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PATHWAYS TO PURCHASE
UNDERWRITING, AUTOMATION AND THE CUSTOMER JOURNEY

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SCOR
The Art & Science of Risk

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Executive Summary

In this White Paper we draw on our extensive global research to discuss the use of underwriting engines, their provision by reinsurers and how this model is being challenged by changes in customer expectations, technology, adviser engagement and the pan-industry problem of low growth.

This echoes our ongoing global customer research in its emphasis on the importance of understanding the customer perspective, focusing specifically on their path to purchase and their lived experience of the insurance "product".

While consumers are open to the idea of automated underwriting, their experience of that service has been less than consistent, let alone ideal. With customers enjoying optimal digital experiences ranging from Uber to highly-personalised iPhone apps, the industry needs to invest in customer-friendly platforms that dramatically simplify purchase, respect privacy and find avenues to create added value.

All indicators point to the need for the industry to see the underwriting engine as an opportunity to engage advisers rather than replace them. Engine development should be seen as an opportunity to invest in holistic innovation around business development rather than simply around efficiency. By doing so, industry players will not only harness increased efficiency, but drive growth and adviser engagement, again improving the customer journey.

The unalloyed good news arising from our research is that automation is growing across different regions and business models around the world. That growth is the result of more intelligent application by the industry. Resistance at the distribution level is being met with tailored technology development that draws in external data, cost-cutting via cloud delivery and integration into the holistic business development platforms mentioned above. The result is that despite some false starts, automation is nearing the point where it will offer companies better access to new consumer segments and more effective business models.

Where does the reinsurer sit in this automation environment? It is a good question, given that much of the momentum behind engine development came from reinsurers. Expectations have moved on – and aspersions have been cast on reinsurer involvement as insurers struggled with implementation and integration issues, questioning reinsurers' ability to deliver on the ever-evolving technology requirements.

However, we believe that reinsurers still have much to offer if they widen their perspective to embrace the views of other stakeholders – the customer's journey and the adviser's experience especially. This approach – combined with better partnering in the digital space and our strengths in risk management, data and finance – mean that we can enjoy and retain insurer confidence.

Indeed, this approach, where all stakeholders take a wider view of the customer's needs and of the industry's potential, is one that promises a return to the growth all stakeholders are seeking.

Introduction

SCOR & OUR PERSPECTIVE ON UNDERWRITING ENGINES

The insurance industry is facing challenges on many fronts, not least in applying technology to enhance the customer journey. Unfortunately, customer perceptions remain as low as the rate of new business growth.

While automation has been introduced to the new business process, the focus has generally been internal (insurer) cost savings and efficiency gains. The underwriting function has benefited greatly from these significant investments, but there has been little impact on the customer.

Insurers are now looking to reinsurance partners to move beyond traditional risk and capital solutions to provide proactive support in creating the right solutions for them and their customers.

At SCOR this need to address our focus on customer-led distribution solutions saw us integrate our existing new business acquisition services (ReMark, Velogica and Rehalto) under the SCOR Global Distribution Solutions banner (GDS). Leveraging the collective expertise developed over many years by these entities, SCOR GDS is charged with the development of customer propositions – rooted in deep customer insights – that cut through the complexity of today's customer journey.

The establishment of GDS acknowledges the insurers' need for support with demand creation and fulfilment initiatives to drive new business growth.

This white paper builds on ReMark's annual Global Consumer Study which challenges the industry to consider life insurance through the eyes of the consumer. One of the industry's biggest challenges is to help customers understand the importance of life insurance relative to other consumer priorities.

In line with this theme, this paper challenges the existing reinsurer approach (including our own) to underwriting engines and solutions.

Until very recently the primary emphasis of most reinsurers has been on helping insurers to develop sophisticated underwriting knowledge base(s) with a view to extending the scope of automated assessment into complex products and substandard acceptance. This approach has enabled insurers to reduce risk and cost in their business. While this approach has certainly helped in mature markets such as the UK and Australia, arguably the heavy focus on the underwriting process may have come at the expense of addressing some of the challenges facing insurers in new business acquisition.

As a result, in markets with simpler protection propositions the perceived benefits of deploying automated underwriting systems has been less compelling than may otherwise have been the case. In many cases existing engines may be an answer to the wrong question. They have not been designed within the new business context or to address the distribution challenges facing insurers – demand creation in particular.

Furthermore, in most cases the technology has been developed by reinsurers in-house even though reinsurers may not be best placed to innovate or execute on IT developments of this scale. SCOR's strategy starts with the customer's perception of life insurance, the customer journey and the importance of the adviser in this process. Besides a focus on driving sales, automation offers strategic data benefits, shifting the focus from cost reduction and risk management to better product pricing and personalised propositions – ultimately enhancing the customer experience.

SCOR first invested in an underwriting engine in the US to utilise third party data and transform the customer and adviser journey for middle market Americans. As we consider our proposition in other parts of the world, we continue to focus on the customer and new business process, acknowledging regional differences and the role of specialist technology partners in delivering the next generation of underwriting solutions. Our approach is informed by consideration of the following key questions:

UNDERWRITING AUTOMATION: SOME KEY QUESTIONS

1. How should the industry define an underwriting engine?

The industry needs to move beyond the traditional definition of an expert decision-making system which mimics underwriter decisions to a new business platform which focuses on the customer journey and helps drive sales and gather data at the same time as reducing cost and risk.

2. Should reinsurers focus on underwriting rules only or also invest in engine technology?

To deliver meaningful benefits to insurers, reinsurers need a proposition which goes beyond the rules base. Integrating rules with software is critical to deliver a new business solution and there are scale benefits from multiple installations. Partnerships with technology specialists will often be the best way to deliver these propositions.

3. Will engine adoption in Continental Europe and Asia ever reach levels in the UK and Australia?

There are significant product, distribution and cultural differences between Anglo markets and the rest of the world. For instance, in many Asian markets simpler protection products mean that the risk and cost benefits may be perceived as lower. As a result, it is even more important that engine strategies in Asia focus on the end-to-end new business process and sales/data benefits.

