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The digital push

Global life insurers are testing the boundaries of underwriting innovation to another level. **Karren Vergara** reports.

The subject of life insurance does not spark interest for many, typically because it's perceived as boring, complicated and expensive.

Over the last decade, however, the life insurance industry accelerated its efforts to shed this perception by launching new products, lowering costs, and modernising its processes in the name of innovation. Nowhere is this more evident than underwriting.

With a click of a button, FaceQuote guesstimates a person's age and then calculates a quote for a premium – based on a selfie.

Zurich UK introduced FaceQuote three years ago hoping to reach the masses. This is a way, Zurich says, to make life insurance "fun" in the hope more people will engage with it.

Lapetus Life Event Solutions takes it one step further, launching CHRONOS, an end-to-end underwriting platform that predicts a person's life expectancy by scanning their face to extract information like body mass index, physiological age and how fast someone is ageing.

Most Australian life insurers are automating their underwriting capabilities by partnering with established providers.

UnderwriteMe has since become the most popular piece of technology used by major players such as MLC Life, Zurich, while boutiques such as NEOS Life and Integrity Life have also partnered with the UK-based firm. Munich Re's proprietary technology ALLFINANZ meanwhile has been adopted by TAL and ClearView.

While Australia's life insurance is facing its own challenges – consolidation, lower profit margins and higher claims – its global counterparts paint a different story.

Demand for life insurance overseas remains solid, buoyed by a large cohort of the population that is not insured or underinsured. COVID-19 has also helped spur demand.

Life insurance is a large part of the global economy and the interesting thing is that it is a high-growth area, says according to Sunil Rawat[01], the co-founder and chief executive of Omniscience, an artificial intelligence start-up based in Palo Alto, California.

About 200 million new life insurance policies are written every year, he says, with the US market growing about 3% to 4% per year.

Omniscience helps underwriters make complex decisions faster using maths and algorithms that underpins the technology, which according to the firm's last measure, accelerated life insurance decisions 1000 times or more.

"A blood report would have common things like cholesterol – extra tests like C-reactive protein and other markers and factors that get more and more complex. My BMI could be the same as an obese person's BMI but could have dropped due to my diet; I could have reduced my medication as a result and be in better health," he says.

"Where we shine is taking all of these factors that are very complex and make decisions based on those computations."

Currently, Rawat and his team are looking at 14,000 variables.

> *Life insurance underwriting has innovative power.*
> **Laila Neuthor**

In Germany, the life insurance market is thriving, says Laila Neuthor[02], the chief executive and co-founder of we4 Impact.

She is seeing a spike in demand for life insurance products since COVID-19 hit, not only for personal cover for loved ones, but also products that cover mortality or mobility issues like death, loss of income and loss of ability.

"It is surprising, even with the coronavirus, how many more people seem to be aware that illnesses can prevent them from earning their living. They are buying more of those types of products that can protect their family's financial situation," she says,

Competition is fierce and innovating across underwriting capabilities can be a differentiator.

"Life insurance underwriting has innovative power and there is the opportunity to reshape the sales process and product development from within the very heart of the life insurance company," Neuthor says.

One way life insurers can stand out is by having clear lines of communication with their sales force and efficient risk-selection processes. It means not asking unnecessary questions and that medical questions are clear and answerable for non-medical experts, such as brokers and clients, she explains by way of example.

Life insurers that are already digitising their methods are separating from the pack. McKinsey & Company categorise insurers across four phases in their underwriting automation journey (See Figure 1).

01:
Sunil Rawat
chief executive
and co-founder
Omniscience

02:
Laila Neuthor
chief executive
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we4 Impact

03:
Chenthuran Suthersan
head of protection
advice
Anorak

Those in Phase 1 automate the underwriting process to gain efficiencies and reduce inconsistencies. Insurers in Phase 2 have accelerated underwriting methods in which applications are submitted digitally.

Insurers in Phase 3 have a more personalised, accurate and individualised offering, while those in Phase 4 provide personalised products based on consumer data and continuous engagement that can ultimately influence health outcomes.

Neuthor says the sophistication in underwriting technology life insurers adopt vary.

"At one end of the spectrum, there are fully digitised systems that ask reflexive questions and then another question pops up based on the answer that are used on the point-of-sale.

"Then there are some companies that still have underwriting rules on Excel without any point-of-sale systems for their sales forces; some have internal software solutions and point of sales systems; some use independent providers, some are using reinsurers' solutions. It is a field of evolving technology and expertise," she says.

Neuthor believes the potential of the underwriting function is undervalued – but by having a "thoughtfully-designed life insurance underwriting strategy in line with their risk philosophy" can give competitive edge because products are becoming more homogeneous.

The policy cost and size also come into play.

The size of the policy is a common metric upon which to segment usage of automated underwriting, Rawat says, as automated underwriting tools seem more effective for lower-cost policies.

"The system is able to make an underwriting decision on life insurance policy that is worth US$100,000. As the cost of the cover increases, that is when humans step in," he says.

Further, Rawat points out that it is not just about having "nice data" and making decisions. Data must be entered into the system – which can be a challenge.

