Simplified Issue and Accelerated Underwriting

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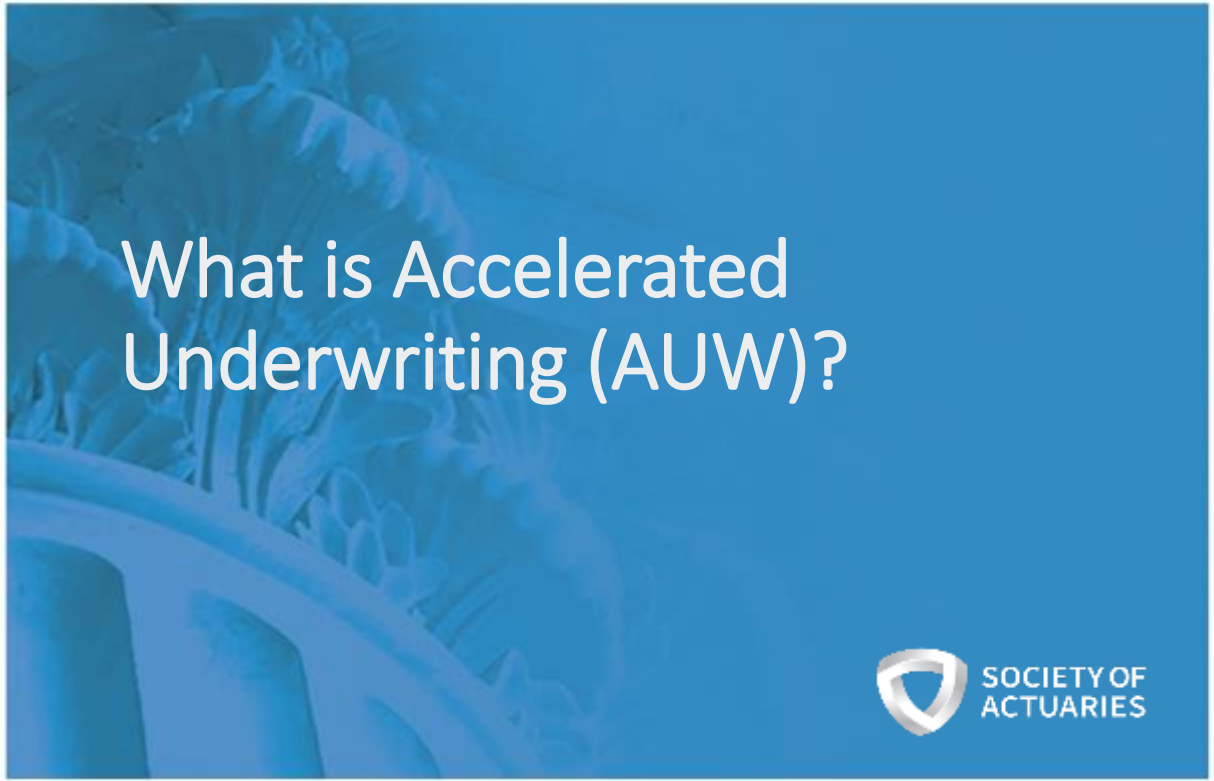
What is Accelerated Underwriting (AUW)?



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What is Accelerated Underwriting (AUW)?

- **Working definition*:** AUW is a process that is dynamic in that non-medical and medical information gathering may be customized to the individual applicant.
  - The information gathered on two applicants for the same product, at the same face amounts, and for the same gender, age, and smoking status may be different
  - The impact on the retail premium is not expected to be significantly different from impact of traditional fully underwritten processes as we know them today
  - To achieve this dual goal the approach may involve:
    1. Reliance on traditional and non-traditional sources of information
    2. The use of predictive models that quickly interpret available information
    3. Parse the applications into cases that can be rated through non-traditional methods alone and cases that have to go through traditional underwriting

The result of AUW processes is to "right-size" the underwriting with a less invasive underwriting approach and faster time from application to issue for certain applicants with higher likelihood that collection of additional information would not change the underwriting decision.

