

## STREAMLINED UNDERWRITING

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John Gramelspacher, Ron Schaber



Moral of the story...



When there is a tremendous but nebulous opportunity in the market, companies may immediately want to pursue it.

When companies pursue it, they can become confused, misguided, and selected against.

When they become confused, misguided, and selected against, companies can lose lots of money.

When companies lose lots of money, people tend to get fired.

Don't get fired!

Use best practices to enter new markets.

## Purpose



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Provide a high-level overview of our take on best practices to leverage streamlined underwriting in order to profitably enter and write business in underserved markets.

## Agenda



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1. Challenges
  2. Opportunity
  3. Considerations
  4. Best practices
  5. Recap


Challenges: The market Munich RE 

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- Multiple flavors
  - According to a LIMRA 2010 study...
    1. There are 48 million uninsured or underinsured households in the U.S.
      - 35 million without any life insurance
      - A 50% increase since 2004
      - Equates to a 'protection gap' of \$9.5 trillion in U.S. life coverage with an annual premium of \$17 billion
    2. 25% of households with incomes over \$125,000 state a need for more coverage
  - Others – affinity groups, final expense, etc.

**A clear opportunity**

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Challenges: Choices Munich RE 

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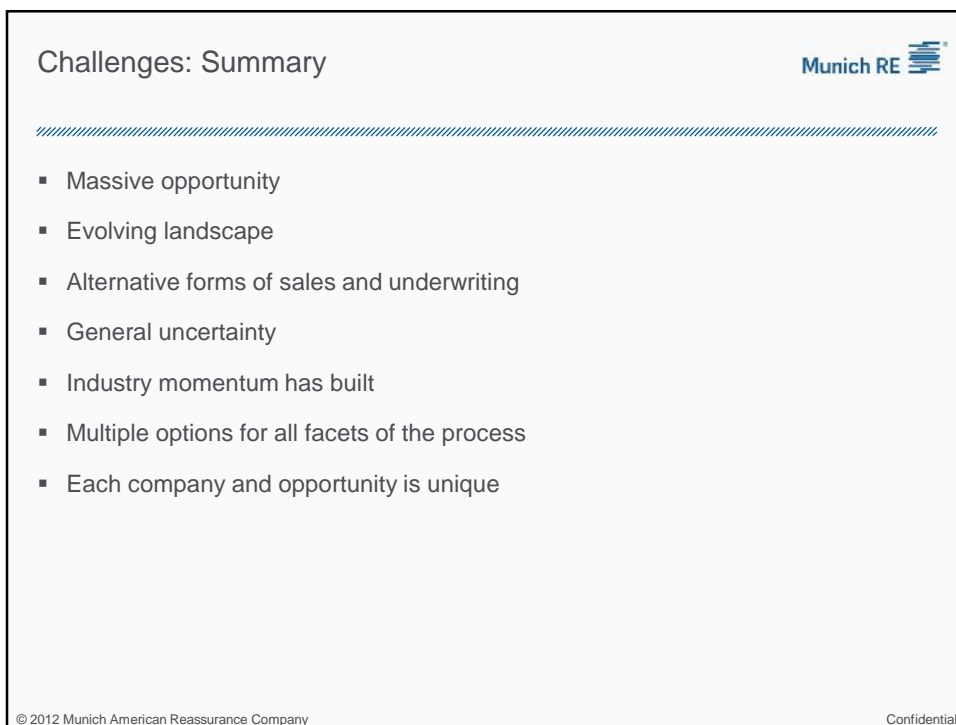
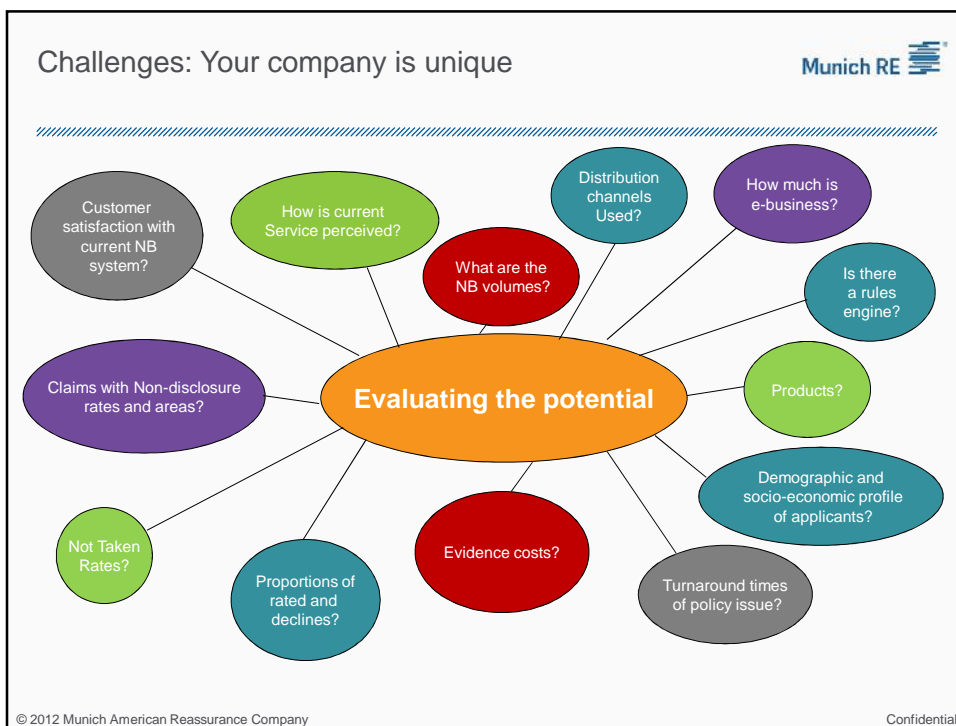
Much of the opportunity lies in the underserved “middle market,” but...

