued at point-of-sale. In spite of high premiums typical of simplified issue programs, sales have been strong, and they have been happy with their profitability.

Thanks to the Society of Actuaries' e-Commerce panel discussion, which I moderated at the last Annual Meeting, I now know of another pioneer that has embraced a similar model—HSBC (a bank). John Lucas, SVP of Product and Michael Palace, VP of Product were kind enough to share the details of their "unway" program with us. This program utilizes automated non-med underwriting for face amounts up to \$500,000! This is the first example I have encountered of a carrier exceeding \$250,000 for an automated underwriting offering. They instantly issue all their policies via e-mail—the issue process only takes about 15 minutes! Their distribution includes bank agents, brokers and self-service on the Web. Interestingly, they reported that about 25 percent of their business is from the latter category.

They feel their rates are competitive with traditional fully underwriting business—they do offer preferred rates. This program was introduced three years ago, and



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they have experienced strong growth and satisfactory lapse and mortality results. I would speculate that they are also experiencing dramatically reduced policy issue costs.

One of the virtues of automated underwriting according to the Marketing and Distribution Section sponsored SOA study, is the detailed data it provides—which is very helpful for fine-tuning rules and the sales process. As a nice companion to the HSBC presentation, David Moore of Deloitte (which performed the research) presented the results of this study—which showed that companies that utilized the software for simplified issue or non-med underwriting are very pleased with the results. Those that are using it to sell through P&C agents have been particularly pleased.

Those who are unhappiest with their results are firms that are attempting to duplicate full medical underwriting results. For these companies, setting up the rules and modifying them has proven to be very difficult, and so much of the business is ultimately referred to the underwriters, that there doesn't seem to be strong efficiency gains.

Another caution comes from those that distribute through independent agents. Such agents tend to resist learning new processing approaches, and tend not to embrace the technology.

In summary, RAD is the simple sales solution required for capitalizing on CSR and internet distribution channels, while producing mortality in line with appropriate nonmed underwriting expectations. Since most of the populace has a bank or P&C agency relationship, CSR agency channels can provide unlimited market access.

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