

Better measurement needed for better business

- **Should providers publish material non-disclosure at application stage?**
- **What is 1% non-disclosure at application stage worth?**
- **What is saving 1 week's turn around time worth?**
- **Are we measuring service over the long term?**

There is a constant cry in the industry from providers for Financial Advisers to recommend on metrics other than just price. It is true the predominant metric for comparing Product providers is price, and the rise of pricing portals and price comparison web sites has accelerated this trend.

One of the main reasons this occurs, is that it is difficult for Financial Advisers to easily compare Product Providers on other metrics. Advisers have enough to do to give proper advice, while meeting the legislative overheads, without having to wade through the different product features and different processes.

For whatever reason, Product Providers strive to differentiate and not to provide simple comparisons. Hence, Advisers prefer to use simplified analysis such as Aequos from Defacto or price.

Measuring non-disclosure at application stage is a simple way to convey quality and can be used alongside price

Now with the Introduction of Tele-Interviewing, there is a multitude of different approaches and processes and, while diversity is good, the multiple descriptions are confusing to Advisers. Financial Advisers are confused by the

varying descriptions of Tele-Interviewing being undertaken, and find it difficult to compare the new business methods being promoted. Not only are there differences between Big T and little t, but Big T can vary between just filling in forms over the phone, to a full nurse interview that significantly reduces the need for GPRs.

Defacto have now, quite rightly, included Tele-interviewing within their analysis for product providers within the Aequos scoring.

Aequos scoring for Tele-Interviewing

1	No Tele-underwriting
2	Online submission or little t
3	Online submission and little t
4	Big T Tele-interviewing
5	Big T Tele-underwriting

Source Defacto

There has been recent improvement in simple comparison metrics with the publication of claims statistics. This has improved transparency, but claims statistics are, by their

nature, old, reflecting previous experience and therefore may not represent the current position.

One answer to the above confusion is for providers to publish their non-disclosure statistics at the application stage. These can be easily measured on the present processes and they give a good indication of the likely future claim problems. The level of non-disclosure rate depends on many aspects of the distribution channel and the processes adopted.

Non-disclosure measures the performance of a new business process and the quality of the information obtained rather than the method. Thus Advisers do not need to know all the details of the method and process; they can just compare the non-disclosure performance.

There are many ways to measure non-disclosure. The most appropriate non-disclosure comparator is to measure material non-disclosure (i.e. missing information that would have led to a change in the underwriting decision compared to the GPR. It is suggested that only cases with material non disclosure with variations of more than +50% are included, as these are within normal error rates. To measure this, the Provider collects a GPR, in addition to the normal manner of processing applications. The underwriting decisions are compared for the two sources of information, and the percentage reported is the percentage of cases that have a different underwriting decision when underwritten from the GPR. A minimum sample size would be several hundred cases.

Lincoln Financial Group who use MorganAsh Tele-Interviewing have announced their non-disclosure figures, using the above measurement method. Lincoln provide a Whole of Life product and an older age demographic. Their results show a reduction from 10% non-disclosure on their application form to 2% for Tele-Interviewing.

Not all cases with non-disclosure will lead to a claim. The rate of total non-disclosure does not translate to the rate of declined claims, but there is a linear relationship between the two.

For MorganAsh full nurse Tele-Interviewing, across a collection of providers, the material non-disclosure for Life and CI products is 1.7% and for Income Protection it is 5.8%. This compares with mean material non-disclosure using the traditional adviser interview for the same sample of providers of 18% for Life & CI and 34% for Income Protection. Thus, for Life and CI products with the traditional process of the Financial Adviser undertaking the medical interview, 18% of cases led to incorrect underwriting decisions. If these cases came to a claim situation, they would have an issue with non-disclosure, compared with 1.7% of cases that have an incorrect underwriting decision due to the information being collected using MorganAsh Tele-Interviewing processes.

To date, MorganAsh has zero contested claims, over 70,000 Tele-Interviews and after 5 years, so while we can not yet state the final effect on non-disclosure at application stage compared to non-disclosure at claim stage, it is so far zero and looking very low indeed.

This non-disclosure measure at application stage does include fraud so it is unlikely ever to be zero. It is a good measure of the quality of information collected during the new business process, and the comparison between different providers.

With all the confusion over the different methods of Tele-Interviewing, it is a fair and transparent way to measure the quality of the process. It is an easy measure to report on, to compare and measure the present status of performance. It is hence proposed as a fair way to compare the quality of new business processes for Financial Advisers, to add to the mix of service levels, product features and product price.

Publishing non-disclosure statistics at application stage:-

1. Provides a simple way to compare new business processes
2. Is current, measuring the present processes rather than those of several years ago
3. Can be used to compare new entrants and old products fairly
4. Removes the need for Financial Advisers to understand the multitude of methods and processes
5. Provides a simple numerical measure that is as easy to use and compare as price
6. Has a direct linear relationship to the chances of applicants being declined claims due to non-disclosure
7. Measures performance and delivery rather than method

With the present banking crisis now unfolding it is revealing that many banks did not know what was going on, and did not have effective measures for them to understand their business. Although this may be inflammatory it seems that the Life industry is equally short on measuring its own business. Indeed there is increasing emphasis on risk management for life companies and the impact that has on their financial performance.

Many companies have been asked what is a change in non-disclosure at application stage really worth? If non-disclosure at application stage is reduced from 18% to 1.7%, what is this worth in financial terms?

Unfortunately, no one seems to measured this, or have any similar measures. Yet non-disclosure has been one of the main topics of concern for the last few years. How can anyone make any sensible business decision on how much is it worth spending on acquiring information at the application stage, if there is no measure of what this is worth over the long term? It is not surprising the expenditure at application stage has been cut repeatedly and that the refuted claims increased, as few were measuring the effects. Having had this discussion

1% non-disclosure at application stage is worth ~£10 per policy

with several companies, the consensus is that for Life and CI a change in 1% non-disclosure is worth in the order of £10 per policy.

“We are in the long term Financial Service business yet we fail to measure service over the long term”

Advisers understandably want good service, and quick turn round times. A simple measure is turn round times at application stage. While companies measure turn round times, they rarely seem to convert this into financial measures. Clearly, companies with faster turn round times and better service (assuming everything else is equal) are preferred by Advisers and hence this increases their volumes, so it does have a value.

An old management adage was “if you can’t measure it, you can’t manage it”. Certainly it seems we are not measuring service, and hence we are not managing it and we have little chance of delivering it. If you want to manage something then you should try and measure it, even if these measures are quasi, include some subjectivity, or are merely comparative.

We are in the long term Financial Service business, yet we fail to measure service over the long term. Until we start to measure service, and what matters to our customers and Advisers we will never deliver it, and the only differentiator will be on price.

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