- Issue ages and faces amounts are evolving

	Max Issue Age	Max Face Amount
Historical	40	\$250,000
Current	40-80	\$500,000
Future	???	???

- Numerous options around the use of streamlined underwriting
- Access to real-time databases and other information
- Distribution... build it or buy it?
- Consumer buying habits... Boomers, Gen X, Millennials

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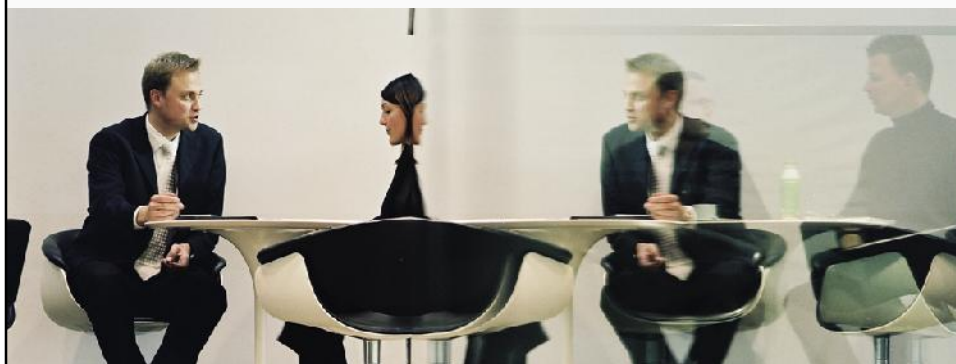
## Considerations



- Niche
- Distribution
- Product design
- **Underwriting**
- **Technology**
- **Product pricing**
- **Analytics**



## UNDERWRITING & TECHNOLOGY



## Best practices: Underwriting



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"More than 40% of (US) life advisors plan on retiring in the next ten years, and fewer people are recruited into the life business."  
*Robert Kemzer, CEO, LIMRA*




50% of middle market buyers used the internet for shopping for life insurance in the last two years.  
*"Trends in Consumer Internet Use for Insurance", LIMRA 2009*



44% of potential buyers prefer a **non** face-to-face method of purchasing insurance.  
*"Is There Magic in the Middle Market", LIMRA 2009*

