TECHNOLOGY

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Telematics for Life

Predictive underwriting offers the allure of dramatically reducing the time to issue a policy from weeks to days, or even days to minutes — depending on whether it is used to support or actually make underwriting decisions. It could open up new markets that currently may be reluctant to consider life insurance due to the industry's traditional underwriting processes.

What Is Predictive Underwriting?

According to Deloitte Touche Tohmatsu's *Advanced Analytics and the Art of Underwriting* (2007):

Data mining and predictive modeling is the process by which historical data is carefully examined to identify patterns in the data, many of which were previously unknown, to formulate an algorithm that can be used to solve a specific business problem. For underwriting and pricing applications, historical carrier internal data, supplemented with external data sources, can be examined to develop a solution that can be used to predict the relative risk of an individual policy in the future policy term.

While predictive underwriting models are becoming increasingly common in property and casualty insurance, they definitely are the exception and not the rule in life insurance today. The slow rate of adoption may have something to do with the discomfort companies likely have in making long-term decisions using outside information, not collecting detailed medical information, or not having a skilled underwriter personally assess each risk.

Could life insurance products be redesigned to ease carrier concerns and in ways that tomorrow's consumers actually may prefer over today's options? And how might the industry capitalize on the rapid shift in consumer attitudes about using and sharing their information?

For example, at the 2013 LIMRA Annual Conference, Neil Sprackling, President of Life & Health for US Swiss Re, described a category of consumers called the "curious and accountable":

> *…People want a better return on information, or better ROI ... It's about what they get back for providing their information. So if [consumers] provide … information to the insurer, through the underwriting process, they want to know how they compare with their peers, how they can improve, and [if they will] get that information fed back to them.*[1]

As illustrated in Table 1, what if we designed a life insurance product to resemble auto insurance? Let's start with a simple 20-year, level-premium term insurance policy. Once issued, the premium would be guaranteed to remain level for the entire term. As long as the premiums are paid on time (or nearly so), the coverage would remain in force and the insurer couldn't cancel it. However, the customer would have the option to cancel. With auto insurance, both parties have this option. In fact, not only do auto insurers have access to their customers' driving records and claims information, but some companies also are building devices or apps to track how well (or poorly) their customers drive.[2]

Table 1

A Life Insurance Product to Resemble Auto Insurance

	Auto insurance	Life insurance
Policy term	6 or 12 months	10, 15, 20 or more years, or for life
Cancellable by insurer? (other than for nonpayment of premiums)	Insurer can decide not to renew	No
Premium basis — traditional	Initial assessment Ongoing driving record and claims information	Initial assessment only
Premium basis — behavioral	Telematics	To be determined

Source: LIMRA (2014)

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If life insurance companies had ongoing access to information about their policyholders that could inform them about their ongoing mortality risk prospects, they could use it to decide whether to renew coverage and at what price. This could be a premium increase or even a decrease.

Think telematics for the life product. Instead of a device to track a person's driving behaviors (though good driving may be associated with better mortality), maybe it's credit history, ongoing prescription drug or health history, wearable technology that can track your health readings, or something altogether different that you dream up.

Customers then would participate in life insurance in a new way. Companies could encourage their customers to modify their behaviors in order to maintain and/or reduce their premiums. They could provide customers reports showing how they compare to others in their group/community on a variety of rate-influencing factors.

> "Think telematics for the life product."

Would engaging customers in this way increase the appeal of life insurance by making it more "social?" If they choose to adopt behaviors to improve their health, not only might their premiums remain the same (or even decrease), but they also might live longer, healthier lives.

1 From Swiss Re's recent research with individuals from Generations X and Y with an annual income generally between $50,000 and $100,000

2 For example, Progressive's telematics program *Snapshot®*