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Misrepresentation / Non-disclosure rate - What does it mean?

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Agenda

- Introduction
- SCOR Misrepresentation/Non-Disclosure survey findings
 - How many companies are monitoring misrepresentation and the methods they use
 - Misrepresentation rates in UK and Ireland
 - Most common conditions responsible for misrepresentation
 - How the information is used by companies
- Suggested remedies
- Best practice example
- Questions



Misrepresentation is a big concern

- We can deal with it as we find it
 - Underwriting - We have the ability to identify and act on **all** misrepresentation that's found through evidence received / monitoring / sampling
 - Claims - Ability to identify and act on **some** of the misrepresentation found during the claims process
- What about the rest of the portfolio?
- Is there enough being done to improve misrepresentation that is hidden?
- Should we be concerned???



Consequences of misrepresentation

- Reduced number of cases rated - without “additional” premiums charged
- Additional claims filtering into the experience – cases that should have been declined
- Pricing – looking at how improvements can impact on A/E experience
 - Misrepresentation rate and process feeds into scoring criteria which feeds into pricing – every reinsurer will take misrepresentation rates into consideration
- More ‘grey’ claims and uncertainty whether misrepresentation can be identified and acted on at claim stage
- Higher “declined claims” statistics because of misrepresentation
- Increased claims costs incurred for disputed claims
- Reputational risks to companies because of disputed claims



The financial impact of reducing misrepresentation

Sample of 500 cases (£100k SA / £40 p/m)

- 5% misrepresentation rate = 25 cases
 - 5 cases should have been declined
 - 5 should have had exclusion applied
 - 15 should have been rated (average CI rating of +55%)
 - Missed premiums: **£31,680** ($£40 * 55\% * 15 \text{ cases} * 12 \text{ annual} * 8 \text{ years}$)
 - Assume that just 1 of the declined / exclusions would have resulted in a claim – saving of **£100,000**
 - 10% misrepresentation rate = 50 cases - the impact is doubled
 - Other costs – GPRs & additional UW resource v reduced claims costs
-

The impact of identifying misrepresentation on A/E experience?

CI	Assumed		5% misrep.		10% misrep.	
	Mix	Rate	Mix	Rate	Mix	Rate
OR	75%	100%	70%	100%	65%	100%
Rated	15%	155%	18%	155%	21%	155%
Exclusion	5%	325%	6%	325%	7%	325%
Decline	5%	325%	6%	325%	7%	325%
Average		131%		137%		143%

	5% misrep.	10% misrep.
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This results in an increase
in experience of

4.7%

9.4%

However, if processes are adopted to reduce the misrepresentation rate by half:

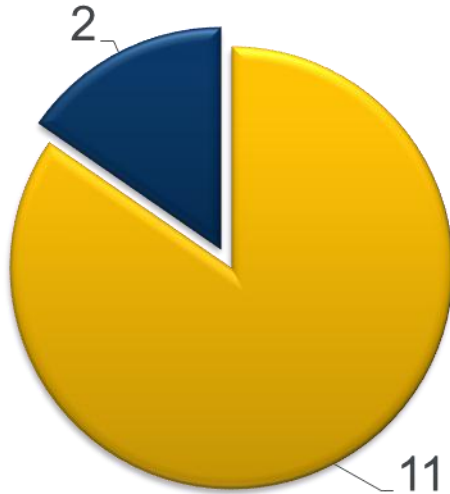
Based on 50,000 new business cases
where 500 (1%) were sampled

