The Actuarial Profession
making financial sense of the future

Health and care conference 2010
Warren Copp

Assessing underwriting and claims standards

14 May 2010

Reinsurance Tenders

- Underwriting and Claims Diligence
  - Existing clients – limited activity
  - Potential clients
    - Quickly understanding key risk management determinants
- Quoting to reflect client practices
- Finding an edge…..

What difference does it make?

- Integral part of PLR quote process
- Actual recent PLR experience adjustments for **underwriting and claims practices**:
  - Mortality: 7.5 -10%.
  - CI: 12.5 - 15%.
  - IP: Fundamental

Context / assumptions

- IFA market
  - Price driven strategy
- Critical Illness / TPD
- New entrant – ie excluding historic changes
- Underwriting and claims only – excludes other factors e.g:
  - Intermediary quality
  - Socio-economics
  - Product design

Underwriting and Claims - what really matters?

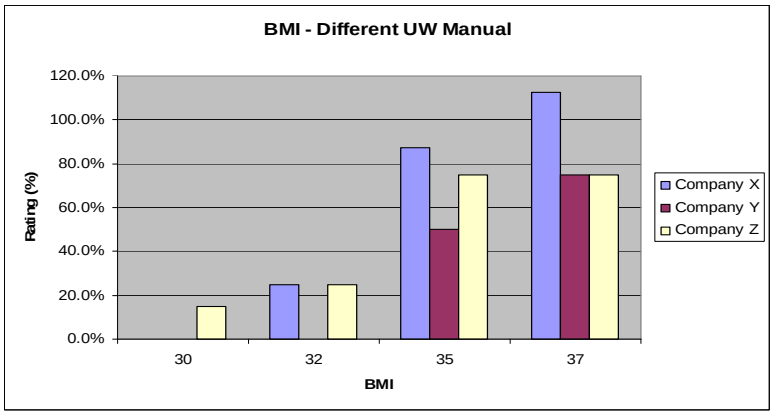
- Underwriting philosophy and market positioning
- Underwriting process design
- Claims – being genuinely fair but appropriately firm
- Corporate commitment towards strong risk management

Underwriting Manual / Philosophy

Underwriting Manual / Philosophy

- What is the underwriting strategy of the company?
  - Philosophy and reinsurance manual should match strategy
  - Underwriting philosophies vary materially across the market
- Protection specialist intermediaries - anti-selection / skewed portfolio:
  - Obesity
  - CVS risk
  - Family history

Obesity Ratings – variance by office



Standardised additional premium for BMI by Company:

Company	X	Y	Z
Additional Premium	8.8%	4.8%	8.6%

What terms would you offer this applicant for life / CI?

- Male life aged 44
- BMI 31 (Height 6'. Weight 16 st 7lbs)
- Blood pressure 150/92
- Smoking 10 c.p.d.
- Family history 1 first degree relative with IHD at 55
- Cholesterol 6.7

- No history of IGT, DM or history of CVD
- No other medical history of note and no treatment for BP

Select X Reinsurance Survey 2008 – 9 reinsurance CVS risk calculators

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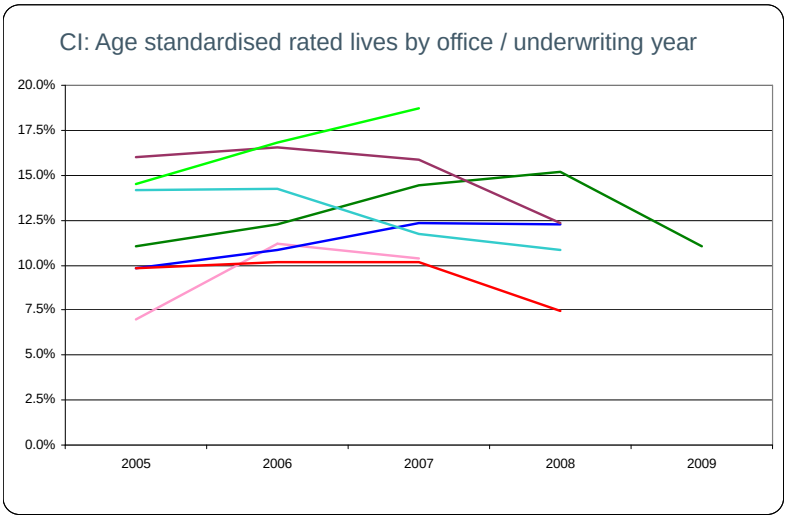
Company	1	2	3	4	5	6	7	8	9
Life	75	25	50	125	75	0	25	125	25
CI	125	50	50	D	125	50	D	D	D

