



## Easy to Buy... but not Easy to Claim

A look at simplified underwriting methods for life and health protection business



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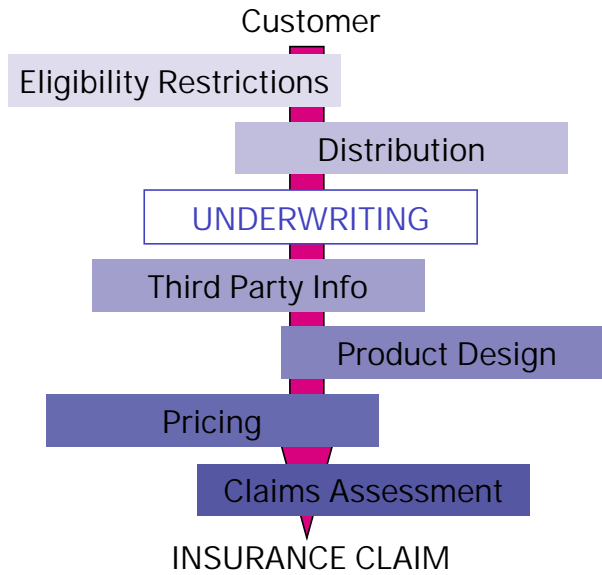
## Objectives

- Objectives of Underwriting
  - Stop the unhealthy lives from entering  
(Or charge unhealthy lives for the extra risk)
  - Allow the healthy lives to enter
  - Ensure that cover amount is consistent with needs
- Objectives of Simplified Underwriting
  - Make it easier for the healthy lives to enter
  - But not too easy for the unhealthy lives to enter
  - Don't give people too much cover

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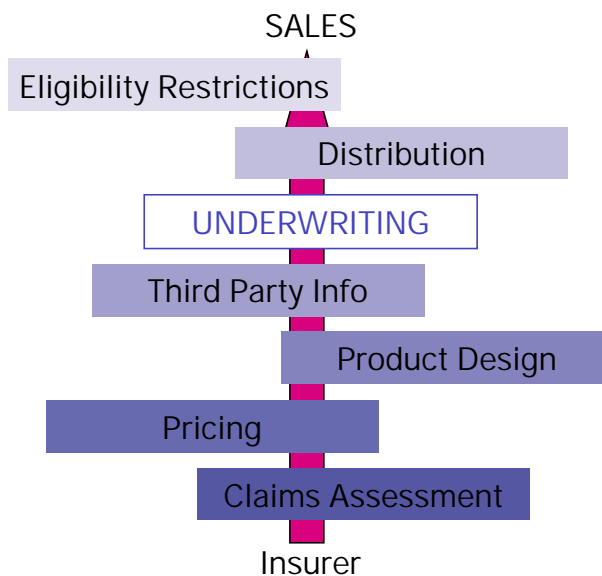
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## Holistic Underwriting



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## The same barriers also work in the opposite direction



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## Conventional Simplified Underwriting

- Fewer questions to speed up application
- Possible Questions
  - Reasonably common or highly anti-selective major illnesses (Cancer, Organs, Stroke, Diabetes, HIV, etc)
  - Hospitalisations, consultations, medications
  - Previously declined, loaded, excluded
  - Hazardous occupations or pursuits
  - Spinal, muscular, neurological, psychiatric (Disability)
  - Smoking
  - Height & weight
  - Medical leave
  - Family history

## Conventional Simplified Underwriting

- Question design
  - Ideally yes/no answers, otherwise follow-up required
  - Specific, clear and unambiguous, not multi-layered
  - Balance between minimising deterrents for healthy lives (false positives) and minimising acceptance of unhealthy lives (false negatives)
  - Discourage applications from unhealthy lives
  - Discourage over-disclosure

## But Beware... Non-Disclosure

- Some observations on non-disclosure (SR Internal Data)

- % of Substandard Lives with Issue Age 30 to 45 by Sum Assured Band

SA Band	Company 1	Company 2	Company 3	Company 4
1	6.1%	2.7%	1.9%	0.8%
2	6.2%	3.0%	4.7%	1.1%
3	10.5%	5.0%	11.4%	3.8%
4	15.0%	7.4%	16.8%	6.4%

- Band 1 ~100% non-medical, some simplified
- Band 4 ~100% medically underwritten
- Companies from Singapore, Hong Kong, China and India (but not necessarily in that order)

## Holistic Simplified Underwriting

- Simplified Underwriting with...