* Formal AUW definition currently being worked on by the SI and AUW Work Group

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Identifying AUW

- AUW may look like an expanded simplified issue process but with mortality that aligns more closely with fully underwritten business
- AUW is often modeled using predictive modeling and complex algorithms
- May include
  - Traditional underwriting sources collected through different means such as MIB, MVR, criminal history, Rx data, electronic lab data, and health records; and
  - Expanded application and tele-interview process
  - Non-traditional data such as clinical lab data, credit profiles, facial analytics, etc.
  - In many cases, exclude fluids (blood/urine) for cases that qualify

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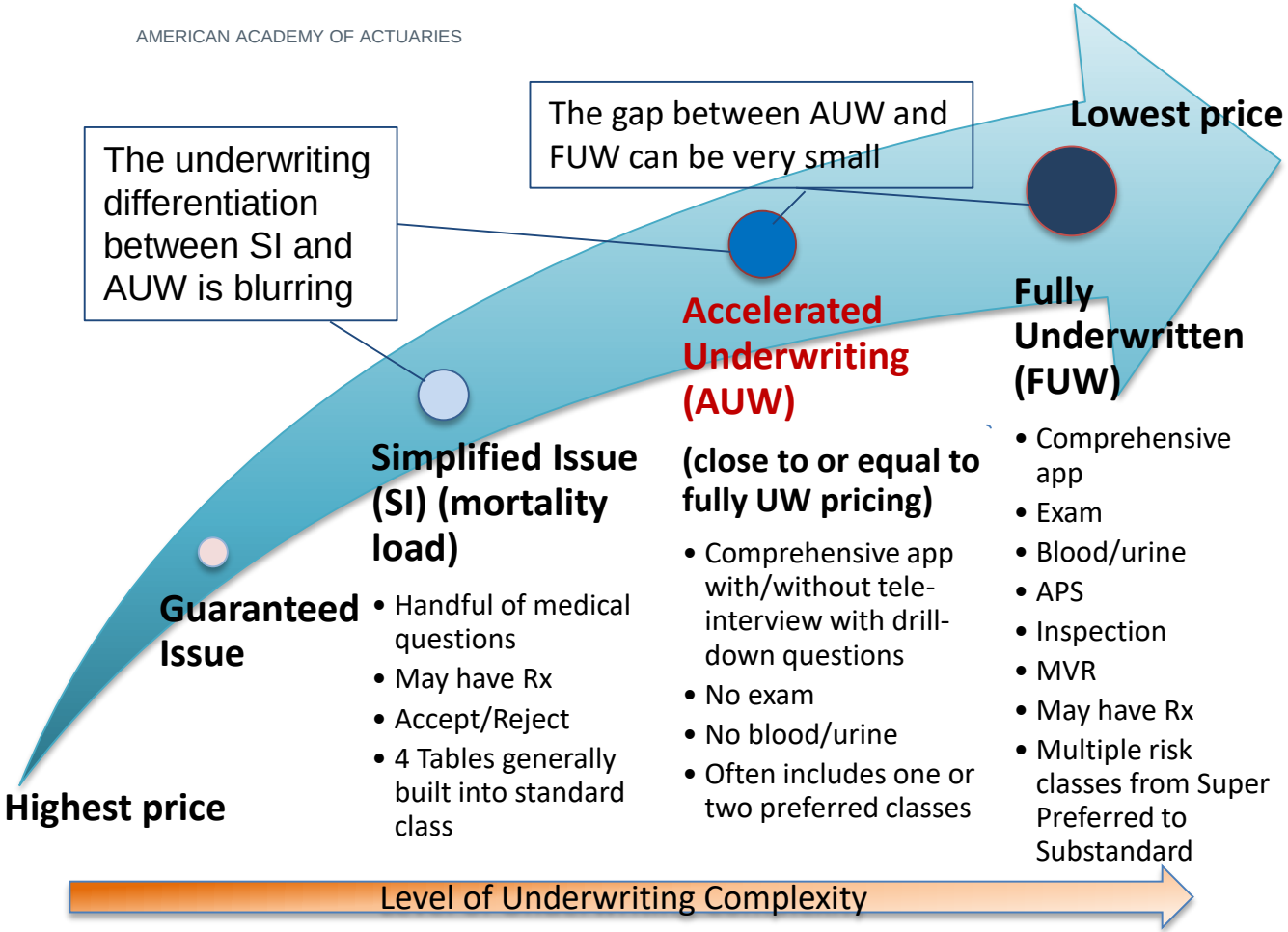

