

Life insurers urged to reconsider traditional underwriting practices

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HARTFORD — As convergence and competition accelerate in the insurance industry, life insurers are at a competitive disadvantage as they seek to attract and retain customers interested primarily in simplicity, value and ease of purchase in their dealings with insurers, a leading industry analyst contends.

For life insurers, the root of this competitive disadvantage may be the traditional life insurance underwriting process, according to a new study from Conning Research. Conning's latest strategic study, "Underwriting Challenges Facing the Life Insurance Industry - Streamlining for Competitive Advantage," examines the challenges life insurers face in their efforts to expedite underwriting. Included in the examination are numerous current challenges as well as emerging legal and policy issues, such as the use of genetic information in life insurance underwriting.

"Leading life insurers recognize that customer focus and customer-directed underwriting may be sources of competitive advantage," said Jack Gohsler, senior vice president at Conning Research & Consulting, Inc., and coauthor of the study.

"They are seeking to enhance their underwriting capabilities to appeal to the 'transactional group' of potential life insurance customers. Members of this group tend to make their own purchase decisions and seek an efficient, hassle-free process. For members of this group, life insurers' efforts to streamline their underwriting may, in fact, yield a competitive advantage."

A 2001 Conning study, "Life Insurance Environment - Key Challenges Facing the Industry," described the effects of financial services convergence and intensified competition on life insurers. Conning's latest study continues in that vein, addressing four primary challenges life insurers face in their efforts to streamline underwriting.

Demographics Challenge

The first challenge is a set of societal and demographic changes. Americans are living longer, benefiting from earlier and more effective disease intervention. While life insurers benefit from improving mortality, higher customer expectations and the introduction of preferred classes of coverage present underwriting challenges.

Competitive Marketplace

The second set of challenges is the rapidly changing and more competitive marketplace. To better compete, life insurers are seeking alternative data sources and methods to gather underwriting information. While many industry leaders consider underwriting a core competency that should not be outsourced, others appear willing to outsource at least some part of the underwriting process.

Regulatory Challenge

The third set of challenges, perhaps the most pervasive, is legislative and regulatory. Increased federal regulation may further complicate an already complex regulatory environment. Concerns that insurers do not compete on a level playing field with other financial services competitors has caused many in the industry to question the viability of the state-based system of insurance regulation.

The final set of challenges, advancing technology, is most crucial to the underwriting process and insurers' efforts to streamline it.

While Hartford-based Conning believes it is too early to identify the winners and losers in the effort to leverage underwriting for competitive advantage, it asserts that the winners in this difficult effort will effectively stage their efforts so that every implemented improvement can fund the next improvement effort. p