

Overcoming the Underwriting Crunch Through Outsourcing

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by **Chris Orestis and Eli Rowe**

Underwriting at any level is a very serious and specific science; it is also a discipline that can be easily underestimated in both its complexity and bottom-line impact for an insurance company. But what happens to a company's risk experience if there is a lack of qualified talent due to attrition or workflow overload?

As the Life and Health insurance industry of the 21st Century continues to evolve; the cost savings and improved workflow derived from outsourcing cannot be ignored. In less than a decade, a heightened sense of urgency has emerged compelling companies to better understand and have a plan in place for outsourcing some, if not all, risk management functions. This urgency is clearly attributable to the following factors:

1. **Resource Drain:** Staying ramped up at maximum staffing levels year round is an expensive and wasteful proposition; conversely, it is also expensive and distracting to hire and train temporary staff in a reactionary attempt to handle peak-volume periods.
2. **Brain Drain:** One of the last generations of underwriters to receive extensive, company specific training and experience over years is reaching retirement age en-masse. Unlike years past, fewer companies are investing in significant training programs, and it is becoming difficult to stem the tide of attrition across the ranks of employees that possess much in the way of a company's institutional risk management knowledge.

Fortunately, there are numerous options available today for outsourcing underwriting functions that can help to overcome these staffing problems while improving operational efficiencies, costs and time service.

When is it time to outsource?

How does a company determine if they will benefit from outsourcing? Start by identifying where bottlenecks exist (too much paper, not enough staff, backlogged APS's, "delegated" administrative work, etc.) and then consider how augmenting staff through outsourcing can help get the process moving again. A critical internal check is to make sure that trained and experienced underwriting professionals are not being diverted from the risk assessment and decision making process. In the midst of a crunch, underwriters and other specialized (and highly paid) personnel should not be haphazardly covering personnel gaps or performing administrative tasks – such as chasing down missing application information or glorified data sorting/entry – that could be more cost effectively outsourced.

Smart and strategic outsourcing is not about replacing people with cheaper options – it is about empowering staff to focus on doing what they do best. The bottom line is that insurance companies should NEVER abdicate their responsibility to manage risk. But, insurers should ALWAYS look at how they can do a better job of managing risk while maximizing all available resources – be they internal or external.

Selecting the best outsource resource

Companies seeking to outsource elements of their risk management functions should look to build a long-term relationship with a company that is staffed by actual underwriters and has a proven track record in providing outsourced services. Look for a company that has the experience and capacity to meet your needs and can be fully compliant with your risk management guidelines. Some companies specialize in one type of support service (i.e. tele-underwriting only) and others offer full service support packages (i.e. requirements retrieval and underwriting services) – based on the needs of a given company either option can be attractive. So how does a company decide which option is best for them?

The first question to ask is: can the outsourced underwriting company create customized solutions that take into account factors such as specific guidelines, appropriate skill sets, experience and product specialties? Another important factor to measure is the scalable capacity of the operation and its ability to expand and contract service levels in concert with the volume cycles of your company.

Which risk management functions to outsource?

1. *Requirements*

This is a labor intensive function that emphasizes scale (people and systems) and scope (geographic reach). This is a commoditized area of service with a hand full of national vendors that can adequately provide the necessary scale and scope to deliver requirements in a cost effective, but also, time effective manner. Time and cost tend to be the measuring sticks for success in this area.

2. *Pre-Underwriting*

Underwriting can be compartmentalized and broken into steps very much like an assembly line in an efficient manner that can impact both risk experience and bottom line before underwriting even begins. In pre-underwriting there are a number of options to select from such as outsourcing data entry, application review and screening, telephone or web based data info gathering, or personal health interviews. Companies that administer a “risk triage” approach to screen an applicant or claim before making the larger investment of requirement gathering and full underwriting are in a position to speed up cycle time, decrease costs, and improve risk experience.

3. *Remote Underwriting*

There are a number of options to offset attrition in the ranks of an underwriting department and/or help break through backlogs of applications. Quick Quotes, Tele-Underwriting, APS Summaries, Automated (Rules Based) Underwriting, and use of Remote Underwriters are now all commonly outsourced functions that are all designed to provide the home office underwriter with better information, and less administrative burden, to keep the underwriting process moving.

4. *Claims Risk Management*

Evidence of Insurability information can be formatted to expedite decision making by claims examiners. For example, an APS summary will eliminate duplicate records, as well as highlight observations regarding potential preexisting conditions, symptoms or concerns previously expressed by the insured. Speed decisions can be assisted by highlighting cases where no concerns exist or those where claims can be denied.

5. *Communications*

The common thread throughout customer acquisition, underwriting/risk management, and back-office support is effective communication. Whether the communication medium is telephonic, digital, or print – there exist many options for accessing expertise and resources on an outsourced basis. In-house tele-service, print and internet operations can be a costly and distracting enterprise for an insurance company. These are unique functions that require specialized equipment, operating systems, staff, quality controls, training, and management protocols. Outsourcing these functions is a cost effective alternative to trying to build and manage in-house operations with the added benefit of the outsourced approach providing maximum flexibility to ramp up and down based on need.

6. *Back-Office*

To survive in today’s competitive environment, insurance companies must identify where administrative bottlenecks are slowing down the forward progress of business. The

insurance industry still suffers from paper jams, workflow atrophy, and administrative overload caused by backlogged requirements orders and APS's, neglected applications of all varieties (short, long, trial), and claims discrepancies. Fortunately, there are numerous options available today for insurers to outsource administrative and processing functions that make it possible for risk management specialists to focus on what they do best so that underwriters, claims examiners, and other specialized personnel are not diverted from their core competencies to perform administrative tasks that could be more cost/time effectively outsourced.