The separation between traditional simplified issue (SI) and fully underwritten (FUW) is blurring with accelerated underwriting (AUW) and removal of blood and urine

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Measuring the impact of AUW regimes

- AUW approaches are not homogenous and have different mortality impact expectations
  - Expected mortality differences by class typically range from small expected impact to in excess of 10%
  - Most result in shifting of mix of business between standard and preferred classes

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Innovation and disruption in underwriting is driven by several factors: New data sources, predictive models and analytics

Computational tools to analyze and develop sophisticated predictive models

Steady increase in availability and usefulness of instantly accessible data sources

- Majority of applicants through age 55 or 60 can be fully underwritten towards 'Standard Mortality,' including preferred, without exam/fluids, using combinations of alternate information sources. This can be achieved by:
  1. Knowing and appreciating the degree and power of appropriate pipeline selection; and
  2. Carefully stratifying applicants suitable for 'no fluid' selection by using other favorable parameters that can be obtained non-intrusively (Rx check, MIB, MVR, credit profiles, enhanced application, detailed questioning, etc.)
- Use of other data sources, smarter applications, and tele-interviews are replacing the traditional underwriting process for certain ages and face amounts

New data sources include:

- **Enhanced applications with use of behavioral economics**
- **Predictive models**
- **Credit profiles**
- **Electronic Health Records**
- **Electronic Clinical Lab Records**
- **Smoker propensity**
- **APS Summaries**
- **Applicant candor**
- **Use of wearable devices**
- **Facial analytics**
- **Criminal history**
- **Other emerging technologies**

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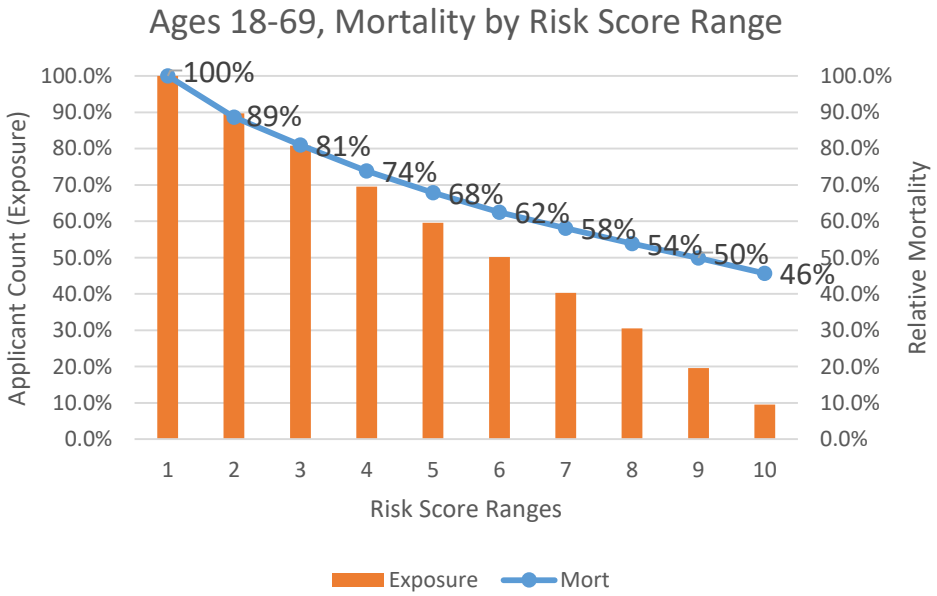
Use of risk scores via single or combined data sources becoming common in AUW programs



Underwriting towards any desired level.

