

SPINNING *Their* WHEELS



COMMENTARY

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Underwriting an individual life insurance policy takes time and costs money — especially if the potential insured is older and the coverage amount is high. So many factors come into play: attending physician's statements to summarize, medical records to collect, medical histories to review, and the list goes on. Older applicants and higher face amounts require the expertise of senior underwriters, increasing the cost even more.

Suppose a company spends all this time and then places only a tenth of policies that it underwrites? That is exactly what is happening with *informal* applications — also known as preliminary quotes. Producers submit several informal applications on the same life applicant to multiple carriers, seeing which companies will insure their client and at what cost. These informal applications are clogging up the underwriting pipeline — increasing costs and decreasing efficiency — and essentially causing underwriting departments to spin their wheels.

LIMRA recently surveyed companies on the prevalence of informal applications and what companies are doing about them. Two thirds of companies currently accept informal applications. Those that do not are primarily companies distributing through affiliated channels. Companies distributing through the brokerage channel have been most affected — with 9 in 10 reporting an increase in the number of informal applications.

The increasing number of informal applications is a cause for concern for

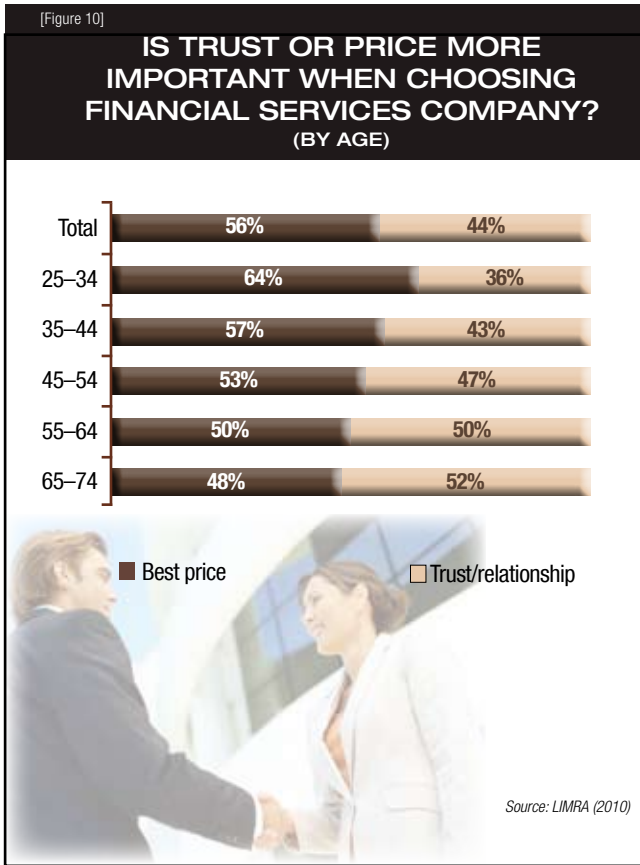
a number of reasons. While time and cost are among them, product design may also be an issue. Low placement rates could indicate that a product isn't competitive. On the flip side, high placement rates for a particular demographic group could indicate that pricing is *too* competitive in that cell — perhaps setting the company up for a potentially costly block of business.

Companies are taking action. One step is terminating contracts with distributors who submit large numbers of informal applications or who have very low placement rates. Eight in 10 carriers have considered this, and half have taken this step at least once. More than a third of companies have restricted the ability of certain distributors to submit informal applications. At least one carrier has made the decision to stop accepting informal applications entirely.

A recommendation to companies accepting informal applications is that they start tracking them — by product type, by distributor, by firm, by age. Since informals have increased significantly over the past few years, many companies don't have the processing in place to track them in sufficient detail. Companies may know they have a problem, but they might not have enough information to pinpoint its source. Plugging a hole you can't see is awfully difficult.

The larger issue is the relationship companies have with their distributors. Companies and producers should be working collaboratively to meet the needs of their joint customers — something that's often missing from today's insurance sales environment.

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In some ways, it's similar to the political environment in Washington (and throughout the country). Politicians of different party affiliations who actually work together to solve the problems of their joint constituents are increasingly rare. The idea of a "win-win" solution has given way to an environment of "win-lose."

There is anecdotal evidence that some distribution firms are thinking collaboratively and are willing to work with companies to fund some of the services needed to process informals. It's a step in the right direction. Unless companies and distributors work together to resolve the informal application backlogs, we're likely to continue seeing spinning wheels. 🌐