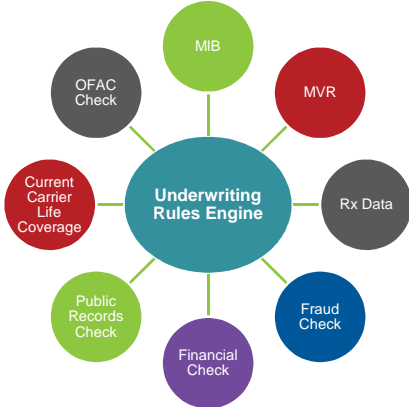
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## Best practices: Underwriting



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Underwriting rules engines and straight-through processing



- Streamlined Underwriting
  - real-time electronic data instead of fluids, exams, or APS's
- Underwriting Rules Engines and Straight-Through-Processing

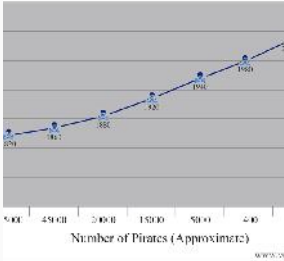
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## Best practices: Underwriting





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Average Temperature Vs. Number of Pirates



Year	Number of Pirates (Approximate)	Average Temperature (Approximate)
1700	1000	50
1800	2000	55
1850	3000	60
1900	4000	65
1950	5000	70





- Predictive modeling

- Impact on customer buying experience
  - Old paradigm


- Impact on customer buying experience
  - New paradigm

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## Best practices: Underwriting



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- Straight through processing
  - Financial impact of cost efficiency gains
- Thorough review of the application
  - Modular application with sections by product type, underwriting process, etc...
- Thorough review of underwriting requirements

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## Best practices: Wording is critical



### Hypertension

- 1) *Do you take more than one medication for this impairment?*
- 2) *Do you take your medication daily?*
- 3) *Was your last BP reading more than 150/90?*
- 4) *Have you had inpatient treatment in the last 2 years due to Hypertension*
- 5) *Have you experienced syncope in the last year?*
- 6) *Do you have Proteinuria or Malignant Hypertension?*

### High Blood Pressure

- 1) *Do you have a doctor?*
- 2) *How many times in the past year have you seen your doctor to check your blood pressure?*
- 3) *Have you been hospitalized due to your blood pressure in the last two years?*
- 4) *Have you lost consciousness/passed-out (experience syncope) in the past year?*
- 5) *Have you been prescribed medication for your blood pressure?*
- 6) *How often do you take medication for your blood pressure?*
- 7) *How many different medications do you take for your blood pressure?*
- 8) *What was your most recent blood pressure reading?*

## Automated underwriting questions structure



- Use common English
- Determine STP eligibility early on with knock-out questions
- No leading questions
- Do not repeat questions
- Limit the number of drill-down questions
- The right questions in the right order



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## TECHNOLOGY



### Best practices: Technology

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- Requirement
    - Manage costs
    - Provide scalability
    - Align with client behavior and expectations
    - Reduce cycle time
  - Quality rules engine
    - Easy to update by an underwriter (no IT involvement)
    - Up-to-date
    - Consistent with underwriting philosophy
  - Interactive questioning with third party data sources
  - Claims analysis

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## PRICING



### Best Practices: Pricing



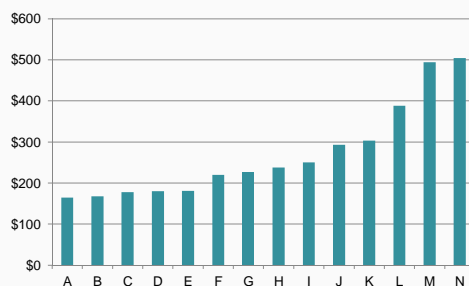
- We want to get as close to fully underwritten mortality as possible
- Simple, fast, non-invasive, straight-through-processing, etc. is great, but . . .
- Price is **always** important

Best Practices: Pricing



////////////////////////////////////  
 We want to get as close to fully underwritten mortality as possible.

