



Easy to Buy... but not Easy to Claim

A look at simplified underwriting methods for life and health protection business



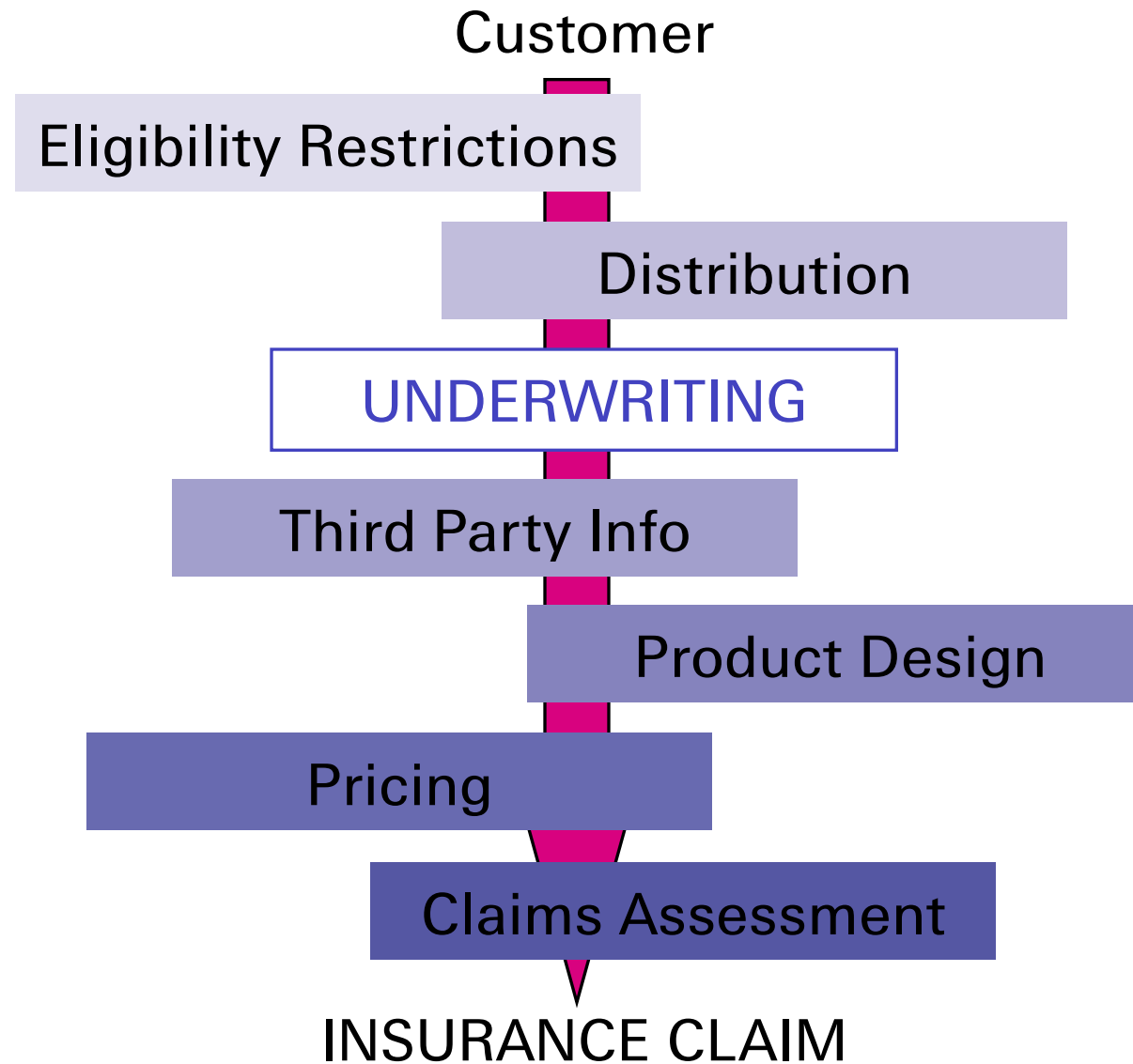


Objectives

- Objectives of Underwriting
 - Stop the unhealthy lives from entering
(Or charge unhealthy lives for the extra risk)
 - Allow the healthy lives to enter
 - Ensure that cover amount is consistent with needs
- Objectives of Simplified Underwriting
 - Make it easier for the healthy lives to enter
 - But not too easy for the unhealthy lives to enter
 - Don't give people too much cover

