

Life conference and exhibition 2010

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Underwriting & Claims

Do AFH/FD/CROs really understand the risks involved

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Introductions

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Agenda

- Market background
- The top risks
 - Case studies
- Practices to manage and monitor risk
- Using MI to help
- Impact on our business



Market background



Market background

- High levels of quota share
- Changing attitudes of reinsurance
- Pressure to get rates as cheap as possible
- Focus on certainty of reinsurance cover
- Solvency 2
 - ORSA
 - Op risk internal model
- Growth of automated underwriting



Automated underwriting systems

- Overview of systems
 - What are they and how do they work
 - Complexity e.g. number of rules / questions
- Benefits
 - Costs per application for STP versus underwritten
 - Instant decisions
 - Embed into e-business process
 - Consistent decisions
 - Great MI
- Risks
 - Consistently wrong
 - IT glitches e.g. data transfer
 - Changing answers / multiple applications
 - Lack of human insight



Top 10 risks

How did it go wrong?

Examples of key risks

- Underwriting errors – human or e-underwriting tool
- Claims decision and process errors
- UW process / philosophy changes
- Product literature/policy condition changes
- Non-disclosure levels and distribution risks
- Annuities – over payments due to late notice of death
- Administration errors
- Special reinsurance treaty conditions passing risk to ceding company
- Brand payments – ex gratia payments
- Business Continuity



Key risks – Underwriting and Claim errors

Nature	Cause	Examples
Mostly obvious – genuine mistake	Lack of care	Product feature not advised to reassure i.e. escalation
Wrong rating / miss exclusion / pay claim which is not valid	Lack of ability	Pay unusual claim where compliance with CI definition is questionable (without referral to reinsurer)
Tele-u/w's failing to note all disclosures	Personal problems	Tele u/w's leading answers / taking calls whilst client driving
Failing to refer cases exceeding referral limits	Training need	

Key risks: Literature/Conditions/Processes/Philosophy

Nature	Cause	Examples
Reassurance priced competitively based on specific conditions, wordings and philosophy	Not referring changes to reinsurer	Acceptance letter stating "I'm pleased to inform you your insurance cover is in place" – when it's not!
Changes should be agreed even if minor	Individuals not understanding significance of reinsurers involvement	Non-medical limits increased without reinsurers input
Failure may result in push back on claims Assumption literature, correspondence is appropriate	Inadequate checking	Change claims philosophy without involving a reinsurer
	Not involving all disciplines in reviewing material	

Key risks – Non-disclosure

Nature	Cause	Main areas?
Key information withheld by applicant, IFA or agent Are underwriting checks and risk management processes adequate to identify ?	Inadequate processes / unscrupulous sales agents	Smoking / Habits – alcohol and drugs
Is non-disclosure at level reassurers priced for?	Application forms design / process	Mental illness / Musculoskeletal for disability products
	Sales controls	
	Lack of data	

Key risks – Over-paying annuities

Nature	Cause	Issues to consider
Continue to pay pass death of annuitant	Inadequate checking	3rd Party providers vary in competence
Reassurance treaties limit their liability to actual date of death	Beneficiaries not willing / unable to pay back over-payments	Annuitants living abroad pose particular problems

Key risks – Administration errors

Nature	Cause	Examples
Errors in operations whether human or system related	Lack of care	Rating / exclusion applied by underwriter by not transferred to policy
	Personal problems	Policy conditions – missing pages when sent to client
	Systems – cumbersome / programming issues	Premium payment issues
	Training needs	Not including policies in reinsurance schedules
		Irretrievable tele-uw recordings or poor quality

Key risks – Treaty conditions passing risk to ceding company

Nature	Cause	Examples
Reassurer liability limited by special clause	Divergence of opinion over level of risk between parties	Certain CI conditions – Angioplasty / RA
Usually definition creep / legal or FOS interpretation concerns	Insurer chooses to take risk rather than high rates	Quoting on application forms and relying on post-issue GPR's (high sums assured)

Key risks – Protecting a brand

Nature	Causes	Examples
Direct office keen to avoid bad publicity	Reassurer priced on certain basis – brand protection not included	Across the board but more prevalent in emotive areas – e.g.
Protect important relationships		1) Terminal illness 2) Children's CI

Key risks – Business continuity

Nature	Cause	Example
Impact of disaster suffered by 3 rd party provider	Inadequate plans of key partner?	Underwriting decisions not provided
	Not checked by your company	Key projects not completed as planned
		Claims payments not made

Managing the risks

Good practice in managing risks

Managing the risks

- Many obvious from risk description
- Highlight a few but generally just maintaining good practice
- Regular risk reports
- Monitoring results
- Reserving adequately for potential financial hits



Internal audits – Underwriting, claims and administration

- Summary of what's covered
 - Risk – decision / process
 - TCF – consistency / compliance
 - Efficiency – evidence requests appropriate
 - Automated underwriting rules
 - Tele-underwriting – listen to calls
- Credible sample size per underwriter?
- Reporting structure and follow up procedures
- How independent is it?