Unlike legacy UW approaches, selection by Risk Score can be finely tailored towards a specific target across a wide range of possible scenarios.

As less favorable risks (by score) are 'removed' from the group, the mortality of the remaining applicants improves in predictable fashion.

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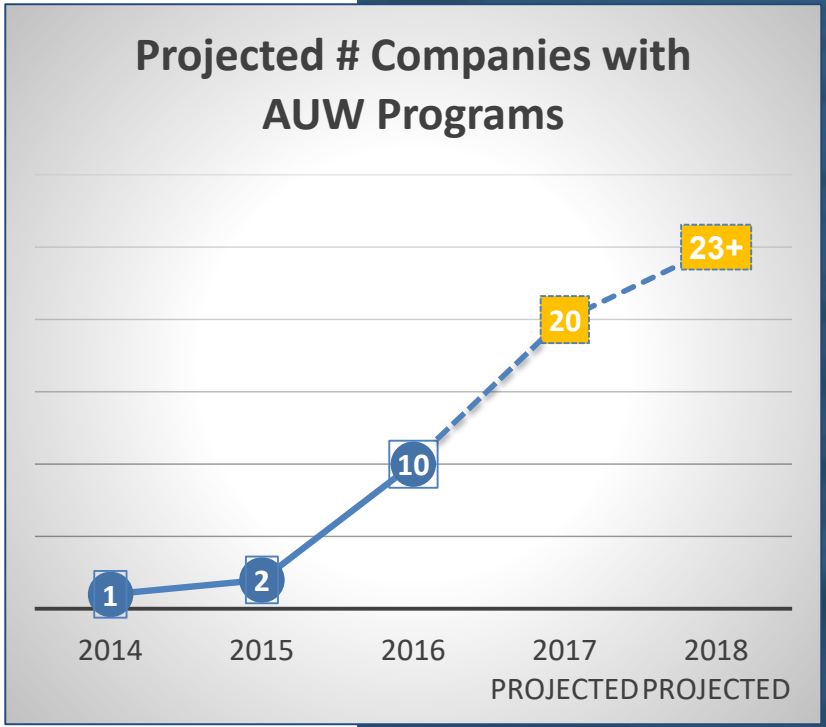
Number of companies with AUW programs is increasing at a rapid rate

- In 2014, one major plan introduced AUW for fully underwritten products
- In 2016 and 2017, significant increase in the number of companies with AUW programs
- SOA survey conducted in 2016
  - Results of 27 respondents currently being compiled
    - 10 have implemented in some form;
    - 10 working on implementing;
    - 3 currently evaluating



Source: Society of Actuaries 2016 Predictive Analytics and Accelerated & Enhanced Underwriting Survey Preliminary Results and SCOR Global Life internal research

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Company motivations and approach to AUW varies and often drives structure of program

Motivations for change

- Attract new customers
- Aging underwriter force
- Aging distribution network
- Reduce expenses
- Improve the customer experience
- Improve risk selection and add consistency

Approaches vary

- Knock-out
- Triage
- Parse
- Predictive decision model
- Most utilize Rx rules engine
- Underwriter may review all cases
- Some limit classes
- Most limit and face amount
- Some require tele-med on all cases and revised application

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A single table or approach is difficult for SI/AUW products

- Mortality outcome for any underwriting regime is a factor of many selection levers
- All levers need to be considered
- For these reasons, two seemingly similar programs may not result in a similar mortality outcome

- Key determinants to mortality outcome include:
  - Application structure
  - Target market
  - Distribution method
  - Individual selection criteria
  - Claims adjudication policies
  - Program management

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Upcoming challenges with emerging changes

