



**Adviser insights into underwriting
Research commissioned from NMG**

November 2007

Adviser insights into underwriting

Life offices in the UK and Europe have been users of our specialist software for life, health and pensions products since 1989. We have long believed that software can be better developed and better deployed to bring about tangible business benefits and excellent customer service. Achieving this requires a real understanding of how business is done and the requirements and preferences of all those involved in the value chain from the customer through to the claims department – as well as third parties such as reinsurers, Financial Services Authority, and outsource service providers.

We have made, and will continue to make, considerable investment in research and development to ensure that we continue to streamline processes, introduce features that help the sale and servicing of business and reduce operating costs for our clients. In a world that is increasingly enabled by web technology, we believe we have created the leading edge solution for self-service by advisers and customers by listening to the market.

Over the past year we have been examining the underwriting and new business processes used in the UK Life Protection market. In 2006 we undertook extensive research with intermediaries and product manufacturers to explore their views and requirements for processing protection business both at the new business stage and throughout the customer lifecycle. More recently we published the findings from our consumer research, undertaken in association with ICM, “*A Better Way for Protection*” which outlined some of the attitudes and preferences that consumers have about the process of buying life and health protection.

To further develop our proposition we have recently completed a further piece of research with the intermediary market. We particularly wanted to understand trends in the electronic submission of protection business and automated underwriting at the point of sale. To do this we consulted NMG, and participated in their intermediary research programme.

Bespoke questions were included in NMG’s October IFA Census and fieldwork was conducted during 9th to 19th October 2007.

217 IFAs responded to the survey all of whom generated a minimum of 10% of their revenue from protection.

The results have been analysed between those writing less than 25% of their business from protection and those writing more than 25%. Any significant differences have been highlighted.

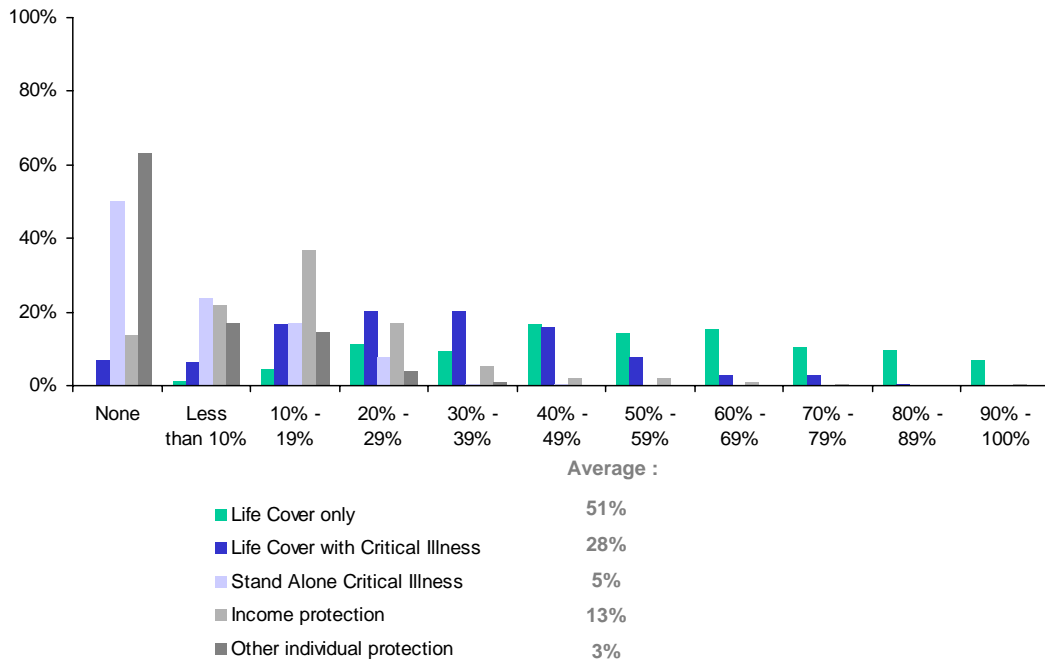
We are pleased to share these findings and believe the results provide a very credible insight into current intermediary thinking which will be of interest to any organisation that serves the intermediary market. We would like to thank Peter Le Beau of Le Beau Visage and Veronica France of The Oak Consultancy for their valuable input to our research activity.

If you have any comments or questions on our findings, we would be delighted to hear from you.

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1. Product mix of intermediaries' protection business

Around half of all business (measured by number of cases) is life cover only with life and critical illness making up the majority of the balance



1. What proportion of your individual protection business by number of cases comes from each of:-

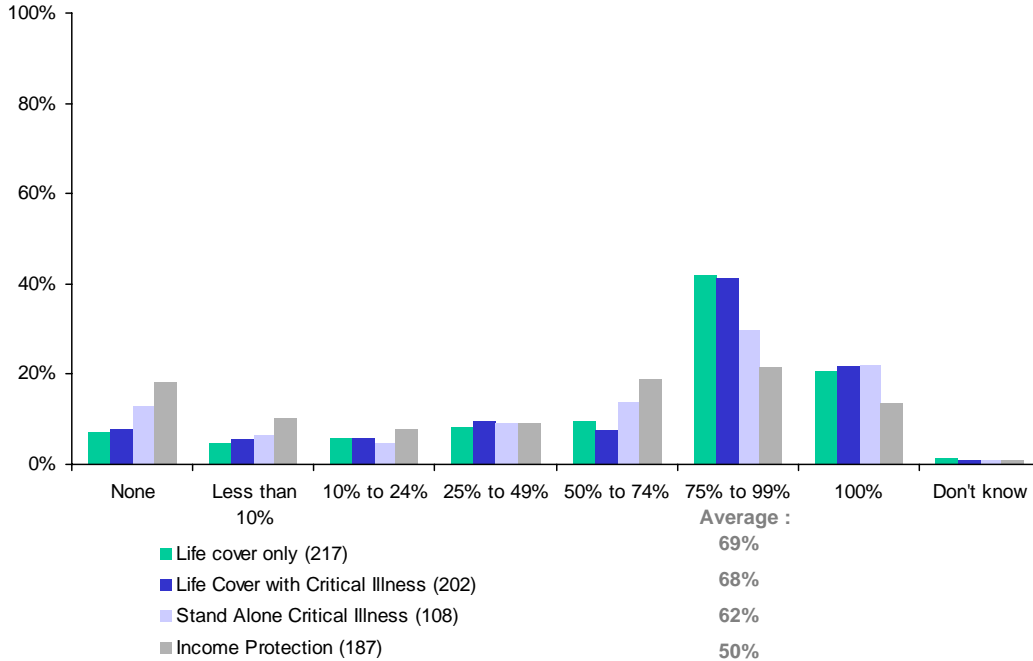
1. Life Cover only
2. Life Cover with Critical Illness
3. Stand Alone Critical Illness
4. Income Protection
5. Other individual protection?

