



Underwriting as a Key Differentiator

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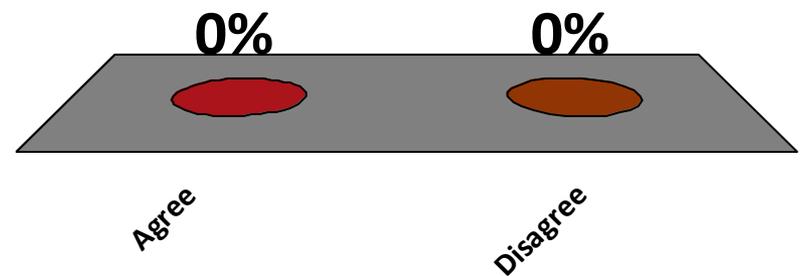
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The Purpose of Underwriting

“The sole purpose of underwriting is to act as a gate keeper and protect the book of business. This is achieved through prudent risk assessment and selection, to ensure that actuarial pricing assumptions are met”

Underwriting's function

- A. Agree
- B. Disagree



What we'll talk about

- Market trends
- The competitive landscape facing companies and their underwriters
- Developing competitive differentiation through effective Underwriting outcomes



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Market Trends

Current Market Trends

- Highly competitive market
 - How do companies differentiate themselves?
- Focus on client centricity
 - “Know your client”
- Data Power
 - Race is on for data
- Distribution re-balancing
 - Independents to agents, tele-sales etc.
- Lots of Regulation
 - FAIS, TCF, POPI etc.
- New markets
 - Middle market; Direct etc.

Current Market Trends (cont'd)

- Global expansion
 - Africa, India, Europe etc.
- Some product development taking place

Acquisition costs

Costs	Combined results			
	2013 Rm	2012 Rm	2011 Rm	2013 vs 2012
Acquisition costs	14 314	12 828	11 826	12%
General marketing and administration costs	31 596	27 848	25 582	13%
Annual premium equivalent (APE)	29 457	25 662	24 430	15%

Source: PwC analysis

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The Competitive Landscape

Developing a Competitive Proposition

Managing the opportunity

- Securing and then managing distribution opportunities is key to any insurer's business model
- Exploiting those distribution opportunities is usually focused on a mix of:
 - Commission & incentives
 - Product
 - Price
 - Brand & reputation
 - Service
- RGA feels that having a highly effective underwriting process is as least as important as right product design and price positioning

Optimizing Competitiveness

How much of your competitive proposition rests on underwriting?



Underwriting – a Key Competitive Differentiator

The underwriting “experience” matters...

- In a private, multi-country survey for RGA entitled “Understanding the Independent Broker”, the following observations were collected about the role of the underwriter:
 - The Broker’s relationship with the underwriter is the most important one in the entire sales cycle
 - Most broker’s admit that they depend on the underwriter for their livelihood
 - Not the wholesaler, not the sales manager, not even the company CEO is more important than the underwriter
 - When asked if they would switch carriers to follow a particular underwriter most agreed *and many indicated that they already had...*

Underwriting – a Key Competitive Differentiator

But it's much more than just establishing good rapport...

- The underwriting experience can be the key differentiator when all other things are just about equal
- Need to ensure that the underwriting methodology has been appropriately calibrated for what is being asked of it:

Product	Demographic	Distribution
<ul style="list-style-type: none">• Life• DI• CI• Disability• Preferred• Group• Simplified Issue• Etc.	<ul style="list-style-type: none">• Traditional• Middle market• Mass market• Mass affluent• SME• HNW• Seniors• Etc.	<ul style="list-style-type: none">• Agent/Broker• Bank• Workplace• TM• DM• On-line• Etc.

Underwriting – establishing effectiveness

What is a good underwriting “experience”?

- An effective and well designed underwriting process will:
 - Obtain meaningful underwriting investigations that assist in managing mortality/morbidity experience
 - Be efficient in process, cost and level of customer service
 - Deliver predictable and successful underwriting results for the insurer
- An effective underwriter will:
 - Work to guide a distributor to a successful outcome rather than road-block a sale
 - Suggest alternatives where coverage applied for is not possible
 - Know when and where to draw the line
 - Build the trust of the distributor
 - Actively work with the marketing team to design underwriting processes suitable for differing product, distribution and demographic types.