4. Should engines focus on customer or insurer benefits?

Engine propositions must deliver value to all parts of the chain: reinsurers, customers, advisers and insurers. Customer and adviser adoption of the first engines was driven by enhanced commission and better prices. Future propositions should aim to deliver on value (in addition to price) by improving the customer journey and advice processes.

Summary of key themes

1. Customers are increasingly comfortable with the "idea" of underwriting but want a better experience.
2. The adviser perspective on underwriting is a critical third lens alongside customer and insurer views.
3. Insurer demand for engines is accelerating across all markets as new propositions deliver more benefits.
4. Insurers are not satisfied with legacy reinsurer engine propositions and want reinsurers to think differently.

Theme One

CUSTOMERS ARE INCREASINGLY COMFORTABLE WITH THE 'IDEA' OF UNDERWRITING BUT WANT A BETTER EXPERIENCE

An important insight from ReMark's most recent GCS report is that life insurance struggles to reach the top of the "personal risk management" priority list from a consumer perspective. Furthermore, the importance of life insurance in developed markets continues to decline despite massive efforts to promote the notion of "gaps" and an unswerving belief in "need".

Lack of cut-through from this messaging is frequently put down to clumsy underwriting processes and a reluctance of consumers (and advisers) to part with personal data, with the subsequent potential for non-disclosure.

Yet, when asked about underwriting, customers across all major life insurance markets are far more willing to disclose information about their health than the industry typically believes (Figure 1). This somewhat counterintuitive response is particularly prevalent if the definition of health is narrowed to behaviours within the customer's control – e.g. smoking, drinking.

In emerging markets the majority of consumers remain quite open to underwriting as it is seen as a means to obtain a better price. Conversely, in markets with more cautious attitudes toward privacy (e.g. Germany and France), there is much greater reluctance from consumers to share information about themselves in this way. However, in all markets, customer acceptance of the need for underwriting is informed by their familiarity with questionnaires for mortgage, car, home and health insurance.

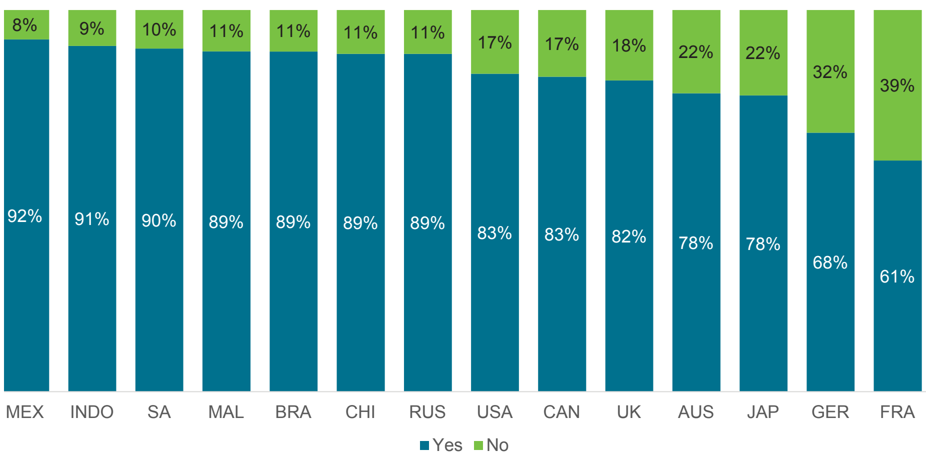
Importantly, younger customers are significantly more willing to be underwritten, shaped in part by the digital native's impulse to share information readily across platforms for multiple purposes.

Value, price and quality

Customers appreciate that answering questions gives them (on average) a better price. In fact in every market (excl. Russia), a nationally representative group of customers are somewhat overconfident in their health status relative to the average (Figure 2). This reflects behavioural economic theory e.g. most people believe they are better than average drivers.

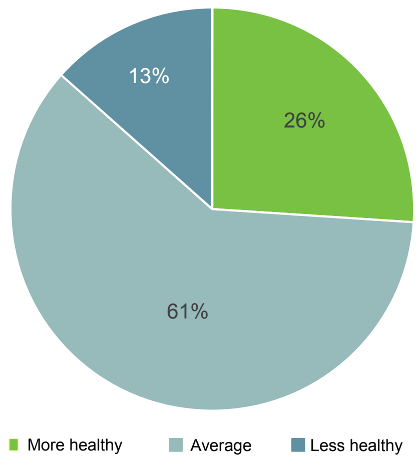
While customers recognise the need for underwriting, that goodwill is soon lost if the customer journey is a poor one. Across the insurance "buyer journey" the most commonly cited "poor experiences" are in the underwriting phase. While customer satisfaction scores are low in financial services in general, they are even lower for life insurance. Let's take a look at where this goodwill evaporates during the underwriting process.

Figure 1: Willingness to answer health questions to receive a better rate



Source: ReMark GCS Study, 2015.

Figure 2: Perceptions of health relative to the average person your age



Note: the pie chart includes data for US, Canada, UK, Australia, Germany and Japan.
Source: ReMark GCS Study, 2015.

Negative feedback on the life underwriting process focuses on four main areas:

1. ***Velocity:*** Customers generally expect an answer at the point of sale for relatively simple products: not a referral to medical exams, or a search for documentation – especially among time-poor executives or those with positive perceptions about their health.

2. ***Logic:*** For more complex products customers may be more comfortable with the need for underwriting. However, they do not appreciate duplicative and/or inappropriate questions. Customers express a clear preference for easy to understand questions based on an intuitive user experience.

3. ***Control:*** Customers want to complete questions via their preferred channels and devices – most customers want an online journey with the ability to request real-time support from an expert and easily save and return to an existing application (Figure 3). Indeed, many customers are fearful that genuine mistakes in their answers will invalidate their cover.

