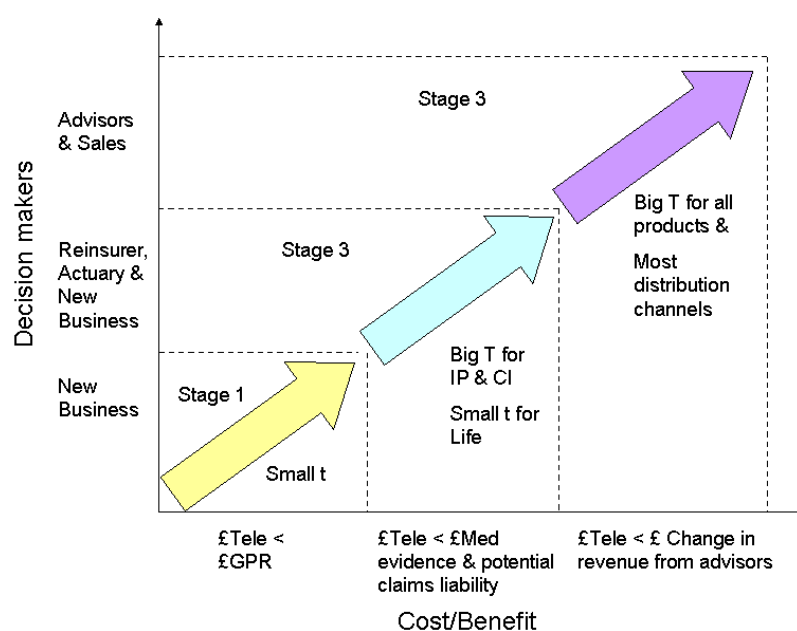


Tele-Underwriting – Industry wide change

MorganAsh

Tele-Interviewing (and Tele-Underwriting) are now firmly entrenched within the UK and Irish markets with the majority of providers using it in some form, or intending to start using it in the near future. How it is being deployed by different companies is primarily dependent on the cost/benefit being used and, for in-house solutions, the IT capability available. As Tele-Interviewing benefits all parts of the value chain of sales/advice, new business, claims and reinsurance it can take a long time for companies to co-ordinate cost benefit studies across these departmental and company boundaries. We have suggested there are three general stages that can be used to compare the progress of implementation of companies across the industry.



Graph: Tele-Underwriting growth stages by decision influences

Initial progress (Stage 1) is defined by the cost/benefit being limited to the medical evidence budgets within the new business departments. Hence, projects are only justified on the reduction in the cost of medical evidence. These projects have in the main been little t projects and they have been very successful in reducing GPRs and further medical evidence, typically by 50% and up to 70%.

"Tele-interviewing has enabled us to replace a significant proportion of our GP reports thereby cutting the timeline for receipt of medical evidence by more than 60%. It has also been well very received by our own sales force"

**Noel Finnegan, Underwriting
Manager, Bank of Ireland Life**

The non-disclosure by the traditional advisor interview revealed by Tele-Interviewing is alarming. MorganAsh consolidated non-disclosure studies from 8 companies from the UK and Ireland in 2007. Over 1100 cases were compared, examining the information provided and the underwriting decision for the traditional application process compared to the MorganAsh full nurse Tele-Interview. The results, split by product type are:

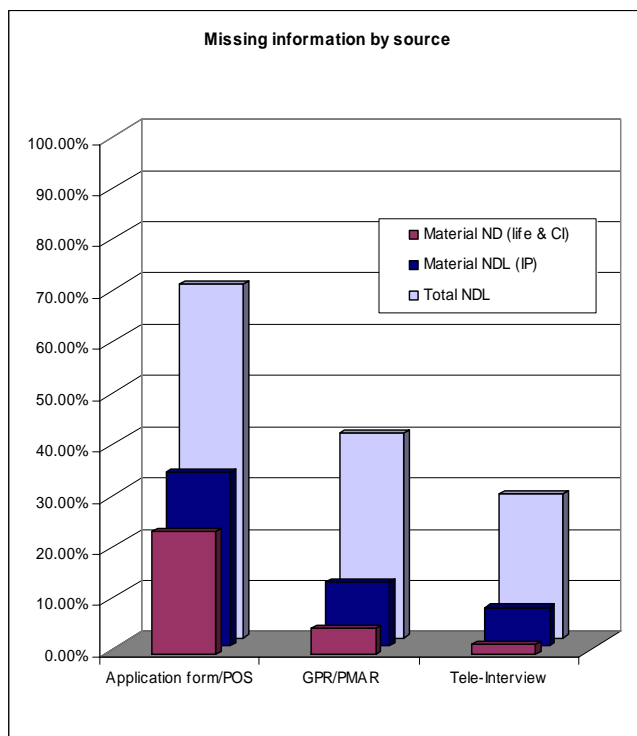
- Material non-disclosure on Income Protection products 34%
- Material non-disclosure on Life & Critical Illness 24%

