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**

**Underwriting Technologies: Focus on Strategic Benefits**

Reprinted from the April 2010 Messenger newsletter

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New life underwriting technologies have gained ground during the last decade. Recent surveys sponsored by the Society of Actuaries and other industry groups show strong inroads and increased confidence in these new tools.

More significantly, the focus of underwriting technology is moving beyond speed, ease of case submission and sales support to strategic business benefits, including product design, pricing and capital considerations. As we enter a new decade, the goal will be to take advantage of what’s available to improve efficiencies without losing sight of the big picture – risk management – and the analysis and understanding that is required to manage risk.

**The Value of Data**

Maximizing the value of data will be front and center as companies execute growth strategies and prepare to do business in a demanding regulatory environment. To understand and demonstrate portfolio risk, management will demand detailed information on underwriting and claims results. Technology that supports this growing need will look increasingly attractive, even in a cautious expense environment.

*Tele-Interviewing*. Tele-interviewing may be the most popular trend in life underwriting. Research shows that the practice has grown significantly and that the benefits – most notably, improved disclosure – are highly favorable. What began as a way to verify information on an application has evolved into an efficient and effective way to capture medical and family history information. However, execution varies widely from company to company.

In its optimal state, tele-interviewing is a component of a fully integrated new business acquisition process. It utilizes an application with carefully developed questions and drill downs that guide the interviewer. Answers, too, are captured in a structured format, making the information far more valuable than free text data. Rules can be applied to the responses, and the data is available for future mortality studies.

Independent third parties are best suited to perform the interviews: They are not tied to the sale. They are trained to hear hesitation in responses among other things. No risk of disclosing confidential details to a personal acquaintance.
In reality, tele-interviewing is rarely conducted in the ideal state described above. Very often, it is an individual function within the policy acquisition process. Questions may be well crafted, but responses are not captured in an electronic data format, which means they drop out of the process and cannot be used for later mortality analytics. So, while tele-interviewing holds important potential for life insurers, there’s much room for improvement.

**Rules-Based Underwriting Engines.** This is another technology-driven tool that is gaining traction in life companies. These systems, which require a high degree of customization, apply company-specific underwriting rules against incoming policy applications (often fed into the engine via the tele-interviewing process) and third party vendor requirements. Underwriting engines are especially well suited for preferred risk products where risk criteria are data-driven factors (e.g., cholesterol).

Companies need to understand the capabilities and limitations of underwriting engines, especially if they are partnering with a software provider who does not offer expertise in new business processes and mortality risk. All too often, these systems are dropped into existing new business processes with minimal process redesign, which limits the mortality benefits that the technology can provide.

Underwriting engines also require continuous refinement to keep the moving parts in sync and the underlying risk assessment logic up to date. There’s also the downside risk that a poorly designed system may increase efficiency but decrease effectiveness – because technology can place poorly underwritten cases just as quickly as it can place properly assessed cases.

In a best practice environment, rules-based underwriting engines serve as the hub for the straight through processing of new business.

**Prescription Drug Records.** A recent development in underwriting is the use of prescription drug databases to gain additional data or to replace information that is expensive and time intensive. Prescription drug databases have been used most often in the assessment of simplified issue business. Initial protective value studies have supported such use.

However, a recent study has shown that prescription drug histories may also offer protective value in a fully underwritten environment. While most current prescription drug products are simplistic and require underwriter intervention, we anticipate increased focus on improving this tool.

As insurers explore the use of drug records, they are justifiably concerned about how this information gets interpreted. Interpretation is highly consequential, with far more impact to the bottom line than, say, reducing per unit costs in the underwriting department.

**Straight Through Processing (STP).** STP systems electronically connect all steps in the new business acquisition process, capturing relevant data along the way for immediate use and longer term analytics. STP means that data remains consistent and electronic throughout the entire value chain and is accessible throughout the organization.

For most companies, STP is still on the drawing board, but the value-creating potential of such an environment is too big to ignore. In the short run, a company gains operational efficiencies. In the long run, a company gains access to information that can yield the insight needed to stay competitive in the market and meet evolving regulatory demands.

**Conclusion**

Today’s life insurance market, driven by continued competitiveness and impending regulatory change, is a challenging place to do business. There is a growing demand for detailed understanding of how blocks of business are performing.

This demand for information is coming from senior management, regulators, rating agencies, capital markets and those responsible for pricing products and setting reserves. Underwriting and product managers must respond quickly and accurately when asked to provide information on underwriting results. Life insurers who take advantage of what’s available to improve the risk assessment and risk management process will have a competitive advantage in the market.