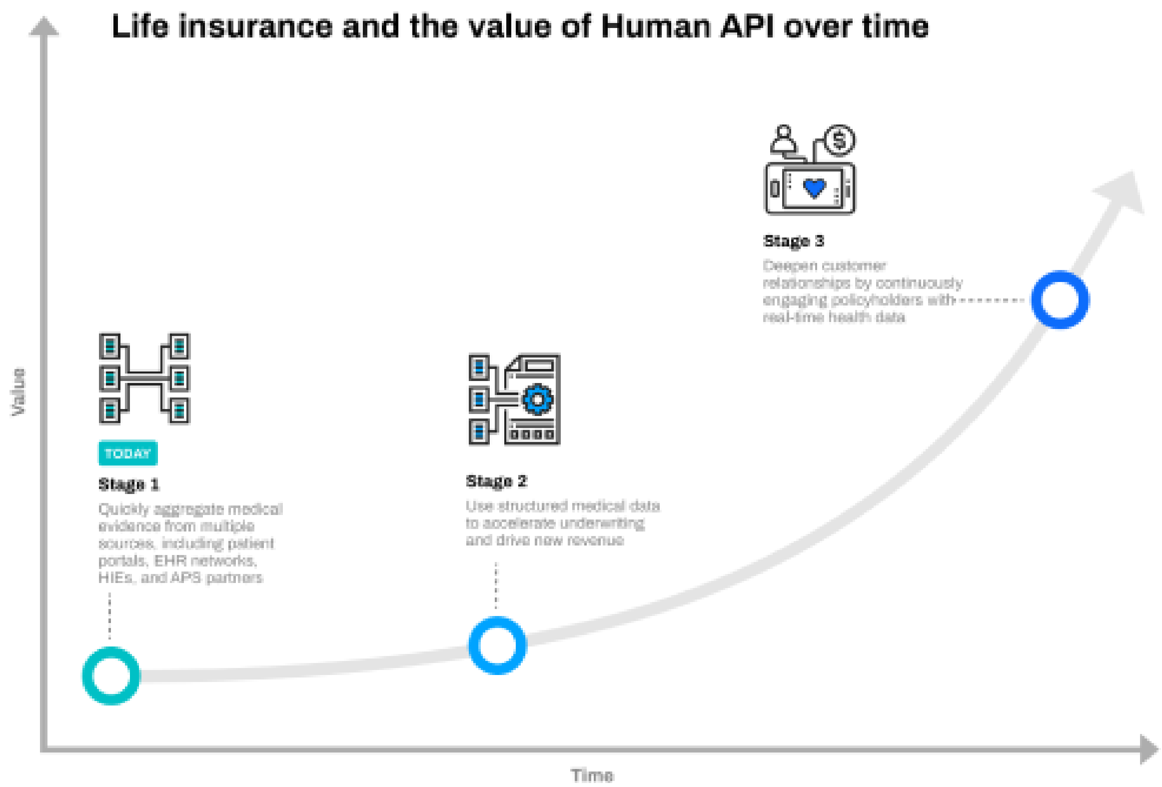
WHITEPAPER

Leading Trends for Life Insurance Providers to Watch in 2021

Executive Summary

The COVID-19 pandemic has accelerated every industry's leap into the digital age, including life and disability insurance. Digital has become so important to the modern insurance company because it delivers two essential characteristics consumers seek from carriers: ease and accessibility. However, many carriers are struggling to make meaningful progress on digitization because they're still burdened by legacy workflows, technologies, and paradigms. In this paper, we highlight current challenges and opportunities facing the insurance industry and show how embracing a data-first strategy will be the difference between surviving and thriving in 2021.