This essentially tells us that with the traditional advisor interview processes, that 1/4 to 1/3rd of underwriting decision are incorrect, leaving the potential for disputed claims. With the latest ABI guidance on the payment of disputed claims, reinsurers are actively promoting separation of the financial sale and medical collection process to reduce the non-disclosure. Hence, in early 2008, Reinsurers become proactive in offering significant single figure discounts where Big T Tele-Interviewing (where all applicants are interviewed) is deployed.

“We are committed to continuously improving the service we provide to our distributors MorganAsh Tele-Interviewing will significantly enhance our proposition and replace the need for further medical evidence in a large proportion of cases.”

Matt Rann, Head of Underwriting and Claims at AEGON Scottish Equitable

How companies are reacting to this does vary. Some are ignoring it, while others are planning to Tele-interview all applicants to reduce it. We have defined Stage 2 on the implementation road as those who have expanded their cost benefit studies to include the non-disclosure, potential claims and reinsurer discounts.



Graph: missing information by source

Surprisingly, the Tele-Interview has been shown to collect more material information than a GPR. From a study across 6 companies in 2007 the missing information on GPRs was measured, as it was for Tele-Interviews. While this is only one study and not definitive, it does challenge the previous industry belief that the GPR is the “Gold” standard for information. The following graph displays the proportions of missing information by the collection source.

The benefits of reducing medical evidence are not only the reduction in cost, but also the reduction in new business processing times. These reductions have been significant, and are now being enjoyed and realised by the advisor community.

This we have labelled as Stage 3, when the cost benefit is no longer constrained to the savings in medical evidence budget and reinsurance discount, but now includes the impact on volumes of sales and lapse rates due to improvements in service to the advisor and consumer.

“We, as brokers, should not be taking the liability, or bearing the costs, for the medical interviews, and when product providers take control of the interviews, they can tune these to their underwriting philosophy and extend the interviews to collect all medical information, thus reducing GPRs and improving disclosure further. This has to be the better way.”

Tom Baigrie, Managing Director of LifeSearch

Not surprisingly, advisors are starting to express their opinion on the topic and several panels are now insisting on Big T Tele-interviewing. Tele-interviewing removes the major barriers to sale:

- There is a greater chance of claims being paid out, and less chance of claims disputes.
- The time, hassle and embarrassment of the advisor undertaking the medical interview, supplying completed application forms or keying in to on-line systems is all removed.
- Turn round times are reduced.
- Consumers are receptive to their ratings, as they have given the information rather than it being driven from a remote source.

Arguably, the cost/benefits of saving in medical benefits in Stage 1 are small compared to the improvement in service that Tele-Interviewing provides.

Like any major change in a conservative industry there is a litany of excuses and hurdles created to delay the change, and many struggle to value service and time savings, especially when these occur in other parts of the value chain.