Variances in rated lives by office



Rate or exclude?
Family history of breast cancer – an example

Number of first degree relatives	* RR for women < 50 years
1	2.14
2	3.84
3	12.05

Age at diagnosis in relative	* RR for women < 50 years
<40	13.5
40 up	7.8

* Collaborative Group on Hormonal Factors in Breast Cancer (2001)

- **FH Breast Cancer – a common disclosure**
- **Increasing risk by number of relatives/younger age**
- **At what point is an exclusion required?**
- **Industry practices vary between rating and exclusion**

Underwriting Manual / Philosophy - Summary

- Much depends on philosophy re: small number of high volume / high impact conditions
  - Material impact on extra premiums received
  - Risk of anti-selection

Underwriting Process

Underwriting Process

- Key area of differentiation for insurers
  - Application design
  - Signatures / Confirmation schedules
  - Electronic Underwriting
  - Tele-interviews
  - Non-medical limits
  - Medical evidence for disclosures
- Optimisation of:
  - Processing time / customer experience
  - Costs
  - TCF
  - Selection quality

Underwriting process – case study

- Female – age 35
- Accountant
- ACC CI £650k 30 years
- Following medical history in last 1 year:
  - Low back pain
  - Constipation
  - Sensory disturbance left leg
  - Poor co-ordination
- Facial palsy 6 years ago
- GPR
  - Neurological referral 3 months ago
    MRI scan "Essentially normal"
  - Hospital letter: "Possible plaques on MRI.
    Not diagnostic but MS a possibility. Patient not advised."

- What application questions are asked? Will all aspects of medical history be picked up?
- How are the questions asked
  - is the person interviewed?
  - is electronic underwriting used?
- Is the application over non-medical limits?
  If so, what evidence is requested?
- How good is the GPR?
- Are copies of hospital correspondence requested?
- Correct underwriting decision – Decline CI

Underwriting Process - Critical Illness
If we were you…….

PLR - important	PLR – less important
Carefully worded questioning in key areas: e.g Neurological / Specialist investigations or referrals **What was done to them……..**	Tele-interviews
Know when a GPR is really needed. **Don't guess** to accept another 2-5% of business straight through	Non-medical limits
Requesting hospital correspondence **Be wary of "part stories" from GP**	Absolute accuracy of decision-making
Confirmation schedules.	Signatures

Identify unacceptable risks / protect against anti-selection

Underwriting Process - Summary

- Do push for process optimisation

BUT

- Be wary of false economies in the wrong areas……

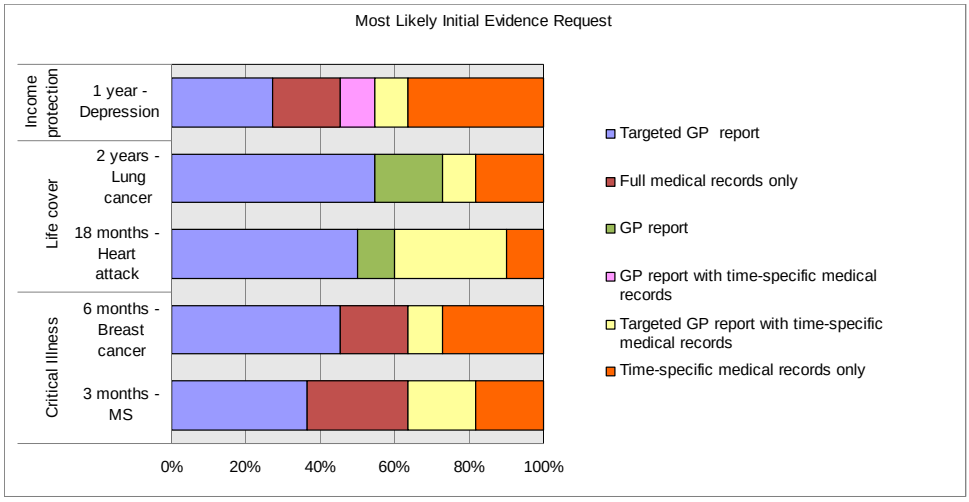
Claims

Claims Philosophy

- Current market practices give the customer the benefit of the doubt regarding possible non-disclosure
  - ABI TCF Claims Code of Practice
- Much fairer and more consistent approach to claims management
- Practices / philosophies will always differ “around the edges”……..

Claims Philosophy – investigating non-disclosure

Pacific Life Re TCF Claims Survey November 2008



Targeted GP Reports

- Core claims tool – focussed request for medical history
- Much is in the wording……..
- Claim – MS
  - "Any previous episodes of this condition?"