2.4%

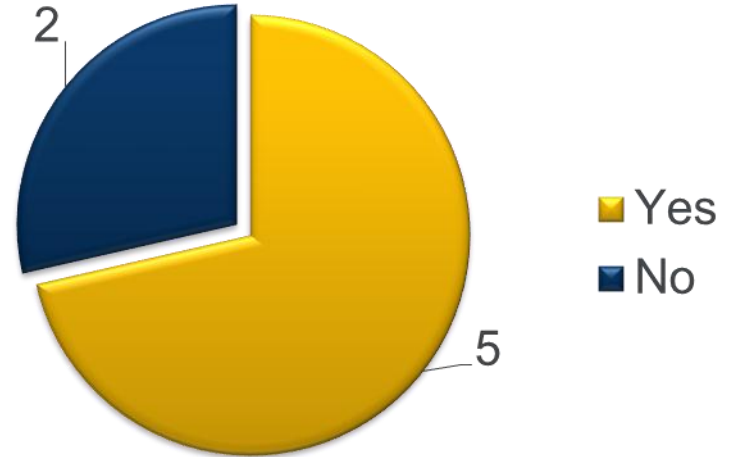
4.8%

Companies monitoring non-disclosure

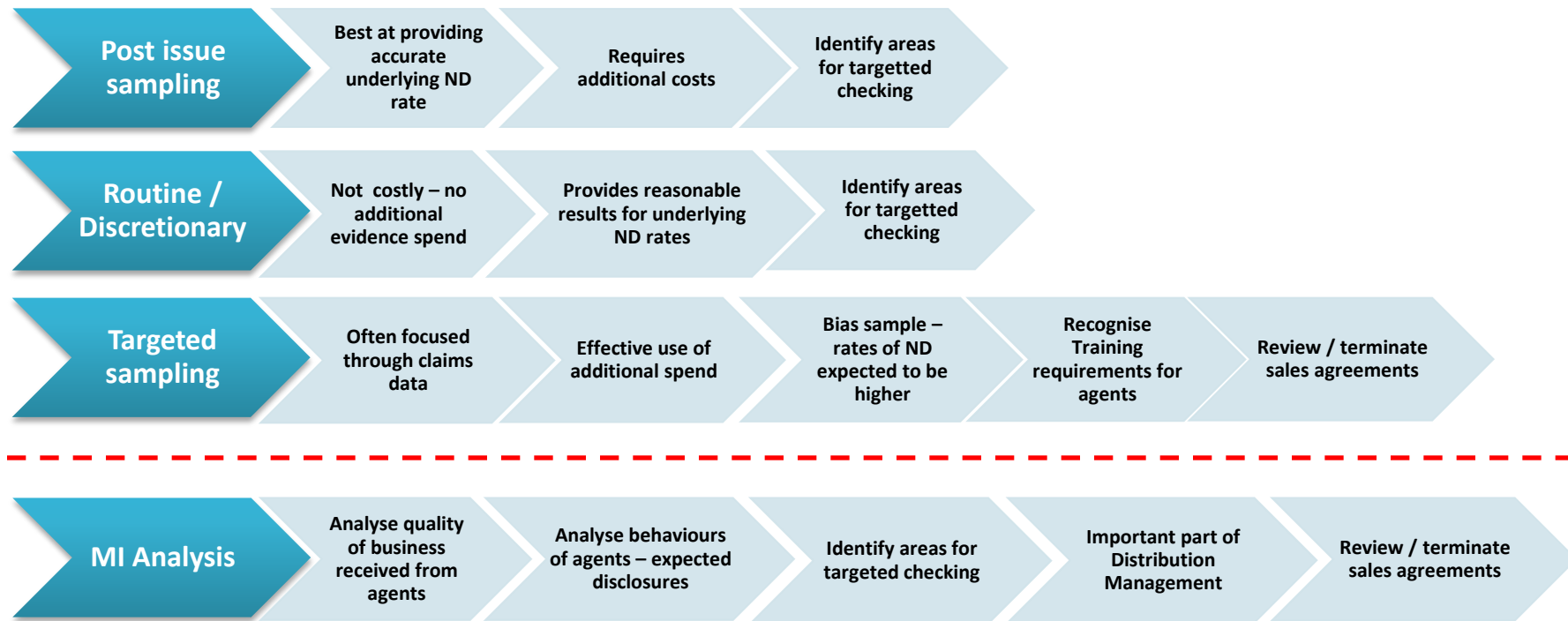
United Kingdom



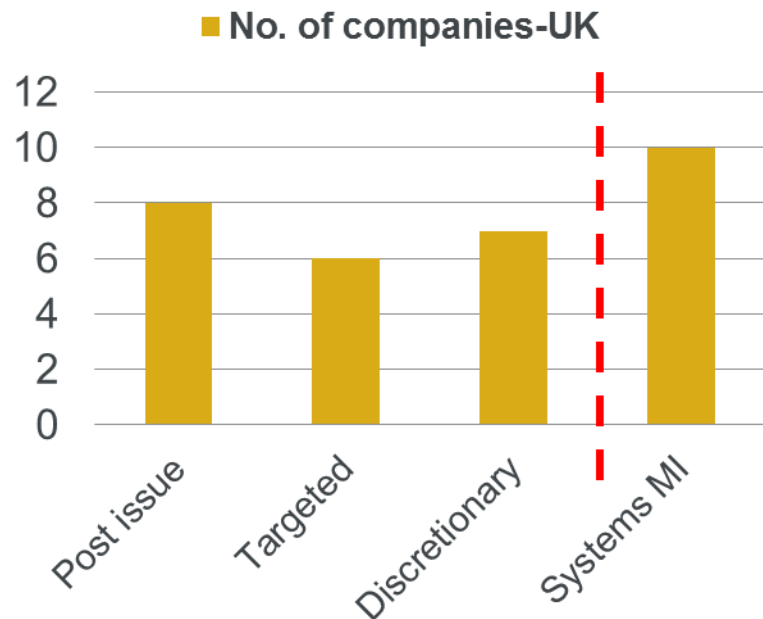
Ireland



Methods of monitoring misrepresentation



Methods used in UK and Ireland



Headline results – how they compare

4.9% from
POST

Innocent 1%
negligent 12.2%
Deliberate 0.7%
Total = 13.9%

4.1%

Random 0%

