Underwriting of Direct Life Products for the new world

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Overview

1	Context
2	Desired outcomes of Direct Life underwriting
3	Our assessment of the current state of underwriting
4	Opportunities for improvement
5	Moving Direct Life underwriting into the 21st century

Context

Overview of Direct Life underwriting

1

Purpose

To redesign Direct Life (non-advice based) underwriting for the 21st century, with an aim to improve the customer experience while making financially sound decisions.

2

Products and Benefits

- Offers cover for Death (includes Terminal Illness), Critical Illness and Disability (TPD & IP) .

- Sums insured are lower relative to retail business (typically capped at $1 to $1.5m).

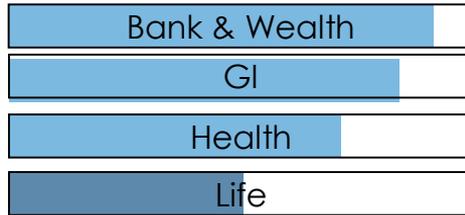- Typically there are no medical tests and product exclusions often apply.

3

Some of our initial observations

- There is an increasing proportion of tele-underwriting.

- There has been a push towards greater automation and online applications through the use of Underwriting Rules Engines (UREs).

- Personal statements contain many questions and the answer format Is generally YES/NO.

- Underwriting questions appear to have been relatively static over time.

Limited innovation to date in Direct Life Underwriting

While there are a growing number of examples of innovation in the financial services industry, innovation in Direct Life underwriting has been less apparent. Although technological developments are making this possible now.
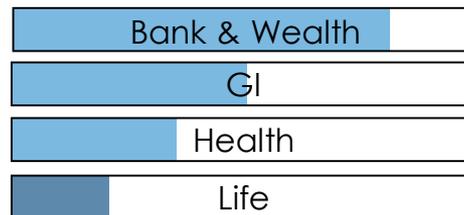
Underwriting innovation

- Bank & Wealth
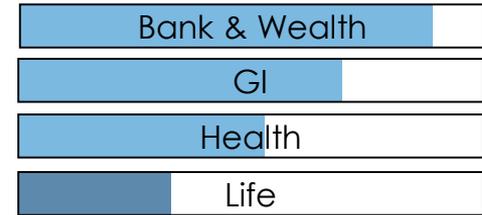- GI
- Health
- Life

Some examples

QANTAS ASSURE.

next best action
PEGA system

Pega

AIA Vitality

InsurTech

Product innovation

- Bank & Wealth
- GI
- Health
- Life

Some examples

trōv

Lemonade

Moven
spend, save and live smarter

cuvva

ARTIFICIAL INTELLIGENCE

Servicing / claims innovation

- Bank & Wealth
- GI
- Health
- Life

Some examples

sureify

GO

Robotics in GI

Lemonade

ON-DEMAND INSURANCE

FSC Life Code - A burning platform…

The FSC Life Insurance Code of Practice **effective 1 July 2017** stipulates the following for FSC members:

- **Underwriting decisions** about whether to accept applications are to be made **within 5 business days** of receiving all reasonable information.
- **Reasons for declining or offering cover on alternate terms** are to be **communicated** to the customer.
- Underwriting decisions are to be **evidence based** and compliant with legislation and regulation (including anti-discrimination law).
- **Regularly review and monitor electronic underwriting** to ensure questions asked and decisions made are consistent, compliant with legislation and regulation and are believed to be **necessary to assess the application** based on information, analysis and evidence available to the insurer.
- Identify and make reasonable measures to ensure **additional support** is provided to customers who require this **as part of the underwriting and sales process**.

Potential customer expectations gaps – More evidence that change is needed…

Case study

A policyholder made an income protection claim after being diagnosed with cervical cancer and receiving both radiotherapy and chemotherapy treatment. They were very ill and could not work.

The insurer had been paying monthly benefits but then informed the policyholder that it had cancelled their policy as they did not disclose that they had experienced depression several years ago.

The insurer claimed that, had the policyholder disclosed their depression from several years ago when they applied for the policy, they would not have offered them insurance cover under any circumstances.

The policyholder observed that the non-disclosure was innocent and that they had never been depressed enough to require medication or time off work. The matter was resolved by settlement between the parties after the policyholder went to EDR.

Context – Our approach

1

Market analysis

We performed a review of Direct Life Product Disclosure Statements (PDSs), ASIC case studies (ASIC Report 498, Oct 2016), and conducted "mystery shopping" and applied for some policies online.

