

## Phone facts: A global perspective on teleunderwriting

### A new survey charts the insurance industry's shift toward telephone interviews and away from more traditional underwriting techniques

By Hank George, Hank George Inc and Susie Cour-Palais, SelectX Ltd

Over the past 15 years, life and morbidity-risk underwriting has undergone a fundamental transformation. The way in which risk histories are taken from applicants has shifted from face-to-face questioning by medical examiners, paramedical technicians, and producers to conducting telephone interviews. This new approach is called teleinterviewing, and the assessment process integrating these histories with other evidence of insurability has come to be known as teleunderwriting. In mid-2009, SCOR Global Life Re teamed up with us and our colleagues to conduct a worldwide survey of teleunderwriting practices, perceptions, and results. That 70-question survey, carried off in nine languages on six continents and attracting over 360 insurer participants, we believe is the most comprehensive investigation of teleunderwriting ever undertaken.

We now know that at least 75 percent of insurers in North America, Australia, New Zealand, South Africa, Ireland, and the U.K. do teleunderwriting. In certain other markets, more than 30 percent are actively using it as well, and the majority of survey respondents in every emerging market said they were anxious to get started.

#### Why teleunderwriting?

Early adopters in the U.S. and Britain turned to teleunderwriting for a variety of reasons. Three of the main ones were:

- To speed up underwriting
- To reduce new business acquisition costs
- To lessen dependence on medical records.

More recent adopters, however, report different drivers of their decision to embark on teleunderwriting:

- To minimize producer involvement in the underwriting process;
- To reduce nondisclosure and overt antiselection;
- To improve customer service.

#### Have early adopters' goals been realized?

Application-to-issue cycle time reductions range from four to six days. Only a handful of respondents saw their processing intervals increase, and much of this occurred early on as their staff became acclimatized to teleunderwriting.

Direct cost savings, while still modest, don't as yet reflect the positive implications inherent in the synergy between teleunderwriting and automated new business processing. As the use of underwriting engines increases in North America, business processing costs will decline, in large measure because of the contribution of teleinterviews.

In North America, 75 percent of respondents reported a net reduction in their ordering of physicians' reports, many in excess of 15percent. U.K. insurers have fared even better, with one in four carriers cutting back by at least 30 percent. These savings take on added significance as the fees for medical reports continue to escalate.

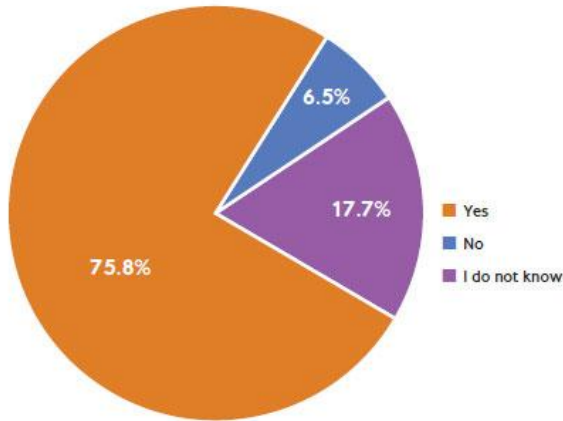
#### Does teleunderwriting make inroads against nondisclosure?

Much of the early opposition to the teleunderwriting concept centered on the premise that switching to telephone interviews would most likely have a negligible impact on the incidence of nondisclosure.

The survey tells us otherwise.

In mature markets, more than three-quarters of respondents extolled both the superior quantity and higher quality of protective information gleaned from life teleinterviews. For disability, the thumbs-up response was well over 80 percent.