10.8%

Significant 2.5%

4%

Life/CI
11.8%

Innocent 7%
Negligent 9.4%
Deliberate 2.8%

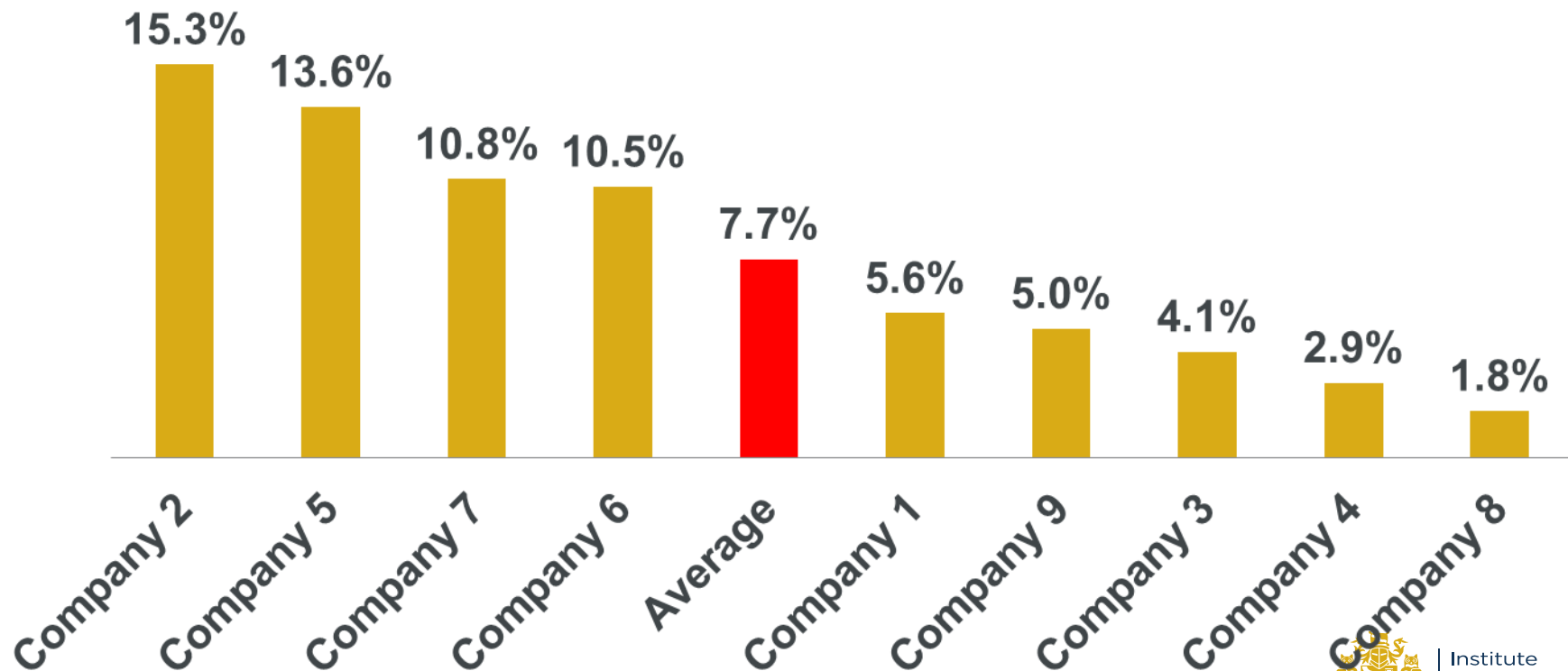


UK - Comparison of results

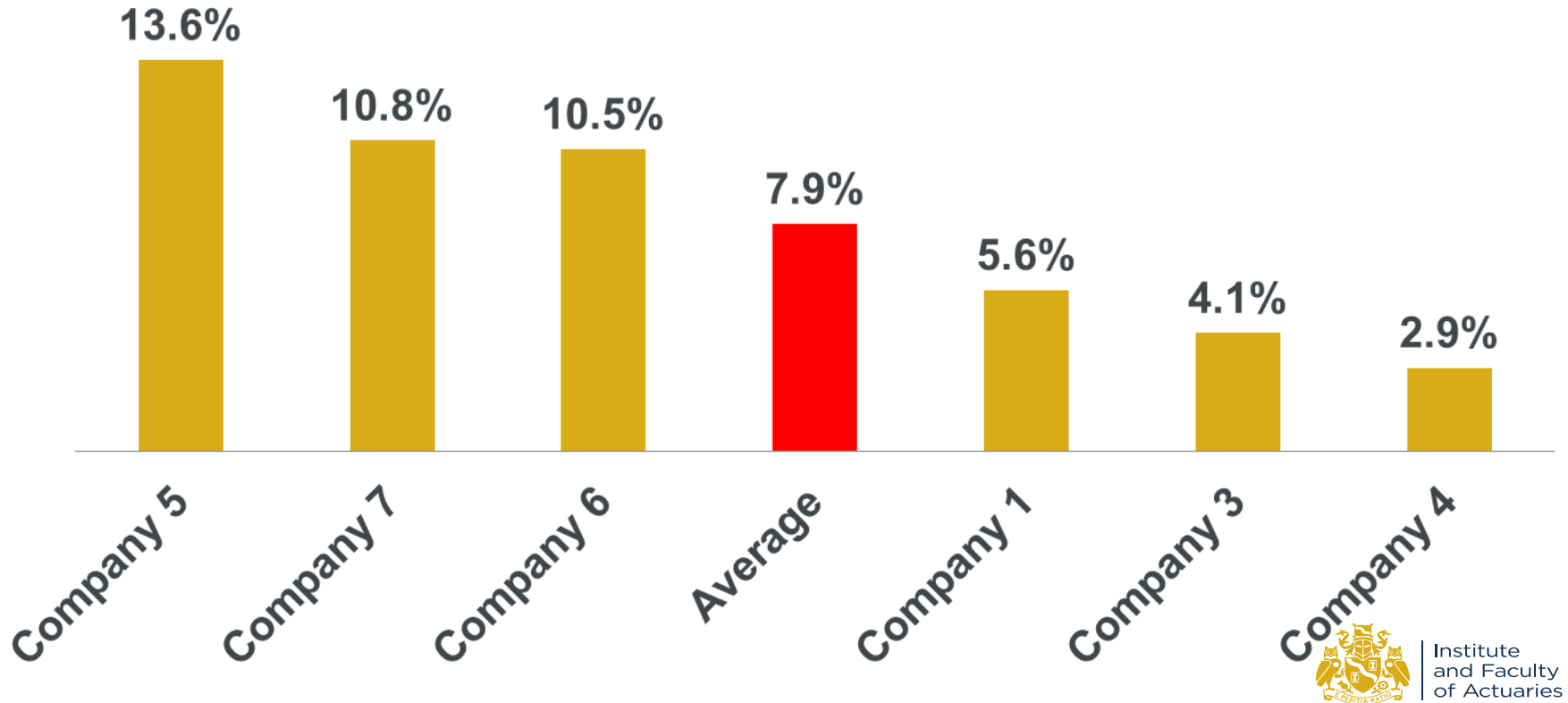
Company	Rate	Credibility	Tolerance	Type	SCOR adjusted rate	Comments
1	4.9%	Yes	+25	POST	5.6%	Adjusted for waiving +25s
2	12.2%	No (study not fully completed)	0	Dis	15.2%	Adjusted for discretionary monitoring
3	4.1%	Yes	+50	POST	4.1%	2.7% of these within tolerance
4	2.5%	Yes	+25	POST	2.9%	Adjusted for waiving +25s
5	11.8%	Yes	+25	POST	13.6%	Adjusted for waiving +25s
6	13.9%	Yes	0	Target	10.5%	Adjusted down as targeted will be higher than random
7	10.8%	Yes	0	POST	10.8%	No adjustment required
8	0% 1.4%	No No	0 0	POST Dis	0% 1.8%	Small sample
9	4%	Unknown	0	Dis	5%	Adjusted for discretionary monitoring