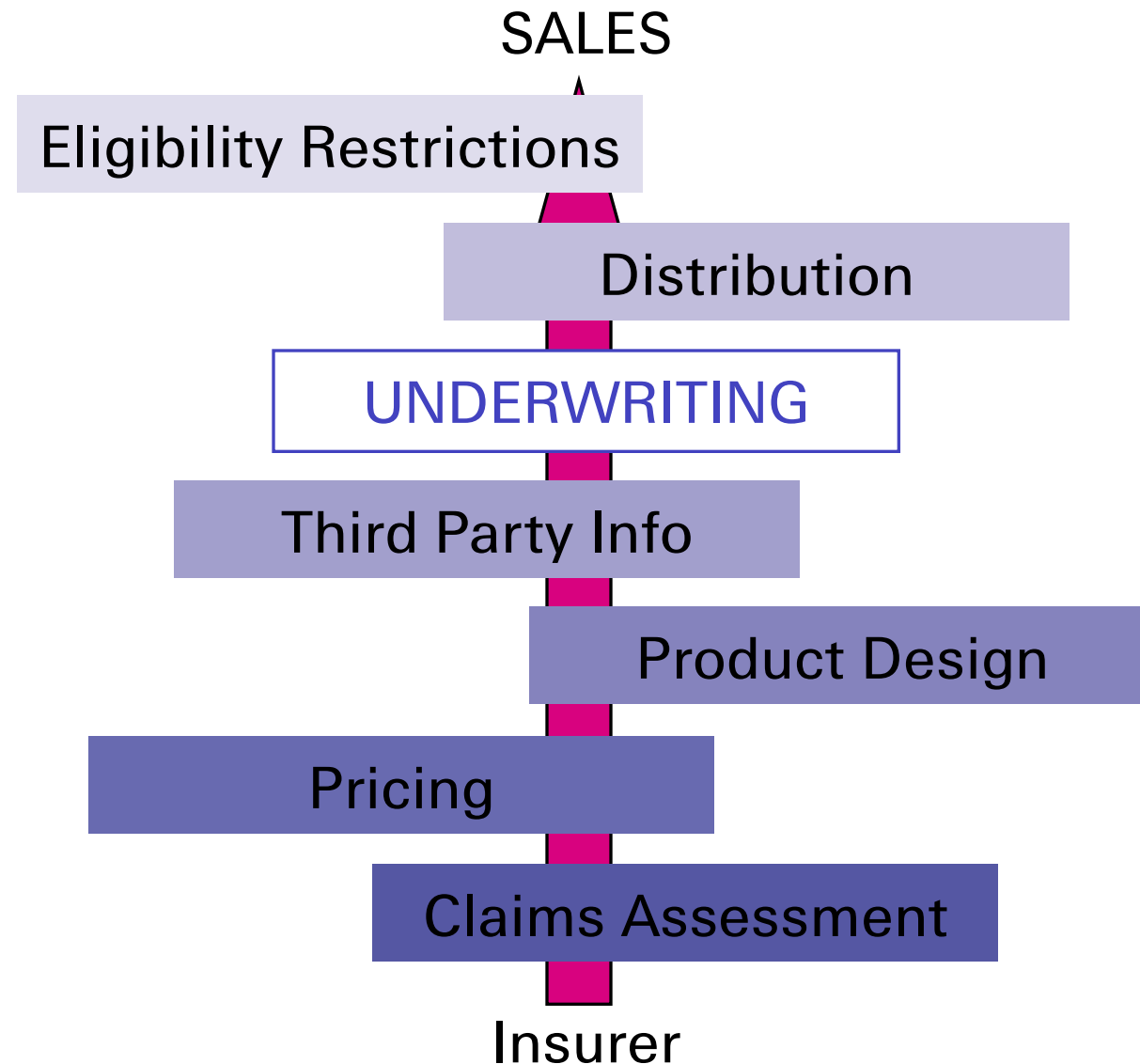


Holistic Underwriting





The same barriers also work in the opposite direction





Conventional Simplified Underwriting

- Fewer questions to speed up application
- Possible Questions
 - Reasonably common or highly anti-selective major illnesses (Cancer, Organs, Stroke, Diabetes, HIV, etc)
 - Hospitalisations, consultations, medications
 - Previously declined, loaded, excluded
 - Hazardous occupations or pursuits
 - Spinal, muscular, neurological, psychiatric (Disability)
 - Smoking
 - Height & weight
 - Medical leave
 - Family history