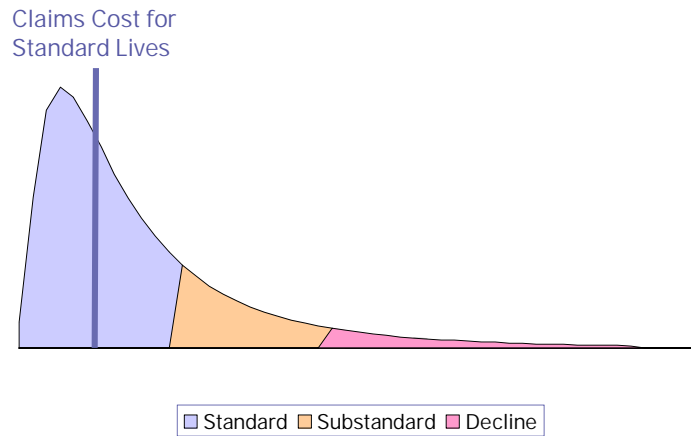
- Distribution channels tailored for the target market
- Restricted eligibility requirements
- Pre-selection of target customers
- Reliance on third-party information for underwriting
- Product design modifications
- Burden of risk assessment shifted to claims

- > Designed to achieve...

- Simple and quick sales process
- Lower distribution costs
- Product features attractive to healthy lives
- Small price differential vs conventional product

## Normal Underwriting

### Distribution of Insurance Customers

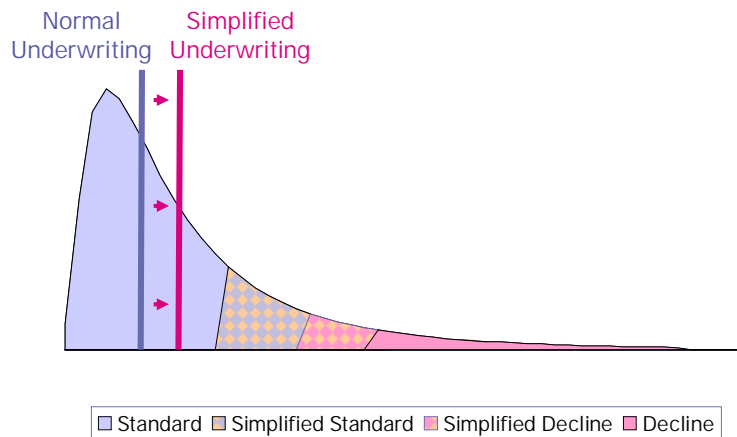


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## Conventional Simplified Underwriting

### Distribution of Insurance Customers

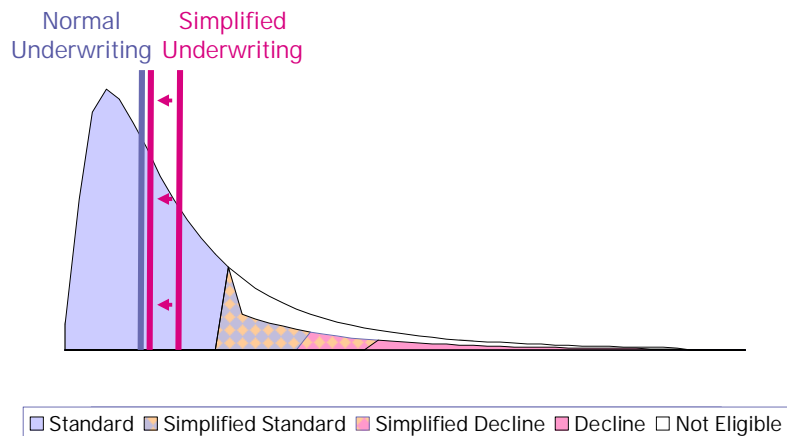


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## Holistic Simplified Underwriting

### Change the Distribution of Customers



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## Restrictive Eligibility Requirements

- Target lives who have already been underwritten
  - Upsell to lives underwritten in the last x years
- Target lives with good reasons to buy insurance
  - Recently married
  - Recently had / adopted children
  - Regular increases with inflation / salary inflation
  - Recently bought a new home with large borrowings
- Target lives who should be in above average health
  - Actively at work
  - Only interested in investment / savings features

