TRENDS POINT TO AN ACCELERATED FUTURE FOR RISK SELECTION





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This final article explores the future of accelerated underwriting in the context of a broader consideration of the future of risk selection in general. It follows some of today's prominent trends – personalized products, underwriting engagement, and heightened risks and regulations – to their potential long-term outcomes, and concludes with basic steps insurers can take today to help lead the industry of tomorrow.

The term "accelerated underwriting" has been thrown around so freely in recent years that it seems to have almost lost its original meaning. How one insurance professional defines it may differ significantly from the definition of another. And it is regularly confused with terms such as simplified issue, automated underwriting and various other industry buzzwords.

In general, accelerated underwriting refers to a fully underwritten process that applies new data, tools and models to triage applicants and decide if an offer can be made without collecting all of the traditional underwriting evidence – laboratory testing, paramedical exams, etc. This accelerated process may employ full automation, manual underwriting, or some combination of the two as an individual carrier adapts to meet market demand.

Current trends indicate that the practice defined in the previous paragraph will soon be the norm, and what we now refer to as accelerated underwriting will simply be called underwriting in the not-too-distant future. Though it's hard to predict the future (even for us in the insurance business), these trends give us a pretty good idea of where we are headed with the future of risk selection. Let's take a look at just a few of them.

Personalized Products

New technologies have enabled companies from various industries to engage with consumers like never before and provided unprecedented insights into individual consumer behavior. As a result, providers of goods and services can now develop customized marketing and delivery strategies, tailoring offerings to a person's individual preferences and needs. For their part, consumers have grown accustomed to the likes of Netflix's movie suggestions and Amazon's product recommendations created just for them, and are starting to expect similar customization for all transactions.

Accordingly, the demand for personalization in insurance is on the rise. We see the industry heading toward an insurance purchasing journey with ongoing support unique to the individual consumer. This requires interacting with the consumers on their terms – determining which options fit, and how, when and where to provide them. Accomplishing this goes beyond just adding one tool, but looking at all tools to develop solutions that fit the evolving need.

The challenge for underwriters – and the primary driver of change – will be to make the underwriting process fit seamlessly within these many different aspects. Underwriting requirements will need to be dynamic, not based solely on traditional age/amount guidelines. The process will evolve continuously as new data and new technologies allow for further personalization.

It is important to note that as risk selection changes, agents will maintain a significant role for the foreseeable future. Again it comes down to personalization: some consumers may prefer a self-service, direct-to-consumer model, while others would rather have an expert walk them through every step in a more traditional way.

Carriers should develop underwriting strategies that allow for a continuum of choices for the consumer – from digital solutions to more traditional approaches. Of course, pricing will be a central consideration for all strategies as the industry works to preserve attractive pricing while moving to faster, more consumer-centric buying experiences.

Underwriting Engagement

As underwriting becomes more dynamic, underwriters themselves must also adapt and evolve. We need to continually re-evaluate how we take in and analyze all forms of evidence and third-party data. We should view predictive models not as a threat, but as tools to help us perform our jobs better. And as acceleration becomes the norm, we need to lead the way in developing rule sets for our organizations' accelerated programs.

Flexibility will be essential. The personalization of underwriting requires expanding its application across the value chain – before and after the actual underwriting process.

It starts with marketing and providing underwriting insights to the company's business developers to help identify target consumers. From there, underwriters' expertise will be needed to define criteria for any triage component. Triaging filters applicants so that only those who qualify for a program have the ability to go through it, and the impact of these filters on the final qualifications must be considered. We have already witnessed the emergence of multiple triage filters on the front end, and similar practices may soon be standard.

Once a policy is underwritten, the underwriter's job won't be finished. The demand for increased consumer engagement is creating a whole new insurance paradigm, far different from the traditional transactional model of selling a policy once and then not interacting with policyholders until a claim is made. While ongoing consumer engagement is currently more prevalent among property and casualty insurers, it is clearly moving into the life sector. For example, through advances in individualized medicine, disease management and wearable technology, insurers are becoming partners in health and wellness with their customers and offering incentives for healthy behaviors. Additional advances promise to build on this trend, and underwriters will be tasked with helping to determine criteria for participation.

