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Simplifying the Underwriting Process

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Agenda

- Issues faced by consumers applying for insurance
- Can we apply the Principles of Good Design?
- 20 Ideas to Simplify Underwriting
- Concerns of Insurers and Reinsurers

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What is Underwriting?

- To sign and accept liability under (an insurance policy), thus guaranteeing payment in case loss or damage occurs
- The process that an insurer uses to assess the eligibility of a customer to receive their products.
- Not just an assessment of the applicant's health
- Stratification and selection of risks

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Consumer Issues with Insurance

- No tangible buying satisfaction?
- Insurance seen as an expense not a benefit
- Products are too complex
- Underwriting takes too long and is intrusive
- Don't understand the relevance of the questions
- Can't remember
- Price changes from what first quoted for
- Will I get paid out?

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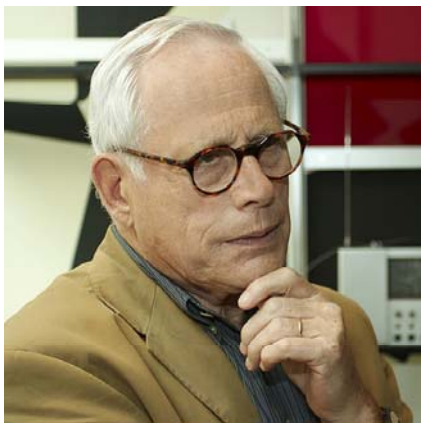
Can We Apply the Principles of Good Design & Make It Simpler?

Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals

Dieter Rams



- Joined Braun in 1955
- Chief of Design at Braun from 1961 to 1997
- Described his design approach as

  "Less, but better"
- One of the most influential Industrial designers of 20th century
- He created 10 principles of good design
- Heavily influenced Jonathan Ive the chief designer at Apple.

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Spot the Difference…

Braun ET66 calculator

iPhone calculator app

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Spot the Difference 2…

Braun T3 pocket radio

Apple iPod

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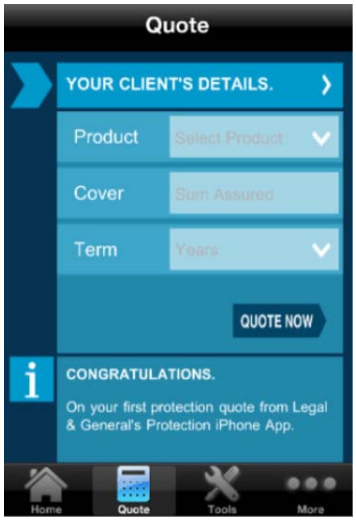
Principle 1. Good design is Innovative



The possibilities for innovation are not, by any means, exhausted. Technological development is always offering new opportunities for innovative design. But innovative design always develops in tandem with innovative technology, and can never be an end in itself.

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Principle 2. Good design makes a product useful

A product is bought to be used. It has to satisfy certain criteria, not only functional, but also psychological and aesthetic. Good design emphasizes the usefulness of a product whilst disregarding anything that could possibly detract from it.

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Principle 3. Good design is aesthetic

Arial Regular

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890!@£$%^&*()_+

Arial Bold

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890!@£$%^&*()_+

Gill sans

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890!@£$%^&*()_+

Georgia Italic

ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890!@£$%^&()_+*

The aesthetic quality of a product is integral to its usefulness because products are used every day and have an effect on people and their well-being. Only well-executed objects can be beautiful.

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Principle 4. Good design makes a product understandable

It clarifies the product's structure. Better still, it can make the product clearly express its function by making use of the user's intuition. At best, it is self-explanatory.

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Principle 5.Good design is unobtrusive

Products fulfilling a purpose are like tools. They are neither decorative objects nor works of art. Their design should therefore be both neutral and restrained, to leave room for the user's self-expression.

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Principle 6. Good design is honest

Capital units

Trust me I'm an Actuary

10 months for the price of 12

Financial underwriting of IP benefits on claim

With Profit Bond
10% 1st year bonus
(then 5 years of surrender penalties!)

It does not make a product more innovative, powerful or valuable than it really is. It does not attempt to manipulate the consumer with promises that cannot be kept.

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Principle 7. Good design is long lasting

It avoids being fashionable and therefore never appears antiquated. Unlike fashionable design, it lasts many years – even in today's throwaway society.

