

BEST'S REVIEW

Monthly Insurance News Magazine Insurers • Agents & Brokers • Reinsurers

The **NEED** ^{FOR} **SPEED**



Convenience may be the key to placing life insurance with middle income Americans, and that means faster underwriting.

by Ron Panko

The future of selling life insurance to middle income Americans may come down to a single word: speed. And the only way to achieve speed is to replace the traditional drawn-out individual underwriting process with something that takes a couple of days, or a day, or even a few minutes.

Life insurers are increasingly moving in that direction. In March, The Phoenix Companies Inc. launched both a whole life product and a simplified underwriting process to help sell it. That same month, Genworth Financial announced ePolicy Delivery, a system that can complete the application process in as little as a few hours. Genworth anticipates that half of its business over the next 12 months will be delivered electronically.

Meanwhile, MetLife has been running television commercials featuring the Peanuts characters telling viewers they might be able to buy

life insurance in a single phone call.

Middle income households are those with annual incomes of \$35,000 to \$99,999, according to Limra, a life industry research association. In its 2010 life insurance ownership study, Limra determined that half of U.S. households are underinsured. In a separate study, one of its researchers analyzed the Federal Reserve's most recent Survey of Consumer Finances and determined that at least 60% of households were underinsured by an average of nearly \$220,000.

A couple of elements make faster underwriting possible. One is quick access to an applicant's medical, motor vehicle and prescription drug information. The other is customizable software that insurers use to set up underwriting rules and to ask follow-up questions of applicants about their health, if necessary.

"The whole issue with software on the market is that it takes a lot of work to get it installed and established, but there are new developments in that area," said Maria Thomson, managing principal of RAD Insurance Holdings, a consulting firm in Brimfield, Mass. "One vendor I know is using SharePoint software from Microsoft, which is easy to set

Key Points

- ▶ **The Trend:** The life insurance industry is increasing its efforts to reach middle income Americans through automated underwriting.
- ▶ **Behind the Trend:** Insurers cannot justify the costs and time of traditional underwriting with this demographic group.
- ▶ **The Payoff:** Success will mean more customers at fair rates and the chance to upsell to them in the future.

up and quick to customize. And a lot of established vendors are trying to offer rules that can be modified to make it easy."

Hours, Not Months

Regardless of the difficulties in designing, installing and using underwriting software, it is clear that for most insurers, the up-front cost of traditional underwriting on small policies is simply not acceptable. Thomson, an insurance industry transformation thought specialist, has written a book on the subject, *Insurance Coverage for All—and How Insurers Can Afford to Provide It*.

Traditional underwriting can include such procedures as a physi-

Audio:

Listen to an interview with Michael Donovan at www.bestreview.com/audio or scan this code with your smartphone.





“MIB’s custom filter and real-time searching lets insurers focus on specific underwriting requirements for simplified issue products, enabling rapid issue for applicants who meet the criteria.”

—John Detwiler,
MIB

cal exam by a paramedic or doctor, blood testing, saliva testing and an attending physician’s statement.

Some of these procedures can take a month or more and involve considerable follow-up by the underwriter and even by the financial professional, she said. In the middle-income market, where face amounts are often less than \$100,000, traditional underwriting costs make it unprofitable for the insurer to do business, and the time involved in the sale makes it unprofitable for the financial professional.

For example, The Phoenix Cos. has estimated that full underwriting might cost \$500 to \$1,000 versus \$100 to \$150 in its new automated underwriting system, according to Michael Donovan, vice president and product officer. “The carrier absorbs the cost of underwriting the policy, but that expense is reflected in the pricing of the product,” he said. “To the extent you can keep the underwriting costs to the carrier down, that can be passed back to the customer in terms of lower premiums and lower cost.”

That’s not to say that automated underwritten policies will offer policyholders lower premiums than fully underwritten ones. Applicants in excellent health generally will pay lower premiums if they are fully underwritten. Insurers doing full underwriting can identify applicants who are better risks and can offer a preferred risk class.

Donovan said his company’s new product, Phoenix Remembrance Life, offers just two risk classes: tobacco and non-tobacco. He indicated, however, that Phoenix may someday offer two non-tobacco

classes, as some insurers offering automated underwriting already do.

Misrepresentation is always a risk that has to be priced into a product, Donovan said. But he added that the automated underwriting process using a telephone interview has a “sentinel effect,” in that applicants are answering questions on the phone with an interviewer. “It makes them feel they need to be honest,” he said, adding that the concrete evidence that comes back in real time from Massachusetts-based MIB (formerly the Medical Information Bureau), motor vehicle records and prescription databases also helps.

Insurers can further mitigate against the risk of misrepresentation through post-issue audits, examining the type of business the company is attracting and listening to recordings of the tele-interview calls to identify issues, Donovan said.