Conventional Simplified Underwriting

- Question design
 - Ideally yes/no answers, otherwise follow-up required
 - Specific, clear and unambiguous, not multi-layered
 - Balance between minimising deterrents for healthy lives (false positives) and minimising acceptance of unhealthy lives (false negatives)
 - Discourage applications from unhealthy lives
 - Discourage over-disclosure



But Beware... Non-Disclosure

- Some observations on non-disclosure (SR Internal Data)
 - % of Substandard Lives with Issue Age 30 to 45 by Sum Assured Band

SA Band	Company 1	Company 2	Company 3	Company 4
1	6.1%	2.7%	1.9%	0.8%
2	6.2%	3.0%	4.7%	1.1%
3	10.5%	5.0%	11.4%	3.8%
4	15.0%	7.4%	16.8%	6.4%

- Band 1 ~100% non-medical, some simplified
- Band 4 ~100% medically underwritten
- Companies from Singapore, Hong Kong, China and India (but not necessarily in that order)



Holistic Simplified Underwriting

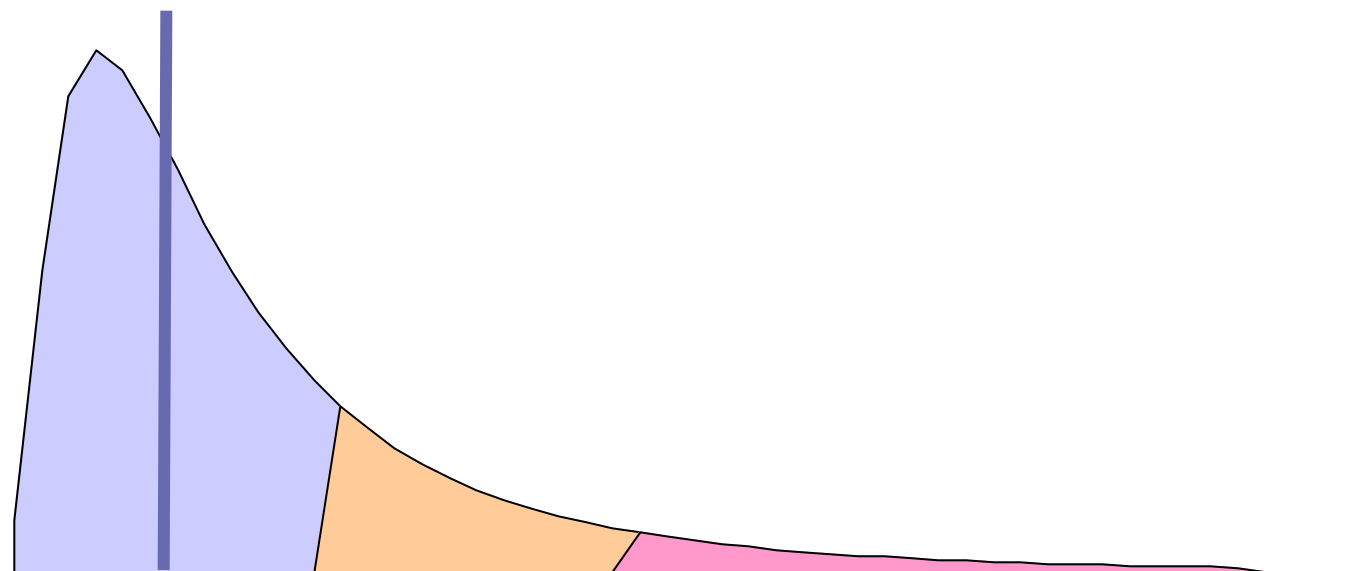
- Simplified Underwriting with...
 - Distribution channels tailored for the target market
 - Restricted eligibility requirements
 - Pre-selection of target customers
 - Reliance on third-party information for underwriting
 - Product design modifications
 - Burden of risk assessment shifted to claims
- > Designed to achieve...
 - Simple and quick sales process
 - Lower distribution costs
 - Product features attractive to healthy lives
 - Small price differential vs conventional product