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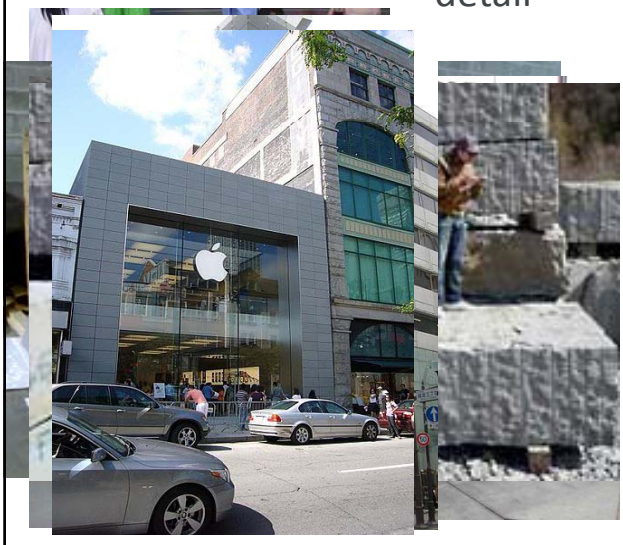
Principle 8. Good design is thorough down to the last detail



Nothing must be arbitrary or left to chance. Care and accuracy in the design process show respect towards the consumer.

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Il Casone Quary – near Florence Italy

Principle 9. Good design is environmentally friendly

Design makes an important contribution to the preservation of the environment. It conserves resources and minimizes physical and visual pollution throughout the lifecycle of the product.

Does your process make a policyholder feel they're drowning in paper ?

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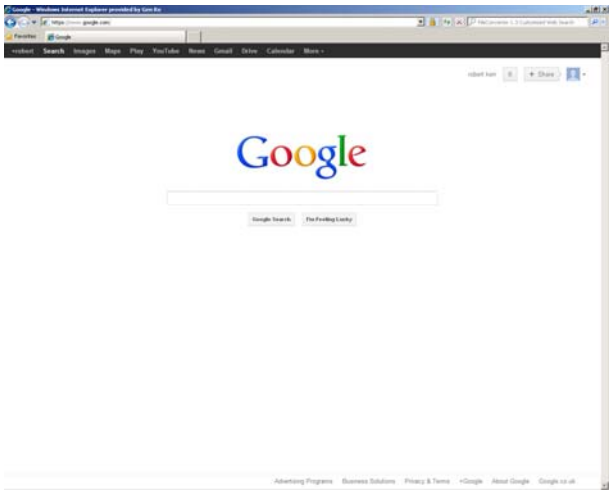
Principle 10.Good design is as little design as possible



Less, but better – because it concentrates on the essential aspects, and the products are not burdened with non-essentials. Back to purity, back to simplicity.

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10 Principles of Good Design

- Innovative (uses technology)
- Useful
- Aesthetic
- Understandable
- Unobtrusive
- Honest
- Long lasting
- Thorough to last detail
- Environmentally friendly
- As little as possible

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20 Ideas to Simplify Underwriting

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Underwriting Techniques

- Set the customer at ease – remove the exam/interview feel of the process
- Use 'nudge' type psychology in questions/tele-interviews to minimise misrepresentation
- Pre-fill questions where information is known
- Use age related questioning – target the customer and product risk (accident risk, lifestyle, policy term).
- Allow the customer to explain where there is no clear cut answer
- Allow a customer to complete an application at a later date
- Integrated – online/webchat/facetime/tele

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Underwriting Techniques

- Minimise the risks of misrepresentation through removal of emotive questions and use of appropriate language
- Change questions to be more understandable by the public e.g. Units of alcohol.
- Identify most common misrepresentations and decide what to do about them (ignore/change/price for).
- Use MI to remove questions with low disclosures and therefore low value.
- Remove lifestyle questions such as hazardous pursuits, occupation, foreign travel and price accordingly.
- Devise channel specific or even IFA specific question sets based on historic or future performance.

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Underwriting Techniques

- Question the effectiveness of the underwriting value chain from sale to acceptance.
- Review rating cut offs – do we complete high ratings cases? If not, set the acceptance parameters lower.
- Better use of non-medical limits. Underwrite disclosures only? Obtain SARS only?
- In the future can we use electronic medical records?