TCP Comment

The mix of business shown suggests a lot of mortgage business is written, hence the quite significant proportion of critical illness attached to life cover as an accelerated benefit. The percentage penetration of Income Protection at 13% is consistent with other studies into new business volumes.

2. Proportion of business submitted electronically

Around 7 in 10 cases are submitted electronically for life and life with critical illness; for income protection this drops to 5 in 10.



2. For each of the following, what proportion of your business is submitted electronically:
1. Life Cover only
 2. Life Cover with Critical Illness
 3. Stand Alone Critical Illness
 4. Income Protection

TCP Comment

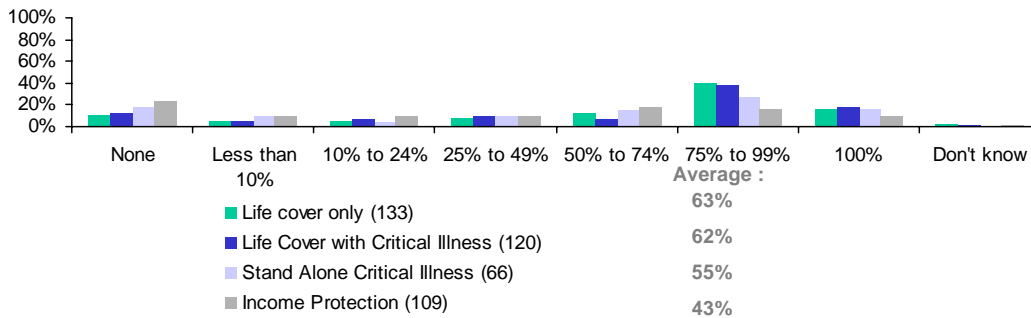
On average, almost 65% of protection applications are submitted electronically. Interestingly, 20% of respondents said that they submit *all* their life cover and life with critical illness business electronically.

As we would expect, electronic submission of Income Protection is markedly lower – an average of 50%. Just 13% of intermediaries say they submit *all* their Income Protection business electronically. This is not necessarily a reflection of intermediary preferences, but the fact that many protection providers have not automated Income Protection as much as they have life and critical illness covers. From an intermediary’s perspective, this lower availability of automation for Income Protection forces advisers to adopt different sales processes and procedures. We believe that there is no reason why electronic submission of Income Protection shouldn’t be as high as it is for Life and Critical Illness applications. This will help make it easier for advisers to process business, reduce costs and speed up the decision-making process.

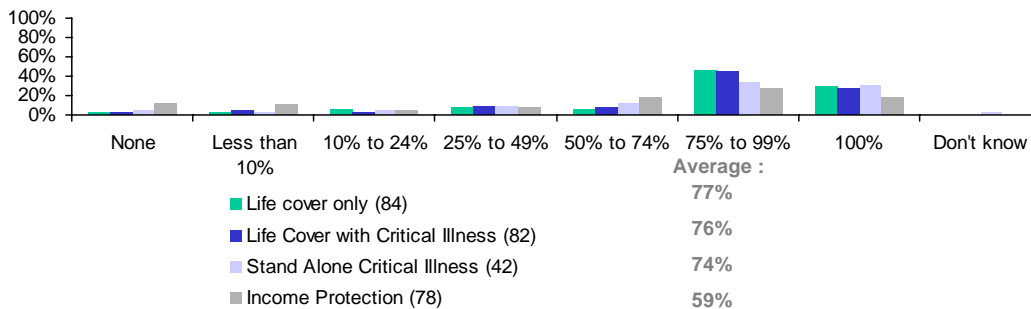
2. continued.... Proportion of business submitted electronically

Those writing more than 25% of protection business are more likely to submit new business electronically

Those that write < 25% of protection business



Those that write > 25% of protection business



TCP Comment

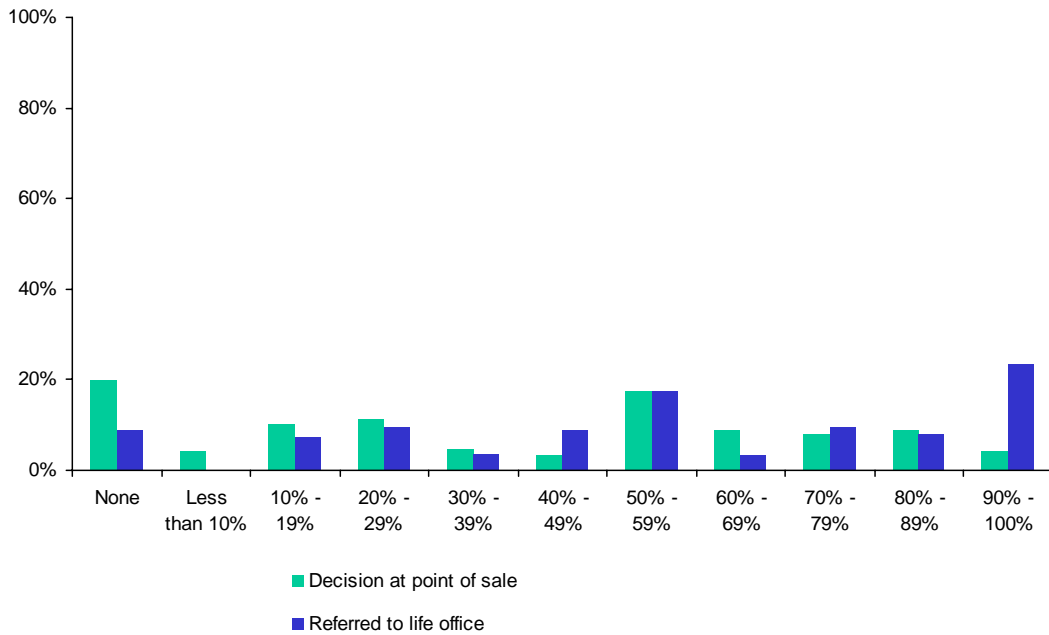
These figures show that advisers who write more significant volumes of protection business are more likely to submit business electronically. For Life Cover only, the higher volume writers submit on average 77% of their business electronically as compared with 63% among those for whom protection is less than 25% of their business.