What are some examples of success?

Companies able to identify opportunities for outsourcing risk management functions hindering productivity will be steps ahead of the competition. This approach is a cost effective way to handle volume cycles and manage the impact of staffing/systems challenges. Your goal should be to speed up the new business cycle with an assembly line or triage approach to risk management. Companies need to take a hard look at their volume cycles and staff/budget levels. If volume exceeds capacity to turn around applications in a timely manner, then outsourcing should be seriously considered.

Obviously, the resources are out there and the expertise exists. A conversation about outsourcing risk management functions 5 or more years ago would probably have been met with blank stares. But, today there are enough proven models across the industry that no company need go in this direction alone.

Some specific examples currently in practice include:

- Companies are speeding up new business cycle times and improving broker relations by efficiently sifting through applications generated through the BGA channel by using remote underwriters to provide Quick Quotes via electronic submission of application summaries.
- Companies are speeding up application cycle times by cutting down the amount of time it takes to retrieve requirements such as an APS. Companies once happy with receiving an APS anywhere from 15-30 business days after placing their order, are now benefiting from retrieval times cut down to 10 calendar days – or less.
- Companies are clearing backlogs of applications and stacks of Attending Physician Statements (APS) by outsourcing the administrative burden of sorting and summarizing voluminous medical records.
- Companies are overcoming delays and costs associated with acquiring new business through tele-underwriting programs. These companies are experiencing reduced costs for acquiring new business (including reducing APS orders), increased quantity and quality of information acquired for application completion and underwriting, faster more accurate application approval and declinations, improved customer service, and acknowledged improvements in overall process for the producer, the carrier, and the customer.
- Companies are overcoming the communication divide between distribution and underwriting by teaming these functions. One company is experiencing great success by referring sales from financial advisors directly through a “rules-based” application completion and tele-underwriting process. Speed of issue, increased policy placement, customer experience, and persistency have all increased dramatically once sales and underwriting started working together as a team.
- Companies are overcoming the “paper problem” with imaging technology and/or sending data entry and interpretation to domestic and offshore locations where the process can be done for a fraction of the cost and during night hours. These companies are experiencing a workflow process that is operating at almost 24 hours a day with access to electronic files now constantly at their fingertips.

Conclusion

Today's insurance company must negotiate a very difficult balancing act. There is immense internal pressure to be cost-effective and risk astute competing with external pressure for expediency and improved customer service. Compounding this challenge is the simple fact that underwriting departments are being asked to do more, quicker – but with less staff. Companies tired of being understaffed during busy periods, and overstaffed during slow periods, are looking to overcome this constant juggling act by acquiring additional resources through outsourcing.

The bottom line is clear – Those companies quickest to embrace and master outsourcing will be establishing a clear competitive advantage over companies that chose to ignore this highly cost-effective way to augment staffing levels and maximize workflow on an “as needed basis”.

Author Biographies

Eli Rowe (President and CEO- Parameds.com)

Parameds.com, a PDC company, was founded in 1998 by the company's CEO, Eli Rowe, and since then has emerged as the premier provider of APS Retrieval and Summary Services, Exam Solutions, and Expert Automated Underwriting/Claims Support for the Life, Disability, Long-Term Care, and Health Insurance Industry. Eli graduated Summa Cum Laude with a business degree from Touro College, while simultaneously becoming one of NYC's youngest Level 4 Paramedics. He volunteers in many industry and non-industry charity and association organizations, is the Secretary and Treasurer of MUD, the Metropolitan Underwriters Discussion Group, is an active volunteer paramedic, an avid instrument rated pilot, and a father of two little boys and two sweet girls. Eli has spoken as a keynote speaker on the mainstage of the annual meeting for the Association of Home Office Underwriters and is published in the scholarly journal of the Academy of Life Underwriting, On the Risk. Although he spends a tremendous amount of his time meeting with insurance companies across the country, Eli often still manages to make it home to his wife in New York City most nights so he can tuck his kids into bed thanks to the little aircraft he uses as we do a car.

Christos Orestis III (Parameds.com)

Chris Orestis held senior positions on a number of political campaigns before working in 1993 and 1994 for both the White House and the Senate Majority Leader on Capitol Hill. From that point, he spent the next several years representing the health and life insurance industry as Vice President and Senior Vice President respectively for the Health Insurance Association of America (HIAA) and the American Council of Life Insurers (ACLI). As senior management for both organizations, he was responsible for external affairs and activities related to revenue generation including membership, marketing, business and financial development, industry conferences, and industry-vendor coalitions/partnerships. In 1999, he was awarded the Robert R. Neal Medal by HIAA for distinction and service to the industry. Most recently Chris served as the head of sales and marketing for Global Insurance Resources.

About Parameds.com



A pioneering leader in the underwriting and claims data retrieval and risk management industry since 1998, Parameds.com, a PDC company, continues to set the standard for responsive and expedited time service, innovative systems capabilities, customer service, and value based pricing. PDC's Insurance Application Services include APS Retrievals & Summaries – averaging national turnaround times of 9 calendar days or less, Expert Automated Underwriting Solutions that cross reference a

broad array of medical and risk factors enabling STP, straight-through processing for any company or product line, and an Exam Solution that ensures the highest rated examiner anywhere, anytime, every time. PDC, headquartered in New York with representatives covering every city in the United States, provides services to small, mid-sized, and a majority of the top 50 Life, Disability, Long-Term Care, and Health Insurance Companies in North America.

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