2

Forming hypotheses

We considered some opportunities for improvement, including the role of Behavioural Economics in Direct Life underwriting.

3

Interviews with industry practitioners

We conducted interviews with industry practitioners including Chief Medical Officers (CMOs), Heads of Underwriting of Australian Life insurers and Reinsurers, and technology providers.

4

Proposed opportunities for redesign

We have proposed a number of opportunities for redesign of Direct Life underwriting to make the process and outcomes more effective for both the customer and the insurer.

Desired outcomes of Direct Life underwriting

Desired outcomes of Direct Life underwriting

For the Customer

Customer centric process

1. Clearer setting of expectations at the outset of the policy.
2. To understand and meet their duty of disclosure.
3. Timely, fair and transparent underwriting.
4. Establishing a relationship with trust between the customer and the insurance company.

For the Insurer

Effective risk management

1. Sustainability of products.
2. Financially sound risk rated decisions and outcomes.
3. Data supported and evidence-based underwriting decisions.
4. Asks questions which allow the customer to best meet their disclosure obligations.
5. Claims and underwriting staff are enabled to make the right decisions.

Desired outcomes of Direct Life underwriting

To have a sustainable and financially sound product that is within a company's risk appetite, there is a need for the life insurer to have a clear and continuous link between sales and distribution, underwriting, product design, and pricing and claims management.

Sales and distribution

Underwriting

Claims management

Product design and premium rating
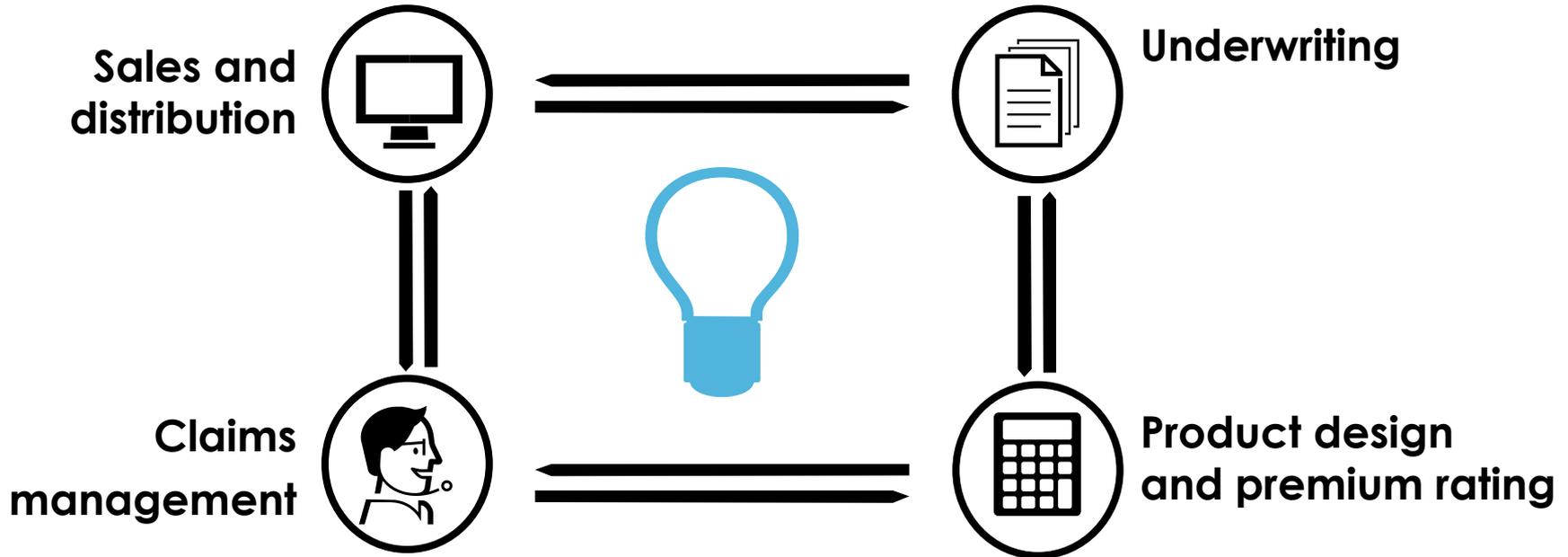
Our assessment of the current state of Direct Life underwriting