Term Premium Comparison  
 Male, Issue age 35, Non-tobacco, \$250k, "Best" Class



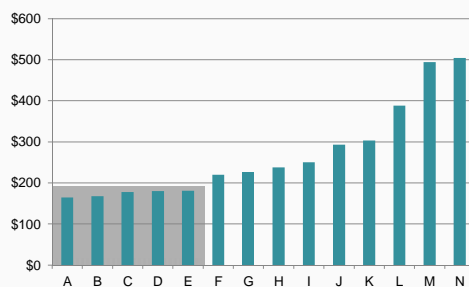
Source: CompuLife and internal Munich Re data

Best Practices: Pricing




////////////////////////////////////  
 We want to get as close to fully underwritten mortality as possible.

Term Premium Comparison  
 Male, Issue age 35, Non-tobacco, \$250k, "Best" Class



Source: CompuLife and internal Munich Re data

## Best Practices: Pricing

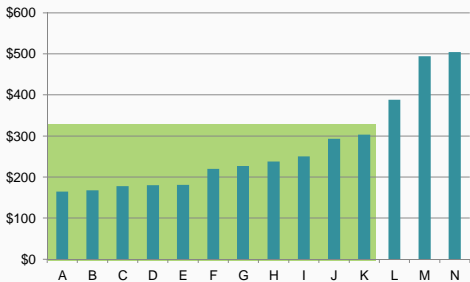


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We want to get as close to fully underwritten mortality as possible.

### Term Premium Comparison

Male, Issue age 35, Non-tobacco, \$250k, "Best" Class



Class	Premium (\$)
A	180
B	180
C	180
D	180
E	180
F	220
G	230
H	240
I	250
J	280
K	300
L	380
M	480
N	500

Source: CompuLife and internal Munich Re data

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## The three-legged stool




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- **Carrier**
  - Grow sales
  - Profitable business
- **Distribution**
  - Best product for customer
  - Adequate compensation
- **Consumer**
  - Fair price
  - Minimal hassles

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Mortality Munich RE 


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Assuming no shift in distribution

Fully Underwritten		
Risk Class	Distribution	Relative Mortality
Super Pfd	40	75%
Pfd	30	90%
Std Plus	10	110%
Std	20	160%

Streamlined Underwriting		
Risk Class	Distribution	Relative Mortality
Std	100	100%

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Mortality Munich RE 

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Assuming no shift in distribution

Fully Underwritten		
Risk Class	Distribution	Relative Mortality
Super Pfd	40	75%
Pfd	30	90%
Std Plus	10	110%
Std	20	160%


Streamlined Underwriting		
Risk Class	Distribution	Relative Mortality
Std	100	100%

After adjusting for defectors

Fully Underwritten		
Risk Class	Distribution	Relative Mortality
Super Pfd	20	75%
Pfd	30	90%
Std Plus	10	110%
Std	20	160%

Streamlined Underwriting		
Risk Class	Distribution	Relative Mortality
Std	80	106%

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Mortality Munich RE 

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... And more defectors

Fully Underwritten		
Risk Class	Distribution	Relative Mortality
Super Pfd	20	75%
Pfd	20	90%
Std Plus	10	110%
Std	20	160%


Streamlined Underwriting		
Risk Class	Distribution	Relative Mortality
Std	70	109%

Plus some immigrants

Fully Underwritten		
Risk Class	Distribution	Relative Mortality
Super Pfd	20	75%
Pfd	20	90%
Std Plus	10	110%
Std	40	160%

Streamlined Underwriting		
Risk Class	Distribution	Relative Mortality
Std	90	120%

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Mortality Munich RE 

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Include a preferred risk class

Fully Underwritten		
Risk Class	Distribution	Relative Mortality
Super Pfd	40	75%
Pfd	30	90%
Std Plus	10	110%
Std	20	160%

Streamlined Underwriting		
Risk Class	Distribution	Relative Mortality
Pfd	70	81%
Std	30	143%