Normal Underwriting

Distribution of Insurance Customers

Claims Cost for
Standard Lives

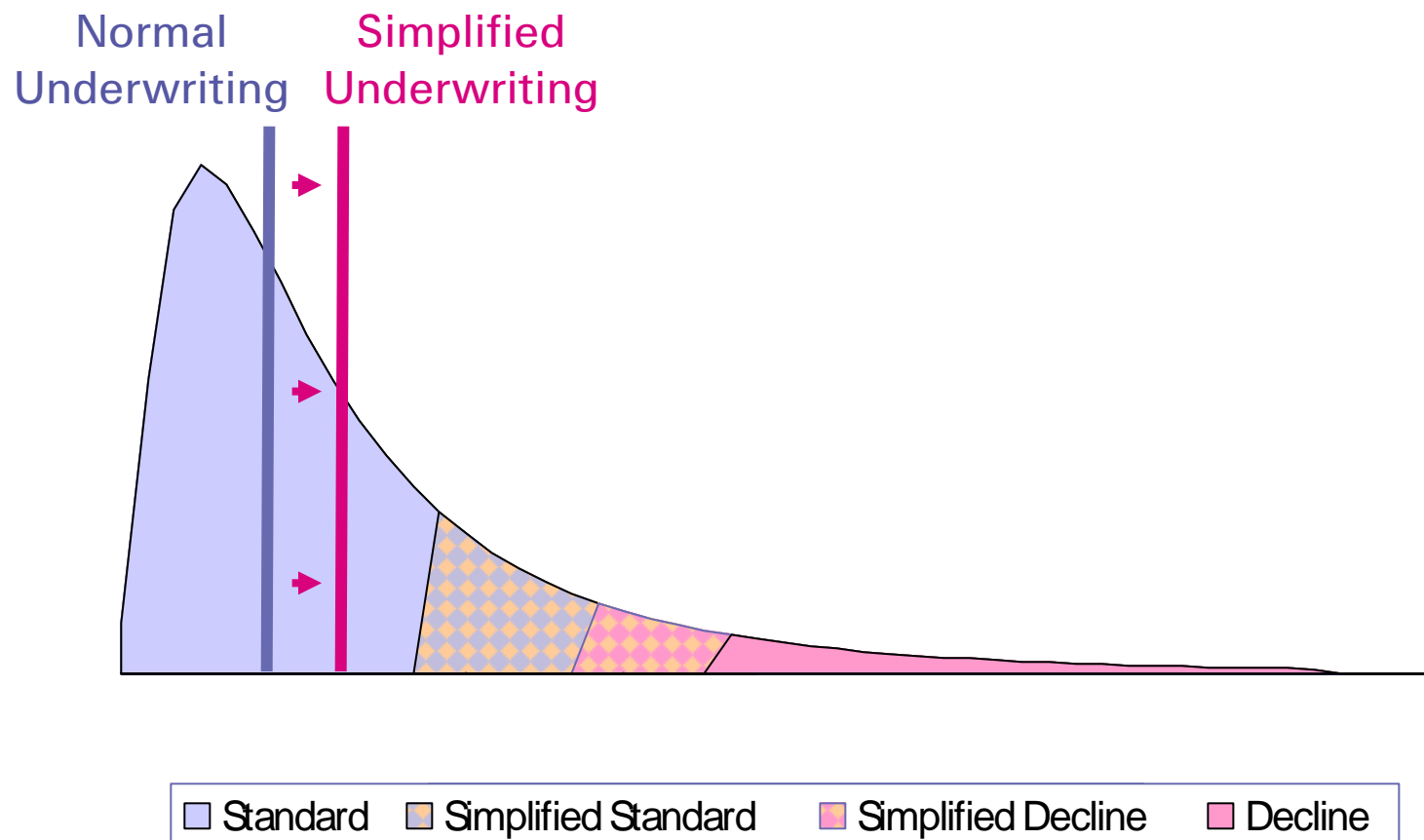


Standard Substandard Decline



Conventional Simplified Underwriting

Distribution of Insurance Customers

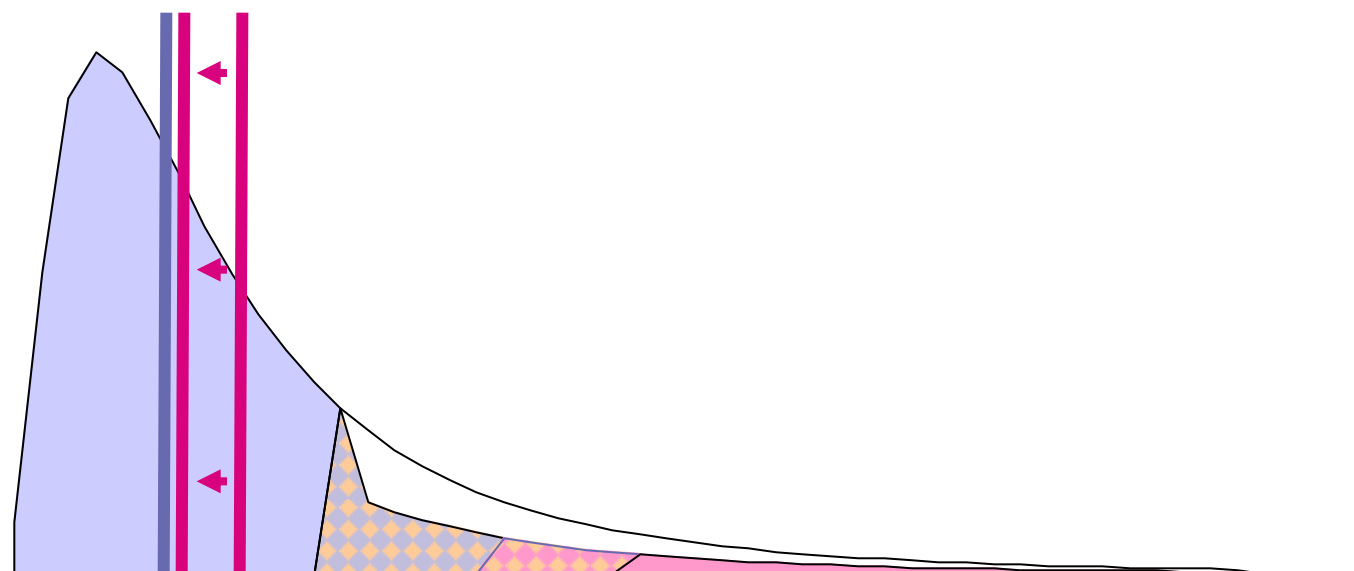




Holistic Simplified Underwriting

Change the Distribution of Customers

Normal Underwriting Simplified Underwriting



Standard Simplified Standard Simplified Decline Decline Not Eligible



Restrictive Eligibility Requirements

- Target lives who have already been underwritten
 - Upsell to lives underwritten in the last x years
- Target lives with good reasons to buy insurance
 - Recently married
 - Recently had / adopted children
 - Regular increases with inflation / salary inflation
 - Recently bought a new home with large borrowings
- Target lives who should be in above average health
 - Actively at work
 - Only interested in investment / savings features



Pre-Selection or “Lifestyle” Underwriting

- Use data available from distributor data to “pre-select” or “pre-approve” customers with characteristics positively correlated with good health
 - Banking data
 - Credit card expenditure data
 - Retail store data
 - General insurance data
 - etc

