

The Messenger

Risk Management Newsletter

VELOGICA®: Technology to Support Middle Market Strategies

Life insurers often express interest in tapping into the underserved middle market but have difficulty making the math work. The underwriting costs for low face amount policies are high, and selection concerns require carriers to charge steeper premium rates. For producers, low commissions in dollar terms make prospecting hardly worth their time.

Recent technology improvements are helping companies reduce the time and cost of middle market transactions, with technology vendors, consulting firms and reinsurers offering technology-based underwriting solutions. However, efficient processes are not enough to be successful in this market. A carrier needs to understand the risks from all angles, or it may simply end up writing bad business efficiently.

VELOGICA®, SCOR's state-of-the-art underwriting solution for low face amount business, is a web-supported solution that combines decision-making speed with risk assessment expertise. VELOGICA has assessed hundreds of thousands of applications since we introduced the solution seven years ago, accumulating a wealth of experience data. By thorough analysis of this data, we continue to provide and improve a best-in-class solution to clients seeking an efficient and profitable entry into the middle market.

VELOGICA has been used by life insurers for seven years. What does this mean for a prospective client?

Put simply, VELOGICA is a tested and proven platform. As a veteran solutions provider, we have already made the big investment in time and resources required to get VELOGICA operating at a high level. Over the course of numerous client implementations and multiple major version updates, we have learned which program elements work in the middle market and, equally important, which ones don't.

VELOGICA's algorithm is supported by experts from many disciplines – actuaries, underwriters, IT professionals, medical directors, pharmacists, business managers and attorneys. By including all of these disciplines in the process, we cover the critical risks and minimize the chances of missing something important. We bring this expertise and support to clients and allow them to benefit from the lessons and experience we have gained over the years.

And all of these different professionals contribute to the protective value of VELOGICA?

Yes – you need them all. If any one of these disciplines is under-represented your program performance could be jeopardized. You need:

- physicians to develop effective medical criteria
- underwriters to translate medical criteria into rules
- programmers to implement these rules within the algorithm and make updates as required



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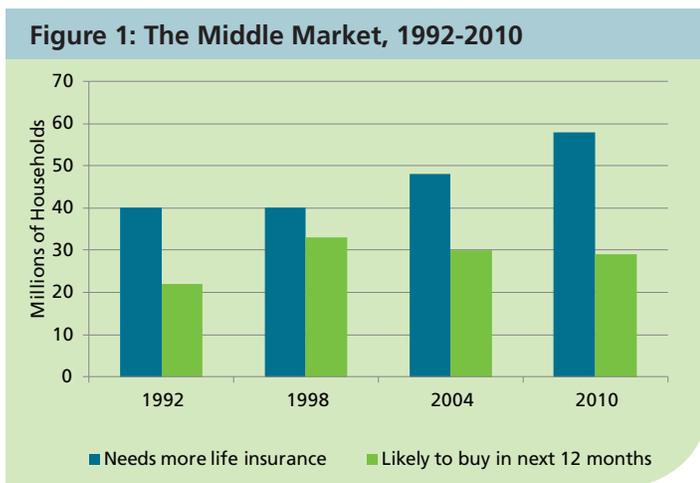
- business managers to understand program performance and monitor agent activity
- actuaries to develop mortality and lapse assumptions and evaluate the impact of assumption variances
- pharmacists to keep track of the thousands of new drug codes added every quarter and monitor off-label uses for drugs
- attorneys to help ensure legal compliance

All of these efforts must be coordinated.

With prescription drug data becoming more accepted in the industry, what differentiates VELOGICA's use of Rx data?

Most vendors still divide drugs into good drug/bad drug lists – too many “bad” drugs and you’re out. Our first version performed similarly years ago, but since then we’ve learned that analyzing the context of the drug use is critical for success in this market.

