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Accelerated Underwriting: A Transformational Trend

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INTRODUCTION

As the life insurance industry continues to look for innovative ways to respond to the changing needs, expectations and buying preferences of 21st century consumers, insurance companies and their reinsurance partners have responded by expanding research and development capabilities. As a key area of research within the industry, cross-functional R&D teams of actuaries, underwriters, data scientists and statisticians are focusing on providing value-added intelligence and advice around the mortality risk implications of using risk scores and new data sources in accelerated and enhanced underwriting programs.

ACCELERATED UNDERWRITING: A GROWING LIFE INSURER PRIORITY

With the changing demographics of potential life insurance buyers, particularly the emerging millennials and declining underwriter workforce, life insurers are increasingly recognizing the need for a faster, less intrusive, digitally based insurance-buying experience. But where simplified issue programs have succeeded in achieving speed and less intrusiveness, they have presumably been able to do so at a price that is less competitive with what is normally available only through traditional, full medical underwriting processes. As a result, accelerated underwriting (A UW) programs, which can offer speed, less intrusiveness and competitive pricing, have become a key initiative for many life insurers. Many new data sources have become readily available and are cost effective—such as criminal record checks, clinical lab histories and risk scores based on credit attributes or Rx history. R&D studies from SCOR have shown these data sources to have statistically significant mortality risk attributes that can supplement or, in some cases, replace traditional fluid-based underwriting inputs, often with minimal mortality risk implications.

But it is often challenging for companies to assess the relative mortality impacts of these new data sources, alone or in combination