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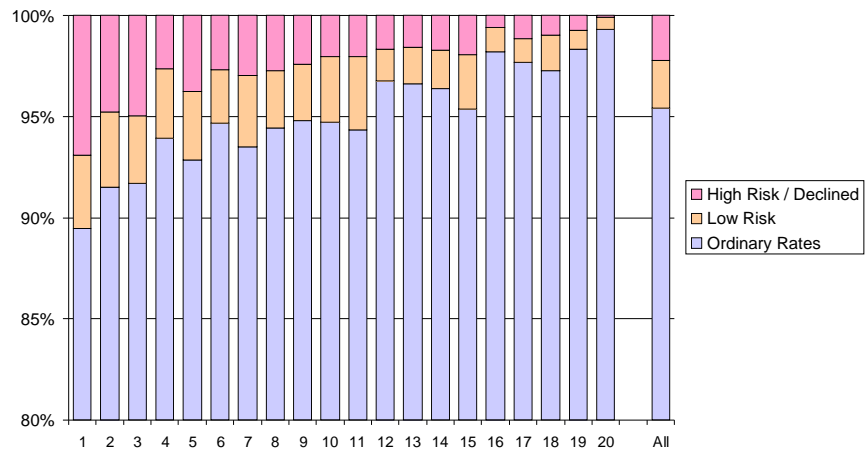
## Pre-Selection or "Lifestyle" Underwriting

- Use data available from distributor data to "pre-select" or "pre-approve" customers with characteristics positively correlated with good health
  - Banking data
  - Credit card expenditure data
  - Retail store data
  - General insurance data
  - etc
- "Link" to correlate with underwriting / health data

## Example: Retail Store Data

- Possible predictors of good health
  - Frequent purchases at quality supermarket (suggests health consciousness and higher socio-economic group)
  - More fruit and vegetables, less junk food and ready-made meals (suggests healthy diet)
  - Shopping after working hours and at weekend (suggests full-time employment)
  - Clothing size (suggests healthy build)
  - Minimal purchases of drugs / pharmaceuticals except vitamins and health supplements

## "Lifestyle" Underwriting in Practice



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## Distribution Considerations

- Designed to maximise take-up rate among healthy lives minimising the number of difficult decisions to be made
  - Simple product
    - No financial advice necessary
    - Quick decision
  - Price is "affordable" (but not necessarily "cheap")
  - Difficult to compare between products and prices
  - Compulsory or "opt-out" if possible
  - Integrated / packaged sale with other products
  - Ideally "sold" not "bought", but prospects are not "selected" by the distributor

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## Example: Anti-Selective Claims

- Claims experience vs population mortality for Guaranteed Issue products (SR Internal Data)

- Sold through agents

Age	Duration <= 3	Duration > 3
<40	20-30x	15-20x
40-59	5-10x	5-10x
60+	1-2x	1-2x

- Sold via direct marketing

Age	Duration <= 3	Duration > 3
<40	2.0-3.0x	1.2-3.0x
40-59	1.5-2.5x	1.0-2.0x
60+	1.0-1.5x	1.0-1.5x

## Example: Anti-Selective Claims

- Causes of anti-selective claims for Guaranteed Issue products (SR Internal Data)

- Sold through agents (excl Accidents)

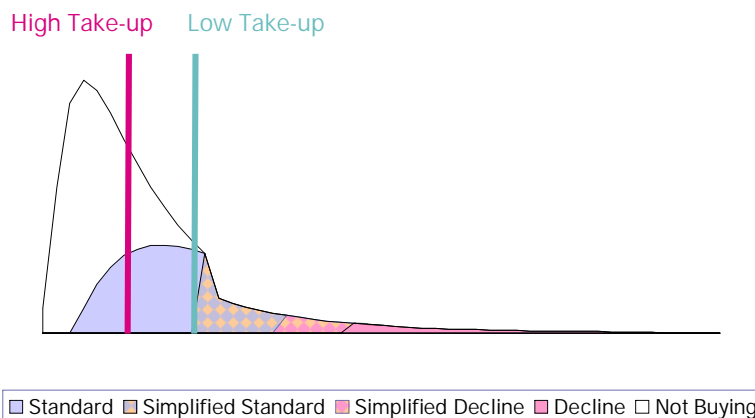
Age	Duration <= 3	Duration > 3
<40	75-80% Cancer	35-45% Cancer
40-59	60-65% Cancer 5-15% Heart	40-45% Cancer 15-20% Heart
60+	35-40% Cancer 15-20% Stroke 10-15% Heart	25-30% Cancer 15-20% Heart 10-15% Stroke

