

AN OPEN LETTER TO OUR FELLOW UNDERWRITERS



Colin Kearney
AVP, Chief Underwriting Officer
SCOR Global Life Americas
Charlotte, NC
ckearney@scor.com



Philippe Aussel
Director, Technical Underwriting
SCOR Global Life Canada
Montréal, QC
paussel@scor.com

Dear Underwriter,
Times are changing in a previously unseen, disruptive way! Fasten your seat belts!

Our underwriting landscape has been stable over decades, but recent changes in our industry are dramatically rocking the trusted old and known. While actuaries have had the opportunity and need to develop skills in computer programming and data analytics early, underwriters have had only limited exposure to those methodologies. However, at the time of writing, the pressure on underwriters to adapt to a new risk selection environment has rapidly risen. Acquiring new analytics knowledge, understanding and skills, while retaining and growing the traditional underwriting expertise, is admittedly most challenging.

Since the birth of modern Life insurance, actuaries and underwriters have used proprietary and distinctive criteria to assess risks and determine premiums:

- Age, gender, tobacco usage.
- Health status.
- Occupation and hazardous activities.
- Character and finances.

With the advent of the HIV/AIDS epidemic in the mid-1980s, new health questions were added, and the laboratory vendors convinced the insurance industry to obtain complete blood profile. Those provided a whole new range of valuable additional information for risk selection purposes, as well as laying the foundation for the introduction of Preferred risk classification in the late 1990s. While Life insurance pricing became more competitive, the underwriting morphed insidiously into a more invasive and lengthy process that turned out to be costlier, since more evidence (vitals and fluids) had to be obtained, manually processed and reviewed by ever more knowledgeable experts.

Executive Summary *Is our trusted way of underwriting (Life) insurance risks being threatened by more agile, disruptive entrants? Are complex medical terms, proficiency in EKG reading and in financial statement analysis, knowledge of taxation and estate planning on their way out? Today's underwriters are challenged to adapt and learn tomorrow's vocabulary because big data, data mining, data analysis, statistical inference, artificial intelligence and predictive modeling are our future companions. Will our new partners in crime be data scientists, and maybe not actuaries any more? Turbulences are ahead! Are you ready?*

The contemporary interest for simplified underwriting is driven by the desire for faster and cheaper policy issue by obtaining less biometrics evidence. Typically, no vitals, fluids or APS's are ordered, and the medical questions are rewritten to gain as much knowledge about the applicant in as few questions as possible. There are still unresolved pricing issues associated with simplified underwriting, because less extensive underwriting requirements make the product actuarially pricier.

At the same time, ruled-based and e-underwriting technologies have been developing rapidly and thus allowing for more automated straight-through application processing. The industry is referring to this as accelerated underwriting. Together with better articulated drill-down questions, there is greater use and reliance on external databases (identity verification, prescription database – US only, credit verification, driving history, etc.), but the artificial intelligence (AI) of those systems to make a predictive decision or to bypass the traditional underwriting by trained professionals is still in its infancy, but definitely coming our way.

Underwriting has long been at the core of risk assessment by insurance carriers, and while technological advances have driven process efficiencies, they appear to be incremental and, up to now, there has been nothing transformational to reduce the complexity, the cost, the time to review an application and to issue a policy in an environment, which becomes instant.

Substantial statistics are collected during the application process, and the Life insurance industry is slowly making better use of data. Of course, there are significant concerns regarding privacy, but this is beyond the scope of today's discussion. Those concerns aside, the question arises if today's consumers would be prepared to share more intrusive personal data in exchange for the best possible insurance experience and price? The following chart gives a synoptic overview of the many possibilities that already exist to access the proposed insured's personal data from external third-party sources.



In the not-too-distant future, it may include airlines and customs clearing databases, financial transactions and spending habits, social media, facial analytics, tax return transcripts, etc.

Big Data is not new nor is it disruptive. What is game changing is the prospective use of Big Data to predict the outcome of insured customers in a way that has the power to alter profoundly the underwriting and pricing processes for the mass and middle market. The future of the Life insurance model is clearly shifting to less reliance on traditional biometrics factors, whereby fully exploiting the far-reaching potentials of automation, predictive risk modeling,

underwriting scoring and algorithms. How the speed of technological advances will evolve going forward remains difficult to predict. However, multi-talented, technologically well-informed, data-minded underwriters will have an important role to play in this new Big Data-driven paradigm. We need to embrace this new reality.

What should we be doing as underwriters going forward?

1. Find out, through either the experts in your own company or your reinsurer, what current predictive modeling tools they are researching or have in place.
2. Understand the impact these will have on your company's underwriting process! Does it mean that your company is planning on replacing current traditional Age & Amount requirements (such as fluids) with the use of predictive data (such as credit scoring) or other forms of modeling?
3. If so, what is the impact for you as an underwriter? Will your caseload change? Will you be assessing different types of cases from before, such as receiving a risk score, and combined with electronic medical records (EMR) or other evidence reach an overall decision?
4. Or does your company have plans to bypass the traditional underwriter's tasks and replace them with more data analytics or research tasks?

In conclusion, the way underwriting evidence is gathered and the risk assessment methods to make an underwriting decision are profoundly changing and consequently the underwriter's role as well. Underwriters need to embrace the change and understand how they can contribute to this new paradigm. Finally, underwriters will need to learn new ways to make the best decision possible for the end-consumer, which in turns enhances the company's reputation and thus growing our industry and profession.

In the words of Charles Darwin: *"It's not the strongest or the most intelligent who will survive but those who can best manage change."*

About the Authors

Colin Kearney is responsible for the direct supervision, management and motivation of the underwriting staffs in the Canadian market in order to provide accurate and timely appraisal of all facultative reinsurance cases, as well as implement country-specific underwriting practices. Colin also works directly with clients throughout the deal process to foster strong relationships, develop innovative solutions that meet clients' needs, and achieve results within risk management objectives. He directs the development and revision of SGLA's Canada risk selection guidelines and other underwriting programs and processes, including the development, implementation and documentation of consistent underwriting practices, controls and procedures aligning with those of the SGLA Underwriting Division. Prior to joining SGLA in November 2014, Colin's roles included Support and Development manager in SCOR Paris and Chief Underwriter Europe of Transamerica Reinsurance. Colin has over 25 years of experience working in the Reinsurance and Insurance industry, which includes exposure to numerous international markets and presentations at numerous underwriting events and seminars. He is a founder member of the French Underwriters Association and holds an MBA from the Open University Business School in Milton Keynes and numerous insurance certificates including a Diploma in Underwriting from the Chartered Institute of Insurance.

Philippe Aussel has over 40 years of facultative reinsurance underwriting experience and has worked for SCOR Global Life since 2003, having started at Munich RE in 1977. *ON THE RISK* published articles by Philippe on "Essentials of Financial Statement Analysis and Business Valuation" in September 2012, "Advanced Life Insurance Concepts at a Glance for Underwriters from a Canadian Perspective" in September 2013, "Essentials of Canadian Taxation in the Life Insurance Underwriting Framework" in March 2015, "The Drivers of Future Mortality: An Underwriter's Perspective" in September 2015, and "The Unique Challenges of Underwriting Children for Life Insurance" in December 2017. Philippe holds an Insurance Management degree from the German Insurance Academy (Deutsche Versicherungsakademie) and in 1996 wrote his final study paper on "Financial Statement Analysis for the Non-Professional Reader."