Figure 1
Distribution Risk Scores by Company

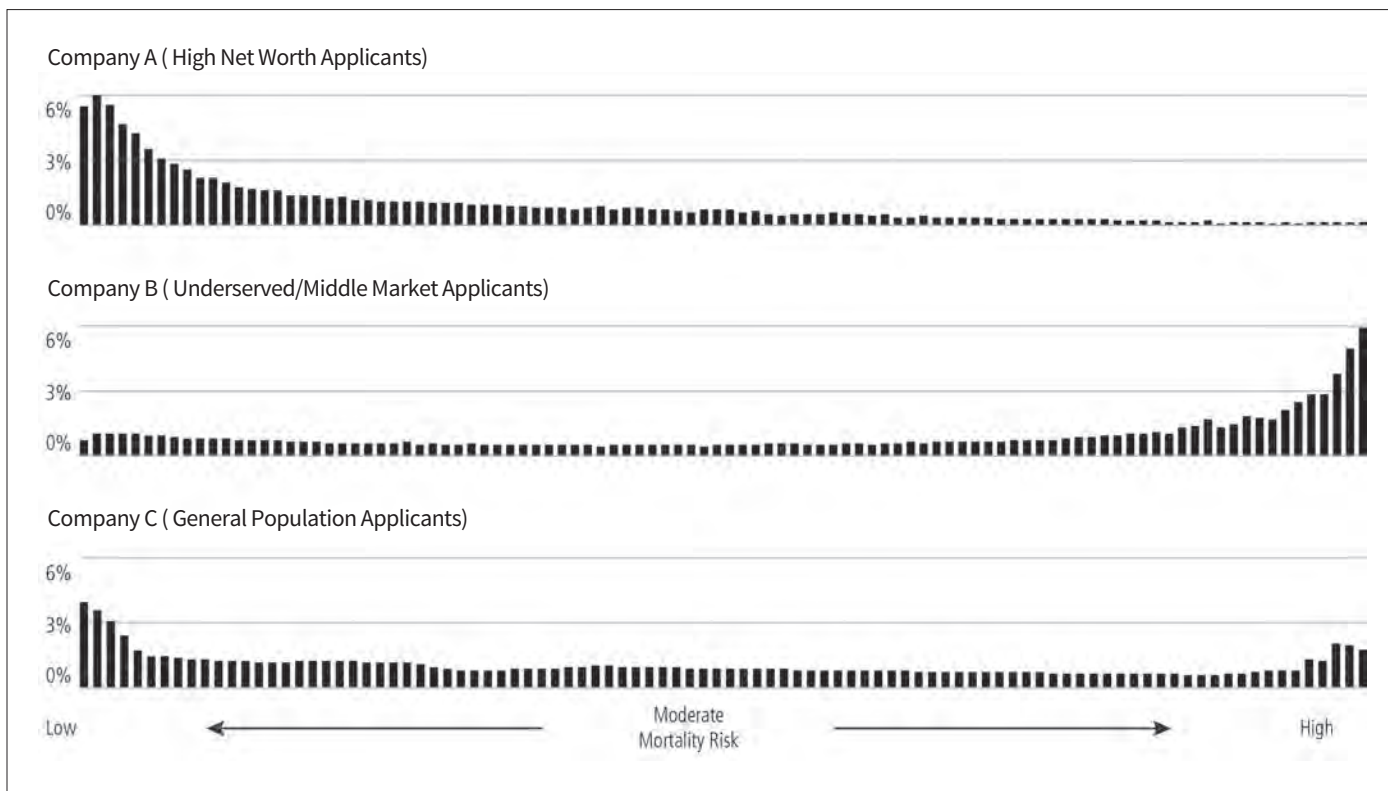
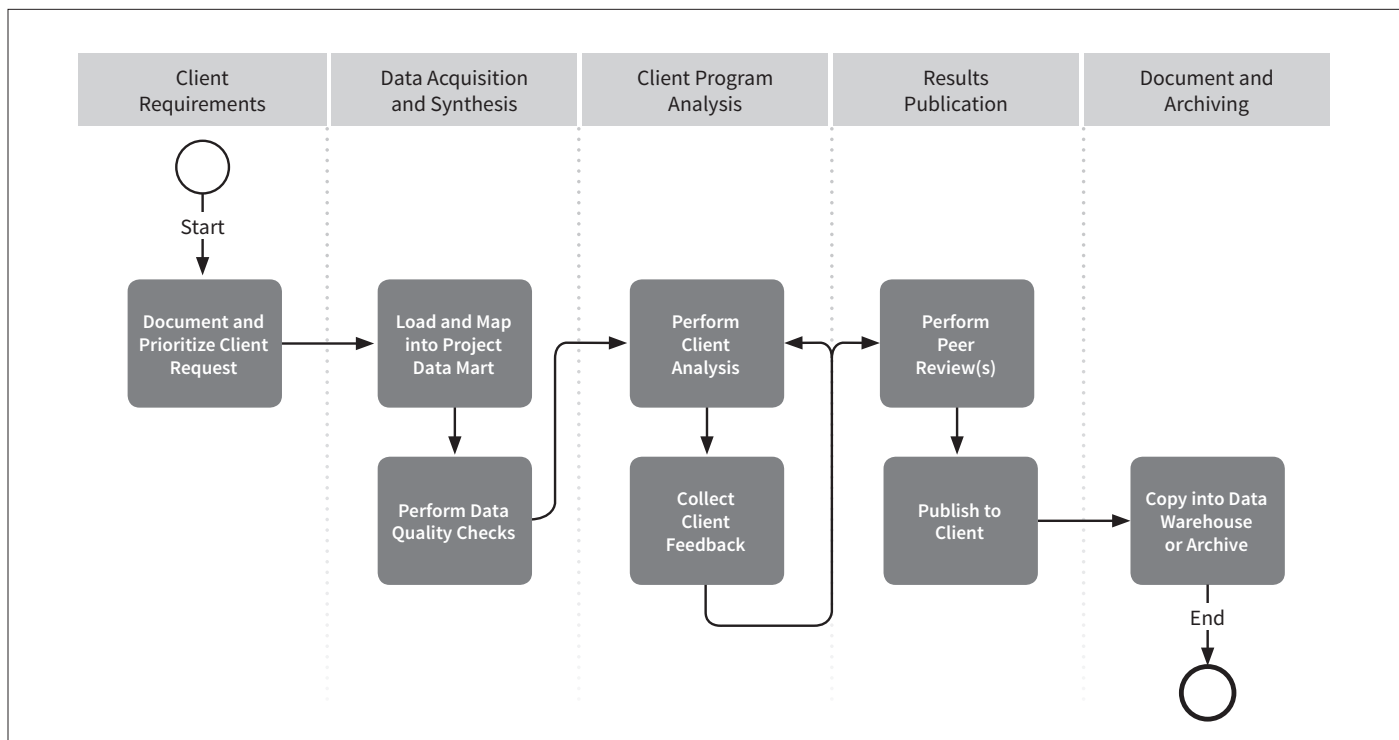


Figure 2
R&D Client Request Process



with other selection factors and to determine which data sources are most relevant for the particular AUW program objectives a company wants to pursue. In many cases, that challenge is being addressed by some reinsurance companies partnering with their client companies to conduct company-specific studies.

REINSURANCE R&D: A PARTNERSHIP APPROACH

The partnership approach that some reinsurance companies are taking is helping client companies evaluate mortality implications of AUW programs by collaborating with their R&D personnel. An evaluation process usually starts with a clear understanding of the insurer's business profile (i.e., target market, distribution channel, product set, past mortality experience). Differences in target markets, distribution channels and product sets can lead to significantly different mortality risk profiles, as seen in Figure 1 in the distribution of credit-based mortality risk scores of applicants from three life insurance companies in studies conducted by SCOR.