There is a clear trend taking place in the industry to increase the volume of business that is processed electronically and so this must be a core competence for protection providers.

These figures suggest that providers need to do more to increase the use of electronic submission by those for whom protection business is not their main line of business. It could simply be that the registration / log-in process and unfamiliarity of using these systems is holding back wider take-up.

3. Proportion of business offered decisions at point of sale or referred to life office

4 in 10 cases submitted electronically receive an immediate decision at the point of sale, the balance are referred to the life office for underwriting



3. For protection business that you submit electronically, on what proportion are you able to offer a decision* to the customer at the point of sale, and what proportion is referred to the life office for underwriting? *Decision* includes accept at standard terms, decline or the offer of revised terms (e.g. an exclusion or a premium rating).

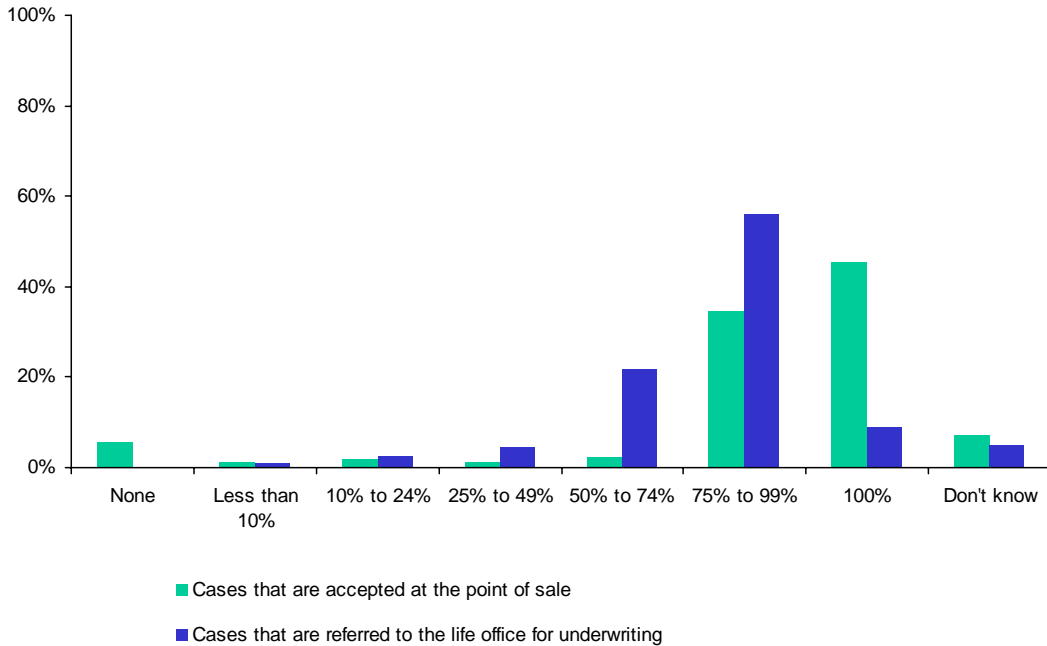
TCP Comment

40% of cases receive an immediate decision at point of sale. In our view, this figure must be substantially increased to leverage the real cost and service benefits of Straight-Through Processing (STP). The “magic” industry figure cited as a target for STP is 60% but these graphics suggest that the industry currently falls well short of this objective. There is evidence that some intermediaries (around 30% in our survey) are getting decisions at the point of sale on at least 60% of their business. This is likely to be a reflection of the profile of their business which we expect to be largely life cover only for young, healthy lives.

It is clear that companies who can push their acceptance results some way north of 60% will derive real competitive advantage from huge savings in medical costs, higher completion rates and a real reduction in other operational costs.

4. Proportion of cases that proceed to issue

Acceptance at point of sale has a positive impact on the number of cases that proceed to issue



4. For each of the following,
1. Cases that are accepted at the point of sale
 2. Cases that are referred to the life office for underwriting
- What proportion of business proceeds to issue?

TCP Comment

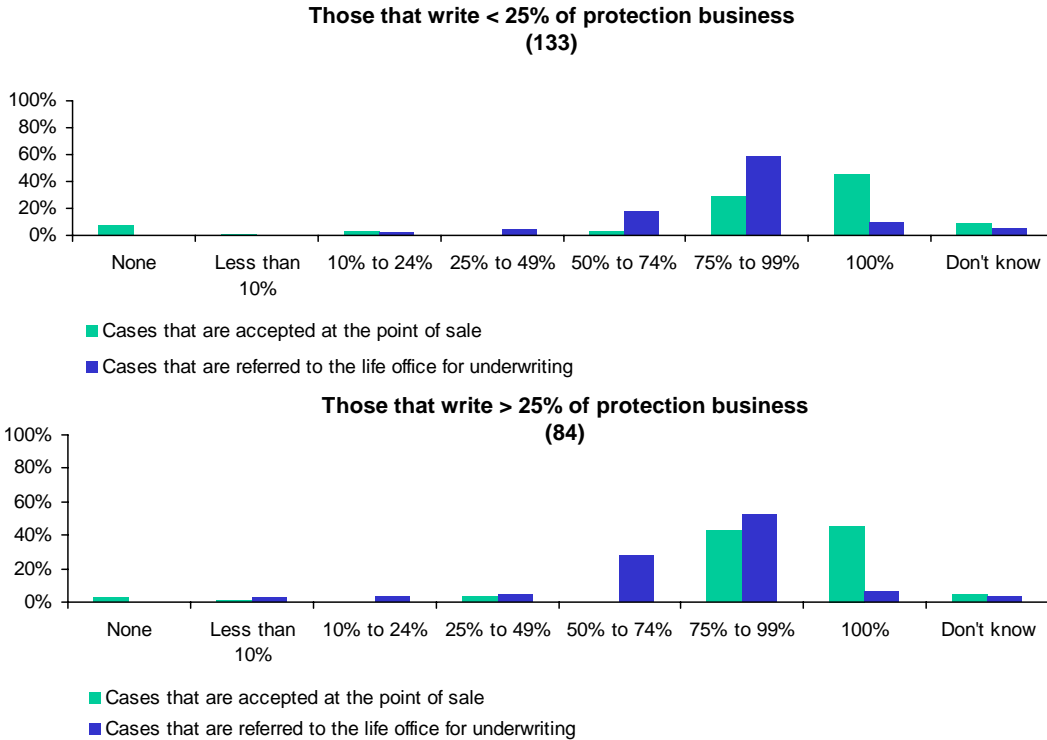
When business is referred to head office for underwriting, we would expect a lower proportion of this business to proceed to issue as compared with business that is accepted at the point of sale. Clearly some referred business relates to lives with poor health and will never go on risk as a result of such things as, multiple applications; failure to attend medicals; revised terms being unacceptable or the client may simply lose interest!

