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INSURANCE ISSUES®

Accelerated Underwriting—Be Sure Your Company Gets It Right

by Keith Brown, Gen Re, Stamford

Have you seen the SOA's recently released "Predictive Analytics & Accelerated Underwriting Survey Report"? It is a terrific reminder of what an interesting time it is to be an underwriter, actuary or data scientist in the life and health insurance industry.

Prior to joining Gen Re in 2014, I spent my career working on the direct company side of the business in various underwriting roles. One of the most interesting aspects of transitioning to reinsurance is the continuous opportunity to see the wide array of research and projects direct companies are pursuing, including Accelerated Underwriting (AU).

For some reason, watching more companies go down the AU path brings back memories of when our industry got some things wrong—so wrong that both insurers and reinsurers are still experiencing significant negative financial impact due to older age pricing, LTC, and turning a blind eye to IOLI/STOLI sales, to cite a few examples.

AU demands the attention of every carrier for reasons of convenience, transaction efficiencies and expense reduction. Gen Re observes some companies approaching the opportunity carefully and intelligently. Others are less thoughtful and more hasty which may not achieve the expected financial results. In which category will your company find itself? Gen Re has developed an approach and can help you make the right decision.

Personal History—Applications and Interviews

The potential for material misrepresentation, fraud and greater than anticipated mortality is higher in the AU market than in the full (paramed exam, blood profile and urinalysis) underwriting market. These challenges require unique application and personal interview (PHI) question design, predictive modeling, underwriting requirement combinations and producer analytics to achieve desired mortality, early duration persistency and profitability. The price of getting it wrong may be high, financially and reputationally.

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Created for our clients, our *Insurance Issues* publication provides an in-depth look at timely and important topics on insurance industry issues.

"The price of getting it wrong may be high, financially and reputationally."

Surprisingly, few companies start their AU programs by redesigning their applications and PHI scripts. More should, as it is a great first step to help offset some of the lost protective value of paramedical exams and fluid testing.

Combating Fraud

Some approaches drawn from Behavioral Economics (BE) can be considered to promote truthfulness in answers to life insurance applications and PHIs used in AU programs. BE is the study of psychology as it relates to the economic decision-making processes of individuals and institutions–decisions such as buying life insurance. It considers the impact of human emotions, context, shortcuts and biases, and explores the how and why of decision making through experiments. However, if your company lacks BE expertise and knowledge of how to redesign application questions and PHI scripts to promote honesty, and improve mortality and early duration persistency, company results may not be as good as they could be.

Promoting Truthfulness

Where is the optimal placement in an application for fraud warning language and attestation signatures? What are the optimal designs concerning nicotine product use (for instance, if your application asks simply about tobacco you're way behind), alcohol use/abuse, drug use/abuse, avocation and medical questions? Can your company afford not to know?

Recently, Gen Re completed multiple projects for clients involving the redesign of PHI scripts and applications to improve the protective value and incorporate BE principles to promote truthfulness. Gen Re has unique expertise in this area. Multiple companies have benefitted from it, and we are happy to help client companies on this front.

Improving Persistency

What would a 1%, 2% or 3% improvement in your company's early duration persistency mean to profitability?

Persistency can be improved through application design. One example for your app or tele-interview: Make sure you have questions such as "Total household income?" and "Total number of your dependents?" Compare answers to the U.S. Federal Poverty Guidelines (available at https://aspe.hhs.gov/poverty-guidelines). If answers indicate a proposed insured is below the Poverty Guidelines, consider whether or not the annual premium as a percentage of income is reasonable, and what the likelihood is the policy will persist. Screening out AU cases at risk of early lapse may materially improve a carrier's profitability to help offset some of the loss associated with giving up fluids and paramedical exams.

Does your company plan to incorporate personal interviews in the AU process? If Yes, congratulations on a wise choice. If No, your company is missing an opportunity to offset some of the mortality loss associated with forgoing fluids and the paramedical exam. If allowing producers to complete just the app or allowing online completion by proposed insureds, your mortality results are unlikely to be as favorable as if you utilize a PHI.