Sustaining Competitive Differentiation – Innovation is Key

Strategic Outcomes

- Leveraging Uw strengths into business strategies
- Balancing risk vs. competition
- Underwriting vs. sales process

Competitive Enhancement

- Medical research
- Customers/ sales behavior
- Cost/benefit of tests
- Anti-selective behaviors

- Simplified
- Guaranteed
- Preferred
- Upselling
- HIV

Process Improvement

- e-Underwriting
- POS Underwriting
- STP



Business Development

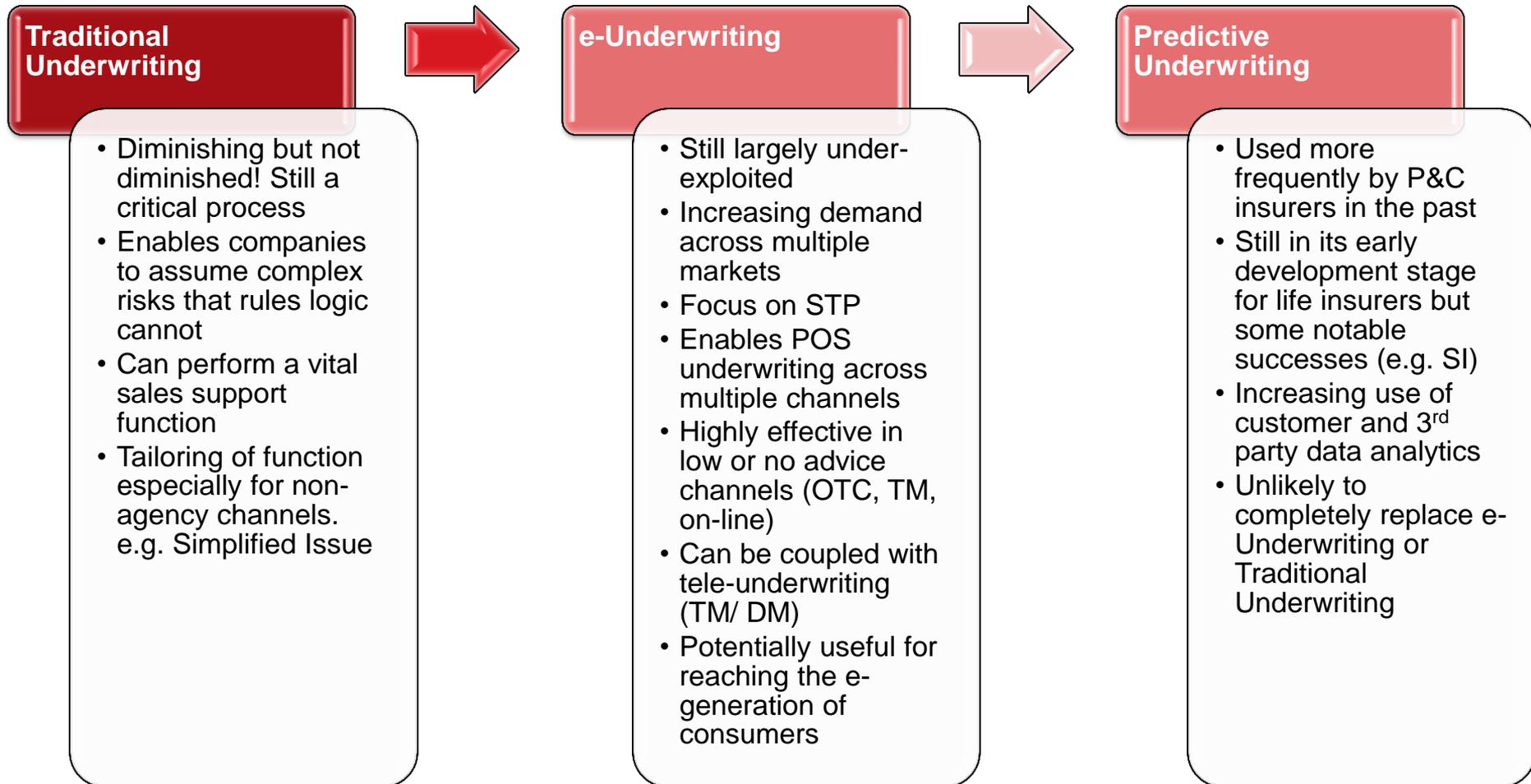
- New risks
- Product features
- Underwriting limits
- Geographical areas

- Large risks
- Leveraging 3rd party information into underwriting (medical / financial)