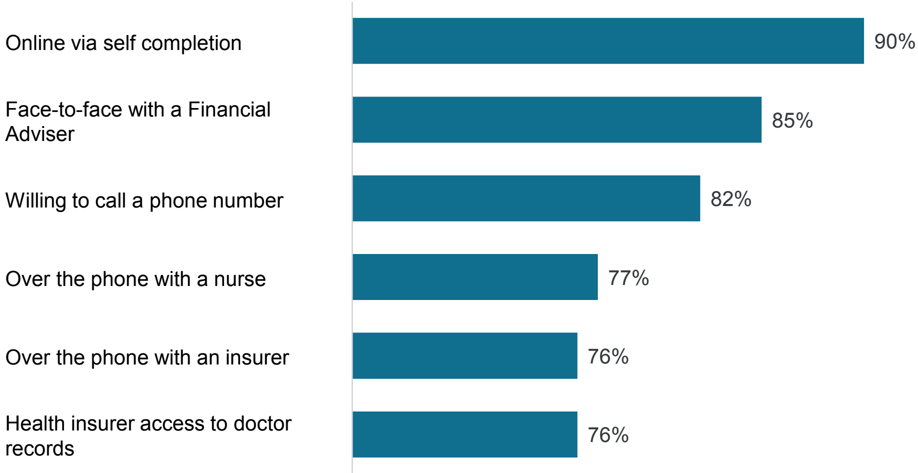
4. ***Privacy:*** Customers want assurances that the information they provide will be secure. Furthermore, where third-party data is used, consumers need to know that it is utilised in compliance with the very highest standards of governance. Privacy expectations also differ within markets and between different age groups – the industry needs to recognise this and adapt.

Clearly, insurers have made significant investments in and improvements to the underwriting process over past decades. However, customer expectations are rising faster than the industry is changing. The digital revolution and 24/7 service models in retail, entertainment and financial services mean that the incremental tweaks to processes have not moved the dial in line with customer expectations.

When looking at the underwriting process through a customer lens, it becomes clear that the industry needs to challenge the status quo much more aggressively than it has to date. We believe some of the areas for improvement are:

- The underwriting process needs to be better integrated with customer ecosystems. The customer journey can begin in many different places

Figure 3: Customer interest in different underwriting channels



Note: the % next to each bar represents % of no objection to each underwriting method
Source: ReMark GCS Study, 2015.

– for instance, with online search for loans and pensions, rather than specifically for life insurance. It can even begin with the simple gesture of a gift of a fitness tracking band.

- Insurers need to incubate and enable technology platforms that allow a sustainable adviser-customer relationship – a central component of which is handing control of the process to customers and advisers as and when appropriate.
- Data management in underwriting needs a major overhaul. Insurers need to be better at applying data from the broader customer journey and at appending relevant data to simplify forms and improve point of sale decisions. While customers may have privacy concerns, Figure 3 shows they are comfortable sharing health records to facilitate an improved process – and consequent experience.
- Insurers must consider customer longevity and evolving customer needs when approaching proposition design and pricing, adapting the underwriting and new business processes accordingly. For example, existing policyholders are often unable to take advantage of new product upgrades and definitional changes without providing additional medical information or signing a new policy. Allowing existing customers to more easily access product enhancements will surely help to extend the customer lifespan, reduce marketing costs and improve margins.

These improvements can only be successful if made with a more sophisticated customer in mind. More readily understandable underwriting may be easier to game – especially given contemporary access to knowledge once the preserve of insurers and brokers. As underwriting processes change, so too must risk management. By sharing risk, reinsurers can play a critical role in encouraging such innovation.

Theme Two

THE ADVISER PERSPECTIVE ON UNDERWRITING IS A CRITICAL THIRD LENS ALONGSIDE CUSTOMER AND INSURER VIEWS

For the vast majority of sales in every life market, the adviser remains a critical intermediary between the customer and insurer. Across broker, bank, agency or even direct channels, "advice" plays a key role in driving the customer's application process. In many cases, this will link with primary products such as mortgages or investments.

Recycle and simplify

Unlike many commentators, we believe that in most cases adviser and customer objectives are closely aligned. Advisers want insurers to re-use and append data and to simplify questions for customers. Inappropriate or poorly worded questions put pressure on the adviser-client relationship and make mortgage or investment focused advisers less willing to discuss protection needs.

Around the globe we find that advisers also want an efficient process – for their own sake, due to increased regulation and because consolidation in the sector means more advisers are working for larger firms utlising more standardised advice processes.

Customer efficacy, insurer efficiency and adviser value

From an insurer's perspective, the underlying rationale for automation has understandably been driven by reducing costs. From an adviser and customer perspective, the appeal of automation lies in a sales process which improves the customer journey.

Half-baked automation disrupts that journey – and fails both adviser and customer. For example, the adviser may need to disrupt the process to gather additional customer information, creating friction which can negatively impact the sales process while undermining the adviser-customer relationship.

These problems also give advisers an excuse to drag their feet when it comes to automation – for example when customer application information is gathered by paper to be subsequently uploaded to digital. This distorts the insurer's ability to accurately assess the customer efficacy and adviser value add of automation. Synchronisation is key.

Technology offers the industry the ability to create a seamless process and a contemporary user experience. Deployed well, it can generate a better experience for the customer, boost insurer efficiency and enhance the adviser's (visible) capacity to add value. Figure 4 shows the typical underwriting process for leading advisers across a group of developed life insurance markets.