"We are placing increasing importance on all aspects that help us separate the advice and the application process and in doing so Tele-interviewing is become more significant. I can foresee the time when we will only select companies that offer (BigT) Tele-interviewing"

Peter Chadborn, Partner, CBK

There are multiple ways of implementing Tele-Interviewing. The main variables are:

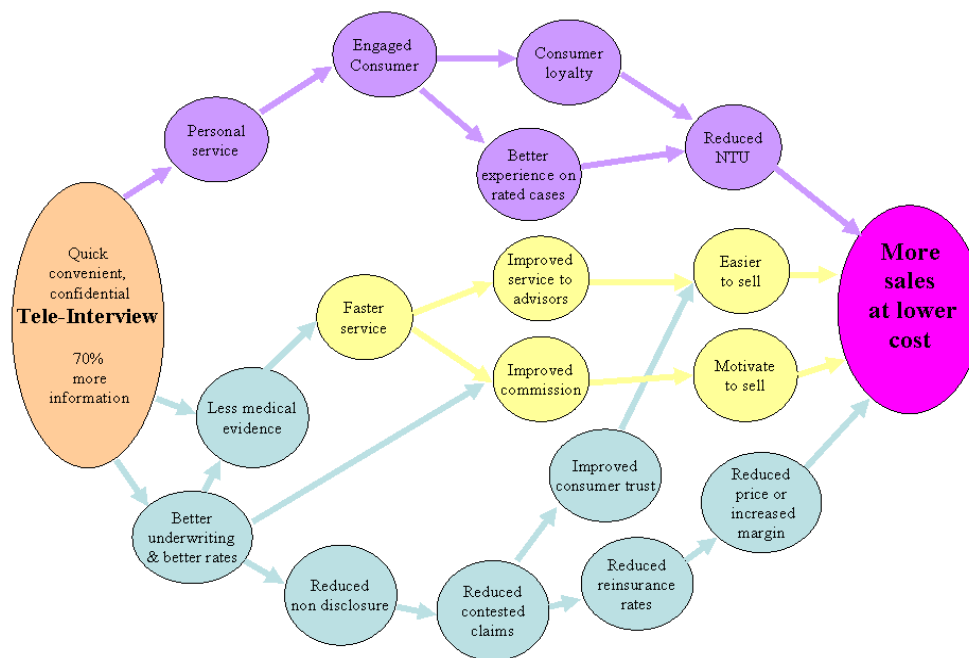
- Building in-house or using specialist providers
- The experience of the Tele-Interviewer themselves, with Customer Service representatives, nurses or underwriters being the three major alternatives.
- Tele-Interviewing or Tele-Underwriting – if an automated underwriting decision is made as an integral part of the process.

There is an eagerness to segment the offerings into fixed “models”. However, I would suggest there are pros and cons to all the above variables and companies must decide which is best for their product and service offering. Equally, there is a claim that certain companies are fixed on certain models. However, I don’t believe any company is wedded to any specific model, but have started down a particular road as they believed that was the best way to start, due to practical circumstances and inflexibility of existing IT systems. We have seen the first generation of implementations.

I believe that, in due course, we will see the larger players utilising both nurses and customer service representatives, Tele-Interviewing and Tele-Underwriting, with some in-house and some out-sourced, with each being used to their strengths for that particular product and distribution channel. Flexibility of systems will become an important factor in the evolution of Tele- Interviewing/Underwriting.

“There are a number of reasons why insurers and advisers should embrace Tele-underwriting. The potential for time saving should not be underestimated, one of the main delays with my clients is the GPR and the fact that sometimes the insurer has to revert to the GP for additional information - GP’s do not accord these requests the importance that clients, advisers and insurers do. Another factor is that it enables greater information to be derived at the initial stages. The third reason is the removal of the adviser from the question/answer precinct and this eliminates him from the potential Ombudsman investigation if there should be a disputed claim.”

Alan Lakey, Partner, Highclere Financial Services



Graph: Tele-Underwriting benefit realisation across the value chain

While Tele-underwriting is making great progress, it also has a few hurdles to overcome. One of these is the reluctance of companies to amend brand new on-line “Straight Through Processing” (STP) systems. While the implementation of on-line systems has been a great success for the industry in reducing the cost of administration and reducing paper, they also have their limitations:-

- The majority of advisors complete paper application forms at the consumer's location and then have this transposed into the on-line systems. No matter how clever and reflexive these systems are, if the applicant is not present the information collected will be poor, and the records of information transfer non-existent.
- Many advisors have to employ further administration staff, at their cost, to input the data into the systems.
- The on-line systems still relies on the advisor undertaking the medical interview.
- The STP rates, even after some years and many millions of pounds expenditure, remain around 30-50% range depending on products etc, with still the majority of cases being manually underwritten.
- The information collected is poor. This can be measured by the proportion of reports which are returned by the applicant. The proportion returned with material changes is 20% - 30%. It has to be asked how many of these cases are not being checked by the consumers and hence is missing information and thus has a potential contentious claim.

