

MIDDLE MARKET & SIMPLIFIED ISSUE-HOW SIMPLE IS IT?



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Introduction

For some time now, every conference and every seminar that you attend, you are guaranteed to hear someone talking about reaching the middle market using simplified issue (SI) products, automated processes or underwriting engines. It appears this has become more the norm rather than the exception.

In order to meet their objective, companies are looking at automated processes using underwriting engines to evaluate occupation, avocation, travel and medical conditions and reconcile these with 3rd party data sources, all in real time.

Today, the SI products are becoming more mainstream, the underwriting tools are more complex and the face amounts offered are getting higher.

Throughout this article you will find informational boxes that distinguish a particular process, and shows how each process impacts mortality.

This article will explain key principals that must be taken into account when considering entering the SI business.

You have to do your research

Learn from companies that are already in the market and see what works and what doesn't work.

Know your competitors and be realistic about where you want to be in relation to them. Being the lowest price has the distinct advantage of creating more sales, however you will end up with more impaired lives than you would otherwise have with a fully underwritten product. Conversely, having the highest price will inevitably make it more difficult to attract the more healthy lives and you will be left with a disproportionate share of unhealthy lives.

Executive Summary *This article touches on a number of factors that should be considered when a carrier is considering a move into the Simplified Issue Market or reviewing an existing Simplified Issue Program.*

The evolution of simplified issue over the past several years has included using new and enhanced underwriting tools that have allowed carriers to be more competitive from a pricing standpoint. These tools have also allowed carriers to reduce time-to-issue rates, understand and analyze the data that the carrier obtains and, more importantly, be in a position to make changes to processes earlier as a result of this data, which will ultimately improve the mortality of the business.

Having products that have a competitive overlap may cause anti-selection. Offering a SI product up to \$350,000 where fully underwritten products are offered at lower amounts will result in more healthy lives being driven to the more competitive product.

Currently it is common to issue up to age 50 or 55 with some products offered to age 65 or 70. We can only anticipate that the issue ages will increase as the tools to assess these risks become more refined.

Underwriting Considerations

- Do you go the accept/reject route, using fewer medical questions, offering faster processing times but lower acceptance rates as compared to more extensive medical questions with drill down questions resulting in higher acceptance rates?
- Do you have the underwriting resources available or do you intend to outsource if cases are referred to an underwriter?
- Make sure you have the buy-in of your staff and involve them in the development of the underwriting automation process.

- Using adjusted build tables taken from a facultative underwriting manual where the proposed insured is being measured may lead to an adverse effect on mortality since people have a tendency to under-report their weight and over report their height.

Distribution

Understanding where leads are generated is probably the most important consideration in developing a SI product.

Products sold through independent brokerages or IMO's where they may have several products available to offer their prospective clients may lead to anti-selection.

- Are the drill-down or reflexive questions adequate in obtaining the relevant information in order to make a decision at point of sale?
- Is the system able to reconcile all the 3rd party data against the admitted conditions or are the various 3rd party elements evaluated independently.
- Does the system have a fully integrated workflow process that allows for automated processing and the ability to order age and amount requirements?
- How often is it being updated and revised and if a change is required, how long does it take to get implemented?

Application Form

SI as we know it has evolved over the past decade.

In general, as the market has expanded, the typical 5 question application has changed to a more fully underwritten looking application.

Making use of drill down or reflexive questions allows for a more comprehensive evaluation of a medical condition. The applicant should be able to answer the questions at point of sale without having to

	Are products sold alongside fully underwritten products?
Best Mortality	No, product and face amounts are the only option
Better Mortality	Yes, but only through different distributions
Average Mortality	Yes, agent can apply in whatever manner best serves their client

leave the process and come back later.

Automation and Underwriting Engines

Taking an existing manual process and automating it is always an extremely difficult undertaking, is costly, and the process can be frustrating. You generally know what you want but don't always think of every small process that is performed manually. For example, if a case is issued on an automated basis and the insured reported a medical condition, how are you going to report MIB codes?

There are a number of underwriting engines in the market that have varying capabilities. It is truly a case of "not all engines are alike" and a company that is wishing to use an engine needs to ensure it meets their requirements.

Items to think about when designing an application:

- Decide how extensive you want the application, understanding that the design of the application has an impact on the pricing of the product.
- Make it simple: use terms that a lay person will understand, for example the average person does not know what "Genitourinary" or "Connective Tissue Disease" means.
- Whenever possible, use synonyms for a medical condition like using "Stroke" in place of "Cerebrovascular Accident."

Some items to consider when selecting an underwriting engine:

- Capability of the engine, for example: does it have extensive medical, avocation, occupational and travel dictionaries?

	Quality of the Application
Best Mortality	Detailed application with Drill Down questions
Better Mortality	Detailed application but no drill down questions
Average Mortality	Simple short form i.e. 5 question application

3rd Party Data

Companies use a number of 3rd party data services to validate what a proposed insured has disclosed. With the use of automated processes, companies are able to not only evaluate the 3rd party data, but in some instances are able to reconcile the results against what the proposed insured has disclosed.

Evaluating 3rd party data independently of each other has proven to be a less effective tool as all significant data returned is kicked out of the automated process and may need to be reviewed by an underwriter.

The following are a number of data sources that are being used in the SI market.

Medical Information Bureau (MIB)

The MIB data has been used in the fully underwritten market for years and is even more important when underwriting SI business given the lack of other underwriting evidence. A significant element to consider is the Insurance Activity Index or IAI. Using rules built into the engine, you are able to detect “bundling” and flag a case for review by an underwriter.