UK - Range of adjusted misrepresentation rates – all companies - all methods



UK - Range of adjusted misrepresentation rates – credible post issue sampling results



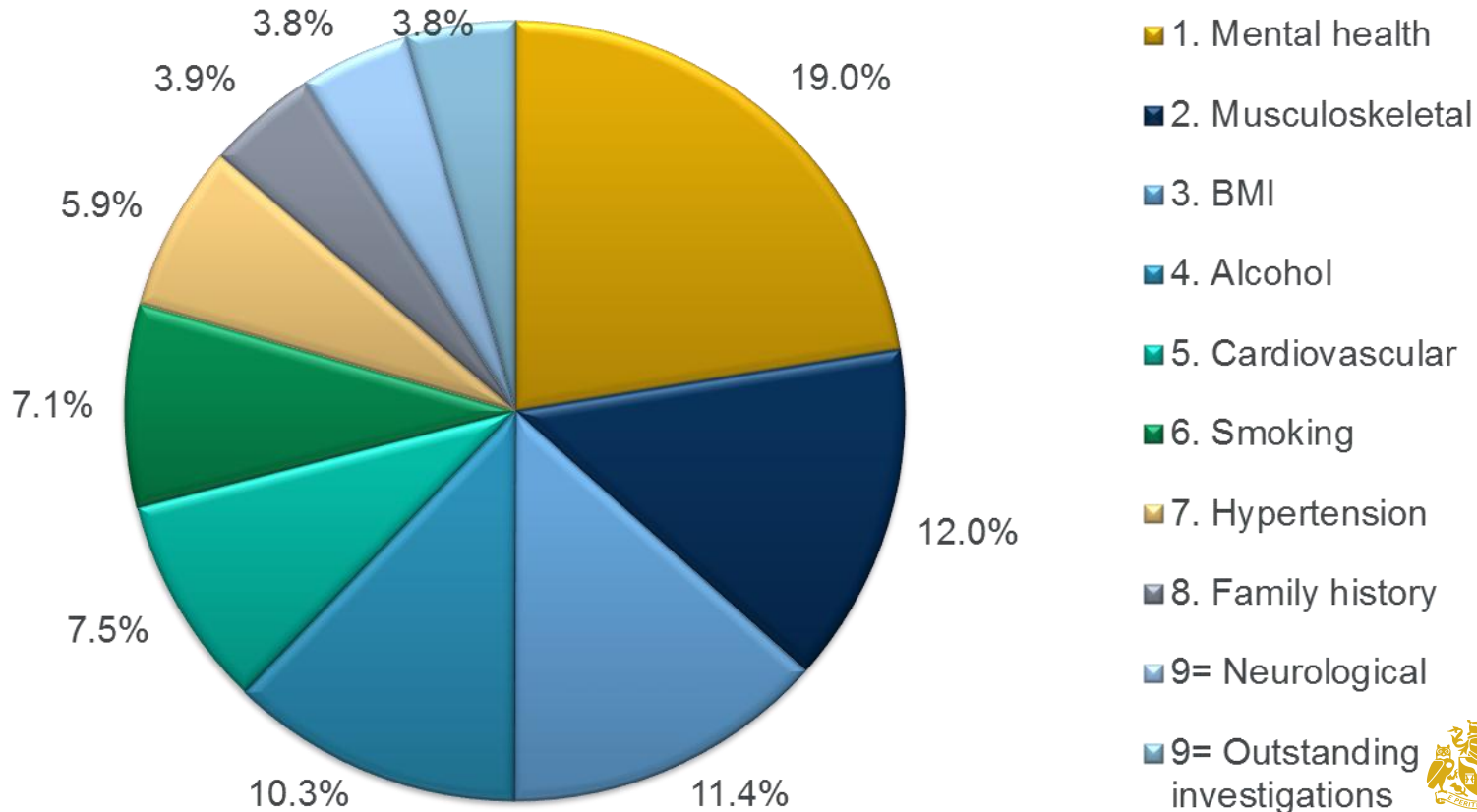
Ireland - Comparison of results

Company	Rate	Credibility	Tolerance	Type	SCOR adjusted rate	Comments
1	5.4%	No	+25	POST	6.2%	Adjusted for waiving +25s
2	8.9%	Yes	+25	POST	10.2%	Adjusted for waiving +25s
3	19%	Yes	+25	POST	19%	Average over a number of years , so not adjusted
4	2.7%	No	+25	Dis	3.9%	Adjusted for waiving +25s & Discretionary
5	2%	No	+25	POST	2.3%	Adjusted for waiving +25s

- Only 2 credible results



Misrepresentation - Top 10 Medical conditions UK



Post issue sampling

Do you conduct Post issue sampling?	Responses
Yes	8
No	3
What percentage of cases are checked?	
Up to and including 2%	3
Between 2% and 8%	1
Between 8% and 10%	1
Minimum number of cases	2 (250pa / 600pa)
How often is this conducted?	
Monthly	6
Quarterly / Half yearly	0
Annually	1

- SCOR consider this to be the best practice method for determining the underlying misrepresentation rate
- At least to begin with - a sample of 500 cases per annum will provide credible results



Targeted sampling

Do you conduct targeted sampling?	Responses
Yes	6
No	5
What percentage of cases are checked?	
Up to and including 2%	3
Between 2% and 8%	0
Between 8% and 10%	1
Minimum number of cases	1 (min 20 per agent)
How often is this conducted?	
Monthly	3
Quarterly / Half yearly / Annually	0
Ad-hoc	2

- Efficient way of monitoring specific areas (or distributors) where misrepresentation is suspected



Discretionary sampling

Do you record misrepresentation on evidence received during the underwriting process?	Responses
Yes	7
No	4
What is the process for recording this?	
System – e.g. underwriter has to tick a box to state if misrepresentation or not	4
Manual – e.g. underwriter has to manually add case to spreadsheet etc.	3
What evidence is included in the sample?	
Obtained purely as a result of the disclosures made by the applicant (not for SA)	0
Obtained purely due to the sum assured (no disclosures on app)	0
Obtained due to disclosures and the sum assured (level of SA and disclosures)	7

- This can be used to feed into targeted sampling and to focus on areas for improvement in regard to the application questions and warnings
- The rates will usually be lower than random sampling - client already disclosed information to prompt the need for medical evidence - or they will be aware that medical evidence will be obtained in view of the sum assured requested