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### Preferred criteria


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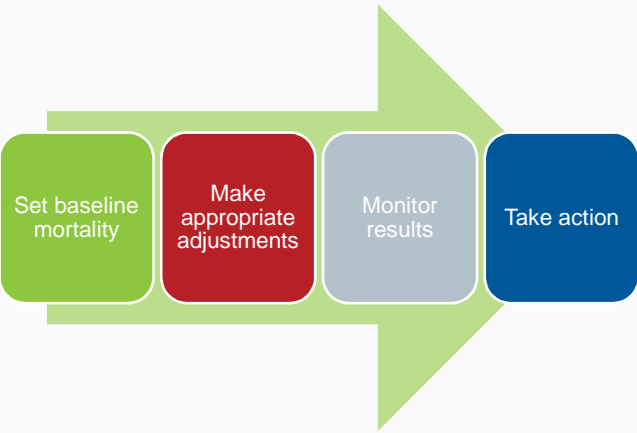
- Medical history
- Build
- Family history
- Rx history
- Rx compliance
- MVR history
- Self-reported blood pressure
- Self-reported cholesterol

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### Best practices: Mortality

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graph LR; A[Set baseline mortality] --> B[Make appropriate adjustments]; B --> C[Monitor results]; C --> D[Take action]
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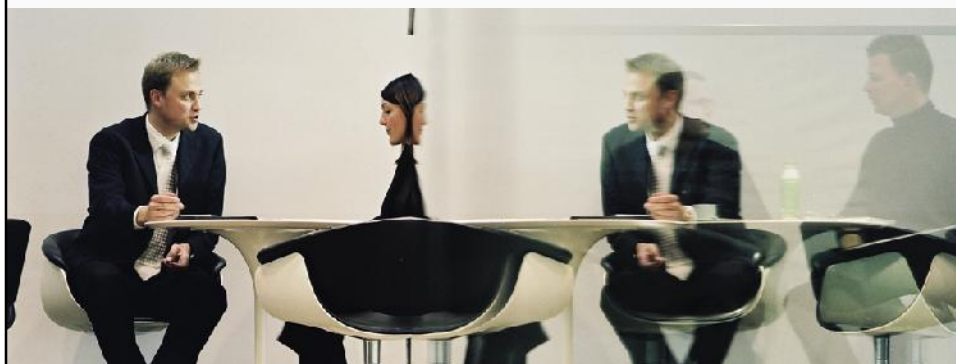
## Business analytics: Summary