For business accepted at the point of sale 80% of intermediaries said that 75% or more of their business proceeds to issue, with 46% saying that all their cases that are accepted at the point of sale proceed to issue. This compares with 65% and 9% respectively for referred business. 22% of intermediaries said that on their referred business only between 50% and 74% would proceed to issue.

This suggests that the industry is incurring costs in assessing significant numbers of applications that never proceed to issue and we believe that this is an area where, for example, more segmented pricing and deployment of underwriting systems at the point of sale will reduce costs, improve service and improve new business take-up rates.

4. continued...Proportion of cases that proceed to issue

Larger protection writers experience considerably better take-up rates on electronically submitted business as compared with those for whom protection is less than 25% of their business.



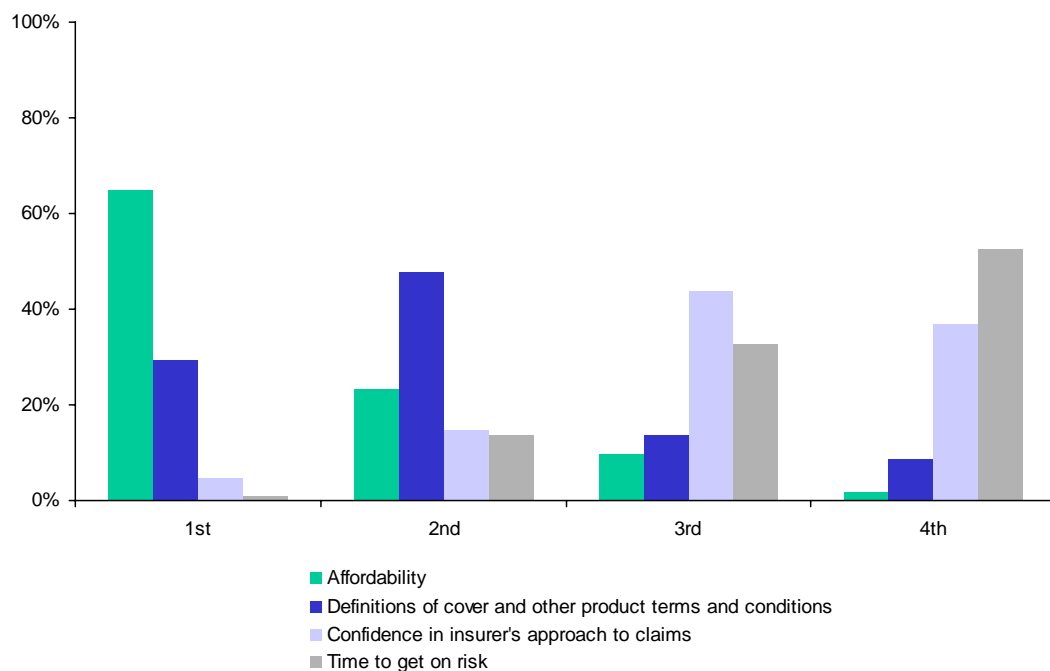
TCP Comment

The advisers who specialise more in protection have much better experience in the completion of electronically submitted business as compared with those who write less protection business. 88% of protection specialists said that more than 75% of their business which is accepted at the point of sale proceeds to issue. This dropped to 75% of intermediaries among those for whom protection business is less than a quarter of their total sales.

This suggests that not only are the more prolific writers of protection business submitting more business electronically – but on this business – they are also achieving higher completion rates. It could be that among this population, more business is mortgage related where the client feels a greater incentive to complete the insurance transaction. So perhaps the challenge here is more of a sales and marketing issue for providers and advisers who need to win over customers to addressing their wider protection needs aside from those that are mortgage related.

5. Importance factors influencing where protection business is placed

Unsurprisingly, affordability is the most important factor cited in influencing business placement



5. In order of importance which of the following factors influence how you place protection business for your clients?

1. Definitions of cover and other product terms and conditions
2. Affordability
3. Time to get on risk
4. Confidence in insurer's approach to claims

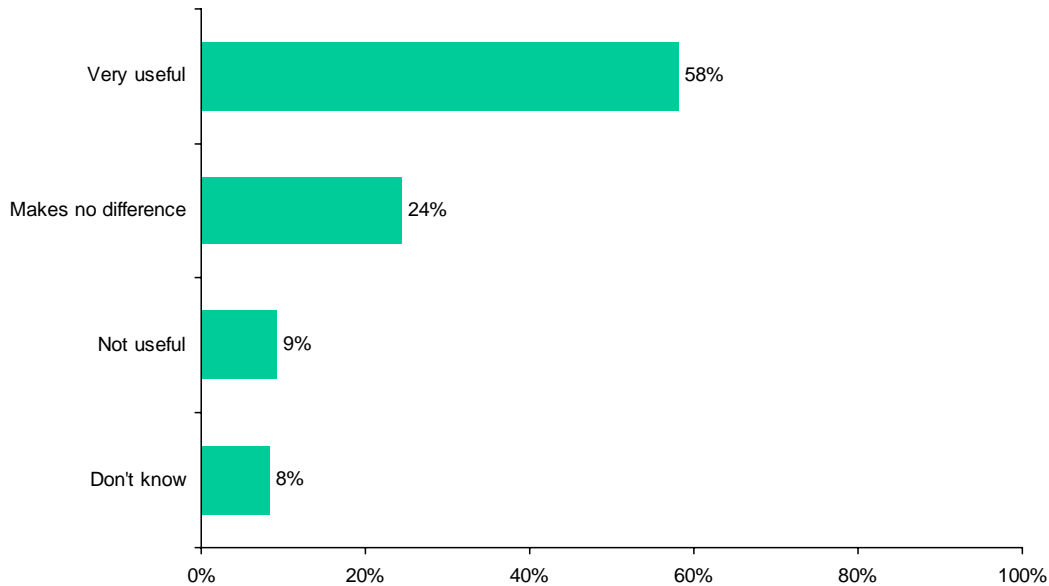
TCP Comment

There was no great surprise in the results of this part of the survey. Affordability was ranked 1st by the majority of advisers (65%) with 30% of advisers putting 'Definitions of cover and other product terms and conditions' as their most important factor. Similar views were expressed by advisers regardless of how much protection business they write.