- Deterministic valuation under VM-20
  - Most SI and some GI business issued as level premium term;
  - AUW business issued both term, UL, WL, and ULSG
  - Prescribed method does not fully contemplate GI/SI business or the blurring between traditional SI business, accelerated underwriting and fully underwritten
  - RR Tool does not apply for underwriting without fluids nor consider new data sources
  - Acceptable support for use of new data sources, mortality credibility, etc.
  - Nonforfeiture and tax implications with blurring definitions for underwriting regimes

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Upcoming challenges with emerging changes (cont'd)

- Mandatory data collection under VM-51
  - Need different data than traditional to differentiate and understand programs and expected mortality outcomes as underwriting becomes less homogenous
  - Need definitions as SI/GI not currently part of mandatory data collection
  - Frequent program modifications and refinements to predictive models in order to achieve desired mortality outcomes will create additional noise in the experience analysis and will be difficult to measure

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From August NAIC LATF Meeting

- For the range of business issued under either a simplified or accelerated underwriting regime*
  - Explore development of an approach for companies to use to set valuation mortality rates based on specific levers and expected experience
  - Develop definition for VM-20 to address when this process would or would not apply
  - Develop guidance to clarify approach and considerations for companies' determination of:
    - Applicable industry table
    - Application for mortality segment
    - Margin level

* Guaranteed issue under term chassis also to be considered but wasn't formally discussed at August meeting.

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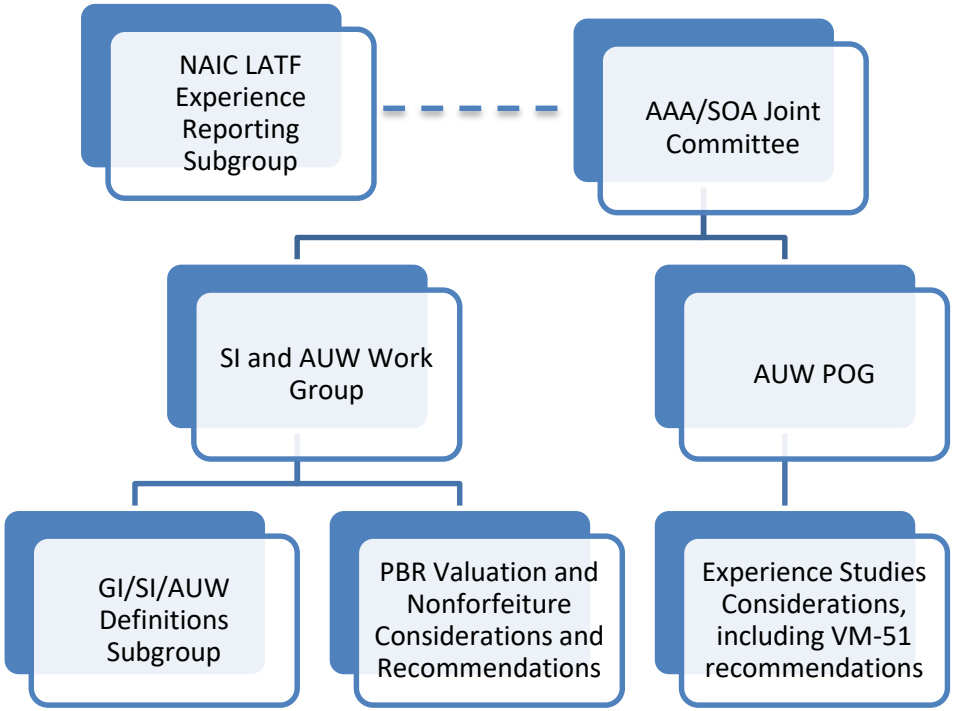
Joint Committee SI and AUW Structure



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Work to date

- Work Group and POG formed
- POG has been meeting regularly
  - Working on ideal data request list for data needed to study and differentiate AUW programs
- Work group
  - One collective meeting
  - Subgroups formed, with each meeting once so far
  - Developing project plan with target delivery dates

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Thank you for the opportunity to provide input.

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If you have any questions or would like to further discuss these topics, please contact Amanda Darlington, life policy analyst, at darlington@actuary.org.

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