Some of our observations on current underwriting questions in personal statements
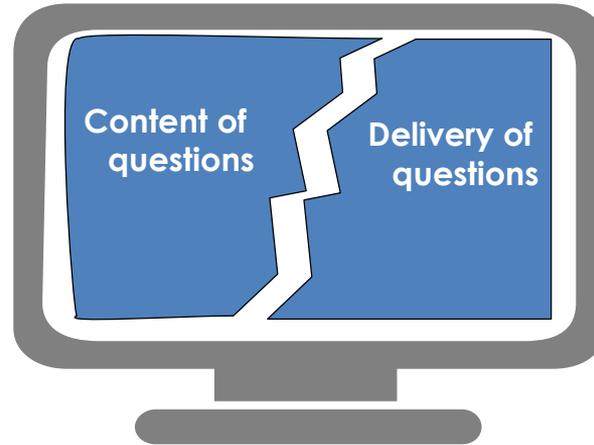
Lack of targeted questions by product type and market segment

Limited focus on comorbidity

Focus on diagnosis rather than severity of conditions

Questions are not necessarily future proof

Limited use of biopsychosocial (BPS) questions – mainly medical

Content of questions

Delivery of questions

Large volume of questions

Not necessarily ordered for the risk importance

Limited use of decision trees (mainly YES/NO)

Questions are not always in plain English.

No option to complete questions in a language other than English

No use of visuals (all questions are text)

Sample personal statement questions

Sample questions

1 What is your date of birth?

2 What is your gender - Male or Female?

3 Have you smoked tobacco in the last 12 months?

4 What is your weight?

5 What is your height?

Observations	Rating factor	Alternatives
A customer may not identify with either of these genders.	Gender.	Consider adding "Do not identify with either Male or Female".
This does not distinguish between the extent of smoking (e.g. occasional social smoking versus heavy smoking). This question will not capture a history of heavy smoking.	Smoker status.	Alter the question to identify low to moderate smokers from heavy smokers. In the last 3-5 years how many cigarettes, on average, have you smoked per week": • None • 1-10 • 11 – 25 etc.

Sample personal statement questions

Sample questions

	Observations	Rating factor	Alternatives
6 On average, do you drink more than 15 standard alcoholic drinks per week?	This question is binary.	Potential loading?	Consider using ranges of standard drinks per week: • 0 drinks • 1-10 drinks • 11-20 drinks • 21-30 drinks • >31 drinks
7 In the past 5 years, have you used any drugs that were not prescribed to you? (other than those available over the counter).	Anecdotal evidence is that there is low disclosure for illicit drugs use.	Rating factor is unclear.	Should it be in the key risk questions? How good is our data?

Sample personal statement questions

Sample questions

	Observations	Rating factor	Alternatives
8 Have you ever tested positive for HIV/AIDS or are you awaiting results of an HIV test?	This question focuses on a risk which is less prevalent today. It is often high up on the list of questions.	An exclusion is applied.	Consider moving this question down the list.
9 In the past 5 years, have you had unprotected anal sex with more than one partner?	This question is very intrusive.	Rating factor is unclear.	Remove this question.

Sample personal statement questions

Sample questions

10 Have you ever suffered from, been diagnosed with, or sought medical treatment or advice for digestive conditions, heart-related conditions or any conditions related to the kidney or liver?

11 Have you ever had or sought medical treatment or advice for multiple sclerosis, paralysis, embolism, stroke, tremor, chronic headaches, chronic fatigue, or any symptoms of a brain, neurological or circulatory system condition?

Observations	Rating factor	Alternatives
These questions are ambiguous and contain some medical jargon. Is it reasonable to expect customers to recall conditions they sought treatment or advice for 10, 20 or more years ago? The customer may not understand why their medical history is being requested or how it is going to be used.	A product exclusion or loading may apply.	Be more specific with respect to: • Types of conditions relevant to the coverage. • The historical period of interest. Use more plain English and consider shortening the questions and focussing on severe conditions.

Sample personal statement questions

Sample questions

12   Has a family member, under the age of 55, been diagnosed with a major illness/condition? You are only required to disclose family history information pertaining to first-degree blood-related family members – living or deceased (mother, father, siblings).

Observations	Rating factor	Alternatives
This question is ambiguous, which could make it open to interpretation and difficult to answer. What is a "major illness / condition"? May not be able to identify or have lost contact with biological family.	Rating factor is unclear.	Consider being more specific in relation to the types of major illness and conditions of relevance to the risk. Consider placement of question. Consider implications of emerging trends.