Management Information Analysis

Do you review MI available to benchmark intermediaries?	Responses
Yes	10
No	1
What key metrics are taken into account?	
Smoker / non-smoker	7
Cases just below the non-medical limits	2
Cases just below the BMI limits	2
Cases where no disclosure have been made	5
Number of answered changed during the on-line submission process	1
Cases where amendments are made once the application form is returned to the applicant for checking	3
Standard rate cases	8
Number of disclosures	5
Percentage of rated cases	5
Above average disclosures for any question (e.g. more diabetics etc)	1
Other	4

- Increasingly systems generated data reviewing the quality of the business that is being written by intermediaries and for the purpose of ***“Distribution management”***. The findings feed into the targeted sampling



Classification of misrepresentation

Do you classify misrepresentations as a measure of the underwriting terms that should have been imposed?	Responses
Yes No	8 3
Is there a level at which you disregard misrepresentations and allow the policy to continue on the original UW terms?	
Yes +25% Yes +50% No	3 1 (under review) 4
Do you impose a severity criteria to differentiate the degree of the misrepresentation, e.g. minor, major, severe?	
Yes No	3 5

- The difference in the underwriting terms should be recorded and form part of the misrepresentation analysis
- Although there may be an agreed level at which a company decides not to take any action with the client, these rates should still be recorded and monitored



Monitoring gender and sum assured

Do you analyse misrepresentation rates by gender?	Responses
Yes	8
No	3
Do you analyse misrepresentation rates by age and gender?	
Yes	5
No	6
Do you analyse misrepresentation rates by sum assured?	
Yes	4
No	7

- Results by age and sum assured can be useful to justify changes to routine medical evidence requirements



Reporting of Misrepresentation

Do you report separate misrepresentation results for each method of misrepresentation monitoring? e.g. random post issue sampling, medical evidence received during the underwriting process, etc.	Responses
Yes No Unknown	4 4 3
Please advise where the misrepresentation information gets reported to?	
Senior management, including pricing, product design, claims Reassurers Sales teams Intermediaries	11 8 7 2

- Good communication of findings
- Sales team and intermediaries could be made more aware
- Training may be required and also sales are more likely to pay more attention to disclosure if they know they are being monitored



Misrepresentation - key metrics analysed

Further analysis – once the misrepresentation rate has been determined?	Responses
Yes	10
No	1
Please advise which key metrics you analysis?	
Age	8
Sex	7
Sum assured bands	5
Product type	7
Benefit(s)	5
Submission channel (paper, electronic, tele-interview)	4
Distribution channel / intermediary	7
Classification of misrepresentation (by underwriting impact or applicant's behaviour)	6
Medical or Lifestyle	6
Medical condition	9
Was there a question on the application form that should have been answered yes	7
Question number which should have been answered	4
Signature versus signature free processes	3
	3

Misrepresentation – trends analysis

Are the high level results compared with previous years / studies?	Responses
Yes	8
No	2
Are the key metric areas compared with previous years / studies?	
Yes	8
No	2
Are the results analysed for any trends?	
Yes	8
No	2

- Ideally results are compared against previous years to recognise improvements and trends
- Most companies appear to be looking at trends



Misrepresentation - Actions taken

Please advise if the findings are used to improve the following?	Responses
Application form questions	11
Application form warnings regarding answering questions honestly and reasonably	8
Submission processes	0
Signature free processes	1
Tele-interviewing questions	4
Non-medical limits	6
Other	1

- With regards to underwriting practices, findings are most often used to improve application forms
- Only a little over half of companies use the information to justify changes to non-medical limits



