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

Real Time Underwriting: A New Way to the Middle Market
Reprinted from the October 2010 LOMA Resource Magazine

By David Dorans, Vice President, Mortality Solutions
For several years the life insurance industry has cited the underserved middle market as a potential growth opportunity, but the math has never quite worked. For carriers, the cost of underwriting low face amount policies has been too high; for producers, the compensation for working this market has been too low for the effort involved.

So while the size of the middle market is big, the obstacles are, too. However, sophisticated improvements in underwriting algorithms for simplified issue (SI) business combined with the availability of prescription drug (Rx) data bases have altered the risk/reward considerations. These developments are causing some companies to revisit the viability of the middle market.

Transamerica Reinsurance has been at the forefront of automated underwriting for more than a decade with programs for both fully underwritten and non-medically underwritten term life insurance. Velogica® is its state-of-the-art underwriting solution for SI business. Designed for transactional life insurance sales, Velogica uses information from the life application, Rx data bases, motor vehicle and MIB reports to deliver real time “instant” underwriting decisions.

In the following interview, Dave Dorans, vice president of Mortality Solutions for Transamerica Reinsurance, addresses advances in SI underwriting and what this means for middle market opportunities.

What has changed in underwriting for SI?
SI underwriting has always had to balance the desire for more information with the speed and underwriting expense expected in this product line. Early on, underwriting decisions were made in a very rudimentary way. There were maybe 10 yes/no questions on an application. If the applicant answered properly on enough of them, they passed. If not, they were out. This left a lot of business on the table and did not necessarily improve risk selection. Over time, third party tools like MVR, MIB and, more recently, prescription drug data bases were incorporated into the process.
I would say that the most significant changes in SI underwriting are how we collect information and, more importantly, what we do with the information once we get it. The SI model has moved from a very limiting and inefficient paper-driven process to a fully automated process that captures information from multiple sources and uses that information to paint a fuller picture of the applicant’s health. This is particularly true with regard to Rx history.

What exactly is an Rx check?
An Rx check provides a detailed chronological history of an applicant’s prescription history. Rx checks have been available for many years, but actual implementation in the industry has been limited despite the wealth of information this history can provide.

First, the reports can be quite cumbersome to read and interpret. A proposed insured with even a modest medical history may have an Rx history that is pages and pages long detailing lists of drugs with exotic sounding names. There are over 180,000 NDC (National Drug Code) codes in use for drugs today with many duplicate names and similar names for drugs that are used for entirely different medical situations.

Second, the tools that have been widely available to help underwriters decipher this report have been too simplistic in their approach – dividing drugs into good drug/bad drug lists. This approach dramatically oversimplifies a world where doctors have the freedom to use prescriptions for off-label uses, and where the same drug can be used for widely different medical reasons.

In a classic example, the same anti-nausea medication is often prescribed for chemotherapy patients and pregnant women experiencing morning sickness. Is this a good drug or a bad drug? Context is critical.

How is Rx information used in SI underwriting?
Rx drugs are used in many ways in SI programs today, but to maximize speed and still get protective value it is critical to use a sophisticated system that puts the information from the Rx profile into context. Don’t simply rate a single drug but, rather, use all of the information at your disposal – all of the applicant information including age and gender, the entire drug profile with dosages and prescribing doctors and their specialties, and any other available data.

This approach produces a more accurate prediction of the underlying medical conditions of a proposed insured. Experienced underwriters do this all of the time, but with a system like Velogica this analysis can be done instantaneously. To match this speed, many other programs simply must settle for a less informed decision. To match the sophistication, they must refer the case to an underwriter and wait days or more for a decision.

Does the technology required to make these automatic underwriting decisions place limitations on what the system can do?
From a technical point of view, a deep understanding of mortality drivers and an ability to analyze and incorporate data like Rx into mortality expectations are far more important considerations in this market than the underlying technology. We believe our expertise in product development, underwriting and risk assessment gives us a competitive advantage over technology companies offering automated underwriting systems for SI products.

When a potential client asks a technology provider if their system can do Rx interpretation, the answer typically is, “No, but we could.” Well, it’s not that easy. There are tons of programmers – on-shore and off-shore – who can code the rules for an underwriting program, but how many know what the rules should be? The complexity of decisioning requires a multi-disciplinary effort – underwriting, actuarial, IT, and the expertise to put it all together.

Another distinct advantage we bring to the table is our ongoing reinsurance support of the SI product. Because we are on the risk, we have a strong incentive to continually update (at no additional expense) the Rx data and refine the underwriting rules. Technology vendors can provide quick ways to access drug data and process applications but can they provide rules that reflect a strong understanding of insurance risks?
Some SI systems promote process improvements while others promote transactional underwriting. What’s the difference?

Leaving semantics aside, what is really important is how the program you create performs for all of the parties involved. If I am a producer or client, can I get this life policy at one meeting with a minimum of forms and no need for follow-up visits and paperwork? As a carrier, can I minimize issue expenses and still get good protective value?

Our experience has shown that simplifying the process for the producer and the client leads to a significant increase in sales – both from more producers participating, and increased productivity from producers who already are participating. No matter what you call it, what matters is reaching a final decision quickly while maintaining acceptable mortality results. The Velogica solution renders a final decision on over 95% of cases without human intervention and the whole process (sales and underwriting) typically takes less than 15 minutes.

Could automated underwriting someday be used on higher-face amount business?

Competitive products at higher face amounts require multiple classes of preferred premiums to compete on price with industry leaders. To do this requires all of the data available in a fully underwritten product. Full underwriting is still the best route to go when the size of the policy justifies the cost and time of traditional underwriting. Transamerica Reinsurance is a strong proponent of technology solutions for fully underwritten risks.

What kind of life insurer would benefit most from Velogica?

Automated underwriting for SI will not support the most competitive rate for best classes – but that’s not what it’s for. Velogica is best suited for insurers with a commitment to the middle market, companies wanting to fill a coverage gap for lower-face business or wanting to serve a specific customer base.

Improvements in Rx data and the sophistication of drug-based rules have greatly improved the protective value of SI underwriting. More of the population is covered by high-quality, readily available data – and both distributors and consumers know this, which mitigates anti-selection tendencies.

Access to data and a fast platform are excellent tools but to really make these innovations work, life insurers need the benefits of both the technology and risk management expertise in the middle market. A Velogica partnership with Transamerica Reinsurance can deliver both.