Time for change

1 Industry practitioners believe that there is evidence of under disclosure by customers.

3 Underwriting questions are not always up to date and practices may not be in line with the Life FSC code.

2 Despite the large volume of questions asked, a high percentage of customers are rated as "standard"

4 There is potential for the creation of a gap in customer expectations.

The current state of Direct Life underwriting does not currently meet the desired outcomes for the customer nor for life insurers. Technological advances can support this change.

Opportunities for improvement

Some challenges to redesign -
If it was easy it would have already been done

External Challenges
• Legislation and regulation. (non ambiguous questions)
• First mover impacts.

Internal Challenges
• The need to achieve a reasonable trade-off between collection of underwriting data, improved risk rating and sales.
• Loss of data? – but how good is our data?
• The time and cost associated with redesign, and the presence of competing priorities.
• The constraints of automation but also opportunities.
• Difficulties in measuring customer non-disclosure.

Why does no company want to be the first mover?

Opportunities for improvement

| Option	Description	Benefits
Technical review of questions	• Increased use of Behavioural Economics (psychological insights into human behaviour) to reframe and redesign questions. • Reorder underwriting questions such that questions relating to the higher risk/cause of claim appearing first. • Perform a detailed review of underwriting questions to streamline towards the key questions. • Seek input from external parties (e.g. reinsurers, medical practitioners, consultants).	• More targeted and streamlined underwriting . • Improved disclosure rates by customers. • Better risk rating. • Potentially lower premiums for the pool of customers.
Increased cross functional collaboration	• Increase collaboration between underwriting, pricing, claims management and valuation functions. • Use of a control cycle approach for reviewing questions in light of trends in claims experience and/or application of product terms and conditions .	• Improved pricing of risk. • Potentially lower claims declines. • Close the customer expectations gap over time.

Opportunities for improvement

Option	Description	Benefits
Consumer centric review of questions	• Pilot consumer testing of new approaches . • Use of plain language. • Removal of overly intrusive questions about behaviours. • Modernise questions through the use of images in addition to text.	• Clarity on end-to-end underwriting process. • Improved customer experience. • Improved sales process.
Market and product segmentation	• Segment the market for each product type using material risk factors (e.g. age, gender, occupation). • Use of targeted questions for each segment of the market.	• Reduced length of underwriting questions. • Better risk rating.
Increased transparency of product exclusions	• Increased transparency of treatment of PECs (e.g. maximum number of years for which a PEC exclusion will apply).	• Improved customer experience. • More aligned with underwriting selection period effects.

Suggested opportunities for greater innovation in Direct Life underwriting

Biopsychosocial (BPS)

Machine Learning
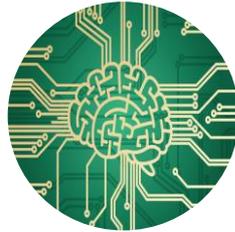
Behavioural Economics

Digital and Technological capabilities

Towards 'plain English' medical related questions

Source: www.hioscar.com

Moving Direct Life underwriting into the 21st century

Moving Direct Life underwriting into the 21st century
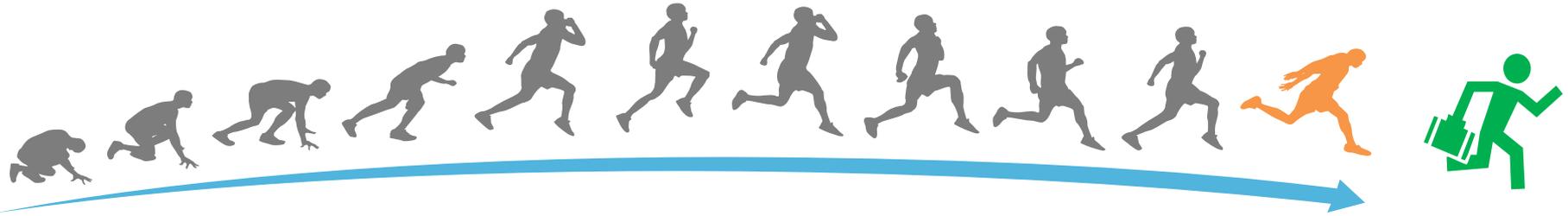
Simpler and more dynamic processes

More targeted and relevant questions

Increased use of visuals not only text

Increased use of Biopsychosocial questions (BPS)

Increased use of Behavioural Economics

Increased use of digital

Cross functional collaboration

Transparent and timely underwriting

Apply learnings in other distribution channels such as advised

Thank you