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How Outsourcing Can Help Overcome the Underwriting Crunch

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As the life insurance industry evolves in scope and complexity, companies in the sector realize that significant benefits can be obtained in cost savings and improved work processes if they outsource either a part or all of their risk management functions. At the heart of the matter is underwriting, underestimated both for its effect on new product development and the impact on a company's bottom line.

Underwriters assess risks associated with new products and determine payments of premium. As a result of increasing attrition and the need to launch new products including niche ones, underwriting talent has become scarce. One estimate suggests a 40 to 50 percent shortfall in underwriting talent in North America alone. And only a few companies can afford to invest in training, contributing to the lack of trained resource.

In order to launch new products, for which underwriting talent is crucial, life and health insurers are looking to outsourcing as a way to quickly tap into a trained resource pool. With increasing cost pressures, it is not possible either to maintain maximum staffing levels all year round, nor is it practical and prudent to train temporary staff to cover peak-work periods.

Outsourcing may be a fix to this problem. But what should a company ideally outsource? The company must first be clear about the problems it wishes to solve through outsourcing. This could include bottlenecks such as processing excessive paperwork, augmenting staff, lessening administrative work overloads or reducing data-gathering backlogs. The insurer should take into account the overall process flow in the scoping.

Experience in insurance underwriting and capacity are critical. While some companies offer only tele-underwriting, others offer a full suite of underwriting services.

Key outsourcing provider criteria include the ability to create customized solutions. Other criteria include scalability and the ability to handle service levels that respond to a company's work cycles.

The insurer must then decide which risk management functions to outsource. One potential area for outsourcing is pre-underwriting functions which impact both risk exposure and the bottomline before the actual underwriting commences. In the pre-underwriting scope, options include outsourcing data entry, application review and screening, telephone or web-based data information gathering, and personal health interviews.

Another opportunity is remote underwriting. This can offset attrition in the underwriting department or reduce application backlogs through tele-underwriting and automated or rules-based underwriting.

Outsourcing these tasks combined with analytics from the outsourcing service provider will provide another key benefit - better client retention. By outsourcing analytics to analyze information on profitability at both the product and customer level, underwriters can focus on higher value tasks such as segmentation, analysis, negotiation and relationship management.

Lastly, it is important to remember that strategic outsourcing is not about replacing corporate staff with cheaper labor offshore. It is, in fact, about empowering staff to focus on what they do best. By outsourcing, insurance companies can focus on their core competence, which is to manage risk. The challenge is to remain vigilant and look for ways to better manage risk functions while maximizing all available resources.

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