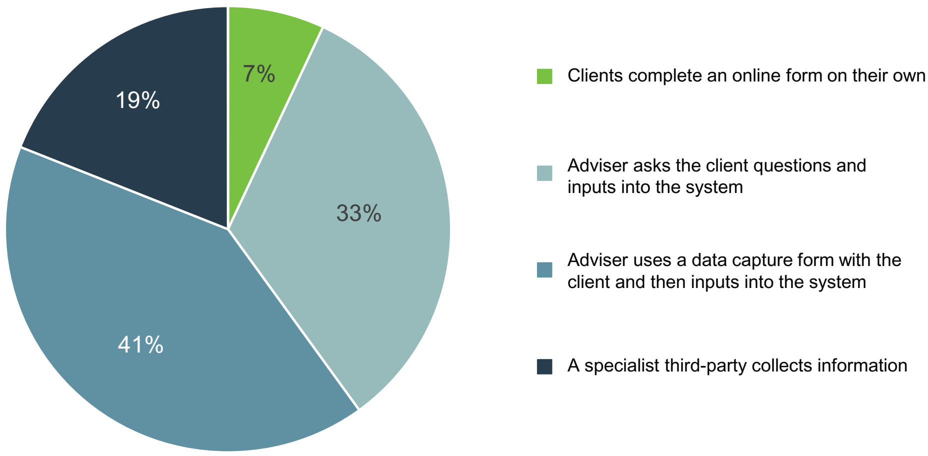
Fulfilment vs. underwriting

In reality advisers do not separate underwriting engines and the underwriting process from the application process. For many products, such as credit life or accident riders on investments, a sophisticated reflexive system underpinned by an extensive rules base is unnecessary. What all parties require is a quick and easy new business platform to support the end-to-end application process. This is especially relevant in bank and agency channels where products are often simpler and there can be limited choice of insurers.

The adviser conundrum

- **Adviser support**: Many advisers feel that part of their value add is helping customers complete application forms. While adviser influence might make insurers nervous, their role in the process is a reality and most customers value their support.
- **Adviser value add**: A smaller sub-set of advisers believe they add value beyond application support. They identify which insurers are more or less likely to reject or rate applications (especially for high risk cases) and this is important in a scenario where advisers and customers are comparing pre-underwritten prices.

Figure 4: Adviser-client underwriting and application process, mature protection markets



Source: NMG BQM Adviser Studies.

- **Barriers to automation**: Some advisers have concerns over the implementation of digital underwriting. In many markets, there remains a strong preference for manual data collection in face-to-face meetings with customers. Digital devices can intimidate some customers, and advisers are reluctant to change established practice, often fearing a loss of control over the process.

Global perspectives vary

Many of these perspectives vary considerably by market, channel, adviser age and business model. In emerging markets, agents are more likely to position themselves as adding value in the application process than bank advisers. In developed markets, the business model becomes more important. Specialist protection advisers to HNW clients in the US are most likely to position themselves as adding value in the underwriting process. This has driven engine propositions towards adviser workbenches rather than straight through processing systems.

In contrast, investment advisers (who are typically older and service older clients) are less likely to add value and most resistant to automation. In this segment it is especially important that engines plug into propositions which generate adviser and customer demand.

To complicate matters, perspectives can vary between client-facing advisers and executives within intermediary firms. These executives (in insurers, banks or large brokerages) are generally more interested in standardising processes and reducing risk than their client-facing advisers. Hence the emerging demand from intermediary executives to challenge status quo products and incorporate underwriting as a way to offer better value (and typically higher premium) life products to customers. There is also an increasing focus on sales efficiency where life insurance is part of a mortgage or investments sale.

The demand for automation is also feeding into views on how something as simple as a face-to-face meeting might be conducted. Globally, banking and wealth management regulation is extending adviser-client meeting times for the core product. As a result it is more important than ever to make the life insurance application process quick and easy.

This emerging demand for a more automated application (new business) process can be seen in new distribution models being developed around the world. Some interesting examples include:

- Brokers in **France** want a more automated solution for credit life cover now that regulation has opened up a market previously controlled by banks.
- Product rating companies in **Germany** are seeking partners for technology solutions to streamline the customer and adviser journey for disability products.
- Aggregators in the **UK** are seeking more streamlined non-advised journeys which enable customers to compare underwritten prices.
- The growing robo-advice models in the **US** are now looking to incorporate life insurance into a simplified financial planning process for the middle market.
- Start-up funeral plan consolidators (most customers have multiple policies) in **South Africa** have equipped advisers with iPads to automate the consolidation process.
- The recent surge in sales of 'daily-cash' medical plans is increasing demand for automated engine solutions amongst insurers in **Japan**. There is also growing interest in engines from smaller life insurers following successful in-house implementations by the largest firms.
- In **Australia**, engine penetration is high but completion rate (by engine) is low to moderate. However, there is growing interest in tele-underwriting and non-reinsurer engines to improve this.

As the wide range of developments cited above demonstrates, thoughtful and well executed digitalisation can drive access to new market segments and generate new business growth.

It's all about the customer journey
To date, underwriting engines have found most traction in the broker channel in markets with more complex standalone risk products (i.e. UK, Australia, US). Recent installations of engines by insurers in Australia have improved adviser perceptions of the insurer new business process. Recent experience in the Australian market shows that adviser perceptions of the new business process can be dramatically improved via the deployment of a system that combines an excellent engine within a well designed customer journey.

Figure 5 shows the changes in adviser perception following the implementation by three leading insurers of a market leading platform*. These implementations have:

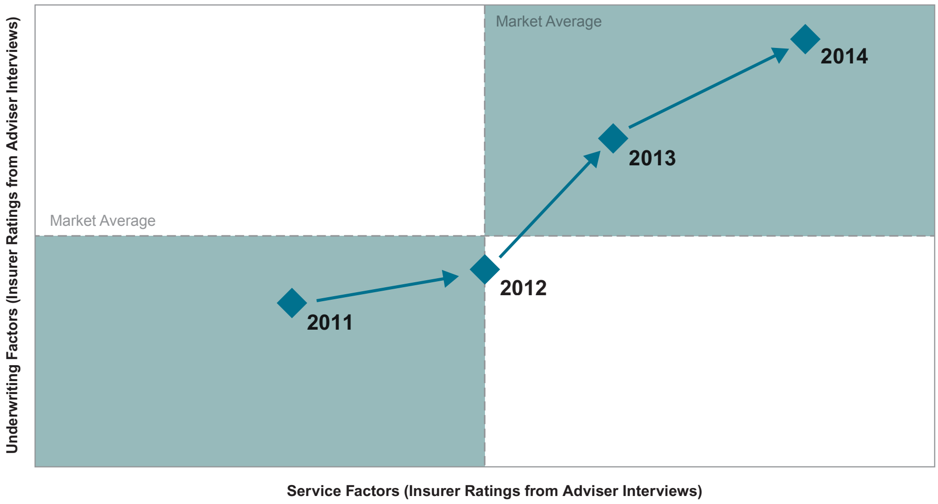
- Optimised completion rates (from less than 30% to greater than 90% in one case)
- Increased straight through rates to above 30% (from less than 10%)
- Improved cost outcomes for insurers

Perhaps of more importance in this case was the change in perception of the insurer proposition generated by the installation. As Figure 5 shows these installations had a greater and more immediate impact on the insurer new business process than on underwriting factors .

