Testing times and the future of underwriting – Money Marketing – February 2005

In the beginning there was man, then there was woman and then there was smoking……and that has been pretty much it for quite a while now as far as life insurance quotes are concerned, but all of that is about to change.

Insurers and re-insurers understanding of the behaviours and circumstances which effect mortality and morbidity, and therefore pricing, has improved dramatically in recent times and advisers should now anticipate their practices having to catch up with such understanding.

Re-insurer pressure will inevitably lead insurers to segment individual risks far more extensively than they do today, this in turn will impact on the way advisers quote for, and the way their customers apply for, life insurance.

With greater segmentation comes greater questioning and therefore the number of quote parameters will increase, soon before providing quotes you will have to ask your customers for their:

- Lifetime smoker status - the risk profile of a lifetime non-smoker is very different to that of someone who has smoked 20 a day for 10 years and now calls himself a non-smoker, after only 13 months off the 'evil weed'.
- Postcode – mortality tables already exist for the regions and the differences within the UK can be quite significant.
- Occupation.
- Systolic and dialostic blood pressure levels.
- Details of any motoring convictions.

Only once you have asked the above will you be able to provide your clients with a premium they can 'propose for'. The new business process which then follows will also change from that which we use to today. Chemical testing will be required for all new applications, with dried blood spots provided by every customer as close to the time of application as possible. Who knows at the end of every mortgage protection sale you may find yourself donning rubber gloves, pricking your customers thumb and then offering them a cup of tea and a bit of a lie down before you let them leave your office.

This 'chemical testing for all', is becoming economically viable due to advances in technology based diagnostics and because the testing of insurance applicants, and job applicants, is becoming so widespread that a number of US based companies have developed industrial scale processes, driving costs down. Whilst there is no such scale within UK based laboratories, global logistics companies can, and already do, collect samples in the UK and deliver them state-side before 12 noon the following day with the results emailed back to the UK within hours. Such changes to new application processes will bring additional problems for intermediaries; not least managing each customer's expectation around securing the 'proposed for' premium, as chemical results alter insurer's categorisation of many applicants post-quote. Gone are the days of 95%:4%:1% (Ordinary Rates:Rated:Declined)

So why have these changes not been forced on us already? In part due to the concern over the risk of 'first mover disadvantage' in particular within the established market leaders and their concerns about upsetting the 'golden goose' that is traditional distribution. However just as unnerving for the big guns is the longer term play that such common place testing, as it becomes accepted by consumers, could lead to the destruction of profits within their existing book of 'old style' critical illness policies. Simply put, customers could start to use chemical testing for their own ends, paying to establish whether they are amongst the very many that could have suffered some 'silent' medical condition that qualifies them for a CI payout.

Most people are pretty well versed on the impact prostate cancer screening could have on claims, particularly as most of us men will die with it but few from it, however to add to the insurers woes, research carried out in the US recently suggests that as many as 40 times the number of symptomatic strokes occur silently and would be detected by chemical testing.

Today such tests are a little on the expensive side for many, however within the lifetime of most existing policies the cost could fall to as little as £100 - £150 and who knows, new companies may well spring up covering these costs for their 'prospects' in return for a healthy slice of any payout. It is all matter of time and my money is on sooner rather than later and certainly within the next 10 years, you have been warned.

By Richard Verdin, Sales & Marketing Director, Direct Life & Pension Services Ltd