On August 9, 2011, SCOR SE, a global reinsurer with offices in more than 31 countries, acquired substantially all of the life reinsurance business, operations and staff of Transamerica Reinsurance, the life reinsurance division of the AEGON companies. The business of Transamerica Reinsurance will now be conducted through the SCOR Global Life companies, and Transamerica Reinsurance is no longer affiliated with the AEGON companies.

While articles, treaties and some historic materials may continue to bear the name Transamerica, AEGON is no longer producing new reinsurance business.

Archive Materials

Preferred Underwriting: Using Technology to Improve Mortality Results
Reprinted from the August 2011 LOMA Resource Magazine

Includes interview with Dave Dorans, Vice President, Mortality Solutions
In the middle market, life insurers need underwriting practices that make smaller face amount business worth their costs and risks and yet simple enough to excite producers despite relatively low commissions. In the traditional market, carriers seek to address slow turnaround, inconsistent decisions and inefficient processes.

In the August issue of LOMA Resource, Dave Dorans, vice president of Mortality Solutions for Transamerica Reinsurance, addressed simplified issue (SI) underwriting that is improving the economics of life insurance programs for the middle market. He discussed Velogica® – a proprietary underwriting algorithm that processes information from the application and third-party data sources, most notably Rx data, to paint a fuller picture of the applicant’s health and deliver underwriting decisions at the point of sale.

In the following interview, Mr. Dorans looks at fully underwritten business and how life insurers can better exploit technology to address challenges associated with the traditional underwriting process. Through its Mortality Management Solutions (MMS), Transamerica Reinsurance provides technology-driven programs for preferred life business that add underwriting efficiencies, improve the buying experience and, more importantly, produce better mortality experience.

How does Velogica compare to MMS?
Both are comprehensive life programs that start with product development and feature transformative underwriting processes. We work with the client to establish market and product goals, develop underwriting protocols and guidelines, design the application and design and price the product to meet profit targets. Reinsurance is built in.

Underwriting technology is a defining characteristic of these solutions. Velogica uses proprietary technology and is designed for face amounts below $250,000. For MMS programs, we engage third-party partners for underwriting technology and processing support. These programs are designed for face amounts above $250,000. MMS offers an
enhanced form of traditional underwriting using all available underwriting information (i.e., parameds, labs, APS records).

Each platform electronically captures information so that data can be used not only in the risk selection process but later on as well, for audits and other analytics.

**You describe Velogica as “truly automated.” How are the capabilities of Velogica different from MMS?**

With Velogica, you can easily see the transformative quality of the solution. An application is submitted online and, about 95 percent of the time, an underwriting decision comes back within minutes. There’s no human intervention.

Traditional underwriting is far more complex than simplified issue. I don’t know that we’ll ever be able to truly automate the process as we have with simplified issue. What we can do for preferred life programs is use technology to improve the process and support the underwriter. MMS introduces new ways to collect information, connect all the steps in the process and systematically apply preferred underwriting rules. This improves consistency of underwriting decisions and, ultimately, leads to better mortality results.

**Better mortality results is a big claim. How do you back this up?**

As a reinsurer, we routinely analyze our blocks of business to understand performance, identify mortality drivers and find ways to better price, select and manage mortality risk. We consistently find quite different mortality experience among companies with similar products, target markets, distribution channels and underwriting programs.

These differences are more than random chance would account for. How do you explain this? We believe much of the variation in mortality experience can be attributed to underwriting or, more broadly, the new business acquisition process. Furthermore, analysis of our in-force business shows a correlation between favorable mortality and the use of state-of-the-art underwriting systems.

**What can MMS technology do that a staff of professional underwriters cannot?**

Let me stress again that traditional, fully underwritten business will always require the skills of a professional underwriter. Knowing the business will always be more important than technology, but this isn’t an either/or situation. The combination of business knowledge and technology is what transforms the underwriting process.