Unfortunately, it would seem that the experience of this case study is a relatively rare example. Most reinsurer engine installations have struggled to transform adviser perceptions. For example, advisers in the UK explain that price and commission incentives were the primary levers used by insurers to incentivise engine adoption rather than improved new business processes.

* Adviser Connect

Figure 5: Changes in insurer proposition ratings by Australian advisers following the implementation of a market leading platform



Source: NMG Industry Interviews, 2015.

The key learning from these case studies is that insurers (and reinsurer engines) need to focus on the end-to-end new business process and not just the engine. This is especially important if they want to drive up automation engine utilisation in markets with agency or bank distribution and simple life insurance products.

> "Well executed digitalisation can drive access to new market segments and generate new business growth."

Theme Three

INSURER DEMAND FOR ENGINES IS ACCELERATING ACROSS ALL MARKETS AS NEW PROPOSITIONS DELIVER MORE BENEFITS AT LOWER PRICES

Some engines are more equal than others.

Insurers have invested heavily over the past decades to develop automated underwriting solutions. Initially, automation was based on electronic new business screening / simplified issue (yes/no) systems for simple protection products. UK insurers were the first to use more sophisticated underwriting engines – rules-based systems using reflexive drill-down questions to triage risk at the point of sale. Effectively these systems attempted to mimic the thought processes of human underwriters.

The later generation of underwriting automation delivered greater operational efficiencies to the new business and underwriting functions, allowing more business to be accepted in a shorter time scale, with less intervention and with fewer underwriting requirements. The greater confidence in the consistency of decisions in turn supported reinsurance rates. As a result, many in the industry proclaimed that an underwriting engine was a pre-requisite for any modern life insurer.

However, the reality is that global adoption of underwriting engines has fallen far short of expectations. Figure 6 shows that more than 50% of life insurers globally do not own an engine, and these figures include in-house systems as well as those provided by reinsurers and specialist third parties. Furthermore, the overall effectiveness of these engines – certainly in terms of premium penetration – is overstated.

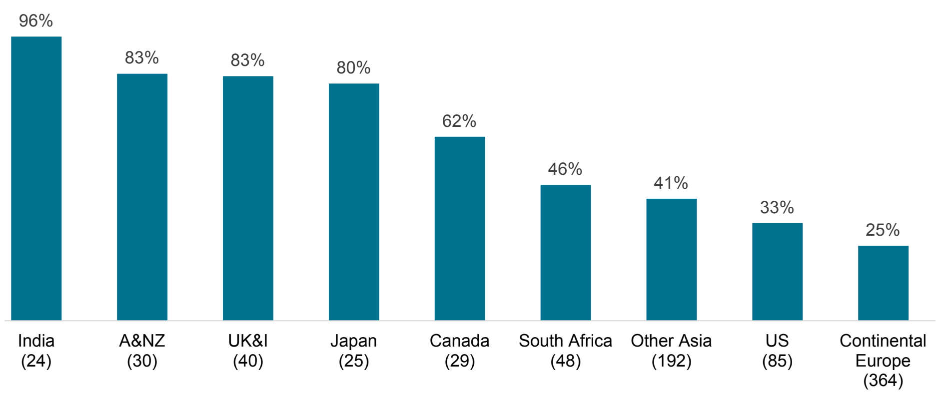
- Many recent installations are focused on specific products or propositions – the percentage of cases via engines is in fact much lower.
- Many in-house systems (particularly in Asia) are online jet issue platforms rather than full-spectrum underwriting engines.

Barriers to adoption

From an insurer perspective, the top three barriers to adoption are (Figure 7):

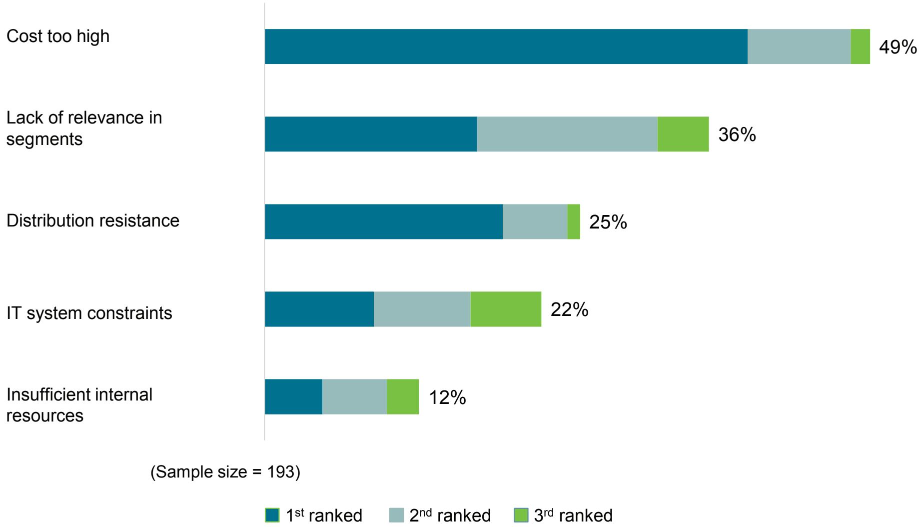
1. ***Cost vs. value:*** The cost to buy and (critically) to implement and maintain engines is viewed as expensive relative to the probability and timing of potential benefits.
2. ***Distribution resistance:*** Operations and underwriting executives can see the benefits but struggle to fully articulate the value to their colleagues in advice, sales and distribution.