In our survey advisers ranked their confidence in insurers' approach to claims above the time it takes to go on risk. It will be interesting to note whether the recent policy published by the ABI in connection with claims where there has been some element of non-disclosure will mean that intermediaries will continue to see differences between insurers in connection with claims assessments.

6. Usefulness of immediate cover criteria at the point of sale

The majority would find it 'very useful' if a point of sale system advised them of alternative terms that would avoid a case being referred.



6. Where a protection case is submitted electronically and returns a decision of 'refer to underwriter', if it were possible for that case to go on risk immediately with, for example, a lower sum assured or for Income Protection, a longer deferment period, would it be useful to have this information available immediately at the point of sale and hence have the option to put the case on risk without delay?

TCP Comment

This question was asked specifically to gain views on a feature that we have now built into our software which is designed to facilitate a higher proportion of acceptances at the point of sale.

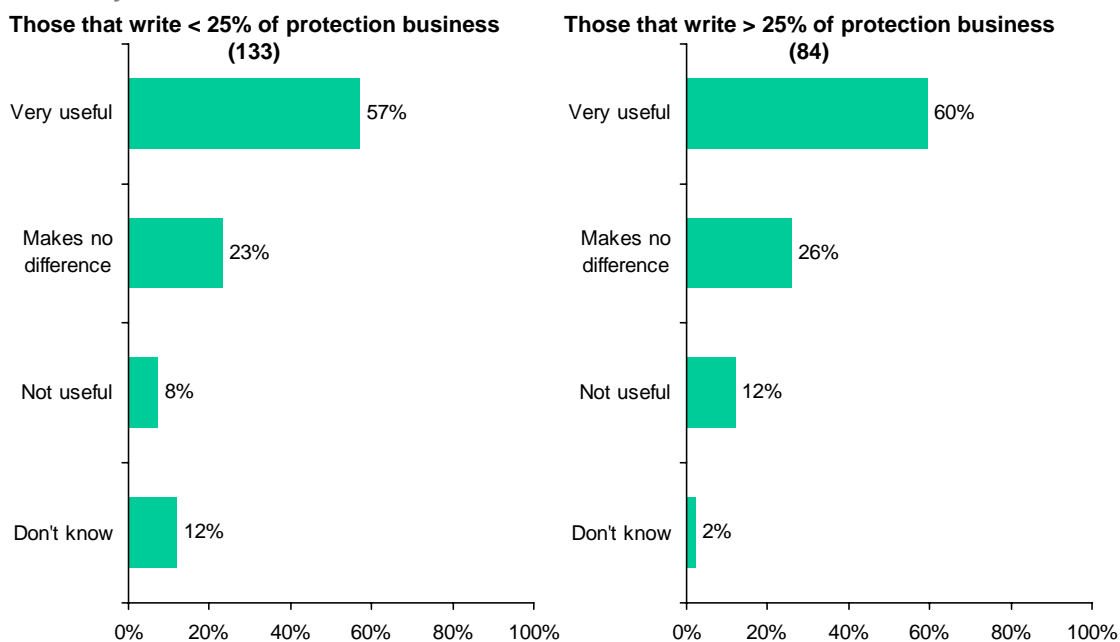
Let's explain how this works....

Where a protection case is submitted electronically and returns a decision of 'refer to underwriter', our system will also tell the adviser if it is possible for that case to go on risk immediately if, for example, the sum assured was reduced, or, for Income Protection, a longer deferment period was selected, or some other parameter was changed. Clearly the revised terms would need to be assessed taking into account a client's needs – but this does, for some cases, with perhaps a small change to the cover selected, give the ability to go on risk more quickly without referral to head office.

We were keen to know whether intermediaries would find this useful and are pleased to note that it does appeal to a large number of advisers. 58% said they would find this facility very useful and we suspect that it has most relevance with applications for income protection and critical illness cover or cases that include waiver of premium.

6. continued... Usefulness of immediate cover criteria at the point of sale

The majority of advisers, regardless of how much protection business they write, would find the availability of alternative terms to be 'very useful'

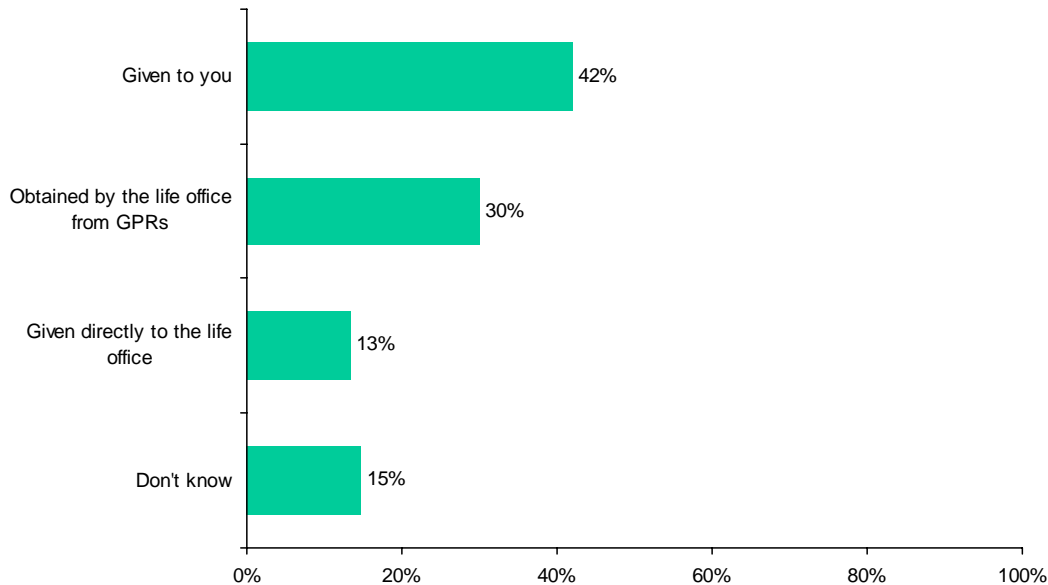


TCP Comment

This feature (as outlined on the previous page) seemed to be better understood by the larger protection writers (only 2% said they didn't know whether or not it would be useful as compared with 12% for those who write less protection business). And 60% as opposed to 57% thought the facility to be 'very useful'.

