PRODUCTS

By Elaine F. Tumicki, CLU, ChFC, LLIF
Corporate Vice President, Insurance Research — Product, LIMRA

The Outlook for Life Product Development Remains Cloudy

What do life insurance product developers have on their minds? A recent study group gave us some clues. Participants from 20 U.S. carriers listed their top issues. The word cloud below shows that three responses rise to the top: underwriting (especially accelerated underwriting), PBR (principles-based reserves), and CSO (the 2017 Commissioners Standard Ordinary Table). Customer experience and distribution are not too far behind.

Why these issues? The focus on CSO is a given. All companies must update their products to comply with the 2017 CSO by January 1, 2020. Many companies are taking a serious look at their product portfolios. Given the relatively short time frame, companies need to decide where to focus their product development resources and update only the products that fit with their strategic direction. Others are using the CSO update as an opportunity to innovate, adding or modifying features as they reprice their products. The focus on PBR is also a given, with mandatory implementation effective January 1, 2020.

Underwriting is one of the hottest issues in life insurance this year. LIMRA's research agenda includes multiple projects related to this topic. We released a series of reports on simplified issue products in the spring, and a report on automated underwriting in the summer. A project on straight-through processing is underway.

Underwriting has been ripe for improvement since traditional underwriting takes so much time. Traditional underwriting requires completed applications, paramedical exams (typically including blood and urine samples), and in some cases doctor statements. The time from application to policy issue can take weeks or months. That just doesn't fit with the expectations of today's consumers. The Amazons of the world have trained consumers to expect fast and easy. Two months — including long applications and invasive medical tests — is not fast or easy. The study group members' overwhelming interest in underwriting suggests that they 'get it'. And LIMRA's research confirms that. In a recently released report on automated underwriting, 9 out of 10 companies have implemented (50 percent) or are planning to implement (41 percent) automated underwriting for at least some of their life

CONTINUES ON PAGE 56

PRODUCTS COMMENTARY

CONTINUED FROM PAGE 31

insurance policies.[1] The number one goal of automated underwriting programs is reducing the time it takes to issue a policy. Those with automated underwriting solutions in place often started small — with pilot programs for specific products, face amounts, and age ranges — and continue to expand programs as they gain experience.

There will likely continue to be a place for traditional underwriting for larger policies, older insureds, and unique cases. However, it is reasonable to expect that automated underwriting will become table stakes for the majority of life insurance policies issued. Those companies that resist implementing automated underwriting do so at their peril.

Distribution is also a top concern. Most life insurance purchases involve interactions with a financial professional — whether that FP is the manufacturer's direct (affiliated) sales force or an independent intermediary. Often those interactions are face to face. This model is changing, albeit slowly. Consumers can purchase almost anything online. Why not insurance? Many insurance companies — as well as a few start-ups — are experimenting with online sales models, whether via an intermediary or true direct to consumer (D2C).[2] One thing is certain: Any successful online sales model will require quick turnaround. Consumers purchasing online will not have the patience for traditional underwriting. So, some form of automated or simplified underwriting will also be necessary for success in the online sales environment.

The top issues for life insurance product developers are intertwined — improved underwriting processes are required for D2C/online distribution models and will generally result in a better customer experience. And that should be a focus of all companies.

[1] *Transforming Underwriting: Automated Underwriting Company Practices for Life Insurance in 2017*, LIMRA, 2017.

[2] For more information on D2C, see *Direct to Consumer in Perspective: A Contemporary View of Engaging Consumers on a D2C Basis*, LIMRA, 2016.

DISTRIBUTION COMMENTARY

CONTINUED FROM PAGE 47

But consumers — even the Millennials — do have concerns. In LIMRA focus groups, consumers are hesitant to place all of their financial well-being in the virtual hands of an online solution, no matter how advanced. Their reluctance is based on security concerns, lack of personalization, and the inability of digital solutions to have a "gut instinct" or a personal touch. While consumers value the Internet for research, many are not ready to take the leap to a full digital advice experience. A pure robo-advice experience currently appeals only to the do-it-yourself (DIY) investor – financially literate, knowledgeable about the industry's products and services, and tech-savvy. But those who need the most help are middle-market consumers less knowledgeable about financial services. They need and value the trusted relationship that a human advisor provides. It is ironic that these are the consumers who could lose access to professional advice due to proposed regulations.

What does the future hold for robo-advisors? Most feel that they are now permanent players in the advisory landscape, and will continue to build upon their client bases and assets under management. They will exploit the opportunity presented by new fiduciary rules. But their role will evolve from disruptors to digital platforms that consumers and advisors can leverage based on their needs and comfort levels. Forces and trends are converging around a digitally enabled advisor model that combines robo-advisor technology with a trusted advisor relationship. Already we've seen firms like Betterment and Personal Capital offer personalized (i.e., human) advice under certain circumstances.

While certain segments will embrace a pure digital model, what remains to be seen is whether mass-market consumers — those who need the advice the most — will accept robo-advisors as a cost-effective alternative to traditional advisor models.

[1] *Online Advice: The Rapid Rise of Robo Advisors and Related Firms*, Tiburon Research, webinar delivered November 18, 2015.

[2] Hopkins, Jamie, *New Fiduciary Rule for Financial Advisors Moves the Needle – but in Which Direction?*, Forbes.com, 2017.