VELOGICA doesn’t simply rate a drug, but instead assesses all of the information at its disposal – MIB reports, motor vehicle information and, of course, the full Rx profile including frequency, dosage and mix of current prescriptions. It then correlates all of this data to the information collected on the application to make an intelligent underwriting recommendation. Our approach produces a more accurate prediction of the applicant’s underlying medical condition. Experienced underwriters do this all of the time, but VELOGICA makes it possible to run an informed, context-based analysis quickly and consistently.



The number of underinsured households has grown steadily; however, the number of likely buyers has been in a gradual decline since 1998 (LIMRA).

How does VELOGICA differ from other vendors' underwriting technology solutions?

Ultimately, an underwriting solution is not only about building useful technology – it must also be about making strong risk decisions. We are not just approaching this from the technological and underwriting rules perspectives. Our solution is

different. We have assembled a team that understands the business ramifications of this market segment.

The sheer volume of applications we receive provides us with data points to continuously update the algorithm. We also have the systems and support to process high volumes of new business faster than ever before. We’re handling thousands of cases each week.

We can test proposed changes to the underwriting rules against hundreds of thousands of cases, run an actuarial analysis of the mortality outcome of the proposed rule and make a quantitative decision whether or not to adopt the rule. If you don’t have the processing history of VELOGICA, this isn’t an exercise you can conduct.

VELOGICA can also provide management reports and underwriting decision data for tracking business performance. Potentially more important, we conduct a sophisticated statistical analysis of application information and underwriting outcomes which enables companies to identify, monitor and control potential anti-selective behavior down to the agent level. We’ve helped several carriers this way; just knowing that such a sentinel program is in place can influence better adherence to practices and contribute to an improved quality of business.

Finally, our ability and willingness to stand behind our underwriting by participating in the mortality risk is something that a technology company is not likely to be in a position to offer.

How does VELOGICA support the middle market?

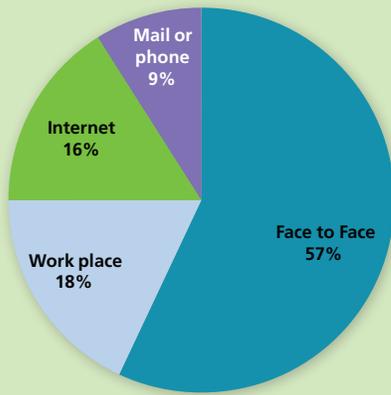
VELOGICA enables carriers to write low face amount business with minimal manual underwriting (less than five percent of decisions require the involvement of a human underwriter). It can lead to significantly higher sales volume while creating cost efficiencies in the new business process. For companies interested or already active in the middle market, VELOGICA can be a critical component to a successful sales and marketing plan.

Insurance is not bought; it is sold. Agents must be shown that selling low face amount business can be good for their bottom lines. In the past, the commissions from two or three low face policies a week weren’t attractive. With VELOGICA, turnaround time from application to decision moves from being measured in weeks to being measured in minutes. The sale becomes transactional and can be coupled with other products or services being offered, rather than becoming a lengthy process requiring significant effort from the producer. The volume implications are impressive.

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

While improvements in Rx data and the interpretation provide protective value, and some providers present

Figure 2: Consumers Want to Speak to Agents



Most middle market consumers want to discuss their life needs with an agent in person (LIMRA). VELOGICA makes these conversations quick and convenient.

their offerings as suitable for higher face amount business, VELOGICA today is primarily a middle market solution. Competitive products at higher face amounts require multiple classes of preferred premiums to compete on price with industry leaders. This requires all of the data available. Full underwriting is still the best route when the size of the policy justifies the cost and time of traditional underwriting, although VELOGICA's underwriting analysis could be added as a component to that fully underwritten solution.

Is VELOGICA only available to reinsurance clients? Do you offer fee-for-service agreements?

To date we have only offered VELOGICA to clients willing to participate in a reinsurance arrangement for the policies issued under the program. However, we are discussing offering VELOGICA on a fee-only basis to large scale clients that prefer not to enter into a reinsurance arrangement. But, whether combined with reinsurance or not, the unique advantages of VELOGICA can help companies take their middle market participation to the next level. ∞