7. Most clients prefer their medical information to be ...

Whilst the largest group believe clients prefer medical information to be provided to the adviser, 3 in 10 believe the life office obtaining it from GPRs is preferable; a smaller number believe clients would opt to provide this direct to the life office



7. For protection business, do you think most clients prefer their medical information to be:

- | | |
|--------------------------------------|--|
| 1. Given to you | 2. Obtained by the life office from GPRs |
| 3. Given directly to the life office | 4. Don't know |

TCP Comment

There is a move in the industry to adopt Tele-Underwriting – which effectively translates to medical information being given directly to the life office – so it is interesting to note that only 13% of intermediaries think that clients will prefer to give their medical details directly to the life office.

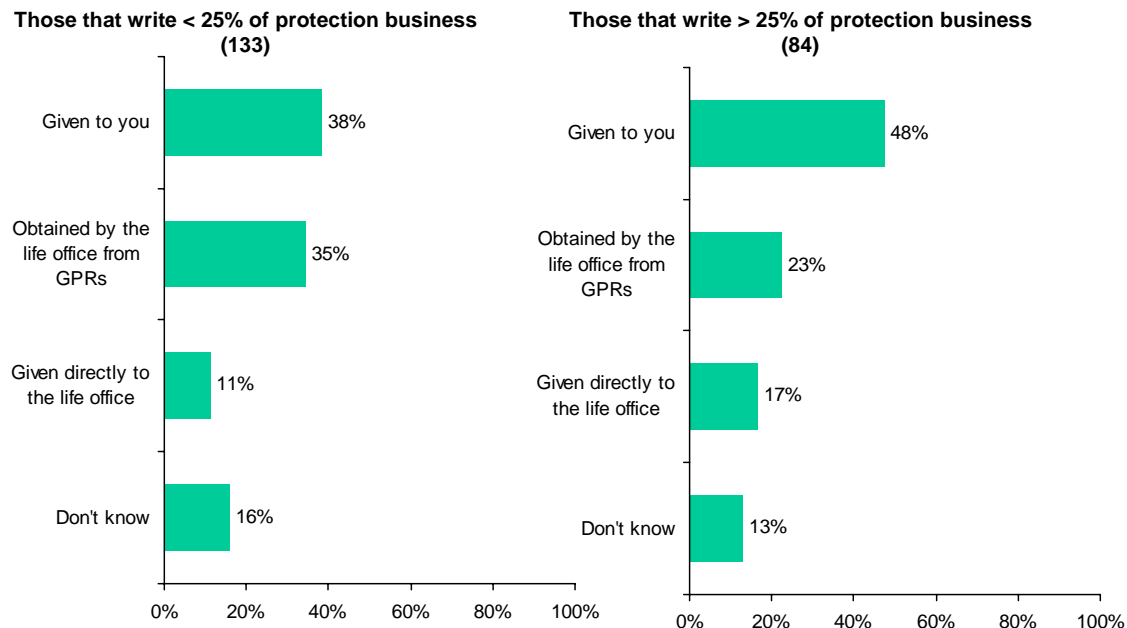
42% of intermediaries in our survey believe that their clients prefer to give their medical information to their adviser. It would seem that these advisers know their customers – as in our recent consumer research¹ 81% of those interviewed said that they were happy to give their medical details to the person advising them if that speeds up the process.

We believe that the 42% of advisers who opted for “self-serve” where the adviser has evidence provided to them could be the precursor for a revolution in the way that evidence is obtained. If an underwriting rules base can reduce the need for extensive underwriting at point of sale and help to put the adviser in control of the case we see definite benefits in higher completion rates, removal of delays and a streamlining of the underwriting process with a consequent reduction in costs.

¹ A Better Way for Protection – conducted September 2007 with ICM Research. Summary available from www.tcplifeyesystems.com

7. continued... Most clients prefer their medical information to be ...

Perhaps unsurprisingly, the larger protection writers are more likely to believe their clients would prefer to provide medical evidence to them



TCP Comment

Larger protection writers obviously believe that the client sees a demonstrable benefit in providing evidence to the adviser. This is clearly an area worth investigating because it is backed more heavily by committed protection advisers.

It is also notable that among those for whom protection business is not their main line of business, there is a much stronger preference (35% of respondents) for medical information to be obtained by the life office from GPRs. This could well be a reflection that this group regards the collection of medical information a hassle (as compared with investment and pension business) or perhaps they are less experienced in handling customer queries relating to their medical conditions or are concerned about the risks of non-disclosure. This highlights that 'one size doesn't fit all' and that providers should consider the need for tailored application processes for intermediaries.

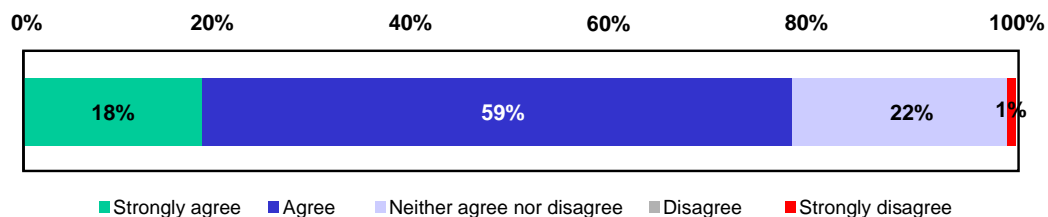
Adviser Opinion of Automated Underwriting at the Point of Sale

In our survey we asked respondents to what extent they agreed or disagreed with a number of statements in connection with automated underwriting at the point of sale for protection business.

The statements and responses received are set out in questions 8 to 15.

8. Automated Underwriting at the Point of Sale - Assessing non-standard lives

"It's better that non-standard lives are assessed by an underwriter at the life office."



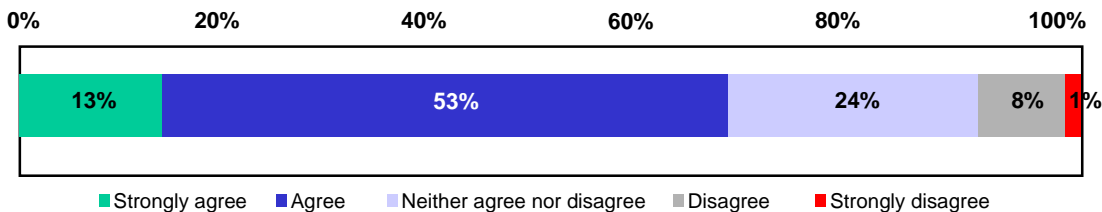
TCP Comment

Our survey asked to what extent intermediaries agreed or disagreed with the view that non standard cases should be assessed by an underwriter at the life office. Overall, 77% of advisers agreed or strongly agreed with this statement. This would suggest that there is little appetite for non-standard business, supported by underwriting systems, to be assessed at the point of sale and that intermediaries are content with the delays that referral to head office brings about.

