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ASKED & ANSWERED

Exclusive INN interviews with insurance thought leaders

Automated Underwriting: A Reality for Life Insurers

A growing number of insurers recognize the need to use data analytics to enable intelligent, instant issue of underwritten life insurance.

The life insurance industry struggles to grow in large part due to slow and complex underwriting processes that make it too time-consuming and costly to write new business and broaden distribution channels, especially in the underserved mid-market. Insurance Networking News asked Brian Cohen, president of Westminster, Colo.-based Clear Technology Inc., about the obstacles and benefits to automating the life underwriting process.

INN: Why haven't insurers effectively approached the mid-market to date?

BC: The current underwriting process is too expensive and protracted. Life insurers haven't really changed the fundamental way they underwrite and process life insurance policies since the 1950s. It's still a people-dependent process requiring collection and analysis of multiple and raw pieces of information from



Brian Cohen

—Clear Technology Inc.

numerous sources. The underwriter must analyze that information and compare it to specific underwriting rules. The process breeds inconsistency in terms of high error rates and labor costs, which frustrates producers. Insurers struggle to

coax agents to sell more life insurance, which agents view as too much effort for too little reward when compared to other financial products.

INN: Are life insurers using technology to improve the process?

BC: To a limited degree—most insurers still rely on out-of-date legacy systems that provide little help in gathering and analyzing data. These tasks are still left to a human underwriter. In addition, companies are not pushing producers to change, with many producers still submitting applications by mail and fax. But even where companies have gone paperless, many underwriters still print the applications and maintain paper files.

INN: What's standing in the way of insurers making progress?

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BC: It's the flawed belief that life underwriting always requires a blood test, and that medical lab work can't be replaced with data. Unlike in the credit industry, which adopted credit scoring, the life insurance industry is unable to come up with a "health scoring" alternative.

INN: How can insurers change this underwriting model?

BC: First, one size does not fit all. Insurers should segregate the different markets and recognize that, for low face-amount policies up to about \$500,000, they can replace the blood test with data-driven analytics without a significant impact on underwriting results.

Take auto insurance: As late as the 1990s, underwriters believed they couldn't underwrite a risk without photos of the car. Then, companies began to conclude that the condition of the car didn't matter—the specific characteristics of the driver determined risk. The industry started to use data, sophisticated algorithms and

modeling engines to replace the face-to-face underwriting with an insurability score.

It's the same in life insurance today. Insurers can acquire and analyze sufficient amounts of data to analyze mortality risk without the need for blood. The underwriting won't be as precise, but given the material reduction in the cost to underwrite, the consistency achieved, and the enhanced customer experience, the benefits far outweigh the costs. Today, insurers can tap into multiple sources of information in real time, and use data analytic algorithms to come up with a life underwriting engine that is robust and sophisticated.

INN: So, we're talking about something that can be done today?

BC: The technology currently exists to enable insurers to create a real-time, intelligent, instant-issue environment. In fact, several life insurance companies are already moving down this path. These insurers use a Web-based underwriting system coupled with a sophisticated,

flexible data-analytics engine to enable automated underwriting. The underwriting solution needs to be flexible and configurable to accommodate each company's unique products and underwriting rules. Until recently, technology solutions have been rigid, forcing insurers to use hardcoded underwriting rules that offered little customization.

INN: What are the primary benefits of this new underwriting approach?

BC: It removes subjectivity and enables 100% consistency in underwriting. The majority of applicants will have an experience where coverage can be bound, and the policy issued and printed in minutes. It turns the purchase of life insurance into an easy transaction, opening up additional distribution markets such as banks, financial advisors and general retailers. It will finally enable significant volumes targeted at the middle market to be sold over the Internet. Applying for life insurance will be as easy as applying for a credit card. **INN**

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