Gauging Nicotine Use

Companies pursuing AU are rightfully concerned about identifying proposed insureds who don't acknowledge their nicotine product use. We see companies relying on past industry studies that suggest one out of every five smokers will choose not to admit their smoking status, yet companies can experience much higher rates than 20%, in part because of the lost sentinel effect of paramedical exams and fluids. A November/December 2016 *Contingencies* magazine article noted overall tobacco nondisclosure ranging from 13% to 47% with significant variations by gender, age ranges and face amounts of coverage.[1] While we wait for a technology-based solution to this challenge, insurers can do certain things now to address this risk.

People with higher levels of education are less likely to smoke cigarettes. In a 2009 study, the Centers for Disease Control and Prevention (CDC) found that "for adults aged ≥25 years, the prevalence of smoking was 28.5% among persons with less than a high school diploma, compared with 5.6% among those with a graduate degree." in the U.S.[2]

According to a 2015 CDC report on tobacco and cigarette use in the U.S., smokers include:[3]

- Nearly 17 of every 100 adult men (16.7%); more than 13 of every 100 adult women (13.6%)
- 13 of every 100 adults aged 18–24 years (13.0%)
- Nearly 18 of every 100 adults aged 25–44 years (17.7%)
- 17 of every 100 adults aged 45–64 years (17.0%)

The CDC's State Tobacco Activities Tracking & Evaluation (STATE) System demonstrates that cigarette use among adults varies widely from state to state.[4] The rate in Utah is much lower than the rate in Kentucky, for example. Several companies use random hold-out approaches, i.e., one of every 10 applicants goes through full underwriting or has a post issue APS ordered. Is that good enough to produce the desired results?

States With the Highest Smoking Rates

Do you smoke?

	% Yes		% Yes
Kentucky	30.2	Missouri	24.7
West Virginia	29.9	Indiana	24.7
Mississippi	27.0	Louisiana	24.1
Oklahoma	25.2	Tennessee	23.6
Ohio	25.0	Michigan	23.2

Source: Gallup-Healthways Well-Being Index, 2013

Full Underwriting or Not?

Companies could better determine which cases to direct down a full underwriting path if they include some of the following elements in their AU program:

> Questions about education level in their application, agent's statement or PHI scripts

> An education verification check (like those used in employment checks)

- As an aside, "authors attribute the improvement in cognitive functioning to a significant increase in years of education which in turn meant an increased 'cognitive reserve' that compensated for cognitive deficiencies for a longer time. Plus, higher levels of educational attainment are associated with better access to health care and healthier behaviour; for example less smoking, healthier diet, and more physical activity."[5] In other words, higher education is associated with better mortality.

> Checking social media outlets, e.g., Facebook, Instagram, SnapChat, for signs of nicotine product use, and other health-related information, on cases with certain attributes

> Identity verification and authentication using LexisNexis's InstantID or a similar tool

> Gain insight into:

- Bankruptcies, liens and judgments
- UCC filings for sales and other commercial transactions
- Prior addresses and aliases (AKAs)
- Properties, motor vehicles, recreational vehicles, aircraft and watercraft owned
- Criminal records
- FAA Certifications
- Professional licenses

> Incorporate a tool like the LexisNexis® Life Electronic Inspection Report (EIR) into your AU program.

> **Credit Attributes**—Gen Re studied the LexisNexis® Risk Classifier and believes it is an essential AU tool for determining Standard and Preferred class risks.

> **RX Checks**—Pharmacy Database checks (RX checks) and preferably an RX scoring tool should be part of an AU program. Additionally, some companies find value in post-issue RX checks: waiting two or three months and then checking pharmacy databases again. The idea here is to catch insureds who know they are ill but postpone treatment until after they secure life insurance.

> **Synergy**—Credit-based mortality scores (i.e., the LexisNexis® Risk Classifier) and pharmacy data-based mortality scores (e.g., Milliman's) are important tools to reduce the mortality sacrifice of not having full medical underwriting; however, setting proper cut-off points for each score to maximize their synergism and achieve mortality and pricing expectations is challenging. Gen Re's expertise in this area can help companies set the proper reference ranges and share the mortality risk while developing experiential data.