We believe that for any provider seeking to augment the scope of their point of sale systems to include assessment of non-standard lives, there is a need to educate advisers as to the merits of this and convince them that their clients are not disadvantaged by being assessed automatically by a rules based system. Ironically, most referred cases are already assessed by these systems – it's just that the underwriter is pressing the keys and communicating the results.

9. Automated Underwriting at the Point of Sale - Managing pipeline business

“More efficient – saves advisers time chasing up progress on referred cases”

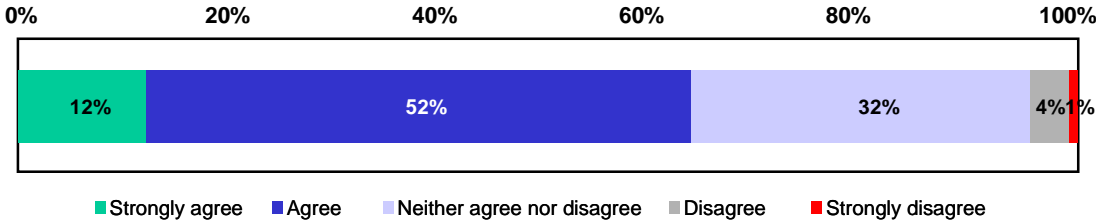


TCP Comment

66% of advisers agreed or strongly agreed that automated underwriting at the point of sale was more efficient and saved them time chasing up referred cases. This view was more widely held among those who write more than 25% of their business in protection with 73% saying that they agreed or strongly agreed as compared with 63% among those who write less than 25% of their business in protection.

10. Automated Underwriting at the Point of Sale - Scope of point of sale underwriting

“Point of sale underwriting could go a lot further to accommodate all types of cover and higher cover amounts.”

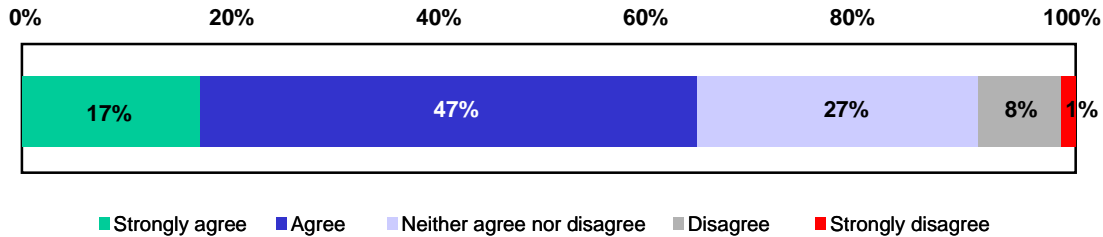


TCP Comment

We have already observed in this paper that many point of sale systems do not support Income Protection and typically the size of sum assured that can be accepted at the point of sale is capped. There is fairly strong support among intermediaries that the scope of covers available on point of sale systems and the size of sum assured should be broadened with 64% of respondents agreeing or strongly agreeing with this view.

11. Automated Underwriting at the Point of Sale - Remuneration for non-standard terms

“Advisers should be remunerated for handling non-standard terms.”



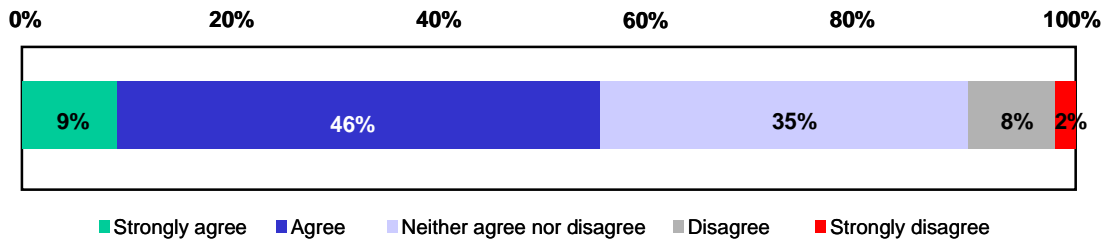
TCP Comment

Overall 64% of respondents thought that in connection with automated underwriting at the point of sale, they should be remunerated for handling non-standard terms. This view was more widely held among those for whom protection business accounted for more than 25% of their total business (69%) as compared to 61% for those writing less than 25%.

Where the non-standard terms result in a higher premium, then advisers normally receive commission based on the total premium and hence do receive slightly more commission compared to a case that is accepted on standard rates. It is an interesting point as to whether there is more effort for advisers in dealing with non-standard cases e.g. the need to explain the revised terms, revisit the scope of cover, obtain a customer's agreement to the revised terms etc and whether this effort should be rewarded.

12. Automated Underwriting at the Point of Sale - Affordability issues on rated cases

“Easier for advisers to help the customer address any issues of affordability on rated cases.”

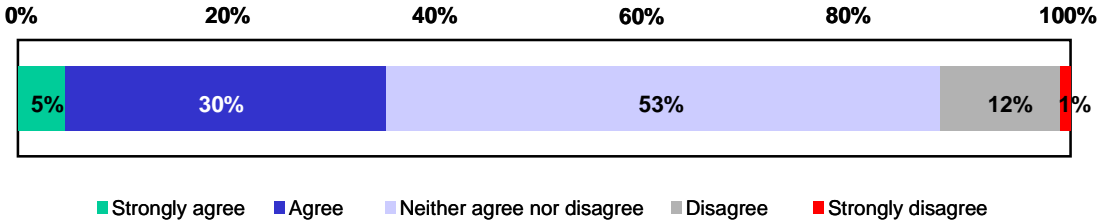


TCP Comment

Overall 55% of respondents thought that underwriting at the point of sale makes it easier for them to help the customer address any issues of affordability when a case has been rated. This view wasn't as widely held as some of our other questions about point of sale underwriting and indeed 10% either disagreed or strongly disagreed with the statement which perhaps suggests that this issue doesn't arise very often. Arguably those customers that have been rated as the result of a medical condition perhaps consider themselves to be in greater need of cover compared with a healthy life and hence are prepared to find a way to pay any increased premium.

13. Automated Underwriting at the Point of Sale - Consistent underwriting decisions

“Automated underwriting at the point of sale gives more consistent underwriting decisions.”