Figure 6: Underwriting engines penetration amongst life insurers by region



Note: the % on top of each bar represents % penetration of automated underwriting engines, including in-house developed engines
Source: NMG Reinsurance Study, SCOR Analysis and Estimates.

Figure 7: Barriers to insurer adoption of underwriting engines (global analysis)



Note: the % next to each bar represents % respondents quoting each reason as the barrier of adopting underwriting engines.
Source: NMG Reinsurance Study, 2015.

3. ***Lack of relevance:*** Some life insurers do not believe an engine supported by a complex rules base is relevant given their product and channel focus.

In our view, overcoming distribution resistance is the key. Existing engine propositions have focused on underwriting cost savings and risk management and in many cases the cost benefit analysis is weak.

To make the business case work, sales and marketing executives need to understand how the engine enhances the new business process, distribution and demand creation. The same approach applies to the "relevance"question. A shift from an underwriting engine to a new business platform makes the proposition far more relevant to simple protection products.

In summary, many barriers to adoption are a function of historic engine positioning strategies which have focused on complex protection products and expensive fully integrated solutions.

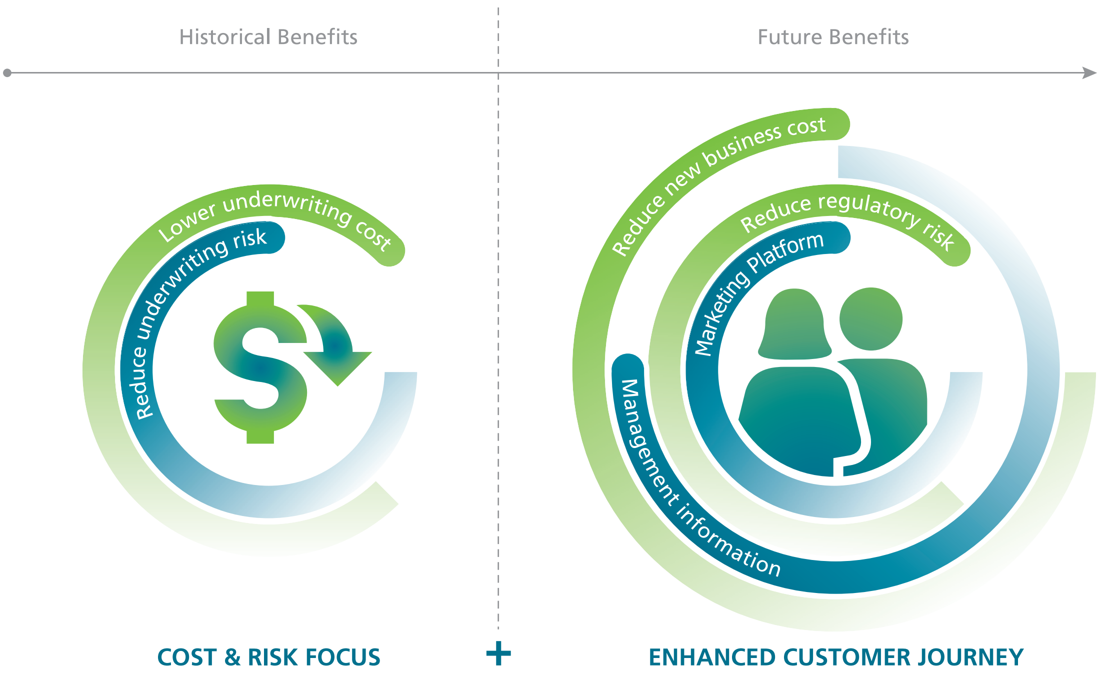
We are entering a new world where engines can respond to each of the barriers above. The increase in potential engine benefits is summarised in Figure 8.

Removing the barriers to adoption

We would encourage insurers to push process automation based on the following innovations:

- Engines need to be an integral part of end-to-end new business platforms, appending data to unlock new segments and streamline adviser and customer processes.
- Cost concerns can largely be met by cloud-based systems that offer turnkey solutions at significantly lower prices. These propositions are particularly attractive to insurers entering new channels (e.g. D2C).
- Innovation in strategic data is increasingly important to drive customer engagement, aid upselling and as a risk management tool for both management and regulatory compliance (e.g. Solvency II).

Figure 8: Historic versus future engine benefits for insurers



A range of solutions is necessary

The breadth of engine propositions is best articulated with reference to the US market, where engines are supporting the traditional fully underwritten back office process, but also bringing a range of customer data together via an underwriter desktop to facilitate decision-making.

There is also growth in middle market simplified issue engine propositions delivering immediate decisions on a high proportion of cases with minimal human underwriter intervention.

The emergence of third-party data sources and structured medical history data supporting electronic application has transformed an unprofitable jet issue process into a profitable simplified issue engine alternative.

By combining pharmacy profiling (Rx), medical information bureau (MIB) and motor vehicle records (MVR), it is possible to develop pricing models which better resemble fully underwritten business.

Extending the super-simplified paradigm to include medical history drill-down data, paramedical and laboratory data as well as credit scores will further the growth in engine-based interactions – with minimal human underwriter intervention.

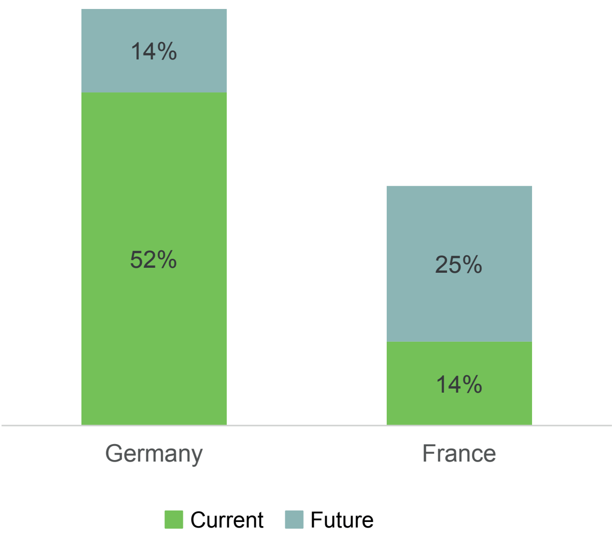
A growing demand globally

Despite some of the barriers mentioned previously, we are seeing accelerating rates of adoption and levels of interest in engines by life insurers. This demand stretches across regions and insurer segments.

