



# Flatlining: The future of underwriting

Automation is forcing life insurance underwriters to upskill or ship out. As the industry faces a tough reckoning on many fronts, we ask whether the writing is on the wall for underwriters. **Karren Vergara** writes.

Eight years ago, researchers from the University of Oxford analysed over 700 jobs to determine which will likely fall prey to computerisation.

The famous research found insurance jobs (which had a good representation of life insurers) in the US are at high risk of becoming digitised – well ahead of cashiers, telephone operators and machinists.

The study by economist Carl Benedikt Frey and academic Michael Osborne determined insurance underwriting roles had a staggering 99% chance of being overtaken by artificial intelligence. Insurance claims and policy processing clerks (98%), and insurance sales workers (92%) are also at risk.

Data from Seek in Figure 1 also paints a bleak picture of the declining demand for underwriters. Job advertisements for underwriters tumbled starting roughly the same time as the release of the Oxford study, with the index peaking 120 points then plummeting about 95 points in 2020.

Contributing to the decline was the introduction of UnderwriteMe, a rules-based engine backed by global reinsurer Pacific Life Re in 2015, which has since become the dominant technology used by major players like Zurich and MLC Life, while boutiques such as NEOS Life and Integrity Life have also recently jumped on board.

Meanwhile, Munich Re's proprietary technology ALLFINANZ is gaining momentum as TAL and ClearView put it to use.

Seek's data reinforces the accuracy of the Oxford prediction – but how much is attributable to the rise of automation given the life insurance sector is copping blows on several fronts?

Automation has also crept into the claims process.

Queensland-based superannuation fund QSuper has upgraded its technology to streamline the claims-management process, using FINEOS's software.

QInsure has moved from FINEOS's Claims system to the Claims SaaS edition on the Dublin-based firm's platform.

The insurance claims management software provides straight-through processing and compliance checks for 50 organisations globally.

The \$117 billion super fund with 594,000 members went live with FINEOS Claims in September 2019, which integrated and automated the workflow for claims across life, total and permanent disability (TPD), and income protection.

Some of the functionalities included calculating payments automatically. Another is the Financial Services Council's Code of Practice functionality that helps case managers deliver on the insurance promise and meet regulatory obligations.

Adrian Karloci<sup>01</sup>, a director at B&K Consulting specialising in recruitment in wealth management, life insurance and superannuation, does not see life insurance underwriters becoming extinct.



The numbers

**99%**

*The probability computers will takeover underwriting jobs.*

He believes traditional underwriting roles will continue to exist as changes the industry is undergoing tend to be more cyclical rather than structural.

"The underwriter's role will continue to evolve. The development of underwriting rules engines and technology in underwriting has provided an alternative career path in the space," he says.

"Some roles definitely have an automation aspect to them and technology will help add value."

The advantages of AI moving in for most or some portion of underwriting functions are well pronounced: the removal of mundane and laborious tasks paves the way for strategic high-level work.

"Digital skills are the obvious skill set life insurance underwriters will need to adopt, together with an analytical mindset to interpret data and increased client-facing communication skills," Karloci says.

Chenthuran Suthersan<sup>02</sup>, head of protection advice at UK-based boutique life insurer Anorak, says technology like UnderwriteMe can significantly help with less complex cases, but more involved cases and medical exams are still being referred to human underwriters.

"So while there are less cases that underwriters see, the ones that they do see are complex so the reduction in need for underwriters is not proportional to the number of cases that they will see," he says.



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Financial advisers are still reliant on human underwriters. Most advisers will pick up the phone to speak to underwriters to get a decision as well as understand what the issues are.

“That allows us to communicate with the client about what to expect and why. That ensures that we look more knowledgeable to the client, but also the client will be more understanding of the outcome,” Suthersan says.

In a 2009 global study, Deloitte examined life insurers’ underwriting strategies and found that less than a third (29%) adopted a system to streamline the process.

At the time, all the systems analysed used some form of insurance application to base decisions; 65% incorporated either a traditional application or one with reflexive questioning digging deeper into applicants’ responses.

Twenty-six percent of insurers used traditional applications, while the minority used reflexive applications only.

“Nearly half of these reflexive applications are relatively basic (10 or fewer drill-down questions), but one-third of them do have detailed follow-up (over 60 drill-down questions),” Deloitte found.

Fast forward to 2020-21, Deloitte found in a separate study that many insurers are in the early stages of underwriting transformation projects going well beyond automating routine, labour-intensive data gathering and processing tasks.