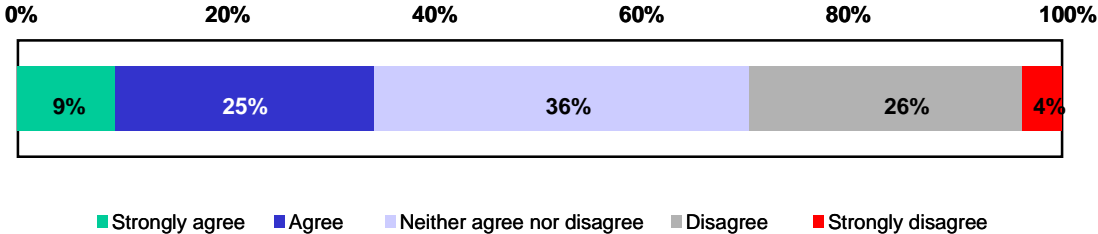
TCP Comment

53% of respondents were neutral as to whether automated underwriting gives more consistent underwriting decisions. We thought that a higher proportion of advisers would agree with the statement given that rules based decision-making takes away the human factor. Just over a third (35%) agreed or strongly agreed.

Agreement with the statement was higher among those who write the larger proportion of their business in the protection arena (44% agreed or strongly agreed) compared with 29% among intermediaries that write less than 25% of their business in protection.

14. Automated Underwriting at the Point of Sale - Time taken for point of sale underwriting

“Takes too much time at the point of sale.”



TCP Comment

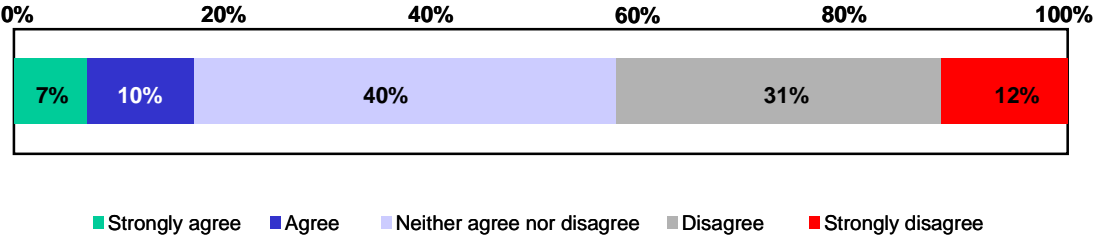
We asked respondents to what extent they agreed or disagreed that automated underwriting at the point of sale for protection business takes too much time in the sales process. Views were pretty evenly divided with 34% agreeing or strongly agreeing, 30% disagreeing or strongly disagreeing and 36% being neutral.

In terms of those that agreed with the statement the views were similar regardless of how active they were in selling protection. Among those for whom protection made up more than 25% of their business, 35% of intermediaries disagreed or strongly disagreed as opposed to 27% among intermediaries who write less protection business.

This suggests that there is a need to further streamline point of sale systems and make them quick and easy to use. We would suggest that this is as much about a provider’s attitude to underwriting as it is the design and functionality of a point of sale system.

15. Automated Underwriting at the Point of Sale – Fit with the sales process

“Doesn’t fit our sales process.”



TCP Comment

With just 13% of respondents overall agreeing or strongly agreeing that point of sale underwriting doesn't fit with their sales process, and 43% disagreeing or strongly disagreeing, we can perhaps conclude that in general terms most advisers have adapted their sales process to take account of the electronic capture of medical information and provision of electronic acceptance at the point of sale. Those who have moved into the provision of advice on protection business within the last few years, will of course, have no experience of what it used to be like!

Summary

Overall, the results of this research suggest that there is now widespread use of on-line submission of protection applications and increasing use of underwriting at the point of sale.

There are three points that we think worthy of highlighting since they directly relate to current industry debate and discussion.

Price is important, but...

Many commentators and practitioners in the industry would agree that the protection market is largely price driven; more so for life cover than for critical illness or income protection. It is worth noting that in the results of our research, almost 30% of intermediaries rated 'definitions of cover and other product terms and conditions' above 'affordability' as *the* most important factor that influences where they place business and 48% of respondents ranked this as their 2nd most important factor. Product Managers may find this reassuring as they seek to find ways to differentiate their products and better meet customer's needs.

Income Protection is still helping to keep the postman in work.

Our research confirms that electronic submission of protection business is now very much an accepted way of doing business, with some 20% of advisers being able to submit all of their life and critical illness business on line. However, the same is not true for Income Protection where just 50% of applications are submitted electronically. We believe that we are likely to see providers increase their on-line functionality in support of Income Protection so that intermediaries have a similar application process for all protection covers.

Does he take sugar?

In our research we asked intermediaries what they thought their *clients'* preferences were in terms of how they provide medical information. Among the specialist protection advisers, 48% thought that clients preferred to give their medical information to their adviser and only 17% thought that clients prefer to give their information directly to a life office. This was interesting to us since in our recent consumer research, we asked individuals a similar question and 81% of respondents said that they would prefer to give their medical information to the person advising them if that would speed up the process. This is an area that underwriters and product managers may wish to research in more detail when considering changes to how medical information is obtained and the adoption of tele-underwriting.

Being involved in the UK's protection market we hope you will find these research findings of interest and that we have been able to contribute to the current debate.

About TCP LifeSystems

- TCP LifeSystems is the provider of the *Copernicus* SS/G platform, a leading edge technology solution that enables both 'Self Serve' (point of sale) and 'Back Office' writing and servicing of life, pensions and annuity business. Our Clients include AXA, Scottish Widows, Caledonian and Storebrand. Our 'Self Serve' technology supports quotation, new business & underwriting decision making and revised terms acceptance at the point of sale. In the 'Back office' the platform supports big 'T' and little 't' tele-underwriting and automated further evidence gathering.
- This research follows up extensive research commissioned by TCP LifeSystems with intermediaries in 2006, the results of which have underpinned development of a new generation self-serve systems. These enable product manufacturers to determine which processes – from quote to claim - are deployed to intermediaries and which are retained within head office. The extent of this empowerment can be tailored to (i) providers' confidence in their intermediaries and (ii) intermediaries' appetite for taking increased control in the processing of their clients' business. This enables a life office to truly tailor its service for different distribution channels and to firms/subsets within channels.
- TCP LifeSystems are committed to ensuring their software is able to cater for the different ways that manufacturers and distributors want to do business – plus, through its understanding of the market, TCP LifeSystems is able to bring innovative thinking and practical solutions.

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