There is demand from life insurers who do not currently use an engine, notably in Germany, France, US, Japan and South-East Asia. The demand for engines in Germany and France (Figure 9) demonstrates that insurers recognise that effective engine propositions unlock new distribution segments and new channels by automating the sales process. This acknowledges the need to consider underwriting engines in the context of new business growth, rather than simply as a risk classification tool.

Figure 9: Key engines metrics and drivers in Germany and France

Current and future penetration rate



Demand drivers of recent installations

Demand drivers	Germany	France
Enhance sales process	86%	72%
Opex reduction	43%	50%
Unlock new distribution	24%	50%
Online presence	10%	56%
Underwriting consistency	29%	17%
New datasets and analysis	5%	11%

≥50%

Source: NMG Reinsurance Study, 2015.

There is also demand from life insurers with existing installations – notably the UK, Australia and South Africa – driven by a recognition that existing installations are not customer-oriented, but focused on the underwriting function. Engine propositions which go beyond the underwriting function to improve the customer journey and support data-gathering will help insurers address their most pressing concern – *business growth*.

As insurers look to develop new products, enter new channels and improve customer engagement, suppliers with a broader proposition are well placed to capitalise on this evolving demand.

Theme Four

WHAT ROLE FOR A REINSURER?

In a world where technology and customer needs are evolving rapidly, is a reinsurer, rather than a technology company, best placed to be at the vanguard of new developments?

Reinsurers' leading role for 20 years as the providers of underwriting engines is being challenged – and with good reason. Failure to respond swiftly enough to technological advancements, as well as shifting customer and distribution needs, risks making reinsurer solutions less effective, or even redundant, in some markets.

Our research suggests that the role of the reinsurer remains important, and insurers still value their participation in this space, but to remain relevant and to maintain insurer confidence, the business model and the development focus must be radically redefined.

Challenges to reinsurer dominance
The emergence of third party specialist suppliers of engines over the past five years has challenged reinsurer dominance by giving insurers alternatives and exposing weaknesses in reinsurer solutions.

Figure 10 shows installation of reinsurer, specialist suppliers and in-house engines by market.

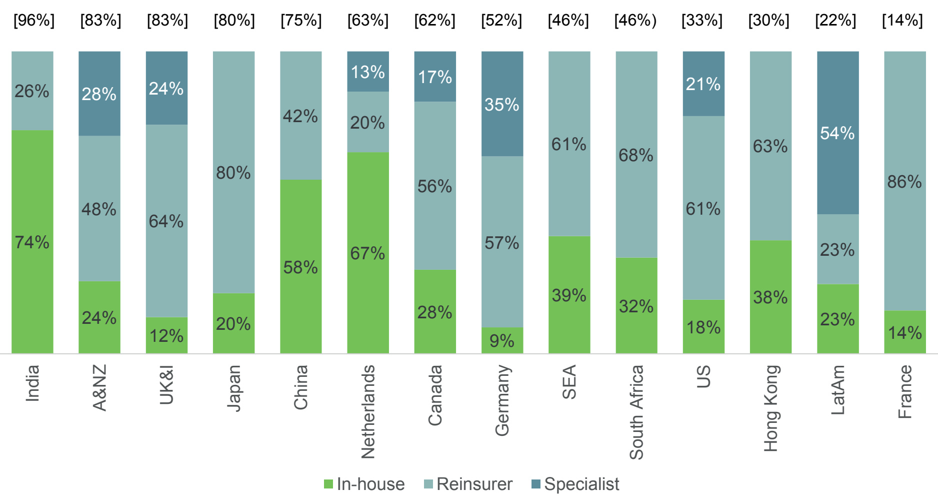
The results highlight India and the Netherlands as large life insurance markets where insurers have chosen to build in-house (often in partnership with a technology provider of new business systems), rather than implement an engine solution from a local reinsurer. Of particular note is the historic trend showing faster growth of in-house and specialist solutions than the incumbent reinsurer engines.

The reasons for the shift in dominance of the reinsurers are multiple and vary by market, but several themes emerge in our research:

- **Technology expertise**

  Insurers question whether reinsurers are the ideal engine partners in an age of fast-moving technological advances – where agile development, continuing investment and leading edge technology are prerequisites. Implementation of an end-to-end new business platform which is sales and customer-centric and suitable for multiple channels is the primary goal for many insurers. The underwriting engine element is just one part of a larger picture, and while reinsurers have undoubtedly led the way in developing sophisticated knowledge bases, they are perceived to have lost sight of wider business needs in their technology development, particularly

Figure 10: Percentage of installations for different engine suppliers in key global life markets



Note: [%] on top of each bar represents the overall penetration in each market
Source: NMG Reinsurance Study, SCOR Analysis and Estimates.

extending automation from quote to fulfilment, and facilitating greater customer engagement.

- **Implementation issues and post purchase dissonance**

  There is criticism of reinsurer engine implementations running over time and budget, exacerbated by lack of capacity. In addition, regional insurers complain that benefits have been oversold – with planned installations of an engine platform in certain offices never being completed.

- **Costs**

  Reinsurer license fees and flexible pricing models are viewed as reasonable, but there is dissatisfaction with the 'hidden' costs of implementation and integration – all of which impact on the realisation of operational and other benefits and a speedy return on investment.

  While these problems surfaced in our research, it is important to note that some insurers were sensitive to the fact that internal issues or changes in strategic direction had made it tough for reinsurers to meet expectations.

- **Mandatory data sharing**

  Some insurers are increasingly uncomfortable with the level of data sharing required by reinsurers as part of the engine licensing arrangements.

  But it should also be noted that data sharing is recognised by some insurers as part of a larger strategic partnership and value proposition.