FROM	TO
Complex, time intensive, sales experience for distribution	Simple, transparent process with fewer consumer touchpoints
Time-intensive, invasive underwriting requirements	Real-time, non-invasive health data to create better consumer experiences
Complex, time intensive, sales experience for distribution	Building more personalized underwriting requirement guidelines
Resource intensive manual underwriting review of medical history	Fully automated underwriting decisions using EHR data
Little value added interaction with policyholders post issue	Creating meaningful policyholder engagement and understanding



Current State of Life Insurance: Legacy Tools, Workflows, and Paradigms Limiting True Innovation

The life insurance industry is not known for its seamless consumer experience, or rapid adoption of emerging technology. As highlighted in a recent [Mckinsey paper](), buying life insurance can be painful, and many carriers have failed to meaningfully scale their efforts to modernize the underwriting process. For example, the attending physician statement (APS) has been used to assess risk for decades, and is often referred to as the "Gold Standard" for underwriting even though it takes weeks (sometimes months) to obtain and review. Despite acknowledging dependence on time-intensive and analog processes, many carriers are still struggling to make meaningful progress integrating new data, technology, and workflows. If carriers truly want to grow in a new digital economy, they will need to transform their business by creating stronger relationships with customers and deliver digital experiences that mirror those of other major industries. There needs to be an appetite to challenge the status quo and decrease dependence on workflows that don't meet the expectations of modern-day consumers.

As insurers look to adopt a data-first approach to transforming their sales experience, they will inevitably be required to introduce change to the new business and underwriting functions. Carriers must move away from making small, incremental improvements to a legacy process and focus on creating new workflows that are not restricted by outdated mental models. Previous attempts at changing the underwriting process with initiatives such as fluidless programs are not achieving the intended goal of cutting underwriting times and placing more policies. The criteria to meet these fluidless requirements are often too restrictive. Many applications submitted for accelerated underwriting (AU) are kicked back to traditional underwriting, resulting in more of the same slow and invasive process after setting higher expectations for distribution partners and their clients. Instead of relying on traditional underwriting requirements, carriers need to adopt alternative data sources that reduce accelerated underwriting kickouts when initial criteria are not met.

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Hannover Re recently found that electronic health record (EHR) data can be used as an alternative to traditional exam and lab requirements to increase an AU program's throughput. In addition, carriers such as Principal have also increased the face amount limits of AU programs using electronic health records. As carriers increasingly turn to using alternative data sources such as EHRs, they can begin to create new underwriting guidelines that are more personalized and less dependent on traditional requirements such as exams, labs and attending physician statements.

Although carriers are uniquely positioned to engage and learn about their consumers for years (sometimes decades), very few have made any progress to meaningfully build a value-added relationship with policyholders. According to a recent J.D. Power research report, life insurance customer satisfaction declines with product tenure. Customers who've owned a life insurance policy for less than five years have the highest overall level of satisfaction with their policy and scores fall dramatically with tenures. As consumer expectations rise from experience in other industries, carriers who do not add value to their policyholders post-issue will risk falling behind. However, the carriers who implement a data-first approach to engaging policy holders will realize benefits such as reduced lapse rates (improve persistency), stronger up-selling and cross selling potential, and better understanding of risk for the existing book of business.

Carriers who implement a data-first approach to engaging policy holders will realize benefits such as:

- **Reduced lapse rates (or better persistency)**
- **Stronger up-selling and cross selling potential**
- **Better understanding of risk for the existing book of business**

Carriers struggle to make changes partly because they are not working jointly with vendors and distributors within the larger ecosystem, and instead operate in isolation or in silos, hindering communication across partners and thus progress. Although the data and technology needed for innovation is readily available, the resistance to change comes from attachment to existing paradigms of thoughts. Navigating the changing life insurance landscape requires letting go of the comfort of old ways and welcoming new ideas that challenge current perceptions of what's possible and impossible. To realize new value, carriers have to embrace thinking and operating outside the scope of existing paradigms. The value of new initiatives lies in trekking beyond the unknown and phasing in new workflows that are processes supported by digital data.

The Clock is Ticking: Existential Threats are Materializing at the Distribution and Carrier Levels.