## Truthfulness of Tobacco-Use Answers—North America

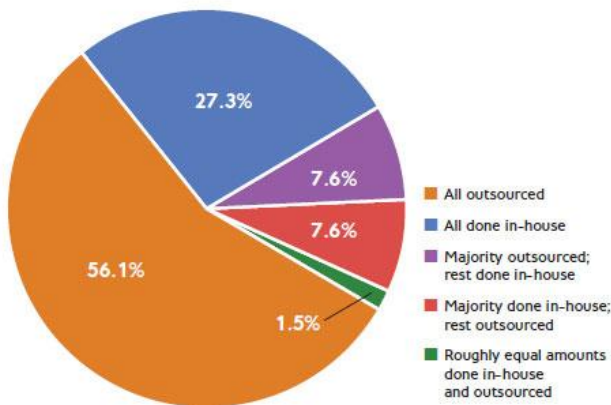


The most credible barometer of nondisclosure is tobacco use, where traditional questioning has yielded notoriously subpar results. Nearly 90 percent of companies opining on this reported more truthful disclosures via teleinterviews.

The bounty of teleinterview-mediated disclosure is greatest at older ages, a fortuitous reality in light of the growth of the elder life market. Nevertheless, deployment of teleunderwriting in America is all too often skewed toward younger ages. This is due to the misperception that the prevalence of ordering attending physician statements at ages 65 and older would make teleinterviews largely redundant.

A risk history must be taken on every applicant whether or not medical records are acquired. Therefore, why would any choose to acquire this *essential* history in any way but the one that maximizes disclosure?

## Outsourced vs. Insourced—North America

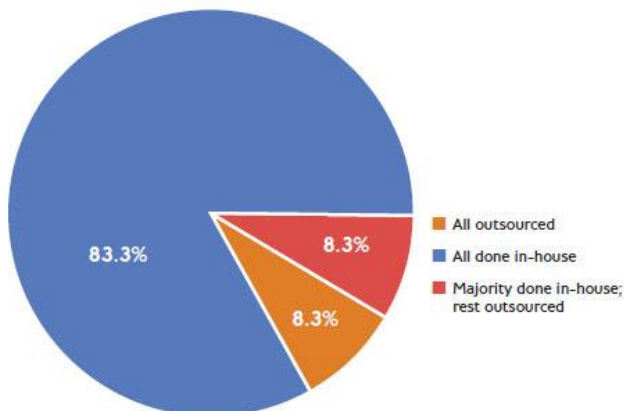


### Are most teleinterviews done in-house?

No. In most mature markets, nearly two out of three are carried off by an outsourced service provider. Only 30 percent of companies report in-house calling facilities and many of them continue outsourcing at least a portion of their interviews.

Because of formidable start-up costs with the in-house alternative, most emerging-market carriers seek to outsource. Regrettably, Latin America and large portions of both Asia and Europe don't as yet have sufficient outsource provider capacity to meet their needs. One could argue that a substantial entrepreneurial opportunity awaits those who finally step up to deliver this much-coveted service in those markets.

## Outsourced vs. Insourced—Australia/NZ/South Africa



### Who conducts the interviews?

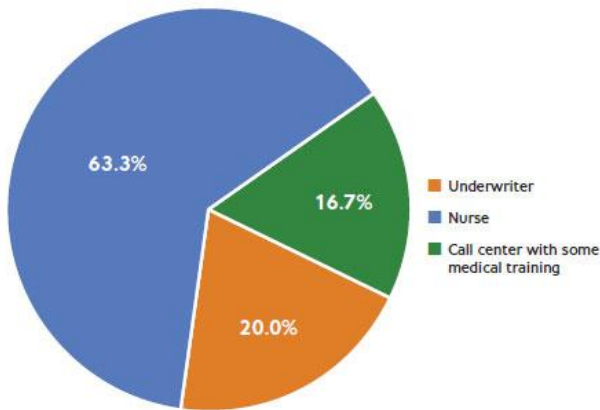
There's a marked contrast in this aspect between North America and the U.K.