Insurers’ ultimate goal is to better leverage AI, alternative data sources, and advanced predictive models to augment an underwriter’s capabilities and eventually transition them to higher-level, multi-faceted roles, Deloitte said, in terms of portfolio management and increased interaction with brokers and customers.

In the year ahead, North American insurers are prioritising underwriting automation, but this is less important for Europeans and life insurance companies that operate in the Asia Pacific region (see Figure 2).

It isn’t just the power of technology that is threatening jobs, the cost of regulation is forcing life insurers to hike prices and scrap some products.

Structural changes to life insurance policies have resulted in many policy definitions changing, says HLB Mann Judd Insurance Services risk adviser Andrew Kennedy<sup>93</sup>.

Prudential regulator APRA’s intervention on income protection to improve sustainability guidelines resulted in life insurance, particularly within industry superannuation funds, has increased premiums significantly – some as much as 40% in recent months, he says.

To make matters worse, the local life insurance market is contracting, driven by the major banks fleeing the industry over the last five years. Bancassurance, in the Australian context, is becoming a thing of the past.

AIA Australia swallowed up Commonwealth Bank’s Commlnsure; Zurich took over ANZ’s life insurance arm via OnePath; while NAB’s minority stake in MLC Life Insurance hangs by a thread. Westpac is the only major bank tied to life insurance via subsidiary BT Wealth Connect, but even that strategy is up for review.

Life insurance, which was the lifeblood of AMP, was sold off to Resolution Life for \$3 billion, while Suncorp divested its unit to TAL.

This has left the door wide open to foreign conglomerates, running thriving life insurance operations in their respective countries, to try their hand at the local market beset by red tape and suffering blows to profitability.

Foreign companies currently control the majority of Australia’s life insurance industry. According to Plan For Life, Dai-ichi Life Group’s TAL holds the largest market (28%), followed by Hong Kong-based AIA Australia (17%), Swiss firm Zurich (14%) and Nippon Life’s MLC Life (11%).

Consolidation has inevitably led to redundancies and many employees reapplying for their jobs in the merged entity.

A former life insurance underwriter who still works in the industry told *Financial Standard* some underwriters are having such a tough time finding roles that they have turned to jobs outside of life insurance well below their skill set.

The life insurance market has undoubtedly shrunk, another experienced life insurance underwriter said on the condition of anonymity, and the workload has spiked for those left behind.

This is not because of AI or consolidation, the underwriter said, but because a shift back to human underwriting is taking place.

The industry is currently feeling the negative impacts of straight-through acceptance and automated underwriting in claims.

What’s more worrying is that insurers are not creating additional human underwriting roles.

This is because the numbers were crunched years ago when insurers budgeted how much money they will save by not paying underwriters’ salary.

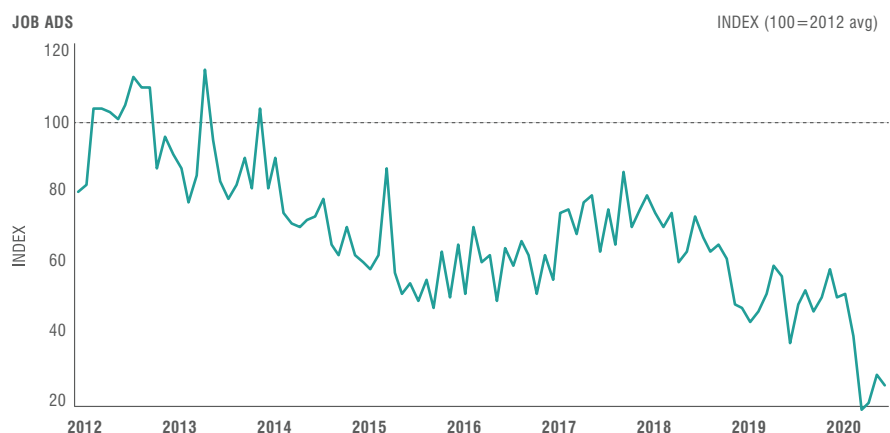
Now, it is the underwriters slogging it out and feeling the pinch of outdated modelling and cost savings, the underwriter said. **FS**



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**Adrian Karloci**

**Figure 1. Insurance underwriting job ads, including life insurance underwriting roles**



Source: Seek

**Figure 2. Operational priorities per region**



Source: The Deloitte Center for Financial Services Global Outlook Survey 2020

*This is part one of two in our special investigation into the future of life insurance underwriting. Part two will look at where Australian underwriters sit with their global counterparts.*