



Life Insurance Underwriting

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Objective & Agenda

Objective: Explain the different types of life insurance underwriting and the trends to expect

Agenda

Differences between life insurance and P&C insurance

Description of the life underwriting process

- Guaranteed/simplified issue
- Traditional full underwriting
- Accelerated underwriting

Comparison of underwriting inputs between Traditional and Accelerated Underwriting

Industry trends

Differences Between Life Insurance and Property & Casualty Insurance

Life Insurance

- Optional coverage – increased risk of adverse selection
- Underwritten once, with no chance of changing the price to match a changing risk profile
- Loss amount is certain (face amount), loss event horizon is unknown
- Profitability takes years to emerge
- Investment returns are a key driver of profitability due to the long pricing horizon – currently squeezed by interest rates

Property and Casualty

- Generally required (auto by law, homeowners as a condition of the loan agreement) – risk of adverse selection lower
- Repriced at the end of every policy period (6 mo. or 12 mo.)
- Loss amount is unknown, loss event horizon is fixed by the end of the policy period
- Profitability can be determined quickly

Underwriting at the Time of Application is Essential

- Underwriting (risk classification) is the process that insurers use to identify and classify a person's risk of dying prematurely, becoming disabled or needing long-term care
- By law, insurers must be able to demonstrate that individuals with **similar risks are treated the same way** and that the treatment is justified by **sound actuarial principles or reasonably anticipated experience**.
- The goal is for those with **similar risk profiles** to pay **similar premiums**.
- The key benefit of full underwriting is that it enables insurers to make products widely available at the **lowest prices to as many people as possible**.

Guaranteed Issue & Simplified Issue (Final Expense Coverage)

Guaranteed Issue

- Generally small face amounts - \$1,000 to \$50,000
- Exclude claims incurred in the first two years
- Frequently sold direct to consumer, “You can not be turned down”.
- Cost/unit ~2x more than SI

Simplified Issue

- Small to moderate face amounts - \$5,000 to \$200,000
- Small number of health questions designed to identify leading causes of death
- May perform prescription drug check to identify non-disclosure on the health questions
- Product is priced assuming a sizeable mortality load – one price for everyone
- Cost/unit ~3x more than Full U/W (best class), ~2x more than Full U/W (standard class)

Traditional Full Underwriting and Accelerated Underwriting

Full Underwriting

- Traditional data sources, lengthy process
 - Exam, labs, medical records, etc.
- Underwriter to multiple preferred classes, standard classes and substandard classes
- Can take 30-60 days, particularly with COVID-19

Accelerated Underwriting

- Use new electronic data sources and predictive models to identify “clean” cases and accelerate them through the process
 - Reduces the process from weeks to days and sometimes instant approval
- Sources include
 - Prescription drug check
 - Electronic Health Records (EHR)
 - Medical claims data
 - Clinical laboratory test

Industry Trends

- The pandemic has **accelerated change adoption** in an industry that is typically slow to change
- Accelerated underwriting programs enabled companies to underwrite and issue policies when clients were leery about meeting with examiners
- Carriers invested heavily in their accelerated programs and **new enhancements are now announced monthly**
- These changes have **improved the customer experience** by getting cases placed **faster** with **less effort** and uncertainty by the insured
- The pace of change will continue as companies aggressively look to **cut costs** to offset the revenue decline driven by the low interest rates and to ensure profitability
- Expect **additional evolution** as the industry moves away from paper and into digital (solicitation/sales, underwriting, policy delivery and service). **This may require regulatory changes.**
- Since lifestyle (diet, exercise, sleep, stress, etc.) affects a person's mortality but only lagging indicators are captured (build, heart disease, diabetes, etc.) in current underwriting, expect the **evolution towards rewarding people that make good lifestyle choices** with lower rates.