MMS focuses on the three conditions of effective underwriting: accurate information, good underwriting rules and consistent application of the rules. To optimize each of these, we pair our expertise (in product development, underwriting and mortality risk assessment) with expertise from third parties for technology and process support.

**Rules-based underwriting technology has been around for some time but has not gained much traction. What makes your solution different from the so called “underwriting engines” on the market?**

A rules-based underwriting engine is essential to our solution, but we view it as a tool. In the right hands, this tool can transform the underwriting process for preferred risk selection, which is highly data driven. The engine captures information from various data sources and consistently applies the underwriting rules. It facilitates quick decision-making on clear pass/fail cases, saving the underwriter’s time to work on more complicated cases.

I think rules-based underwriting engines have been slow to catch on, because providers of this technology tend to focus on the “engine.” We, on the other hand, focus on the “rules” and use the engine technology as a means to apply the rules consistently. Technically speaking, a deep understanding of mortality drivers and an ability to analyze and incorporate data into expectations are far more important considerations than the underlying tools.

It’s not the engine itself but the rules designed into it that make our solution work. Properly programming the rules for prudent risk selection is fundamental – and it isn’t easy. Many tech vendors simply drop a rules-based engine into a company’s existing new business processes. They may provide quick ways to access data and process applications and may code some underwriting rules. But will these rules reflect a strong understanding of the risks? If not, you could wind up with an underwriting engine that increases efficiency but decreases quality, effectively providing ultra-fast placement of poorly assessed risks.
Our business expertise gives us a competitive advantage over technology companies. We can help carriers set up rules that are up to date on the latest developments in medical research and reflect our access to industry-wide mortality experience. Additionally, as a risk-sharing partner, we analyze the program experience as it emerges compared to expectations.

**How important is tele-interviewing to MMS?**
We view tele-interviewing as a necessity for optimizing an investment in underwriting technology. Tele-interviewing lets you accurately capture, preserve and employ the critical information from the application.

As with underwriting rules, the development of good interview questions requires a deep understanding of life insurance and mortality risk drivers. You want accurate answers (to the right questions) to feed into your rules engine. The ability to systematically capture this data offers multiple advantages – both in selecting risk and for on-going analytics.

We use tele-interviewers to gather medical data. Applicants tend to be more forthcoming, and interviewers are trained to hear hesitation or inconsistency, so they can make adjustments to keep candid responses coming.

The application and third-party data (e.g., MVR history, MIB, lab work) feed directly in to the rules engine. There is no risk of data being lost or garbled as it passes from one stage to another; it is recorded once, and that’s it.

**What products are best served by MMS?**
MMS is for any preferred life product. A rules engine is ideally suited for aggregating data-driven qualifying factors – application data, MIB, MVR, lab and drug results – and comparing them to preferred risk criteria. The engine directs cases that fall outside the guidelines to the underwriter. Some cases can be clear-processed, but, more importantly, the remaining cases are presented to the underwriter in an easy-to-read format with only pertinent information readily accessible.

Now consistency doesn’t have to be 100 percent. Underwriters need flexibility to make exceptions when it makes sense to do so. MMS can be set up with stretch criteria to reflect this operational reality. The rules determine the level of underwriting quality; the rules engine determines the consistency of that underwriting. Both are essential to stay competitive in today’s marketplace.

**What are your key values to life insurers looking to take their underwriting to the next level?**
We bring the full range of necessary expertise – not just IT but underwriting and actuarial expertise – to make the technology work. As a reinsurer with broad experience in the life market, we help companies redesign processes around well-written rules to maximize mortality benefits from more consistent underwriting. And because we are on the risk as the reinsurer, we are in for the long haul to help a company’s business succeed.

Any tool – especially a technological one – is only as good as the expertise it is built around. Rules to automate some of the underwriting decisions can speed up the processes and save time. But if the rules are poorly designed or maintained, any apparent gains you thought you achieved will be short-lived. If, however, you take the time to incorporate into the rules a multi-disciplinary understanding of the business – expertise that we can build into your systems – then you can transform your preferred risk business and take mortality results to the next level.