Customers using MorganAsh nurse Tele-Interview report <1% of cases are returned with material changes. This gives us far more confidence in the quality of the information captured at the application stage and hence the potential for future contentious claims. So far, MorganAsh has ZERO contested claims.

Companies are understandably reluctant to disregard IT investments they have just made. However, a few companies have taken the lead and have removed the medical questions from the on-line interface in preference to the Tele-Interview.

"It will greatly improve the service we offer to IFAs, as well as improving disclosure. In my opinion tele-interviewing has the potential to be of greater benefit to the income protection market than many product developments."

**Andy Chapman; Chief Executive,
Pioneer/Exeter**

In addition to the many benefits outlined above there are emerging reports of strategic progress.

- Norwich Union Health Care halved their non-disclosure and reduced the amount of further medical information required by 70%.
- Irish Life reduced their requirement for further medical information to 7.5% and extended the Group IP scheme across multiple brokers.
- Axa, who launched a new product in 2004 with Tele-Interviewing as a central part of their differentiator, have now grown to be a significant player in the protection market.
- National Farmers Union Mutual report a 40% growth in volumes in 2008 due to Tele-Interviewing and other new business process improvements.
- Shepherds Friendly Society have launched a new MPPI product that is fully Tele-interviewed, so meeting the attractiveness of MPPI, simple to sell, and overcoming the downsides as it will pay out.

Looking ahead, moving to Big T will provide increased demand on both in-house and specialist providers and this may mean that laggards may not be able to catch up as supply outstrips demand. Advisors are likely to differentiate further on service and hence on the quality and speed of the Tele-Interviewing undertaken on their clients.

Company	Started	Big or little t	Who does the interview	In house or outsourced
Aegon/Scottish Equitable	Yes	t	Nurse	MorganAsh
AIG (Group)	Not yet			
Axa	Yes	T	CSR	In house
Bright Grey	Not yet			
BUPA	Yes	t	Nurse	MorganAsh
Canada Life (UK) (Group)	Not yet			
Cirencester Friendly Society	Not yet			
CIS	Not yet			
Dentist Provident	Yes	T	Nurse	MorganAsh
Friends Provident	Yes	t	Nurse	MorganAsh
HBOS	Not yet			
Holloway Friendly Society	Not yet			
HSBC	Yes	t	Underwriters	In house
Legal & General	Yes	Both	CSR & nurses	In house
Lincoln	Yes	T	Nurse	MorganAsh
Liverpool Victoria	Yes	T	CSR	In house
National Farmers Union Mutual	Yes	T	Nurse	MorganAsh
Norwich Union Life (Life & CI)	Yes	t	CSR & nurses	In house & Medicals Direct
Norwich Union Health Care (IP)	Yes	T	Nurse	MorganAsh
Partnership Assurance	Not yet			
Pharmacy & General	Yes	T	Nurse	MorganAsh
Pioneer Friendly Society	Yes	t	Nurse	MorganAsh
Police Mutual	Not yet			
Prudential	Yes	T	CSR	In house
Royal Liver	Yes	t	Underwriters	Otter
Scot Provident/Resolution	Not yet			
Scot Widows	Not yet			
Shepherds Friendly	Yes	T	Nurse	MorganAsh
Synergy	Not yet			
UNUM	Not yet			
Wesleyan	Yes	T	Nurse	MorganAsh
Zurich	Not yet			
Ireland				
Acorn	Not yet			
Bank of Ireland	Yes	t	Nurse	MorganAsh
Canada Life	Yes	t	Nurse	MorganAsh
Eagle Star	Not yet			
Friends First	Yes	Both	Nurse	MorganAsh
Hibernian	Yes	t	Nurse	MorganAsh
Irish Life	Yes	Both	Nurse	MorganAsh
			CSR = Customer Service Rep	

Table: Status of Tele-Interviewing across the UK & Ireland.