Risk Management

- Analytics (MIS)
- Quality assurance
- Experience studies

Innovation and the Forces of Evolution in Underwriting



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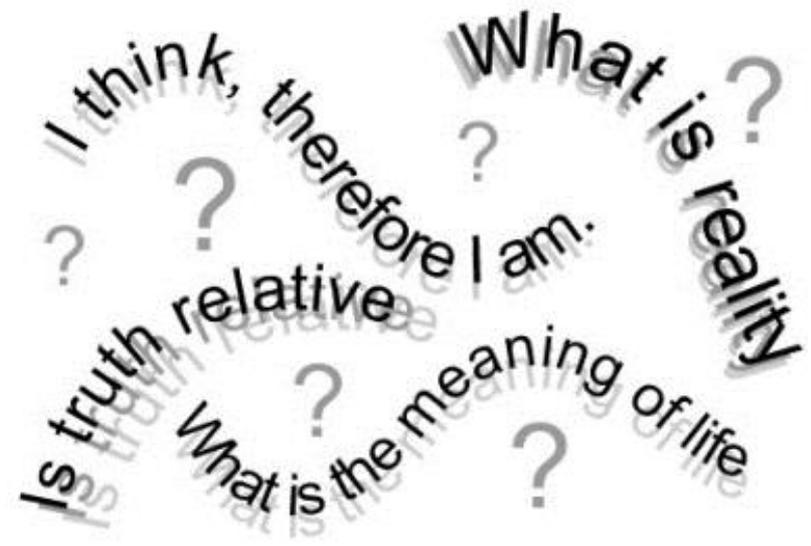
Developing competitive differentiation through Underwriting

Underwriting – establishing effectiveness

Where to start?

- Design your underwriting philosophy
- Design and maintain an efficient underwriting process
- Ensure underwriting supports the sales process
- Ensure that an effective underwriting methodology is in place

Designing your underwriting philosophy



Underwriting philosophy

Where to start?

- Selecting an appropriate balance between:
 - Accuracy
 - Fairness
 - Consistency in the risk selection process
- What do you want to be?
 - More thorough at the outset vs. less rigorous at claim time
 - More sales friendly at the outset vs. more onerous at claim time
 - Thorough underwriting and claims for a lower price; etc...
- Variation in philosophy by product and distribution type.
 - E.g. traditional underwriting via agency Vs. simplified issue via bancassurance

Underwriting philosophy (cont'd)

Where to start? (cont'd)

- Developing underwriting guideline(s) that will support this philosophy
 - Minimizing potential for anti-selection yet not too conservative
 - Guidelines that adequately reflect risk selection assumptions in the pricing process
 - Must be able to stand up to the scrutiny of:
 - Distributors
 - Consumers
 - Industry complaints processes

Underwriting guidelines – striking the right balance

Evidence based underwriting

- Reinsurers “manuals” tend to seek a ‘balance’ in their approach
- Important that the underwriting manual should:
 - Support a range of products
 - Inspire the confidence of the company that chooses to use them
- Underwriting guidelines should aim to:
 - Neither be too conservative (i.e. turn away business)
 - Nor too aggressive (i.e. accept business beyond the classification of “standard”)
 - Provide a level of consistency and predictability to the underwriting outcomes
 - Be justifiable in the event they are challenged.

Design and maintain an efficient underwriting process



Establishing efficient processes

Where to start?

- Effective processes should:
 - Obtain meaningful underwriting investigations that:
 - Provide the expected predictive underwriting value intended of them
 - Assist the company in managing mortality/morbidity experience
 - Be efficient in terms of cost and customer service
 - Provide predictable and successful underwriting results for the insurer.
 - Have a Management Information System to monitor key underwriting metrics

Ensuring the underwriting process supports the sales process



Underwriting – supporting the sales process

Where to start?

- Underwriting should:
 - Work to guide a distributor to a successful outcome rather than road-block a sale
 - Suggest alternatives where the coverage applied for is not possible
 - Build the trust of the distributor
 - Know when and where to draw the line!

Ensuring that an effective underwriting methodology is in place



Establishing an effective methodology

Where to start?

- Underwriting is most effective when it has been tailored to ensure it is a 'fit for purpose' process
- This can be best achieved by:
 - Actively working with the marketing team to design appropriate underwriting processes to suit differing product, distribution and demographic types
 - Developing appropriate guidelines

Key conclusions...

- A well constructed Underwriting Philosophy and Strategy should focus on optimizing both the efficiency and effectiveness of the underwriting process
- When there is commonality in product, pricing, remuneration etc. between insurers competing for the same distribution, the ability to efficiently and effectively place business becomes a critical competitive differentiator
- There are significant opportunities to be had by ensuring the underwriting “experience” is optimized regardless of product, demographic or distribution segment
- RGA has long believed that informative and comprehensive underwriting decisions that are competitively priced AND delivered with a sense of urgency can help you stand out from amongst the competition...



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Thank you for your attention.