External audit – underwriting and claims

- Small sample size – How credible?
- Reassurers reverting to reviewing ceding companies own risk controls – i.e. internal audit / disclosure checks / data captured
- Some stats on the range of results by office – trends useful but market comparisons difficult – Apples and pears!
- Internal compliance audits on processes



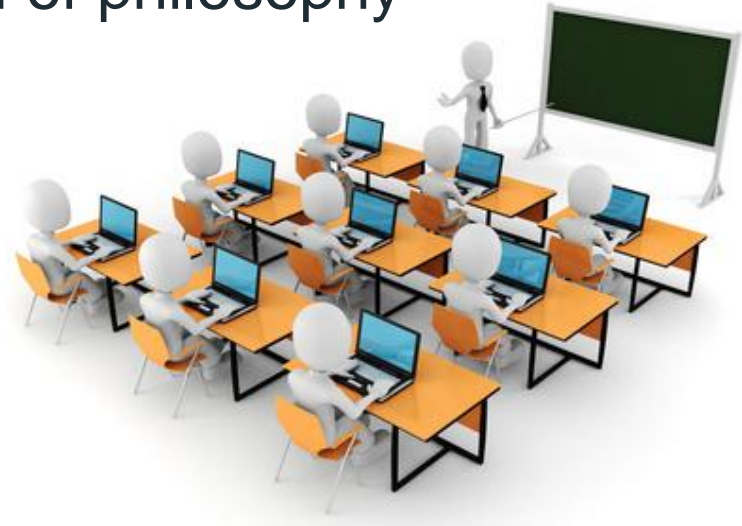
Non disclosure monitoring

- What is it?
- Impact – higher mortality / morbidity = higher reinsurance rates
- How to monitor it
 - Random sampling – post issue
 - Checking evidence received for u/w against disclosures
 - Agent level monitoring against norms
 - Management information
 - Management information
 - Management information



Processes and training

- Clear understanding and documentation of philosophy
- Logging of exceptions
- Minimise manual interventions
- User friendly systems
- Ensure underwriters motivated and feel valued – not processing unit.
- Adequate testing of systems
- Appropriate sign off on documentation
- Professional development important – in-house or external training programmes / CII exams / UW Diploma



Systems design

- How design of systems can help
 - Automatic referrals / evidence requirements
 - Easy access to previous cases
 - Available options highlighted and warnings provided if rated or high sum assured
 - Workflow management
 - Documentation of underwriting
 - decision / checking process
- How to test an automated underwriting system
 - Reassurer can't test all so needs risk based approach
 - Unit testing of individual rules
 - Regression testing
 - Audit of results



Monitoring the risk

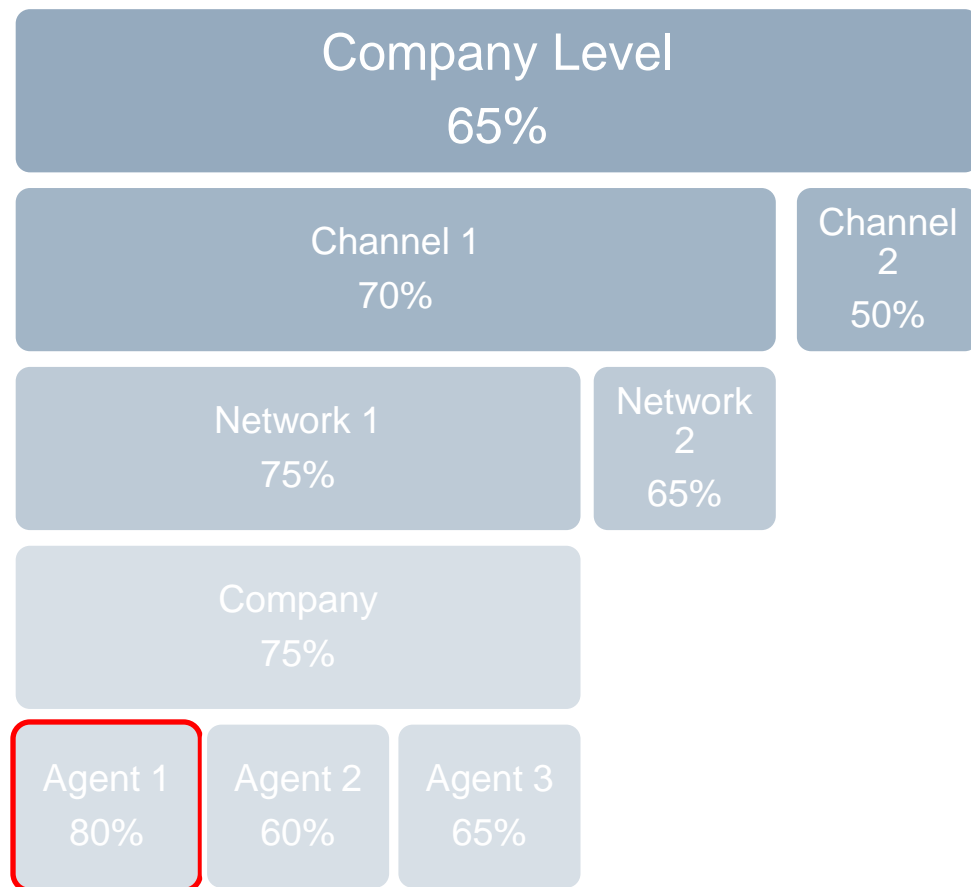
What information does Fortis Life use?