Incumbent insurance companies are facing real outside threats. New entrants are entering the market funded by millions of dollars by investors who see an opportunity for technology to disrupt and fundamentally reshape the life insurance landscape. [Insurtech investment has continued to grow in 2020] despite global economic insecurity and uncertainty caused by COVID-19. Driven forward by the trends of digitization, data, and customer-centricity, investors recognize a big opportunity to disrupt the current insurance value chains with data and technology synchronized with intentional change management. The recent sale of [Allstate's life insurance business to Blackstone for $2.8 billion] shows the urgency for innovation and transformation in the industry. In this low interest rate environment, life insurance companies employing high capital processes will need to adapt to digitally-enabled processes that reduce costs through automation and improved efficiencies. Carriers that maintain the same operating models and don't adapt to new market dynamics risk facing real existential threats today.

New entrants such as insurtech companies Ethos, Ladder, Lemonade, Bestow, Haven and Fabric are not just disrupting how insurance is bought. These technology-enabled companies are rapidly learning how to engage with customers to deepen relationships, drive new buying behavior through identifying up-selling and cross-selling opportunities in an increasingly virtual, data-driven, and customer-centric business environment. Furthermore, insurtechs such as [Dayforward and Bestow have filed to become direct writers of life insurance], a significant change from the approach where insurtechs sell traditional insurers' policies: "The moves by Bestow and Dayforward signal that startups are confident they can overcome the hurdles of low profitability and regulation that have kept them out of the life-insurance-carrier business in the past."

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With a strategy to offer a digital first underwriting experience that leverages new tools such as electronic health records (EHRs), these startups are well positioned to create cost efficiencies that will push their profit margins beyond those of traditional carriers. As more insurtechs position themselves as direct writers of insurance, they will have greater autonomy to innovate how they develop, price, underwrite and distribute products, placing even greater pressure on traditional carriers to urgently adopt a data-first strategy. Forward-looking carriers are beginning to make significant investments to improve digital and data capabilities, as seen with [Prudential's acquisition of Assurance for $2B] aimed at transforming the consumer buying experience, lowering the cost of customer acquisition, and allowing deeper reach into the mass market while maintaining a high level of personalized service and product selection.

The urgency for change does not exist only at the carrier level - traditional life insurance distribution partners also need to look for ways to innovate or risk being left behind by rapidly evolving market dynamics. Distribution is poised to face strong competition from insurtech and technology-first companies that are delivering fully digital touchpoints and buying journeys. Consumer-centric technology companies will be primed to capture more market share through automation and data advantages. Traditional distributors who use technology and data to create a simplified quoting and buying process will have significant advantages over their competitors who fail to adapt.

An Emerging Opportunity for Life Insurance Companies: Realizing New Digital Possibilities in 2021.

Younger workers are quickly taking the place of boomers in the workplace as the largest demographic age group, making one of every three potential life insurance customers a millennial. As consumer demographics and behavior continue to evolve rapidly, insurers must keep changing their overall distribution strategy or run the risk of irrelevancy. According to a recent J.D. Power study, digital has become so important to the modern insurance company because it delivers two essential characteristics consumers are seeking: ease and accessibility. Carriers who aim to meet modern customer expectations and deliver digital buying journeys that parallel those of other industries need to move away from reliance on distribution processes and traditional underwriting requirements that were built for a non-digital world.

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Cultural and organizational change management needs to be fully embraced as the default mindset to thrive in 2021 and beyond. Lack of control over consumer experiences due to fragmented distribution channels that don't have a centralized means of coordinating customer buying journeys limits the growth potential of incumbents by not being able to capture millennial customers who are increasingly seeking omni-channel digital experiences. Unified access to EHR data presents an opportunity for carriers to meaningfully act on a data-first strategy in 2021.

Open health data access driven by federal regulations and private investments into emerging technology companies are enabling new possibilities. Aggregator platforms are emerging as natural successors to legacy medical records retrieval methods, giving carriers opportunities to adapt and create lasting competitive advantages. New models of product and service can be built on top of digital health data that wasn't easily available just a few years ago. With access to electronic health records, carriers can begin to offer a more accurate quoting experience that helps distributors set better expectations for clients. Distributors can also leverage EHRs to ensure they are selecting the best product/carrier to match the needs of their client.