In North America, the vast majority of life teleinterviews are done by call-center personnel, for the most part by individuals with no prior experience in the new business process. Conversely, across the pond in the U.K., over 60 percent of callers are nurses and

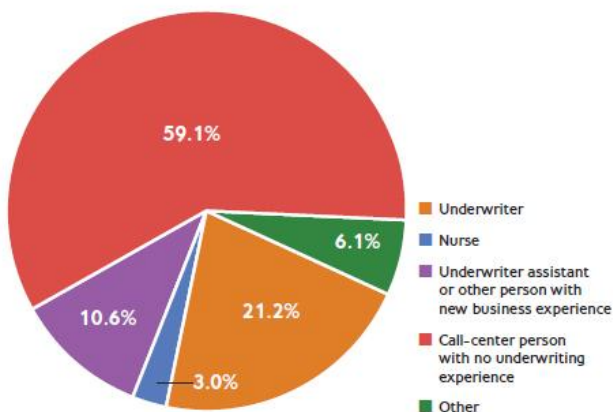
most of the rest have some formal background in underwriting.

When experts contrast the pros and cons of nurse teleinterviewers to call-center staff, it becomes apparent that nurses enjoy key advantages, such as an empathic and knowledgeable interview style, a positive image for customers, and the ability to go off script when necessary.

**Interviewer Profile—U.K./Ireland**



**Interviewer Profile—North America**



Balanced against these imposing realities is the knotty issue of cost, which currently favors the use of call-center personnel. In consideration of the commoditization of this and other underwriting-related services in North America, it's timely to reflect upon one paragraph in the formal survey report (cited here verbatim):

"In various markets there is competition between outsourcers tendering for business from insurers. Although numerous factors are said to be taken into consideration, experience shows that cost is the most important factor, in particular simple comparison of 'cost per interview.' There is nothing wrong with price competition, but companies would do well to remember that teleinterviews are not a commodity product. There can be a heavy price to pay for opting for short-term gain in what is, of course, a long-term business."

Going off script is readily achievable when a nurse or underwriter conducts the interview but probably beyond the potential of garden-variety call-center personnel. Departing, where necessary, from a fixed script enables the interviewer to amplify vague, incomplete, or seemingly contradictory answers. This amplification substantially enhances the value of interview to an underwriter.

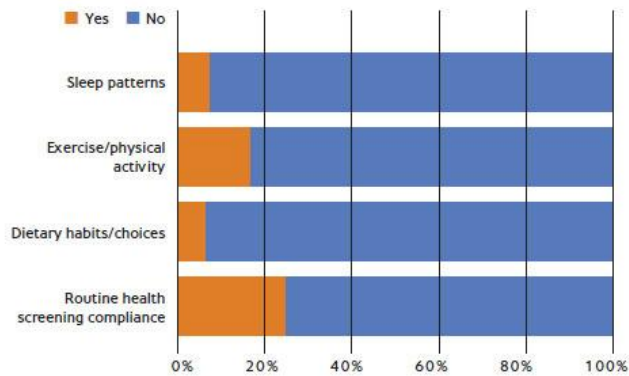
On the other hand, off-script questioning stymies the merging of teleinterviews with straight-through processing technology by introducing non standardized content. By doing this, it undermines the capacity of an engine-driven underwriting environment to take action on as many cases as possible without human intervention.

**In what context does teleunderwriting have the potential for a major immediate impact?**

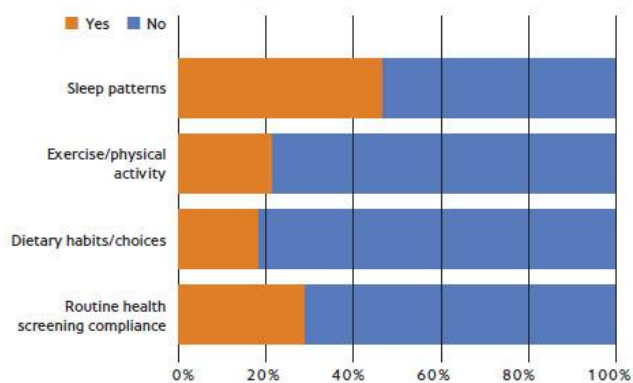
Alternative distribution models (banks, worksites, etc.) play a dominant role in delivering life insurance to the middle market. In all markets surveyed, the use of teleunderwriting has been steadily increasing in prevalent alternative distribution systems with great success.