## But Beware... Take-Up Rates

- Need to ensure follow through with sales
  - Attractive product proposition for healthy lives
  - Simple and quick underwriting process
  - Efficient fulfilment and policy issue process
- > Good take-up rate among eligible customers
  - Although customers are pre-selected, still need a good proportion of healthy lives take up the offer

## The importance of take-up rates

### Distribution of Buying Customers



## Reliance on Third-Party Information

- Employee data
  - No more than x sick days in last y years
- Health insurance data
  - No more than \$x of claims in the last y years
  - No more than x GP visits in the last y years
- Pharmaceutical data
  - No medication for chronic diseases, etc
- Financial data
  - Lending assessment from banks

## Example: SME Loans

- Short to medium-term business loans
- Insurance cover to match outstanding loan balance
- Insurer reliance on financial assessment performed by bank for loan cover
- Integrated application with high take-up
- Medical underwriting facilitated by
  - Employer-sponsored medical check-ups
  - Mobile paramedical collection of blood / urine sample

## But Beware... Third-Party Information

- Underwriting information not disclosed by applicant to insurer is not subject to duty of disclosure
  - Applicant to confirm details
  - Condition precedent of insurance contract
- Third-party interests are not always aligned with insurer
  - Securitised loans, collaterals and guarantors
  - Information relevant to insurers but not relevant to third-parties
- Audit / review of third-party information collection and risk assessment procedures may be required

## Product Design Modifications

- Modifications to deter unhealthy lives without providing too much deterrent for healthy lives
  - Moratorium / accident-only period
  - Liens and graded benefits
  - Pre-existing conditions exclusion
- Modifications to ensure that almost nobody is declined
  - Underwriting triggering exclusions for specific causes of death

## Example: Minimise Declined Lives

- Mortgage brokers in Australia
  - Aim to package insurance with every mortgage
  - Insurance declines are a “turn-off”
  - Sale of insurance interfering with mortgage sale
  - Want to ensure that an insurance offer can be made to almost every client (ie minimise declines), even if client ultimate does not take up the policy
- > Simplified Underwriting triggering exclusions
  - Exclude body systems (eg respiratory system)
  - Exclude disease types (eg cancer)
  - Exclude broad causes (eg accident, sickness)

## But Beware... Reliance on Exclusions

- Regulatory environment for policy exclusions may curb the ability of companies to rely on exclusions
- Legal remedies for addressing non-disclosure may be limited, especially with limited contestability
- Medical environment may make it difficult to trace medical histories and pre-existing conditions
- Burden of investigation shifted from underwriting to claims stage, requiring skilled claims staff
- Need to be prepared to legally contest claims, recognising that “grey area” claims will often be resolved in favour of the claimant



## Case Studies from Australia: Pre-Existing Conditions

- Burden of Proof on the insurer
  - Pre-existing condition existed
  - Reasonable person would have been aware
  - Pre-existing condition led to the claim
- Pre-existing diabetes, hypertension, cholesterol
  - Primary cause of death pneumonia, but with co-existent causes diabetes, hypertension, cholesterol
- Pre-existing PTSD and spinal condition
  - Death due to pneumonia and hypoxic encephalopathy after ingesting alcohol with prescribed medication
- Pre-existing malignant melanoma removed
  - Death due to brain haemorrhage from metastatic malignant melanoma

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## Pricing

- Loss of protective value
  - Reduced number of questions
  - Changes in non-disclosure rates
  - Limitations of third-party information
- Change in the nature of applicants
  - Target market and eligibility
  - Anti-selection and take-up rates
- Impact of product design, exclusions and restrictions
  - Enforceability of cover restrictions
  - Moderated by legal / regulatory environment
- Persistency

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## Experimental Underwriting

- Hypothesis -> Experiment -> Data  
 -> Monitoring -> Feedback
- Distribution channels that can be closed easily
- Monitor closely take-up rates and distribution of sales
- Accelerated data collection and analysis
  - Post-issue underwriting
  - Distributor feedback
  - Small benefits to test quality of business (eg return of premium, low hospital cash)
  - Qualitative analysis of early claims

## Conclusion