	MIB Report
Best Mortality	Reconciliation of codes with admitted medical conditions and other 3rd party data
Better Mortality	Accept/Reject (Independently) along with degree and time codes
Average Mortality	List of reject MIB codes only - or list of Acceptable codes only

Pharmacy Data

This data source has now become an increasingly prevalent underwriting tool for SI and fully underwritten products alike. The benefit that it provides with SI products is even greater and has added significant protective value to the automated underwriting process. Having rules in place to adequately

	How do you use the pharmacy database
Best Mortality	Detailed Review, tie admitted conditions to pharmacy data results
Better Mortality	More stringent look at Pharmacy data
Average Mortality	Only screen-out significant drugs - no coordination with other information, independent evaluation

evaluate drugs that have both a low and high impact on mortality is the easy part. Having adequate rules in place to assess “gray” area drugs, combinations of drugs and the number of times a drug is prescribed is even more crucial.

Automating this process is vital in ensuring an efficient and cost effective process.

Motor Vehicle Reports (MVR)

The MVR is a very valuable tool in validating the response to the driving question. In one study that Hannover Life Reassurance Company of America performed on 10,000 lives, applicants in 75% of cases that incurred a motor vehicle flat extra did not admit to the violations, which highlights the importance of this data source. [see table, top, next page]

Identity Verification Services

This service is a very valuable tool that can be used at point of sale to validate personal information that a proposed insured has disclosed during the application process. Various data providers can verify if disclosed information is accurate or if there is a high probability

that the information is incorrect. This will reduce the likelihood of fraudulent applications being put on the books. The last thing you want is to insure an applicant who has given you a deceased person’s information or where the address given is a correctional facility.

Predictive Modeling

Predictive modeling is relatively new in the life

insurance industry, and while its use is still relatively limited, it has created a significant amount of interest given its successful use in the property and casualty insurance industry. Analytics can play a role in providing improved insight into all areas including marketing, distribution, customers, agents and risk selection.

There is still some caution when using this type of information, but the interest continues to grow and will likely be a key tool in the underwriting process in the future.

	MVR Report
Best Mortality	Detailed Review of codes i.e. point scoring system based on age, duration and violation
Better Mortality	List of moderate to severe disqualifying violations only i.e. reckless driving, DUI
Average Mortality	List of severe/disqualifying violations only i.e. DUI

	What reporting/control mechanisms are in place to monitor the behavior of distributors?
Best Mortality	Reports generated to tightly monitor field activity
Better Mortality	Some reports to help control anti-selective behavior, not always monitored tightly
Average Mortality	Simple Reports or no monitoring

	Does the company plan to contest all claims in the contestability period?
Best Mortality	Yes, strict contesting and feedback between claims and underwriting
Better Mortality	Moderate contesting
Average Mortality	Very few claims contested

that may enable you to reinstate policies that lapse for unforeseen circumstances.

Reports

It is essential that you have tools to manage your business. Develop reports that will help detect issues such as placing a disproportionate number of specific risks on the books. This may be an indication that you are too liberal in a specific area.

Reports will also help detect any behavior on the part of a specific agency, brokerage or IMO that may be engaging in undesirable sales or churning practices. Being proactive is beneficial in maintaining a profitable block of business. [see table, left, middle]

Claims Handling

Understanding how your claims area handles SI claims is vital in pricing the product. You should have a well-defined claims handling process in

Post Issue Audits

It is important to make sure you are not being selected against, and post issue audits are a proven method that allows a company to rescind policies where there is blatant misrepresentation, while the policy is still in force. It is prudent to have a strong risk management audit process in place. You need to ensure that a cross section of the cases audited include the following parameters: age, face amount, clean or standard versus impaired cases.

Lapse Mitigation

High lapse rates can impact the mortality of a product considerably. Losing healthy risks and being left with unhealthy risks will impact the profitability of the business, so it is important to monitor lapses and have a documented procedure and process in place

place, specific to SI with experienced SI claims personnel. It is vital to aggressively investigate all contestable claims. [see table, left, bottom]

Pricing

Pricing is one of the most crucial aspects in producing profitable SI business. Actuaries will look at past mortality and persistency experience where available along with actual placed distributions, the structure of the product, distribution channels, underwriting effectiveness, and claims processes and procedures in determining appropriate rates.

To get to a desired price point, marketing, underwriting and actuarial have to work together to develop a product that ensures acceptable mortality.

Conclusion

Being able to process more applications at point of sale without the need for underwriter intervention allows a company to offer lower rates and compete in a market that they normally wouldn't be competitive in.

There are a number of elements to consider when entering the SI market. Having a well-designed un-

derwriting process that is able to reconcile 3rd party data in an efficient manner is essential in producing a profitable block of business. In addition, understanding the market demographics and distribution system is critical. Finally, it is important to select partners who have knowledge and expertise in this growing market.

About the Author

Paul Jones, Assistant Vice President – Underwriting Specialty Products, joined the Hannover Group in March of 1991 in South Africa. He moved to the Head Office in Germany in 1996 and joined HLR America in 1998. Paul has experience in various markets including South Africa, UK and Europe and Asia, covering numerous products. His past experience includes underwriting traditional business including critical illness, disability income and group business. At HLR America, Paul is responsible for the underwriting on the simplified issue initiative and automated underwriting system, Merica US.

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