The Automation of Underwriting – Capturing its Potential

At different times in our working-lives, there is a strong likelihood we have all been guilty of "going through the motions", or of simply doing things because "that's the way it has always been done". But occasionally an individual enters our space and begins to ask questions such as: Why? How? What if? And, Why not?

For many of us, finding time to pause from our endeavours, take a deep breath, and pop our heads up over the wall to catch the view is a luxury often incompatible with client demands, in-house deadlines and personal objectives. However, our industry – just like any other – constantly needs to take stock of where it is at, and we need ongoing innovation to match the stride of our clients' changing needs. Questions about why we "do stuff" need to be asked (and answered). Practices need to be challenged. We need to know what it is we want to achieve, and why.

Taking stock of our automated process, of course, is just as important as that of any other process and - noting such a significant number of submissions coming into Australian insurers via an electronic-application + underwriting rules engine (URE)[i] – it is certainly not an area to be ignored. It is interesting to note that a Deloitte survey conducted in 2009 across 250 North American insurers revealed that most insurers experienced some level of disenchantment once the automated system had become the "new norm" – no longer impressed with the systems' abilities to meet set business objectives.[ii] There could be a myriad of reasons for this, but it seems clear that expectations around the deliverable benefits of the automation need to be managed, and consideration given to exactly how objectives could be met - beyond the implementation stage. Any thoughts of being able to simply purchase an underwriting rules engine(URE), plug it in, and walk way need to be shelved (at all levels of an organization).

The bus is rolling…

The foremost reasons most insurers first boarded the auto-underwriting bus was to save time and money. These are two of the main drivers motivating remaining insurers to automate their underwriting process. However, over the past few years it would appear that the drivers for underwriting automation have "matured". Now - whilst all companies still want to save time and money - demands of the automated process have become a little more sophisticated – data mining, trend analysis and strategic portfolio management have all entered the mix.

In my opinion, the next wave of initiatives will come from those insurers who recognize the value of their electronic data, and effectively analyse it before taking action.

"There's gold in them thar hills…"

"One of the greatest benefits of electronic-underwriting and straight-through processing is that from the moment that information becomes data in an electronic river flowing through an organization, there is opportunity for analysis. The leading software companies developing engines have recognized this and have spent most of their development effort of the last few years creating data analysis modules which sit within their underwriting systems”.[iii]

We now have - at our fingertips - a bounty of data not available to our colleagues of yesteryear. Frequently disclosed conditions, insured demographics, the breakdown of benefits, adviser usage, product performance, costs per case, rating classifications – all this information (and more) can now be retrieved with relative ease and speed. With “real” data, plus expert analysis, our industry is in a better position to manage risk than ever before.

As previously mentioned, some URE software companies have developed data analysis modules which sit within their underwriting systems. These analysis tools can extract an impressive cross-section of data from the thousands of cases submitted electronically, which is ideal - if you have such a module. Unfortunately, in the initial rush to offer clients an automated solution, many insurers do not give due consideration to the type of data analysis they may want and/or need, or whether or not the chosen e-app and URE software and set-up, plus back-office systems, are compatible with a slick data analysis tool.

Inevitably this initial oversight can lead to a very manual process of extracting data from various systems – sometimes requiring days of work every month from a couple of dedicated resources - in an attempt to gain a clear picture of what is coming through, what is causing the “bottlenecks”, and where improvements can be made. Some insurers baulk at the cost of purchasing, or developing, a data analysis tool. Whilst the set-up cost might be significant, it would seem somewhat short-sighted to avoid costs up-front only to spend significant time and resources on an ongoing, long-term basis in an attempt to gain insight into our own businesses. In addition, inadequate reporting/analysis, will delay any key improvements which will positively impact the customer experience (and, hopefully, keep them coming back), and any risk-management flaws cannot be speedily addressed.

Of course, one of the real returns on investment is the depth of the data available: “The data spat out by some…..engines gives pricing actuaries and marketers new and timely insights into the characteristics of the customer base and the risks being taken on, allowing pricing and product features to be refined with much more immediacy than before, and more precision in reserving.”[iv]

So, how to strike gold?

Planting a field could be considered a finite task. Tending that field, however, requires ongoing energy and attention every day right through until harvest. And if one has only enough seed to plant half the field – there’s not much hope of an abundant harvest.

Similarly, the implementation of an e-app and an URE is also a finite task. Once these tools are in operation though, the ongoing use, maintenance, and revision make up an entirely new process. Treating automated underwriting as merely a “side-project” is potentially self-limiting. Like any worthwhile process, underwriting automation requires adequate resourcing and attention to be at its most advantageous. From observations in our market, it would seem insurers may have been a little slow to invest resources here. If this imbalance is righted, and quality data reporting tools implemented, it would not be over-ambitious to expect significant improvements in STA rates, increased usage of the automated solution, new business channels, and even clever product enhancements.

Multi-faceted challenge

If we were to break down the automated underwriting process into its most basic form system-wise, there are five main components: quote, e-app, URE, data analysis module, and back-office. (Although technically not part of the traditional *underwriting* process, I have included "back-office" systems because a sophisticated data analysis module will utilize data from these and allow various reporting options which can then impact the underwriting approach). There are no silos here, rather complex, over-lapping factors all requiring attention as part of the ongoing review, maintenance and optimization of the automated process.

Assuming the online quoting system is operating as it should, the next most fundamental relationship to be managed is that between the e-app and the URE. How well these two components "talk" to one another will be key in determining how well the URE can act upon disclosures made by the applicant – particularly in the area of income and occupation-related rules (for disability benefits, in particular). Most insurers in Australia already have an automated solution in place, and it is possible that the insurers' respective e-app and URE are not communicating as well as one might have hoped. Not surprisingly, to fix this issue will cost money – given the expertise required - but I would consider this to be wise investment in a valuable process. As greater volumes of business continue to be submitted electronically – ensuring the e-app data capture is as flexible as possible to allow the URE to arrive at smarter outcomes will improve overall costs and efficiencies.

Are we ready to break new ground?

Whilst the automation of underwriting processes is likely to continue and develop further (e.g. lab results, PMARs, medical exams), it's likely the next innovative steps with regard to significant improvements in STA rates, portfolio management, and product enhancements will come from those insurers who recognize the value of the data they are collecting via the automated process. Analysing the data may well reveal some interesting trends, possibly with wider ramifications for the life insurance industry.

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[i] "Planners fast track insurance processing through web" http://www.financialstandard.com.au/news/view/29529

[ii] P.21, "Automated Life Underwriting – A Survey of Life Insurance Utilization of Automated Underwriting Systems", prepared by Mike Batty, Alice Kroll, Deloiite Consulting (December 2009). Copyright 2009 Society of Actuaries.

[iii] "Automating the Underwriting Process" – Underwriter e-Alert, Vol 19 No 4, January 2010.

[iv] Automating the Underwriting Process, Underwriter e-Alert, Vol 19 No 4, January 2010