Elements to Consider

Can you afford to include ages >50?—Some industry experience suggests that few in this age range qualify for coverage via accelerated (fluidless) underwriting. As age increases, the prevalence of medical conditions that full underwriting detects increases markedly. The mortality cost of AU rises concomitantly. Is it worth irritating clients and producers for an occasional qualifier?

Other Helpful Tools—ExamOne's QuestCheck®, which is their clinical laboratory history product, and Risk Identifier, which uses QuestCheck® and ScriptCheck®, which is their prescription history

tool. All these can be inexpensive, instantaneous tools that can also strengthen an AU program and help offset the lost protective value of fluids and paramedical exams.

Post Issue Attending Physician Statement (APS)—Some carriers implement post issue APS ordering, which adds significant expense to an AU program but may provide worthwhile protective value. Protective value studies are needed to help evaluate the benefit of such an approach. Companies that pursue post issue APSs need to have an appetite for rescission.

Hospital Canvassing—If your time service goal in introducing AU is to go from 30–60 days to three days you may also want to consider having a company that does inspections conduct a canvass of hospitals within a certain radius of the proposed insured's home for medical records. This could be done for certain ages and/or amounts, as part of the underwriting process (thus the three-day time service) or as part of a post issue review process.

Producer Eligibility—Producer eligibility parameters may benefit the profitability of an AU program.

- Should AU programs be available to every producer licensed with your company?
- Should producers contracted after a newly announced AU program have a probationary period?
- Would a tenure requirement for eligible producers yield better results than allowing any producer to participate?
- Can length of service parameters (i.e., a minimum of three years with the company and solid results) improve the AU program?
- Should an AU program be a reward for top producers only? Would such an approach benefit the profitability of an AU program?

Producer Analytics—A key ingredient in a successful AU program is analytics that monitor producer behavior related to application completion.

What is the average per producer number of "Yes" answers to the nicotine product use application question? For example, if it's 8% for your entire sales force, do producers whose averages are 2% or less merit a closer look? How about averages for the coronary, cancer, mental/nervous and diabetes questions?

Case Disposition Metrics—Approval, placement and not-taken rates: What do they tell you? Will mortality, persistency and profitability be the best possible without such knowledge? What might analysis of significant deviations indicate about your producers, antiselection or fraud? Can your company afford to offer AU without such analytics?

AU programs are being adopted in increasing numbers. As noted above, some companies approach the opportunity carefully and intelligently, and include appropriate elements that help the underwriting. Some others may experience sizable financial loss. As an industry it's essential we get it right. Gen Re is here to share the risk and help ensure a sound program design.

We are ready. Are you? ■

About the Author

Keith Brown *is Chief Underwriter and Vice President, Risk Management for Gen Re's North American Life/Health division. He is responsible for assisting in the development and implementation of risk management strategy for Ceded Life, Critical Illness and Individual Disability Income reinsurance. Keith heads up an underwriting unit focused on Life products based in Stamford, and an underwriting team dedicated to Individual DI and CI insurance based in Portland. He may be reached at Tel. 203 352 3014 or keith.brown@genre.com.*

Endnotes

1 "Applicant Medical and Smoking History Nondisclosure in the Life Insurance," James Palmier and Brian Lanzrath, *Contingencies*, http://www.contingenciesonline.com/contingenciesonline/november_december_2016?pm=2&fs=1&pg=63#pg63.

2 https://www.cdc.gov/mmwr/pdf/wk/mm59e0907.pdf; https://www.cdc.gov/mmwr/preview/mmwrhtml/mm5935a3.htm?s_cid=mm5935a3_w.

3 https://www.cdc.gov/tobacco/data_statistics/fact_sheets/adult_data/cig_smoking.

4 https://www.cdc.gov/statesystem/cigaretteuseadult.html.

5 2016-JAMA-Langa-et-al-A-Comparison-of-the-Prevalence-of-Dementia-in-the-United-States-in-2000-and-2012 notes.

This information was compiled by Gen Re and is intended to provide background information to our clients, as well as to our professional staff. The information is time sensitive and may need to be revised and updated periodically. It is not intended to be legal advice. You should consult with your own legal counsel before relying on it.

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