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Underwriting Techniques

- Pre Screening / underwriting – prepare the customer
- Could you delegate your underwriting ‘pen’ to your distributors with defined parameters?
- Use evidence supplied by customers (medical/lifestyle).
- Use recent information from existing policies and offer forward underwriting for a period.
- Use conventional in-force data to offer additional cover

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Underwriting Techniques

- Use predictive or semi-predictive underwriting
- Target low risk groups for special offers (e.g. young parents or professions).
- Offer preferred rates for those willing to undergo medical screening.
- Offer premium discounts or additional cover for those willing to provide evidence of good or improved health after a period in-force.
- Offer cover to the partner of a recently underwritten and accepted customer within defined parameters.

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Concerns of Insurers and Reinsurers

- Consumers may target any weaknesses
- Non-disclosure / under-disclosure
- Getting it wrong

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MIRAS Campaign UK 1982/83

- MIRAS (Mortgage Interest Relief At Source) legislation came into force in April 1983.
- Life offices were urged by their agents to forgo all medical evidence
- Shortened form contained no medical questions
  - client acceptable providing eligibility conditions (say, under age 50 for a maximum sum assured of £50,000) fulfilled
- 2 beliefs:
  - house buying was likely to be undertaken by those in reasonable health and so mortgage-holders would experience better mortality than the population as a whole.
  - any deterioration in mortality experience could be counterbalanced by savings in expenses, thus leaving premium rates unchanged.

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MIRAS Campaign UK 1982/83

- Following the start of the MIRAS campaign, life offices realised that they had been hasty. Many death claims occurred on policies which had only been in force a matter of weeks.

⇒Shortened proposal with no medical evidence was replaced by a proposal with one, all-embracing medical question, such as

"Are you now expecting to attend for medical treatment, or have you done so within the last 6 months?"

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Adler Berlin (late eighties)

- Credit Insurance via Berlin Bank
- Acceptance without medical evidence up to DM 50,000
- Recommended by AIDS-support groups
- Disastrous AIDS claims experience

⇒Introduction of HIV exclusion

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How do you price for simplification?

1. Understand the difference
2. Examine if there are ways to reduce risk
3. How material ?
4. Look for any relevant data
5. Pricing
6. Sense check and peer review
7. Set up relevant MI for material risks
8. Review experience and pricing

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Understand the differences

- What risks will be now be accepted?
- Would we have rated, postponed or declined?
- Could any of these risks claim immediately?
- Will you attract risks which would not have previously applied?
- To what extent are the risks mitigated by
  - Distribution channel
  - Eligibility criteria (e.g. Age at entry, sum assured)
  - Other questions asked

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Examine if there are ways to reduce risk

- Could changing an existing question mitigate the risk
- Could a “catch all” question help?
- Can you identify “at risk” groups who you treat differently

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How Material ?

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Look for any relevant data

- Own data on product
- Own data on similar product e.g. Life vs CI, different channel
- Run past applications through new questions and determine the impact
- Industry data
- Medical data
- Population data

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Pricing

- Best estimate view
  - Allow for past and future possible experience
- Sensitivity analysis of key assumptions

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Sense check and peer review

- Does the answer seem reasonable compared to
  - Similar changes made
- Obtain a view from others
  - Underwriters, Claims managers, CMOs
  - Sales and marketing
  - Reinsurers
- Peer review thought process

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Set up relevant MI for material risks

- Which risks do you wish to monitor?
- How do you monitor those risks?
- What MI do you collate and how often?
- What would you intend to do about the results?

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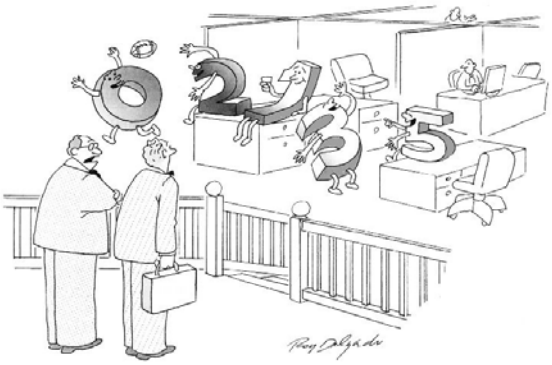
Review experience and pricing



" The numbers aren't working. "

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Wrap Up

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- We know customer have issues purchasing Insurance
- Rather than design underwriting processes for us – we should design them for the customer
- A framework of principles for good design are useful
- The aim is to make it simpler for the customer to engage and purchase
- This may mean more work for the insurer to manage risks in a different way
- Data and MI is a key part of understanding, monitoring and reviewing this

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