Equally important is understanding the needs and objectives of the program or the underwriting changes being considered and what the insurer hopes to achieve. Objectives and reasons for exploring accelerated underwriting and new data sources can vary significantly. Examples include:

- Better segmentation of good risks in an applicant pool (i.e., standard/preferred/super preferred)

- Quick exclusion of non-standard risks from a speed program
- Reducing mortality risk for improved performance or pricing
- Reducing underwriting timelines for a greater proportion of applicants
- Reducing underwriting expenses
- Optimizing existing underwriting resources
- Improving overall life insurance buying experience
- All or any combination of the above

Knowing which objectives apply as well as the priority order of the objectives can lead to different solutions. Whether performing company-specific mortality studies or evaluating mortality risk implications of AUW programs, the reinsurer's understanding of the insurer's business profile and key objectives, and then working in partnership with them, is essential to delivering a company-centric solution or recommendation.

EVALUATING ACCELERATED UNDERWRITING PROGRAMS: A DISCIPLINED PROCESS

For evaluating new AUW programs or enhancements to existing programs, a disciplined analytical approach should be followed. As an example, once the insurer's business profile and objectives are understood, the process should move into a workflow process similar to what is shown in Figure 2.

First, the team performing the analysis needs to acquire and evaluate the extent of available client data. Although reinsurers can have extensive expertise and data sets that can overcome certain gaps in client data, the meaningfulness of the analytical results will directly depend on the size and detail of the available client data.

For example, a data set that includes all applicants (including not-taken and lapsed policies, along with prior declines) can provide much more analytical value than data that only includes policies issued or in-force. Similarly, a data set that includes Rx or credit-based risk scores attributable to individual applicants has more value than data that only includes scores anonymously ascribed. So, the more detailed and credible the client data, the more relevant and credible will be the predictive analytical results.

Once the client data has been acquired, scrubbed and initially analyzed (the acquisition and synthesis phase), an iterative analysis and review process begins (the program analysis phase) and will likely vary by company. In some cases, the process could move directly into evaluating data sources and testing different parameters. In other cases, an insurer may provide their own analysis and ask the reinsurer for validation. In still other cases, a company-specific mortality study may be needed before any

program analysis can begin. The analyses in this phase can include elements such as assessing expected risk class shifts (i.e., expected changes in the proportions of business across risk classes, see Figure 3), in-class mortality risk adjustments and overall expected mortality changes. If the final analysis results in any changes in expected mortality or risk class shifts, pricing teams (both insurer and reinsurer) will likely be engaged to evaluate potential pricing implications.

Arguably the most important step in the process is the communication of results (the publication phase). Translating results of a highly complex analysis (one that incorporates a multi-variate set of both independent and inter-dependent factors) into an easy-to-understand presentation, can be quite challenging. Whether using a report format or a slide presentation, being able to visually represent findings and conclusions is key to effectively communicating the results.

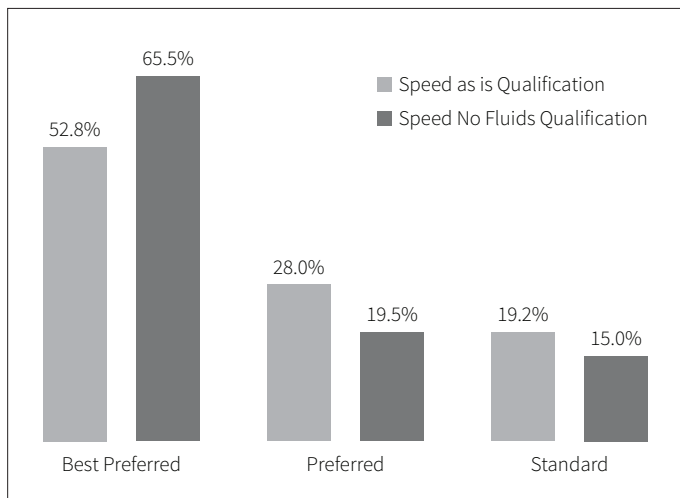
The final step in the process involves documenting and archiving the analysis and the results to leverage the learnings for future program changes, or other AUW program analyses.

CONCLUSION

The current versions of AUW programs are relatively new, have no credible historical experience data and can be challenging to risk-assess. However, the innovative analytical work being performed within the industry as described in this article, combined with a reinsurer’s willingness to price and risk share in these programs, is both collaborative and solution-oriented. It is a value-added element of the partnership approach being used by some reinsurers and their client companies and a contributing factor to the trend in transformational evolution of underwriting processes.

Clients interested in partnering with a reinsurer’s R&D team to explore their own potential AUW programs should contact their reinsurer’s account executive for further information. ■

Figure 3
Class Shifts Due to the Removal of Fluids



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