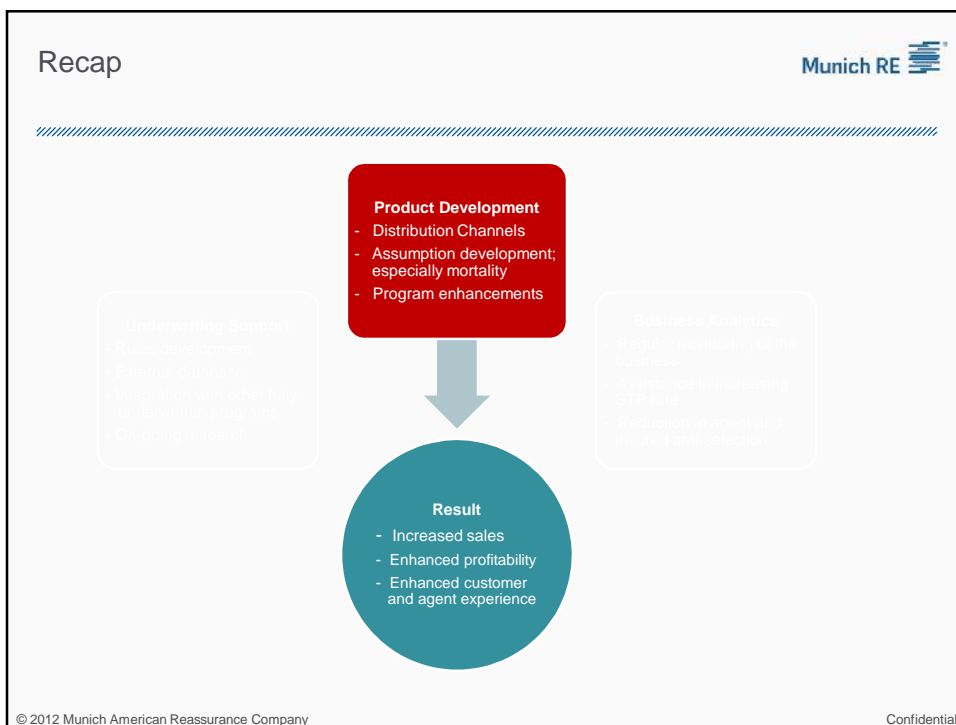
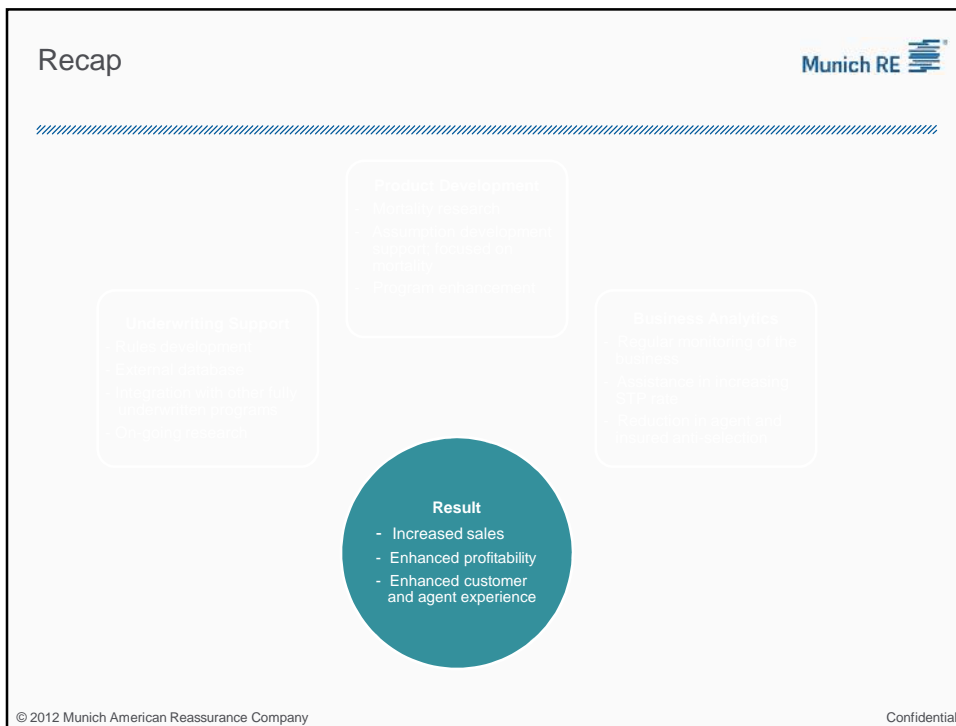


