

11th Global Conference of Actuaries

Simplified Issue

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Agenda

- **Background to Simplified Underwriting**
 - What is it and catalysts
- **What is simplified underwriting?**
- **Why is it popular?**
- **Product Design**
- **Eligibility**
- **Standard Proposal Questions**
- **Simple vs. Full - When Simple Isn't the Best**
- **Underwriting Considerations**
- **How it impacts claims**
- **Experiences to Date**



Background

What it is and catalysts

What is Simplified Underwriting

concept of issuing policies quickly without usual degree of underwriting diligence

- **Known by various names**
 - Short Form Applications
 - Simplified Issue
 - Straight Through Processing
- **Insurance is issued with**
 - Minimal underwriting requirements
 - Higher premium cost to offset higher risk
- **Medical and Financial requirements**
 - Are limited with risk selection based primarily on the proposal documents

Catalysts

- **Addressing under-insurance in populations**
 - Achieving mass market penetration
 - Increasing market scope
- **Simplifying the process**
 - Improve productivity of sales personnel
 - Lowers the demand for scarce senior underwriters
 - In some countries address anti-discrimination legislation.
 - Challenging insurer's right to underwrite
- **Improving the Customer experience**
 - Decreases negative sentiment towards life insurance companies
 - Keeps the customer experience short & sweet



Catalysts...

- **Improving the Customer experience ...**
 - Keeping pace with expectations of fast paced transaction
 - Convenience of e-commerce and web enablement
- **Reducing Time Frames**
 - Quick turnaround due to point-of-sale information gathering
 - In combination with automated underwriting solutions to maximize rapid assessment
 - Remedy for Full Underwriting delays: 18-30 days +
- **Reducing Costs**
 - May involve lowering upfront costs by reducing underwriting proof requirements
- **Keeps Advisors happy**



Who is doing it?

France

- **Increasingly popular esp. credit life cover**
- **Questionnaires & health declarations with 5 or 6 questions**
- **Pre existing condition clause**

Who is doing it?

Canada

- **Small number of companies**
- **4 or 5 questions**
- **Product issued has fewer conditions than the fully underwritten version**
- **Pre-existing clause – going back a year or two**
- **Complicates claims process**
- **Difficulty with legal challenges – not ask question then cannot take it into account at claims time**
- **Not long enough to build claims experience**

Who is doing it?

Italy

- **Common for bancassurance products – mortgage cover**
- **Death only – not necessarily pre-existing clause in exclusions**
- **Health Declaration – brief (no hospitalisation past 12/12 and no prolonged period off work)**



Product

Simplified Issue Design Features

Product Design Features

- **Product Type**
 - Life Covers (including Accidental Death) are common
 - CI Covers are being considered and offered in certain markets – with limited policy definitions
 - Hospitalisation Covers in certain markets
- **Key Product Components**
 - Variable sums insured, but usually lower face amounts
 - Premium payment modes are single payment, monthly or annual
 - Some markets request two years premium upfront to reduce the incidence of anti-selection
 - Policy periods are aligned to product type i.e. term covers, whole of life or endowment policies

Product Design Features...

- **Product elements supporting simplified underwriting**
- **Use of:**
 - Pre-existing condition exclusions
 - Disclosure of certain medical conditions on the proposal may attract automatic exclusions
 - Liens can be employed at policy level to restrict claim payouts in early years (Waiting Period)





Eligibility

Who qualifies, target markets and distribution

Eligibility

- **Evaluation of eligibility**
 - Is determined through the simplified underwriting process
 - applicants complete limited proposal questions
 - Providers use various methods to filter based on
 - age restrictions
 - amount of cover limits
 - table risk parameters

Eligibility...