- “Link” to correlate with underwriting / health data

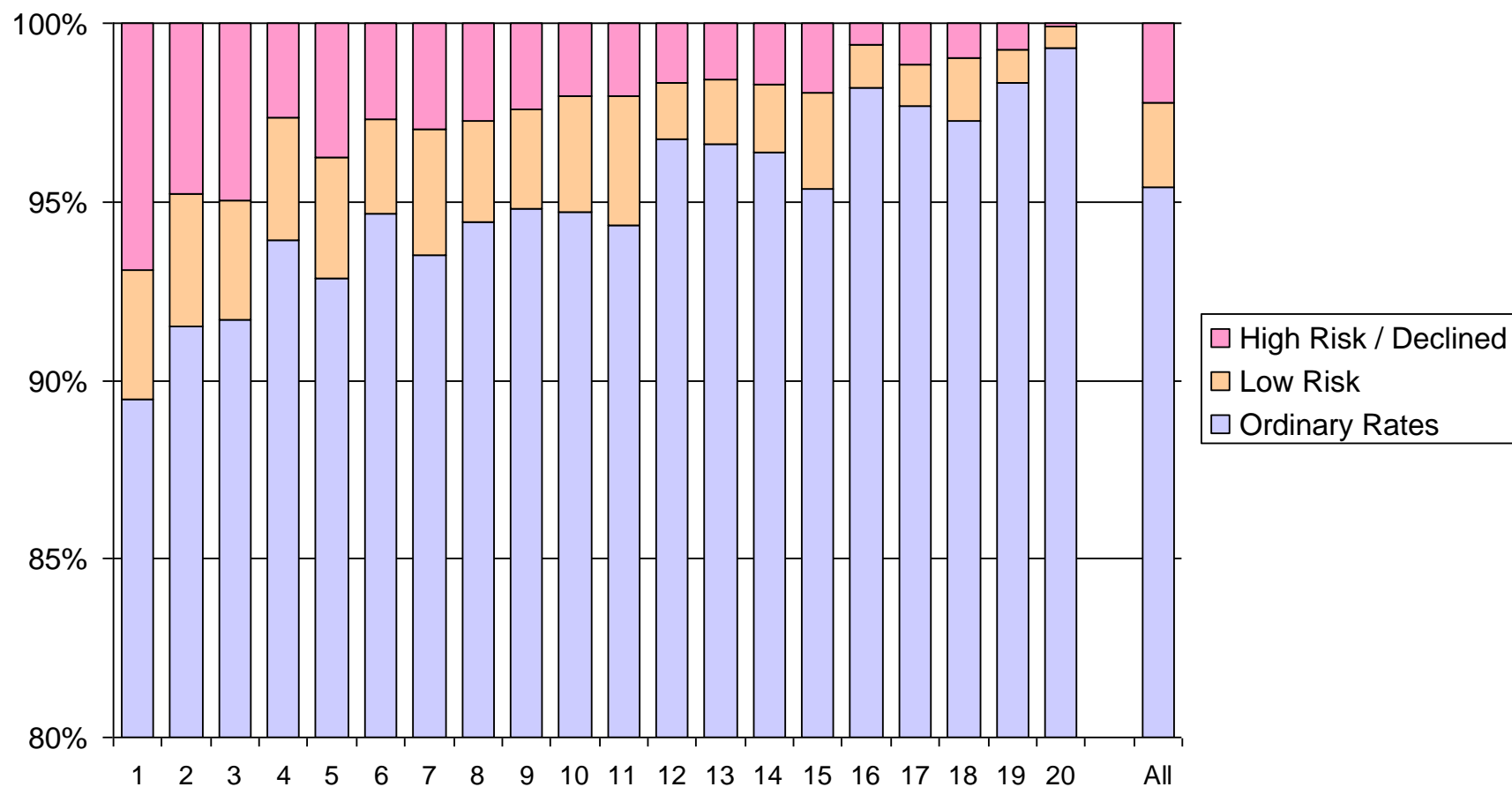


Example: Retail Store Data

- Possible predictors of good health
 - Frequent purchases at quality supermarket (suggests health consciousness and higher socio-economic group)
 - More fruit and vegetables, less junk food and ready-made meals (suggests healthy diet)
 - Shopping after working hours and at weekend (suggests full-time employment)
 - Clothing size (suggests healthy build)
 - Minimal purchases of drugs / pharmaceuticals except vitamins and health supplements



“Lifestyle” Underwriting in Practice





Distribution Considerations

- Designed to maximise take-up rate among healthy lives minimising the number of difficult decisions to be made
 - Simple product
 - No financial advice necessary
 - Quick decision
 - Price is “affordable” (but not necessarily “cheap”)
 - Difficult to compare between products and prices
 - Compulsory or “opt-out” if possible
 - Integrated / packaged sale with other products
 - Ideally “sold” not “bought”, but prospects are not “selected” by the distributor



Example: Anti-Selective Claims

- Claims experience vs population mortality for Guaranteed Issue products (SR Internal Data)

- Sold through agents

Age	Duration ≤ 3	Duration > 3
<40	20-30x	15-20x
40-59	5-10x	5-10x
60+	1-2x	1-2x

- Sold via direct marketing

Age	Duration ≤ 3	Duration > 3
<40	2.0-3.0x	1.2-3.0x
40-59	1.5-2.5x	1.0-2.0x
60+	1.0-1.5x	1.0-1.5x