Key Risk indicators

- Good MI available in timely way:
 - Non disclosure rates
 - Claims declined / reduced
 - Quality results
 - Risk incident numbers
 - Audit results
 - Agent level monitoring
- Aggregate statistics hide much of the detail so need to look at distributor and agent level data



What level to monitor MI



High Impact

- Difficult to influence
- Highly credible data



Lower impact

- Easier to control
- Less credible data
- Greater variability

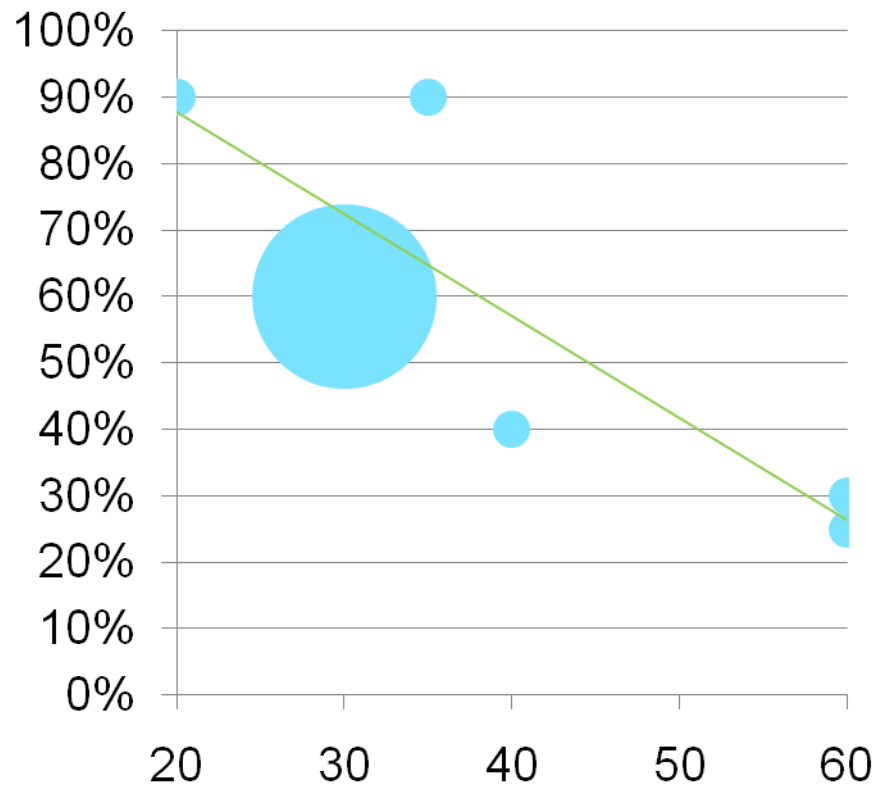
Agent level monitoring

- What can you look at to identify problem agents:
 - Time to complete application
 - Number of disclosures
 - STP
 - Alterations on confirmation schedules
 - % standard rates / % declined
 - % GPR / medical evidence
 - % clean applications
- Can also cover other risks like fraud
 - Use of same bank account / postcodes
 - Rapid number of applications



Interpreting the results

Sample STP data



Interpretation

- Rogue agents typically fail on a number of measures
- Need to standardise for business mix
- Allow for statistical credibility
- Look for consistent failings
- Spot the good ones too!

Implications

What does it mean for our business

Reserving implications

- Do you understand the treaty wording
 - If it's not clear have you discussed with your reinsurer
- Models assume all claims are recovered from reinsurer
 - The risks they don't cover will be significantly substandard
- Under S2 there are no prudent margins to rely on
 - Should you hold an additional reserve for this



Capital implications

- Past loss data may not be appropriate:
 - would not reflect the changing attitude of reinsurers
 - How have processes changed over time
- How bad is a 99.5% confidence limit
 - How quickly do you detect problems
- Solvency 2 SCR for operational risk
 - 4% of premiums
 - Is this sufficient?



Conclusions -

The benefits of really understanding the risk

- Link into pricing and commission to match the risk
 - Part of the overall distributor scorecard
- There is real commercial benefit to understanding the risk
 - Better claims experience
 - Better reinsurance terms
- Management time to resolve can be significant
- Better relations with your reinsurer
- More control over the risks



Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