- **Top-Up Benefits**
 - A variation of the theme of Simplified Issue
 - Usually requires an existing policy
 - issued within a recent timeframe e.g. last 36 months
 - typically fully underwritten and issued at Preferred or Standard rate class
 - The amount of coverage
 - must be equal to or less than the existing coverage
 - The applicant usually
 - needs to meet underwriting criteria for the same rate class

Target Markets

- **From Mass market application**
 - open to all
 - greater potential for anti-selection
 - exclusions required
- **To highly customized and directed offerings**
 - Niche market offerings aimed at certain demographics e.g. Existing customers via top-up products
 - less anti-selection
 - fewer exclusions required



Target Markets...

- **To highly customized and directed offerings continued...**
 - Originally related to mortgage business
 - Commonly sold through banks and credit unions
 - Expanded to agent and broker channels
 - Direct Marketing campaigns
 - Internet marketing
 - Via Group Schemes
 - Affinity group Schemes
 - Worksite Marketing
 - Company Direct to Customer





Standard Proposal Questions

Example Questions - Loopholes & Inadequacies

Example Questions

- **Life Covers**

- 1. Have you ever been diagnosed with or treated for or advised to seek treatment for a disease, injury, disability, physical defect, physical deformity, or sequels thereof (such as but not limited to chest pain, cardiovascular disease, stroke, high blood pressure, cyst/growth/cancer, thyroid disease, urinary tract or bowel disease, eye disease ,hepatitis, disease of the liver, kidney(s), the digestive tract or the respiratory tract, metabolic disorders, diabetes mellitus, diseases of the musculoskeletal system, neurological disorders, paralysis, mental or psychiatric disorders, tuberculosis, HIV/AIDS etc.) by a medical doctor/professional?
- 2. Have you ever consulted a doctor, undergone any investigations or currently awaiting investigation results (such as x rays, ECG, blood test, biopsies, etc) , or are you having any ongoing medical treatment?

Example Questions...

- **Life Covers**

- 3. Has any proposal for life, health, accident or critical illness, including renewal and reinstatement ever been declined, deferred or accepted at special rates or terms?
- 4. Are you now a member of any military force or in the past 5 years been engaged or planned to engage in any hazardous sports as a career or hobby or races or flying other than as a fare paying passenger on a regular scheduled airline?



Simple vs. Full

When Simple Isn't the Best

Simplified vs. Full

- **When is an application deemed complete versus simplified?**
 - Some distinguish based on the number of questions
 - ‘Catch all’ questions are often utilised to cover the holes in the application process
 - Alternatively combining questions may decrease the standard number without losing content

When Simple Isn't the Best

- **Two major risks related to simplified products**
 - Market penetration
 - Underwriting/mortality risk
- **Market penetration**
 - Problems arise when volumes received fall far short from those expected by direct offices
 - Higher lapse rates
 - Associated with higher premium rates
 - Anti-selection lapsation - a concept that maintains standard lives will depart a particular pool seeking cheaper/more affordable premiums, leaving a concentration of substandard lives decreasing profitability

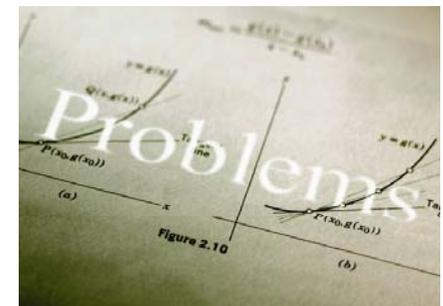


When Simple Isn't the Best...

- **Underwriting/mortality risk**
 - Loss of protective value afforded by medical evidence requested in full underwriting
 - Aging populations
 - Increasing impairment trends for conditions such as obesity, diabetes and cardiovascular disease

Loopholes or Inadequacies

- **Proposal Questions & Wording**
 - Existing cover ?
 - Family History?
 - Ht Vs Wt ratio?
 - Social habits questions e.g. alcohol ingestion, smoking, drug use?
 - Do you contemplate seeking future medical advice, treatment etc?
 - Other health care providers?
 - Foreign travel?
 - Citizenship/Country of Residence?
 - Occupation?
 - Avocation
 - Income?



When Simple Isn't the Best...