Example: Anti-Selective Claims

- Causes of anti-selective claims for Guaranteed Issue products (SR Internal Data)
 - Sold through agents (excl Accidents)

Age	Duration ≤ 3	Duration > 3
<40	75-80% Cancer	35-45% Cancer
40-59	60-65% Cancer 5-15% Heart	40-45% Cancer 15-20% Heart
60+	35-40% Cancer 15-20% Stroke 10-15% Heart	25-30% Cancer 15-20% Heart 10-15% Stroke



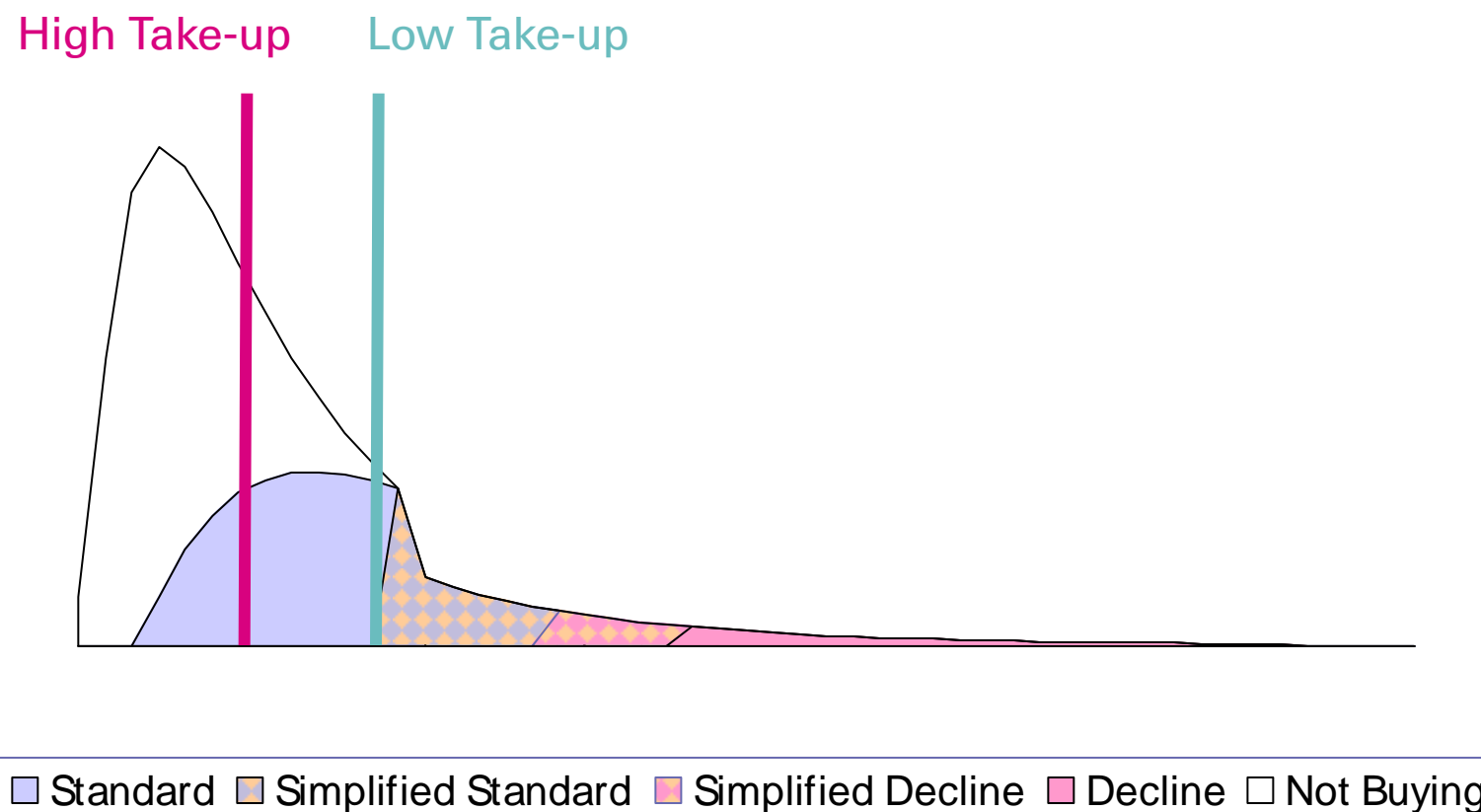
But Beware... Take-Up Rates

- Need to ensure follow through with sales
 - Attractive product proposition for healthy lives
 - Simple and quick underwriting process
 - Efficient fulfilment and policy issue process
- > Good take-up rate among eligible customers
 - Although customers are pre-selected, still need a good proportion of healthy lives take up the offer