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"EHRs are the final piece of the puzzle for the new underwriting paradigm. The majority of the protective value when assessing an individual's mortality risk is from their medical history. To date our industry has had to rely on either the APS, which still can take weeks to obtain, or having the applicant self-report their history. Our industry requires real time, interoperable medical records from the treating physicians in order to maximize the applicant's customer experience, and the accuracy of the underwriting." -

Ron Schaber
SVP of UW, Munich Re

In order to achieve these types of changes in the near future, the industry needs to prioritize the collection and application of EHR data today. As electronic health records with increasing amounts of data are collected, carriers and their distribution partners will develop a greater understanding of the data over time and confidence in how to create value from it will evolve into competitive advantages.

The EHR adoption curve will begin with carriers looking to replace time intensive and invasive requirements such as the attending physician statements and paramedical exams. The speed at which EHRs can be accessed will naturally decrease underwriting time, leading to improved placement rates. Carriers have already reported meaningful EHR hit rates, and are often finding the data rich enough to replace traditional requirements and improve AU throughput. The opportunity significantly increases as carriers learn how to use the data more broadly and efficiently, without manual underwriting review. Carriers can programmatically filter the EHR record to identify non disclosures on the application, or use the EHR as a triage tool for traditional requirements. Such changes would allow a carrier to move away from standard age/face requirements and offer consumers a more personalized experience.

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The key will be for carriers to invest in partnerships and technology that help them ingest data in a usable format. Aggregated structured EHR data contains data elements that can be parsed programmatically, giving carriers the opportunity to employ algorithms for automated decisioning in the underwriting process and reduce dependency on manual underwriting reviews. This capability can be used to automate the time-intensive informal processes to enable faster response times for distribution and lower costs to carriers. Companies like Verisk and RGA have built EHR risk scores capable of ingesting, interpreting, and evaluating EHR data in real-time to generate an overall underwriting score. Further advancements using NLP, AI and predictive models are also being developed and deployed in order to leverage EHRs and improve the customer buying experience.

This capability can be used to automate the time-intensive informal processes to enable f aster response times for distribution and lower costs to carriers.

There is vast potential in electronic health records to automate manual aspects of underwriting, allowing seasoned underwriters to spend more of their valuable time on assessing larger and more complicated cases.

As carriers begin to streamline the new business and underwriting process, they will eventually turn their focus to improving the post issue experience of policyholders. John Hancock has been an industry leader in this regard with its Vitality program. Using device and wearable data, Hancock is driving consumer engagement by helping policyholders live healthier lifestyles. With continuous access to electronic health records, carriers can significantly improve the effectiveness of these post issue engagement programs by having access to more detailed, longitudinal, clinical data. For example, by using continuous EHR data carriers can pre-approve a policyholder for additional coverage or award healthy behavior such as completing an annual physical with a primary care physician, with a discounted premium. New products can also be created that take advantage of this data access in the form of continuous underwriting.

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In addition to offering value to policyholders, carriers will also begin to build a data asset that helps them understand the risk of their existing book of business at a deeper level. As carriers look back, analyze & study their blocks of business to identify future changes to their UW process, they have not been able to use the information contained in the APS. Their past studies have been limited to application answers and digital data such as Rx, labs, MIB and MVR. By incorporating EHR data into their analysis, carriers will identify new medical insights that could have a significant impact on pricing, underwriting, and capital reserve business decisions.

The wealth of available EHR represents a perfect opportunity for carriers to act on a data-first strategy to innovation. Designing the collection and use of data in incremental steps provides a framework for establishing new workflows that can be iterated over time. Progress will lead to perfection over time as the existing processes are improved to remove frictions in underwriting and create new possibilities for policyholder engagement. In service of a larger innovation agenda, there may be short-term tradeoffs and investments required, but as learnings compound the entire underwriting process will transform into a new way of operating. Implementing a data-first approach will power downstream changes to servicing & engagement, and ultimately create revenue growth.

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