The costs and delays inherent in conventional underwriting cannot be countenanced in this setting. As a result, many carriers are turning to enhanced versions of teleunderwriting driven simplified issue.

## Nontraditional Health Questions—North America



## Nontraditional Health Questions—U.K. and Ireland



What makes this so attractive in the U.S. market is our unique link to rapid-access underwriting requirements, such as MIB (Medical Information Bureau) content, prescription profiles, and motor vehicle reports. Used with teleinterviews, they confer sufficient aggregate protective value to accommodate competitively priced simplified issue coverage. Buoyed by these realities, count on more carriers introducing simplified issue products driven by teleunderwriting.

### Does the survey also unmask problems associated with teleunderwriting?

Yes; however, in each context, the problems are not inherent in the teleunderwriting process per se. Rather, they are reflective of shortcomings in how teleunderwriting is managed.

The payoff from teleinterviews depends largely on what is asked when “yes” answers to core application questions are amplified by further questioning. For example, if the proposed insured says he is diabetic, this triggers a series of further questions addressing specific aspects of diabetes that are essential to assessing insurability.

The survey shows us that certain key components of further questioning are poorly appreciated by many insurers. It would be helpful, for example, to ask about physician admonishments regarding daily activities, such as avoiding exertion because of heart or lung conditions. Yet over 70 percent of North American companies don’t include this question routinely.

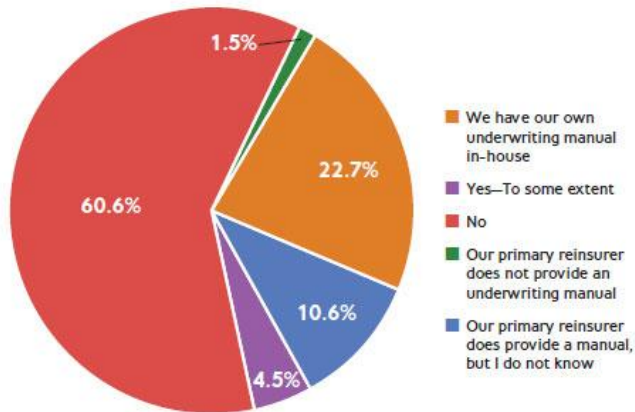
The same is true for seeking help in emergency care facilities, complying with treatment, and using alternative and complementary remedies.

Survey respondents from the U.K. and Europe gave high marks to reinsurers for their efforts to support direct companies doing teleunderwriting. North Americans saw this somewhat differently, deeming reinsurer efforts tepid at best, with little in the way of practical assistance.

One of the nagging problems identified relates to the fact that reinsurer underwriting manuals are crafted for use with physicians’ reports. This catalyzed a widespread gripe among survey respondents that these manuals aren’t being modified to link teleinterview disclosures to guidelines for underwriting medical impairments. This is a high-priority concern because when underwriters cannot effectively use teleinterview content to make decisions, medical records are inexorably requested.

Half of survey respondents in North America, the U.K., Australia, and South Africa allow producers to opt out of teleunderwriting whenever they wish and submit the application in the traditional manner. This practice undermines teleunderwriting implementation and can culminate in antiselection.

## Customization of Reinsurer Materials—North America



Over 40 percent of survey respondents didn't involve their producers in the design of their teleunderwriting process. Failure to do so may be seen as insignificant in the short run, but experience teaches that minimizing future collisions is best accomplished early on by soliciting and considering the input of producers. Several major carriers enjoying a high level of success with teleunderwriting cite the decision to involve representatives of their sales force as one of the keys to success.