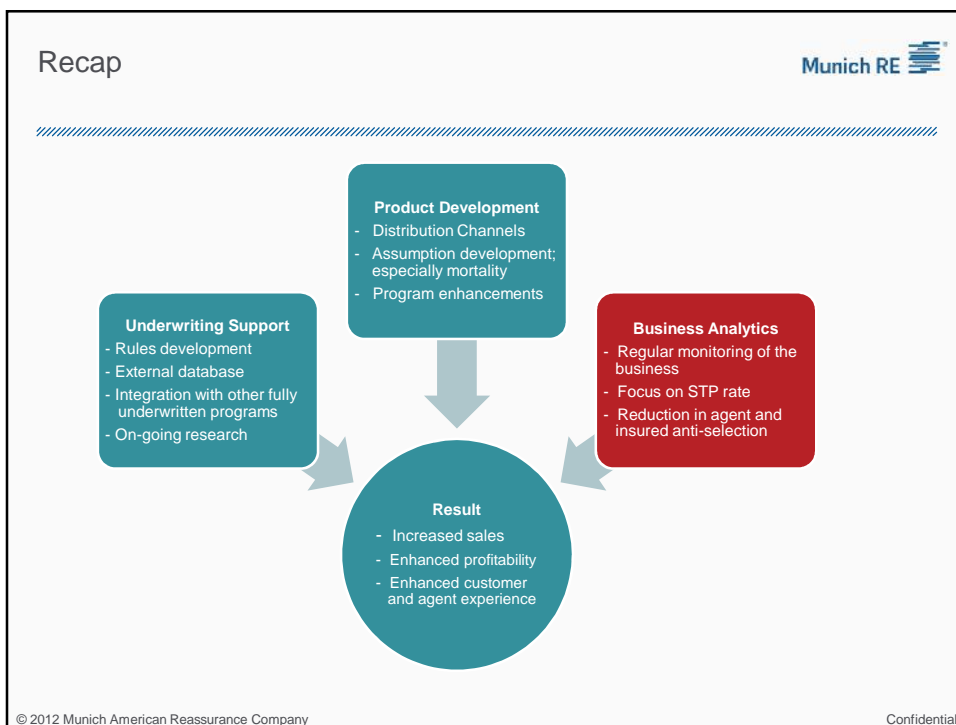
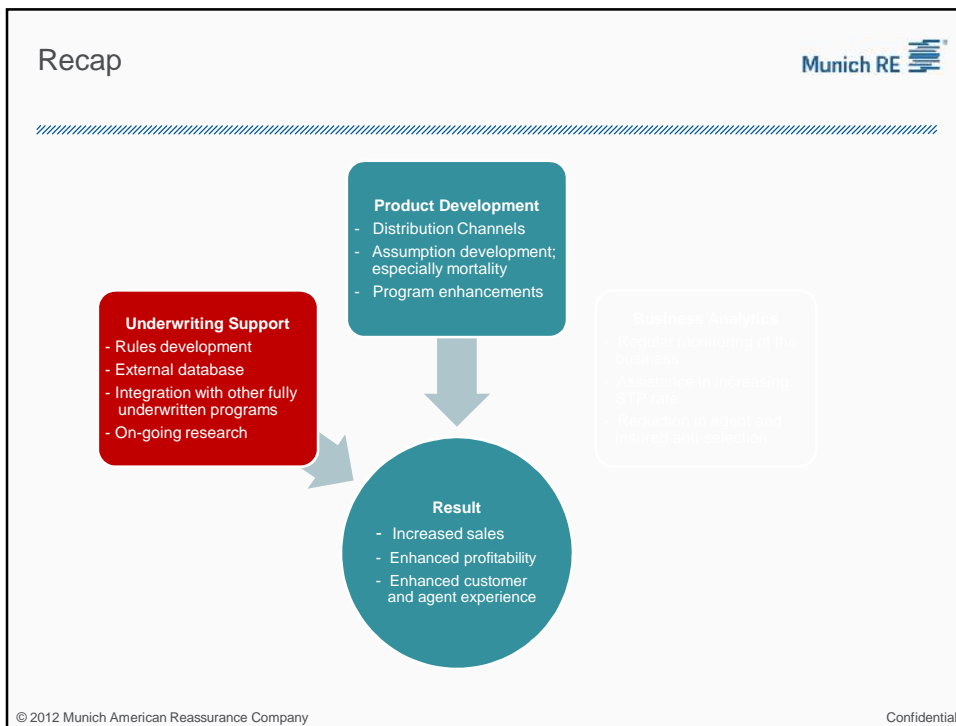
- A critical component of a well-designed program
- Robust and flexible
- Real time monitoring
  - Executive Dashboard
  - STP rates
  - Impairments
  - Agent behavior
- Consider Reinsurance



## SUMMARY









THANK YOU FOR YOUR ATTENTION

QUESTIONS?