- **Other pitfalls**

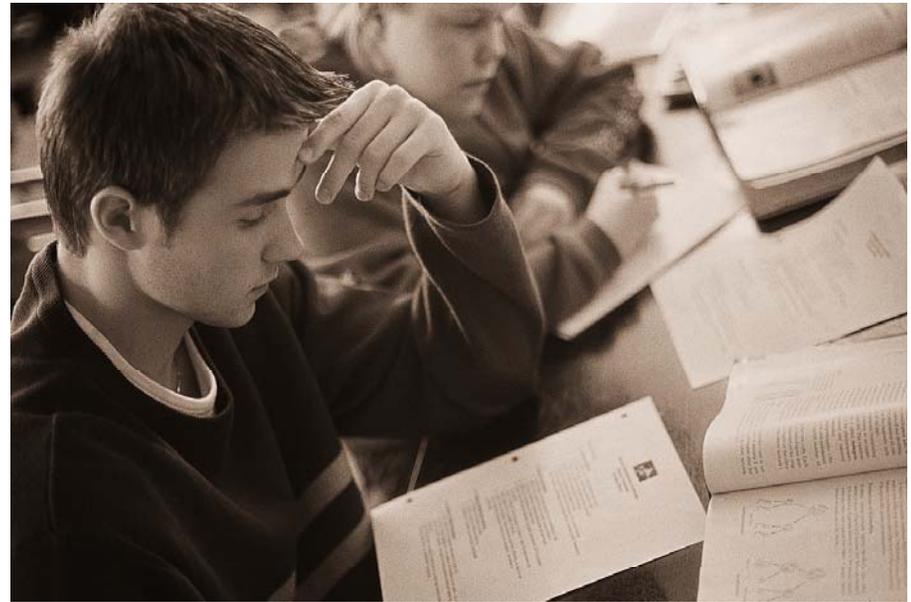
- Increased claims costs associated with reduced underwriting
- Claim investigation Vs sum insured
- Risk of over-insurance
- Extending Simplified Issue boundaries such as entry ages, amounts and table risks
- Ability to enforce exclusion
 - For example, if you didn't specifically exclude an activity like parachuting or hang-gliding and a relevant association picked up on this
- Jurisdiction



When simple is best

- **SI programs work best**
 - In niche markets where speed and simple products are valued
 - When products are reasonably priced relative to competitors
 - Where the target market is select
- **Continual Monitoring**
 - Ensures management of mortality and lapse rates
 - Revision of underwriting tools used
 - Promotes adaptability when faced with market competition