The constant influx of new data over a long period of time means we will need to continually evaluate and improve our underwriting processes. Underwriting audits will become more dynamic and move beyond follow-the-rules auditing toward a more holistic review. As cases are underwritten through new risk-selection processes, underwriters must collect data from these cases, compare the results to traditional underwriting results, and monitor what has changed and the impact of that change.

Any learnings from audits can be applied to improve the entire process. Application questions provide a good example – what are the questions, how were they asked, and is there a better way to ask them? In-force management offers another – with updated information about in-force blocks, what kind of cross-sell and upsell opportunities will present themselves? Insurers' processing capacity will only increase, and the feedback loop created through continuous monitoring will enable companies to apply learnings in real time.

Heightened Risks and Regulations

There is no quick fix, easy solution or one path forward when it comes to transforming risk selection. With all the opportunities it presents, progress also comes with its share of challenges, including:

- Risk of using bad data – We may have more data, but this means we have to be more diligent in determining the credibility and accuracy of that data.
- Lack of transparency – "Black box" algorithms and hard-to-explain predictive models leave insurers vulnerable to suspicion from customers and questions as to how risk classification was determined.
- Perceived discrimination – A risk selection solution not properly tested and vetted runs a very real risk of unintentionally targeting a certain population. The painstaking and costly work to avoid this and to establish processes to properly

collect, combine and evaluate data can prove a major obstacle for many carriers.

- Increased potential for fraud – Changing systems and streams of new information create new vulnerabilities and blind spots to exploit. In the insurance system of checks and balances, modernized risk selection has removed some of the checks, so companies must endeavor to provide more balances. Underwriters and actuaries will be counted on to play the role of supervising and policing this process.

Regulators will closely monitor how insurers address all of these challenges. This is a key consideration to keep in mind moving forward. A recommended approach is to start with a wide net of possible underwriting information and narrow it down to what can be used within regulations. The next step is to be proactive with regulators to prove that remaining evidence does not discriminate. It is an opportunity to explain the new underwriting paradigm to regulators and how it can benefit their constituents.

Insurers are being pulled back and forth in a tug of war of sorts: they need to be both responsible and opportunistic. The potential for transforming risk selection is clear, but the risks are undeniable. Finding the balance to make prudent progress will be essential to effective implementation.

The Path Forward

So where does the industry go from here? It all starts with knowledge and education. We need to embrace change and be willing to learn about new technologies and new ways of doing business. Only by being open to progress can we move forward – and we shouldn't go it alone. This is not a challenge that can be addressed by any one company in isolation; we need to work with partners and share ideas and best practices industry-wide. No one-size-fits-all solution exists, so carriers need to be diligent in their review of the products available to them.

We must also be realists and acknowledge that there is unfortunately a poor perception of our industry. Those who already assume the worst of insurers will likely continue to do so when it comes to accelerated underwriting. Consumers harboring a poor affinity with insurers will be naturally drawn to outside industry disruptors with brands they know and trust (Amazon, Google, etc.). At every step, we need to take the time to establish ourselves and our innovations as responsible and trustworthy.

Above all, we need to promote the importance of what we do and the financial security we bring as experts in risk assessment. We must endeavor to understand the fundamental problems consumers are trying to solve and be ready with next-generation underwriting capabilities that fit new consumer journeys. This will require a very different line of thinking than what has been applied in the past.

If we pursue consumer-centric risk selection prudently, we will redefine underwriting – and our entire industry.

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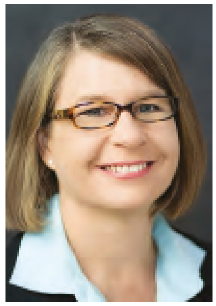


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