- **Reinsurance alignment**

  Some insurers are reluctant to commit to long-term arrangements linking engine use to reinsurance and seek more flexible arrangements.

Reinsurer as strategic partner

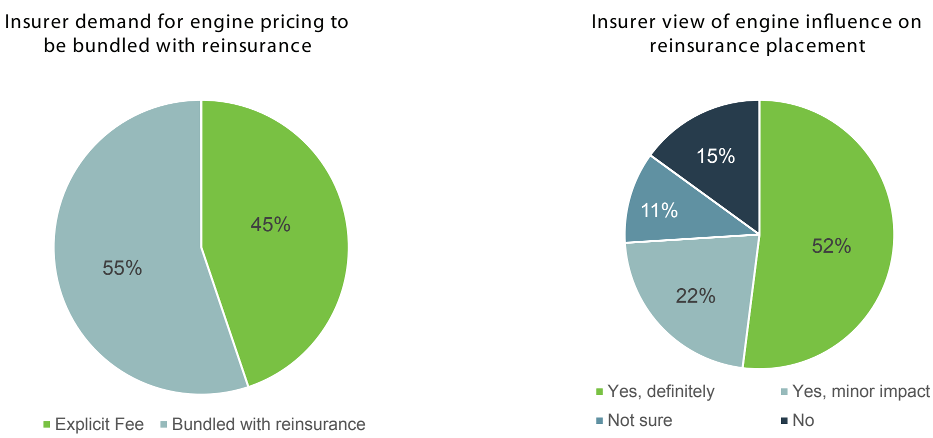
Despite question marks over reinsurer engine dominance, to consider and judge the reinsurer as just another technology vendor is a blinkered view.

Financing of the engine is certainly a differentiator for reinsurers. Our research illustrates the strong demand for bundled pricing, where insurers can finance installations via reinsurance treaties; and reinsurers tend to be more flexible on payment models and terms than third party suppliers.

But, in our view, it is neither technology nor engine financing where reinsurers set themselves apart.

The reinsurer's key strength is as a strategic engine partner providing unparalleled knowledge at a time where data is the new currency and insights gathered from data provide clear competitive advantage.

Figure 11: Insurer perspective on reinsurer bundled pricing and engine influence



Source: NMG Interviews.

> "The reinsurer's key strength is as a strategic engine partner."

- **Knowledge partner**: Reinsurers are at the leading edge of evolving or revolutionising the underwriting process – the availability of alternative data sources for risk evaluation has catalysed new pricing and underwriting models, enabling new distribution options. Consider the models emerging in the United States to widen access to the underserved middle market based around external sources of data such as pharmacy records. Engines have had to adapt fast to accommodate these changes and the role of the reinsurer in researching, analysing and driving through new rating algorithms and underwriting models has been – and continues to be – critical.

  Consider too the reinsurer focus on developing business analytics tools and the internal expertise to assist insurers in drawing insights from engine data and in linking these to other business portfolio and claims data.

- **Risk management**: Reinsurers continuously update their global underwriting rating guidelines based on insured life data and medical research. This in turn flows into the IP held within the engine knowledge base to provide a consistent, up-to-date and sound risk management philosophy across markets and processes. Insurers using an engine philosophy developed in partnership with a reinsurer can be more confident about the decision outcomes and the reinsurer's willingness to support them.

- **Client focus**: Reinsurers have a deep understanding of products and underwriting practices in global markets – and of their clients' particular requirements. As partners they reduce the effort required to develop a market-specific engine customised for their clients' needs.

Reinsurers' role – Future vision

The clear message from our research is that despite some evident strategic advantages of reinsurers as engine partners, they will nonetheless lose relevance if they do not face up to the weaknesses in their technology and business model.

The most effective underwriting engine is of little value if insurers fail to engage the customer and write more business.

Reinsurer success in the future will be a balancing act between

- maintaining their role as knowledge and risk management partners, leading the way with new underwriting models and the use of alternative data assets; and
- investment in both technology and regional development resources; if necessary partnering with technology specialists to address the gaps in their solutions and meet insurer service expectations.

Perhaps the most important change must be one of mindset – shifting the focus from underwriting refinement to distribution enablement.

At SCOR we embrace this challenge.

Some thoughts from the mind of the industry ...

"Many consumers expect the state will look after them or are willing to take the risk. We as an industry need to ensure customers understand the value of our products and services."
Board Executive – Multi-National Life Insurer

"Financial advice is based on client relationships and this includes underwriting support. The idea that you can outsource underwriting to the insurer is just not possible in our market."
Executive – Broker Germany

"We have developed a very scalable new business process for the intermediary market with excellent integration between our front end, commission system, engine and policy admin system. The challenge is that this architecture doesn't work for D2C and it has taken years to develop a simpler product and more customer-friendly journey."
MD – UK Life Insurer

"We are looking for a strategic partner across risk and capital management and distribution solutions. Our preference would be a relationship with a single reinsurer who really understands our business."
CEO – SE Asia Insurer

"We piloted a retention campaign which delivered excellent response rates and improved persistency. It was hard to get sign-off for the initiative but now our perceptions have changed."
Distribution Director – Continental European Life Insurer

"We need to respond to a customer who can access so much information about claims processes. Financial forums could be a game changer for claims management."
Claims Executive – US Life Insurer

"The price of engines has come down a lot while we can see more benefits. Our competitors have announced deals and we are considering our options."
Chief Actuary – Japan Life Insurer

"The penetration levels (based on number of installations) overstates adoption for Asia. In many markets such as India and Thailand the number of policies going via a third-party engine is very small."
Industry Consultant

"If the underwriting process goes wrong it can be the end of the client relationship. We have to have total confidence in the insurer before we even consider quoting with them for whole life."
Investment Specialist IFA – UK

"Through bitter experience we have eventually realised that we are not an IT company – I expect reinsurers will eventually come to the same conclusion."
CEO – European Life Insurer

"Introducing underwriting into the funeral plan market has the potential to be transformational."
General Manager – SA Life Insurer

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