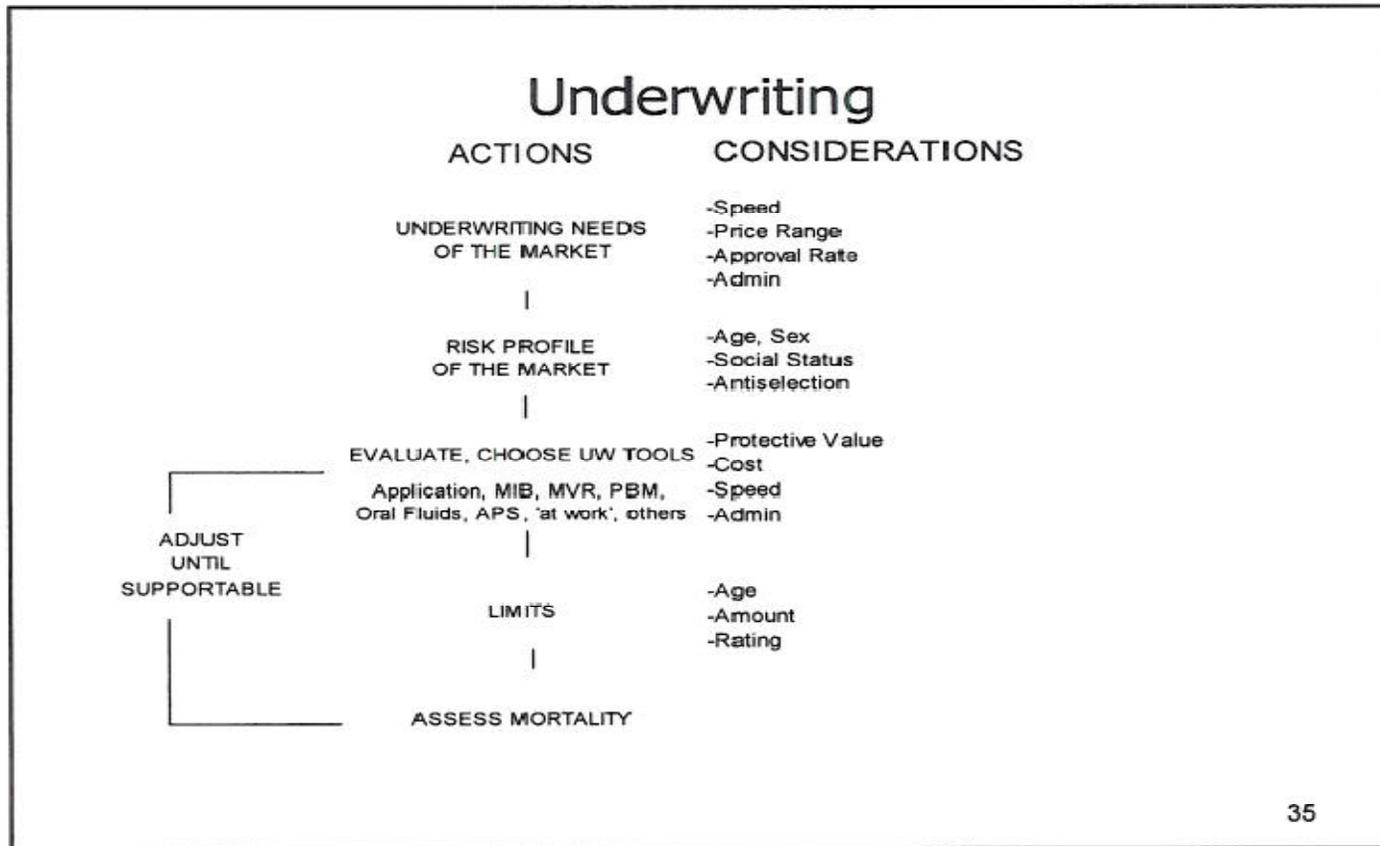




Underwriting Considerations

Risk Profile of the Market & Underwriting Tools

Underwriting Considerations



Underwriting Considerations...

- **Non-Medical Information**
 - If an adverse response is received to a non-medical question what action is taken?
 - No action
 - Reject
 - Offer alternative product –i.e. fully underwritten product
- **Medical Information**
 - If an adverse response is received to a medical question what action is taken?
 - No action
 - Reject
 - Offer alternative product



Underwriting Requirements

- **Selecting the underwriting tools**
 - Consider protective value afforded
 - Cost
 - Speed
 - Demand on underwriting
- **Popular Underwriting Tools**
 - Applications
 - Teleunderwriting
 - Fluid Testing