MIB’s Role

MIB is a member-owned nonprofit corporation offering services exclusively to member companies for the underwriting of life, disability income, critical illness and long-term care insurance policies. It is usually the first stop for member company underwriters who want to verify information provided by an applicant.

Founded in 1902, MIB provides secure access to its database of information. MIB describes its business model as an “information exchange” in which member companies contribute underwriting information that may be useful to other members. Insurers search the database with the authorization of the insurance applicant. Used by nearly every North American insurance

company, MIB’s underwriting services alert underwriters to possible errors, omissions and misrepresentations made on applications.

“Insurers cannot decide to rate or decline the applicant solely based on MIB,” said Robert DiAngelo, executive vice president. “It’s an alert to steer the investigation. On the other hand, if MIB data is clean, motor vehicle records are clean and the application answers check out, the insurer is going to feel comfortable about issuing the product.”

MIB has shown it provides “tremendous value” to the industry, “and by doing that, we help our members keep prices affordable for consumers,” DiAngelo said.

The company’s database has coded medical conditions related to mortality and morbidity that member companies search. “MIB’s custom filter and real-time searching lets insurers focus on specific underwriting requirements for simplified issue products, enabling rapid issue for applicants who meet the criteria,” said John Detwiler, MIB’s director of sales.

For example, a disability insurer may not care about mortality-related codes and may filter those out for purposes of underwriting, Detwiler said. Often, simplified issue means the insurer is willing to take a little more risk on an applicant at a little higher price in order to get the business. “Once they are on the books as a policyholder, the insurer can always go back and try to upsell the more traditional products for which you get a better price,” he said.

MIB leaves the facilitation of pharmaceutical and motor vehicle data to other vendors, but DiAngelo said that the most significant new development in underwriting has been prescription profile data, which didn’t exist 15 years ago.

Thomson said a long-standing problem with prescriptions was that the same medicines can be taken for a variety of conditions.

“To make things easier for under-



“Agents in the middle income market are looking for something that’s simple and quick so they can make the sale and move on to another sale.”

—Michael Donovan,
The Phoenix Cos.

writers, work has been done to figure out what meds can be used for and what kinds of follow-up questions to ask,” she said.

Automated underwriting may be necessary to close a life insurance sale to certain potential buyers. According to Thomson, insurers have learned that some prospects will shop online and obtain quotes, but when they want to buy the insurance, they’re often told they’ll have to fill out a complicated application and perhaps get a medical exam. “And then they become discouraged, and a lot of them don’t go through with it,” she said. “The ones that really want to get issued online are going to take convenience over price. That is their preference.”

Enabling Agents

Genworth’s ePolicy Delivery was designed for agents working with their clients. Genworth said in its announcement that it worked with technology provider Aplifi to develop an enhanced, multi-carrier platform—PolicyBox—for electronic policy delivery. During the PolicyBox pilot with a small number of key brokerage agencies, cycle times were

reduced from 25 days to an average of eight days and, in some cases, a matter of hours, the company said.

Phoenix’s simplified underwriting process was also designed for its select independent distributors selling its new whole life product, which it said provides final expense coverage and an income stream death benefit for middle income consumers. Face amounts can range from \$10,000 to \$100,000, depending on age.

According to Donovan, the process begins with an agent helping a client fill out the first part of an application by answering a few health questions. Then the agent and client will call a tele-interviewer, who will capture additional information while simultaneously accessing some third-party data, including a prescription database and motor vehicle reports, he said. That call will take about 20 minutes.

“At the end of that call, the goal is that most people will have an underwriting decision right then on the phone,” he said. If the follow-up paperwork is in good order, the policy should be ready for issue in 24 to 48 hours.

Agents don’t want to be hung up

in a long, drawn-out underwriting process that is typical when there is a medical exam by a doctor or paramedic, Donovan said. That’s especially true in the middle market, where policies and commissions are smaller. “Agents in this market are looking for something that’s simple and quick so they can make the sale and move on to another sale,” he said. The company is hoping to extend the streamlined underwriting process to other products, he added.

“If an applicant is interested in a large-face-amount policy, he or she is going to want to go through the full underwriting process because in dollar terms, the cost saving is big.”

“But for smaller amounts, where you’re talking about midmarket families looking for just a basic life insurance policy that meets a basic need, this is going to attract more of them. And all of the studies out there seem to say that this market segment is underinsured, and a large percentage is uninsured. So anything you can do to attract additional customers is a win.” **BR**

Learn More

Phoenix Life Group

A.M. Best Company # 070171

Distribution: Select independent marketing organizations, brokerage general agencies

Genworth Financial Group

A.M. Best Company # 69555

Distribution: Brokerage general agents, banks, securities brokerage firms

For ratings and other financial strength information visit www.ambest.com.



For a protective value study on how MIB saves insurers \$30:1 on simplified issue insurance email info@mib.com, or call 781-751-6130.