    OR

  - "Any previous history of any of the following:
    - Pins and needles, or other sensory disturbance?
    - Muscle weakness, leg dragging clumsiness or other muscular / motor symptoms?…….etc

Claims Philosophy – investigating non-disclosure

- Imperative that claims evidence requests are reasonable

BUT

- Insurers are entitled to adequately investigate claims where suspicions are reasonably aroused
  - Short duration / degenerative condition
- Design of targeted GP reports is key
- Sometimes limited segments of medical records are needed

Claims Philosophy – classifying non-disclosure

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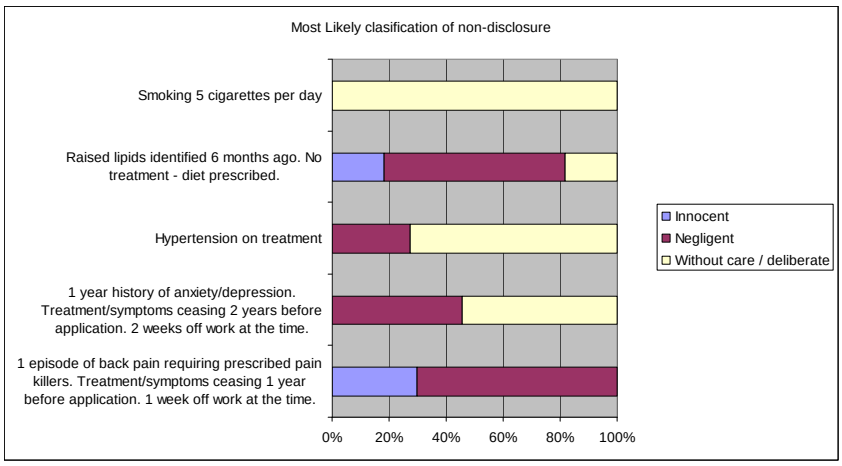

Claims Philosophy – Borderline Claims

- Vast majority of claims are a clear “Pay” or “Don’t Pay”
- Small percentage (circa 5-10%) are more borderline e.g.:
  - Heart attack
  - Neurological – PND
  - Benign Brain Tumours

Claims Philosophy – Would you pay these claims?

- Large brain tumour diagnosed during MRI for unrelated minor head injury. Not to be operated on unless warranted by symptoms. Currently symptom free.
- Osteoma (tumour of skull bone not brain). Not possible to fully remove only debulk due to size of tumour. Significant visual disturbance.
- Soldier – killed in action. Disclosed no known operational theatre posting in the next 6 months. At point of commencement of cover was under orders for movement to Afghanistan.

Claims process – case study

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Claim - MS

- Duration 13 months
- Non-disclosure
- Clear diagnosis on MRI scan

One episode for 3 months now in remission

- What initial medical evidence is requested?
  - Targeted report?
  - Medical records?
- How is non-disclosure classified?
  - Innocent – Pay
  - Negligent / Without Care – Don't Pay

  Key factor – application questions / audit trail
- Does claim meet definition?
  - 6 months symptoms not present

Claims Philosophy - Summary

- Key balance
  - TCF (All customers)
  - Declinature rates
  - Experience impact
- Genuinely fair but appropriately firm

Corporate Risk Management Focus

Corporate Risk Management Focus

- Less tangible, but fundamental area
- Extreme commercial pressures for insurers
- High quota shares!
- Balancing commercial reality with management of risk

Corporate Risk Management Focus – Indicators How do you score?

Question		Positive Indicators
Top line or bottom line focus?	Longer term view protecting emerging experience Balanced commercial approach versus caving in for growth	Robust internal experience analysis Underwriting / claims heads involved at executive level Sustainable philosophies
Silos or multi-disciplinary interaction?	Consideration of how underwriting and claims impacts on experience	Clear underwriting and claims strategies Application of the control cycle
Process or key risk management control?	Doing things properly	Investment in training Sensible productivity expectations Effective quality control
Cost or investment?	Spend money to save money	Optimised medical evidence Investment in systems

Corporate Risk Management Focus - Summary

- Everyone is pushing the boundaries – a commercial reality
  - Where is the line drawn?
  - Are fundamentals being protected?
  - Is protecting emerging experience really a priority?

Underwriting and Claims - what really matters?

- Very careful positioning of key aspects of underwriting philosophy
- Ensuring that your underwriting process protects against anti-selective risks
- Claims – being genuinely fair but appropriately firm
- Corporate commitment towards strong risk management

Quick hits?

- Carefully consider approach to obesity and family history
  - Monitor business volumes
- Review questioning process
  - Neurological
  - Previous medical investigations
- Early claims analysis
- Consider medical evidence requests following GPR
  - Hospital referrals – especially neuro / chest pain
- Optimise claims evidence requests – medical records versus targeted
  - Design of targeted reports

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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 presenter.