Claims Considerations

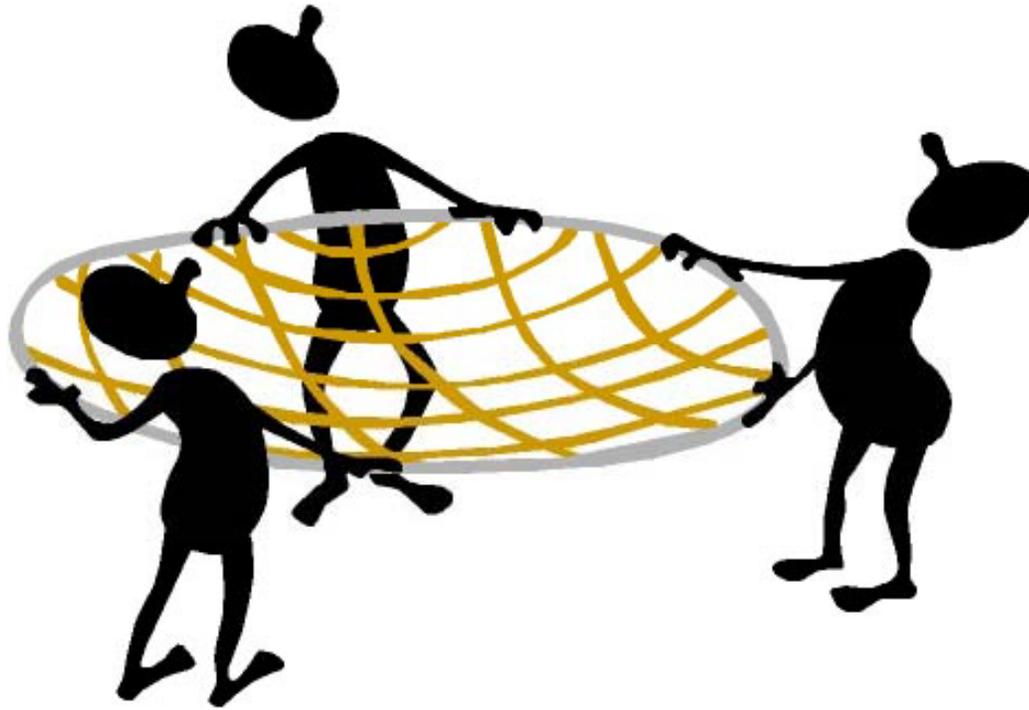
Impact & Safegaurds

Impact on Claims

- **Faster and cheaper to issue due to less underwriting and administration**
- **Is there an increased claim cost?**
- **Anti selection**

Claims Safeguards

- **What is our protection?**



Underwriting from a Claims Perspective

- In theory you don't really need to ask 52 separate health questions
- With 10-12 carefully structured questions you could get the necessary disclosure.
- Questions like “have you ever seen a specialist, and if so, why”. specialist referrals tend to stick in people's minds more than regular GP consults.
- Think about a question along the lines of “have you seen a doctor **3 or** more times for the **same condition** (other than colds and flu).
- Again the rationale being, if you've only seen them once it's probably not material.

Methods to minimize antiselection

- **Point of sale interview**
- **Agent management**
- **Verification of answers**
 - Applicants are called and re-asked app questions for verification
 - Telephone interview to check that agents are properly asking and answering questions
- **Face amount check**
 - Face amount reasonable in relation to estate value
 - Face amount reasonable in relation to occupation
 - Face amount based on non-selective criteria (e.g., salary)
- **MIB report in other market**
- **Altered product design**
- **Pre-existing condition exclusions**
- **Moratorium periods (exclude Accidental Death)**
- **“Smart” underwriting approach – e.g. Diabetes**
- **Use of actively at work question**
- **Drug knock out list**
- **Only offered to corporate sponsored multi-life plans with 10 life minimum**
- **If spouse or child coverage applied for, must also apply for coverage on self**
- **Contestable claim review**



Experiences to Date

Success of Simplified Issue Products

Simplified Issue Success

- **Value proposition**
 - Speed of issue
 - Distribution friendly
 - Customer acceptance
 - Consistent decisions
 - Expense Reduction
 - Expanded market reach



Why is it popular?

The three main actions that providers claim to be taking to address non-disclosure are:

- A Focusing on tele-underwriting
- B Simplifying application forms
- C Improving promotional literature

Lifesearch 2008 Survey

What we have seen

- **Anti selection can, and does, occur**
- **Example on Mortgage Cover where ceding company could prove applicant had purchased house from relative SOLELY to obtain insurance cover as had terminal condition**

How can we best manage this?

- **Monitor claims experience closely**
- **Identify in system any “Simplified Issue” products resulting in claim**
- **Analyse experience**
 - Actuarial input Actual V Expected

Balancing Simplicity against Risk Selection Control



Simplified Issue

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