The importance of take-up rates

Distribution of Buying Customers





Reliance on Third-Party Information

- Employee data
 - No more than x sick days in last y years
- Health insurance data
 - No more than \$x of claims in the last y years
 - No more than x GP visits in the last y years
- Pharmaceutical data
 - No medication for chronic diseases, etc
- Financial data
 - Lending assessment from banks



Example: SME Loans

- Short to medium-term business loans
- Insurance cover to match outstanding loan balance
- Insurer reliance on financial assessment performed by bank for loan cover
- Integrated application with high take-up
- Medical underwriting facilitated by
 - Employer-sponsored medical check-ups
 - Mobile paramedical collection of blood / urine sample



But Beware... Third-Party Information

- Underwriting information not disclosed by applicant to insurer is not subject to duty of disclosure
 - Applicant to confirm details
 - Condition precedent of insurance contract
- Third-party interests are not always aligned with insurer
 - Securitised loans, collaterals and guarantors
 - Information relevant to insurers but not relevant to third-parties
- Audit / review of third-party information collection and risk assessment procedures may be required



Product Design Modifications

- Modifications to deter unhealthy lives without providing too much deterrent for healthy lives
 - Moratorium / accident-only period
 - Liens and graded benefits
 - Pre-existing conditions exclusion
- Modifications to ensure that almost nobody is declined
 - Underwriting triggering exclusions for specific causes of death



Example: Minimise Declined Lives

- Mortgage brokers in Australia
 - Aim to package insurance with every mortgage
 - Insurance declines are a “turn-off”
 - Sale of insurance interfering with mortgage sale
 - Want to ensure that an insurance offer can be made to almost every client (ie minimise declines), even if client ultimate does not take up the policy
- > Simplified Underwriting triggering exclusions
 - Exclude body systems (eg respiratory system)
 - Exclude disease types (eg cancer)
 - Exclude broad causes (eg accident, sickness)



But Beware... Reliance on Exclusions

- Regulatory environment for policy exclusions may curb the ability of companies to rely on exclusions
- Legal remedies for addressing non-disclosure may be limited, especially with limited contestability
- Medical environment may make it difficult to trace medical histories and pre-existing conditions
- Burden of investigation shifted from underwriting to claims stage, requiring skilled claims staff
- Need to be prepared to legally contest claims, recognising that “grey area” claims will often be resolved in favour of the claimant



Case Studies from Australia: Pre-Existing Conditions

- Burden of Proof on the insurer
 - Pre-existing condition existed
 - Reasonable person would have been aware
 - Pre-existing condition led to the claim
- Pre-existing diabetes, hypertension, cholesterol
 - Primary cause of death pneumonia, but with co-existent causes diabetes, hypertension, cholesterol
- Pre-existing PTSD and spinal condition
 - Death due to pneumonia and hypoxic encephalopathy after ingesting alcohol with prescribed medication
- Pre-existing malignant melanoma removed
 - Death due to brain haemorrhage from metastatic malignant melanoma



Pricing

- Loss of protective value
 - Reduced number of questions
 - Changes in non-disclosure rates
 - Limitations of third-party information
- Change in the nature of applicants
 - Target market and eligibility
 - Anti-selection and take-up rates
- Impact of product design, exclusions and restrictions
 - Enforceability of cover restrictions
 - Moderated by legal / regulatory environment
- Persistency



Experimental Underwriting

- Hypothesis -> Experiment -> Data
-> Monitoring -> Feedback
- Distribution channels that can be closed easily
- Monitor closely take-up rates and distribution of sales
- Accelerated data collection and analysis
 - Post-issue underwriting
 - Distributor feedback
 - Small benefits to test quality of business
(eg return of premium, low hospital cash)
 - Qualitative analysis of early claims



Conclusion