"We have developed the ability to capture lab reports on mobile phones; waving the phone over the report digitises values on the page and sends them to the insurer."

Underwriters as a result must stay on top of new developments and how their line of work is evolving.

This means transitioning to paper-based processes to digital processes, Neuthor says, including writing reflexive underwriting questionnaires, talking to IT and UX designers.

"Taking it one step further, life insurance underwriters at times are taken into consideration by the actuaries in designing products.

"In my opinion, this may be a culture clash as actuaries speak a mathematical language based on mathematical models with a clear relation between input and results while underwriters speak more of a medical and experience-driven language. It can be challenging to bring those two worlds together," she notes.

Speaking from his professional experience, and as a former actuary, Chenthuran Suthersan[03] notes that the use of the spreadsheets has improved the efficiency in the work that actuaries do.

But that did not lead to less actuaries, Suthersan says, who is currently the head of protection advice at UK-based life insurance firm Anorak.

"[It] freed us to work on more high-value tasks. I think the same will occur with underwriters and technology. They have a very useful skill set that life insurers need; they will just find other areas to apply it," he says.

Meanwhile, insurers can improve sales by adjusting their underwriting strategy, he advises.

"But that requires work from underwriters to build up the case to change their underwriting strategy and get buy-in from the underwriting reinsurer. That may mean underwriters work more closely with actuaries or develop more data skills to supplement their medical knowledge," Suthersan says.

These days, more insurance companies seek underwriters who are not only digitally savvy but can decipher complex risks that are not easily automatable.

Rawat says underwriters embrace working alongside artificial intelligence because they get to work on more progressively complex cases and eliminates the mundane.

"From an employee-enrichment standpoint, this has been quite successful as the underwriter sees this as an opportunity to do higher-order work," he says.

In Europe, Neuthor says demand for underwriters who excel with complex risk – meaning risk with a lot of pre-medical conditions – and can transform this type of knowledge into a digital format is high.

Underwriters are therefore challenged to improve their knowledge and stay up to date not only on medical issues but also on the digital side of things, she says.

"Actually, in our experience, quite a number of underwriters embrace these challenges as a chance to further develop themselves and enjoy the learning opportunities they are given."

One pressing issue the industry is grappling with is succession planning. Pointing to Japan, Rawat says life insurance underwriters are ageing out of the workforce and there is the need to capture their expertise in a system before they retire.

"In Asia at large, the life insurance industry is growing very fast, depending which country, it is about 9% to 39% per year," Rawat says.

"Incumbents don't have 50 years to build human capital in the way the Western countries were able to. Therefore, underwriters need to be trained to be more proficient faster or a proportion of the decision-making process needs to be automated."

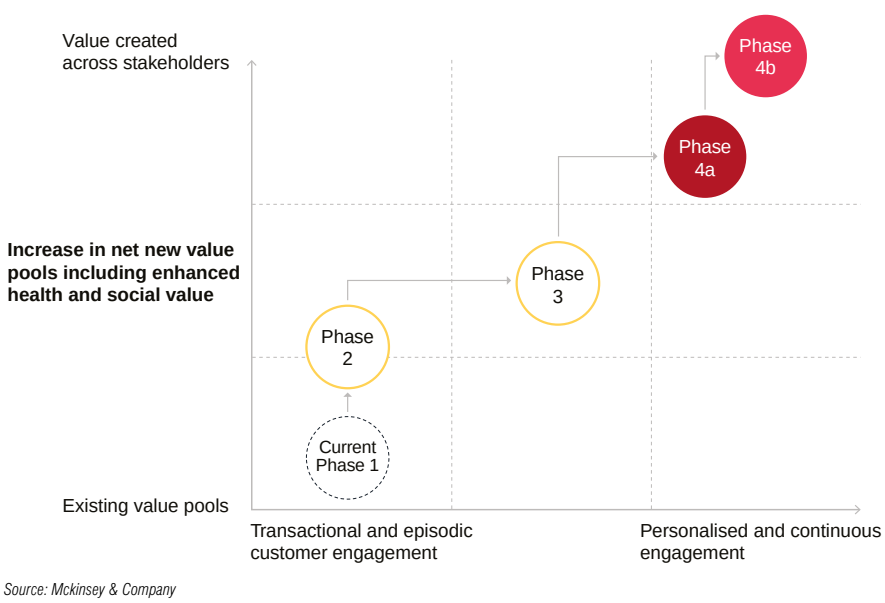
In Germany, Neuthor says the average age for underwriters is about 40-50 years old, and not many younger people are entering the profession.

"In the past, the job was seen as more 'get the work done' so to speak. Historically, it did not have any strategic importance and operated based on efficiency - how many cases were completed per day or per week?" Neuthor says.

"This all started to change recently. There is now more of a focus on communicating with colleagues and sales, giving reasons why this decision was made, and improving process and systems." **FS**

Figure 1. The future of life insurance underwriting

Underwriting will evolve in four phases to drive increased personalisation and customer engagement.



Source: Mckinsey & Company

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> **Sunil Rawat**

This is part two of a special investigation into the future of life insurance underwriting. Read part one in Volume 19, Number 01.