



## Modernizing the new business and underwriting function for life insurers

By Andy Ferris and Dharam Patel

Over the past decade, the world has witnessed rapid technological advances that have created a wide range of impacts, including changing customer experiences, increased transparency, reduced costs of doing business, and increased options for hiring people or implementing services to complete certain tasks. In addition, COVID-19 has advanced the digital agenda for life insurance companies, increasing the need to take time and inefficiencies out of the new business and underwriting processes, and unexpectedly forcing changes that some companies previously

were hesitant to deploy. The pandemic has also quickened the adoption of mobile communication platforms, driven by the overnight virtualization of much of the workforce and employees' new ways of working.

The resulting impacts on life insurance companies are both a) opportunistic—an ability to deploy new tools and technologies to get work done faster, cheaper, or more consistently, and b) potentially disruptive from a competitive landscape—those who do not strategically



take advantage of these opportunities may not be able to compete with those who inevitably will. In some sense, now is the picture-perfect moment for life insurance companies: the ideal time to modernize new business and underwriting processes.

As we see life insurance companies dedicating resources to new business modernization initiatives, we observe a common set of objectives for such efforts:



In this article, we seek to explore in greater depth the three broad categories of objectives that life insurance companies tend to seek in executing new business modernization initiatives. We note that each company determines its own custom mix of priorities among these common objectives.

**Objective 1: Create a modern-day customer experience—for both the applicant and producer**

Expectations around customer experience have changed dramatically in recent years. Technology giants (such as ridesharing companies, e-commerce platforms, and digital media applications), for instance, have raised the bar on customer expectations by using current tools, technologies, and processes to transform and modernize the customer experience. Very recently in modern history, many grocery stores have significantly changed their ways of delivering products to customers by expanding the use of digital apps for shopping, offering grocery delivery, and providing more options for picking up groceries. Large online consumer product retailers offer personalized, individual product recommendations that are timely and compelling, based on previous purchases and search algorithms. We can elect to share our location with friends and family via our phone, enabling a location transparency that can transform safety and other aspects we seek. We use wearables to monitor and track our health. We experience this technological evolution every day; it has, and will continue to, transform our expectations for interactions in many aspects of both our personal and professional lives.

Similarly, in the life insurance sector, applicants and producers expect a modern-day experience, similar to that which they receive in their daily lives.

Insurance manufacturers must deliver an experience that is timely, tailored, transparent, and easy to understand. For example, life insurers could offer an app that transparently shows the status of an application in process, including status updates similar to those we might receive as a result of placing an order with a large online retailer. The traditional application itself could be digital and omnichannel, enabling the applicant to complete it from a desktop browser or app on a mobile device. The application should be “smart,” in that it could prepopulate any fields known in advance and offer analytics-based observations to the manufacturer if the applicant appears to change their mind multiple times on potential sensitive questions, such as weight, smoking status, or other personal information. Finally, as a means of collecting the signature, other financial institutions have deployed modern services such as electronic and/or voice signatures, which are often more convenient than a traditional wet signature. After submitting an application for life insurance, the applicant might receive notifications of “application received,” “additional medical evidence required,” or similar notifications of the status of that applicant’s “order.”

In the life insurance sector, depending on the distribution channel, the focus may not only be on the need to improve the customer experience of the applicant, but, perhaps equally or even more importantly, also the producer experience. The next generation of producers will demand a modern-day customer experience to help them serve their clients. They will increasingly expect tools and processes to be in place that enable transparency in application processing and self-service capabilities to support their individual communication preferences. Producers will seek experiences—such as an ability

to customize their profile with a given manufacturer—establishing customized preferences for how and when the manufacturer communicates case status, compensation status, production volume, progress toward incentives, and related aspects. When experiences such as these inevitably become table stakes, a given manufacturer's inability to deliver such an experience will be a significant barrier to attracting and keeping producers.

**Objective 2: Create operational efficiencies—save time, money, and resources**

A new business modernization program often includes a set of transformational initiatives designed to create operational efficiencies, with the ultimate goal of establishing a lower-cost operating model. It is interesting to imagine how a new business and underwriting operating model for life insurance would be designed, if it were designed from scratch by a digital retailer entering the life insurance business today. The exercise helps to highlight the stark differences that emerge versus a traditional, manual, paper-based operating model. Most manufacturers today have some mix of initiatives in place to move toward a more automated, digitized new business and underwriting process; however, many still have not yet realized the transformational opportunities that could help them to achieve the desired future-state operating model—one that delivers a sustainable, low-cost, and highly efficient operation.