Improving customer experience is one of the incentives for deploying teleunderwriting. It's unfortunate, therefore, that 70 percent of companies make no effort to contact customers after the interview and get their feedback. Those who have done this are virtually unanimous in reporting consistently positive responses from policyholders.

Eight out of 10 respondents audit their teleinterview process, and over half do this on a scheduled basis. These audits are crucial because they lead to strategic changes in teleinterview questions, eliminating those that fail to elicit useful information. Those who take a closer look on a reactive basis only and, above all, the 20 percent who do no auditing whatsoever will fail to realize the full protective value of teleinterviewing.

### Has teleunderwriting allowed us to embellish our approach to risk appraisal?

In recent years, clinical and epidemiological studies have revealed that a constellation of healthful behaviors tend to aggregate in a

significant subset of the population, most notably those apt to acquire individual insurance products. Until the advent of teleunderwriting, however, insurers had no credible way of capitalizing on these findings and integrating elements of such behaviors into their risk-selection paradigms.

The premise of this "healthy-user effect" is that when one desirable health practice is embraced, it serves as a marker for others. This notion has been borne out in so many studies now that it's ripe for use with teleinterviews.

One example is compliance with medical treatment. Does the applicant take prescribed drugs in a manner consistent with his physician's instructions? If he does, he is also likely to be amenable to physician-advised routine screening for such things as colorectal cancer. Both of these practices have profound implications for insurability and can be addressed in the context of teleinterviews.

We now know that healthful dietary choices, a regular pattern of leisure-time physical activity, getting adequate sleep, and temperate alcohol use are additional components of this spectrum. There's equally abundant evidence showing us that healthy adherers are less disposed to smoke (or, if they do smoke, to consume fewer cigarettes), abuse drugs, or indulge in a broad range of other insidious risk-taking behaviors.

It's encouraging to see that U.K. insurers have taken the lead in adding at least some of these considerations to their teleinterviews. Asian and Latin American insurers also report using them, and the hope here is that this will catch on in North America.

### Has teleunderwriting paid off in terms of favorable mortality and morbidity?

In most markets, it's still too soon to adequately measure the extent to which teleunderwriting has affected the bottom line. This said, hardly any respondents perceived a negative experience, and the vast majority said teleunderwriting has led to favorable results in life insurance and even more so for morbidity products.

Among those with data, most reported that their proportion of rated business increased somewhat with teleunderwriting because of high rates of disclosure of risk-salient information. Overall new business placement rates have also improved with teleunderwriting, a trend attributed to both a steep drop in the number of closed files and faster case approvals.

The most telling indicator of mortality is the impact of teleunderwriting on reinsurer pricing. The survey suggests that in most mature markets, reinsurers now offer substantial discounts when insurers adopt a best-practice approach to teleinterview quality and other aspects of teleunderwriting.

### **Does the teleinterview concept have a role in claims as well?**

A compelling case can be made for applying teleinterview principles to claims management.

Although, "teleclaims" are not yet widespread, some forward thinking companies already use them to manage a claim from the point of notification to the point of resolution. In Europe, several companies report impressive results using teleinterviews for critical-illness and disability-income claims management.

While these companies report immediate benefits of quality of information and medical-evidence cost savings, it's the difference in customer experience where the most impact is seen.

A well-conducted teleclaims interview is described by one company as "truly brand-enhancing." By initiating phone contact at the earliest point, the claimant is comfortably guided through the claims process and given the opportunity to explain his or her individual situation, to which the insurer can respond appropriately. Moreover, the claimant usually has one point of contact throughout the process in case of a query or the need for a progress update.

Taken together, the findings from this survey tell us three things, loud and clear:

- Teleinterviewing is vastly superior to all of the ways in which we previously gathered applicant risk histories.
- The embrace of teleunderwriting is a winning proposition for insurers, producers, customers, and reinsurers alike.
- Teleunderwriting is destined to be universal among mortality and morbidity insurers worldwide.

Clearly, there is much to be gained from sharing our experiences going forward.

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