Achieving that goal means utilizing an evolving set of tools and technologies to create an efficient, digital, omnichannel, and highly automated operating model. These facets include automation, digitization, predictive analytics, and related cognitive techniques. The operating model of the future fully contemplates the “future of work,” considering new approaches for the work, the workforce, and the workplace. In some cases, where a manual process was previously performed by a salaried human, a life insurance company can deploy digitization and automation to enable the majority of that work to be performed in an automated manner. With a paper application form, if a data field is “entered” incorrectly, it may require having to go back and redo the process and obtain a new wet signature, creating inefficiencies in both time and hard dollar costs. With a fully automated digital process, the insurer may be able to save time and money and create a better customer experience.

One practical and common means of automation and savings in the new business process is the strong use of automated (rules-based) underwriting engines for certain types of business, which offers significant savings in time and costs over the traditional process of a human underwriting and manually

applying underwriting guidelines on every case. Similarly, most manufacturers have deployed accelerated underwriting programs, which utilize predictive analytics and related techniques to identify certain medical underwriting requirements that can be waived for healthy individuals. Other related growing tools that appear to have promise to create operations savings are electronic health records, medical billing information, and related data sources. As these tools, technologies, and new data sources are deployed, the application process becomes more automated, faster, more efficient, and less costly in daily operations. In addition, the faster application process increases placement rates, ultimately increasing sales.

Another resulting benefit of the digital, cost-efficient operating model described here is that business intelligence is enabled. For example, it enables the ability to more easily monitor the mix of business that is being applied for and that is being issued. Digital data enables the relatively simple production of real-time reports, dashboards, and the analysis of business mix by size, gender, product type, producer, geography, and related dimensions. Such insights allow management to understand the current mix of business and to take actions as needed.



**Objective 3: Improve the risk-assessment capability—maintain or improve the mortality experience**

A third set of initiatives that are frequently included in a new business modernization program include those supporting a broad objective to maintain or improve the risk assessment component of the underwriting process. In some situations, this objective might be more accurately characterized as a constraint, because, even as the business modernization program seeks transformative improvements to deliver a modern-day customer experience (objective 1) and create operating efficiencies in doing so (objective 2), we must still correctly complete the underwriting risk assessment. An online retailer selling widgets off the shelf would not be constrained by such risk assessments, but this is a fundamentally critical consideration for a life insurance company that is implementing a new business modernization program.

That said, a fast-evolving set of new sources of information and related vendor-based products continue to rapidly emerge and evolve, as well as expand the world of possibilities that can be leveraged to modernize the risk assessment process, both in triaging risks to broad categories of required procedures and in improving the rigor and depth of risk evaluation when necessary. These developments can maintain

and improve the mortality experience by improving risk categorization. For decades, the life insurance industry has relied on grouping applicants into a small number of discrete risk classes. Herein lies the opportunity, as new sources of data and emerging technologies can be leveraged to implement new and improved ways of categorizing risk to more precisely measure the risk of the insured life. One may contemplate a future in which life insurance companies no longer employ a fixed set of categorical risk classes to bucket cases, but rather one in which they rely upon a fully continuous spectrum for measuring and pricing the risk of a given case. The data and tools are available today for the life insurance industry to offer the potential to not only maintain current capabilities in risk evaluation, but also to improve them, ideally resulting in improved “actual-to-expected” ratios on mortality experience for life insurers.

The ever-evolving set of data sources used today ranges from electronic health records, medical billing, and diagnosis codes to credit scores and predictive models; raw data sources (and associated products sold by various vendors for the purpose of understating risk assessment) are rapidly evolving and are arguably helping to establish a reasonable expectation that actuaries, underwriters, and data scientists have improved risk assessment capabilities.

In closing, while many life insurance companies have a new business modernization initiative underway, we observe varying levels of prioritization and resource commitments to such initiatives across the sector. Historically, the life insurance sector has been relatively slow to change as compared with emerging technology and digital media sectors. However, companies that take a proactive approach can differentiate themselves from their competitors in offering these modern, digital customer experiences while also helping to solve current inefficiencies in the processes and improving their risk assessment capability. Additionally, those that take advantage of this opportunity with the most urgency may realize the greatest benefits.

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### About the Exponential Underwriter

This article is part of our series on enabling exponential underwriting.

#### DEFINITION

##### *ex-po-nen-tial un-der-wri-ter*

Noun

New data sources and advanced technologies are expected to increasingly supplement, yet also augment human underwriters to a degree never seen before. As part of the future of work, the exponential underwriter will leverage emerging tools, information, and skill sets to focus on higher-level challenges and become more strategic in defining the future of the company to enhance business performance and shareholder value.

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