How to improve disclosure

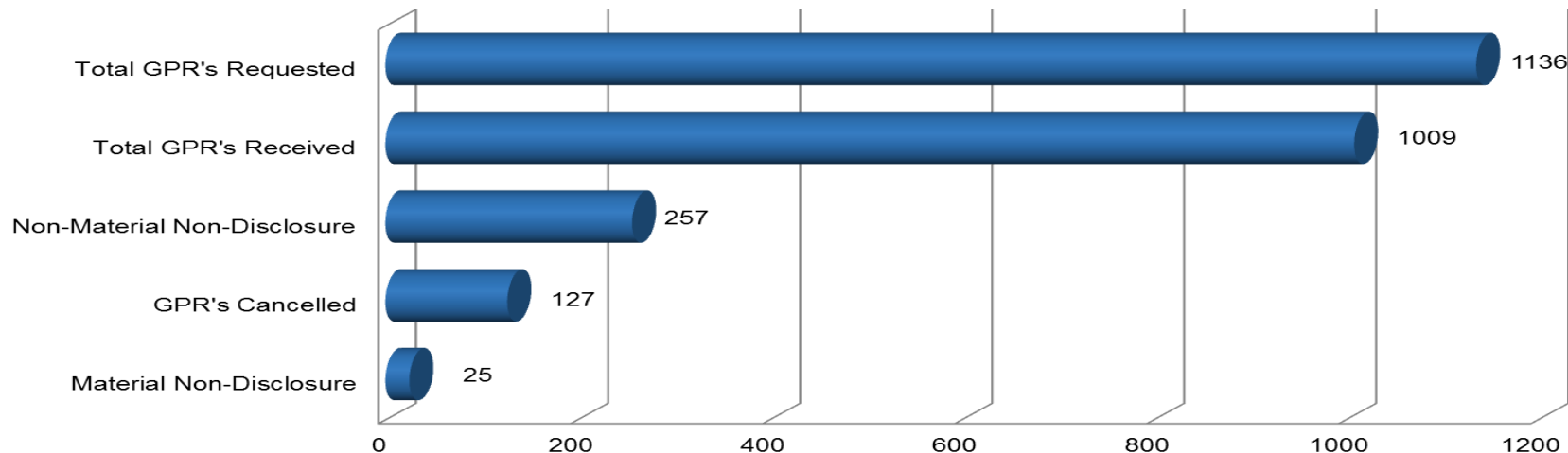
- Use all methods available to monitor misrepresentation
 - Different methods help to understand the rates and can focus attention on the areas where it matters the most
- Analyse data to determine the causes of misrepresentation
 - Any necessary changes required to application form questions / warnings
 - Improvements to processes - Reflective questions, treatment of cases once misrepresentation has been discovered
 - Discuss with intermediaries – identify training needs, monitor trends, provide appropriate assistance
- Should be combined with other work connected to “Distribution Management”



Companies with lowest levels

Company A	Company B
IFA company	Tied sales force
Post issue sampling over a number of years using credible volumes	Post issue sampling over a number of years using credible volumes
Strong message to salesforce that post-issue sampling is part of their practices	Short application form – supplemented by point of sale underwriter assistance enabling fast decisions – no delays – manages customer expectations
Hard-line approach for any business where AMRA is not obtained = policy cancelled after reasonable time period	Excellent regular data analysis feeding into process changes – particularly application form and telephone scripts
Also perform systems generated targeted monitoring as part of their “Distribution Management” processes	Results used for salesforce management

Good practice – real example



Total CI Cover (1009 customers) - £112,880,777

CI Cover with Non-Material Non-Disclosure - £28,299,843

CI Cover with Material Non-Disclosure - £2,618,130

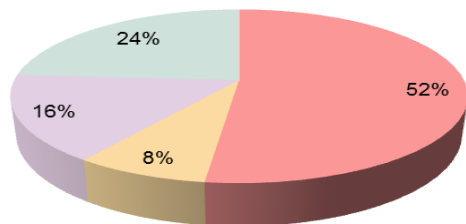
Cancelled GPR's are mainly due to customers no longer being registered at the disclosed surgery

Estimated cost of £95,148.70 for reports received – Actual cost £93,904.82 (98.7% of estimated)



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Outcome of cases showing material non-disclosure



■ Terms Withdrawn
■ Terms Amended (In force)
■ Terms Amended (Cancelled by Customer)
■ Application Cancelled by Customer

CI Sums Assured Affected by Material Non-Disclosure

Withdrawn by ABC Life	Withdrawn by Customer	In force on Amended Terms
£1,505,180	£1,063,550	£49,400

Material Non-Disclosure identified on 25 reports.

Customer Uninsurable

Terms were withdrawn completely and the application cancelled by ABC Life on 13 cases with a total CI cover amount of £1,505,180

Customer Insurable, but on Amended Terms

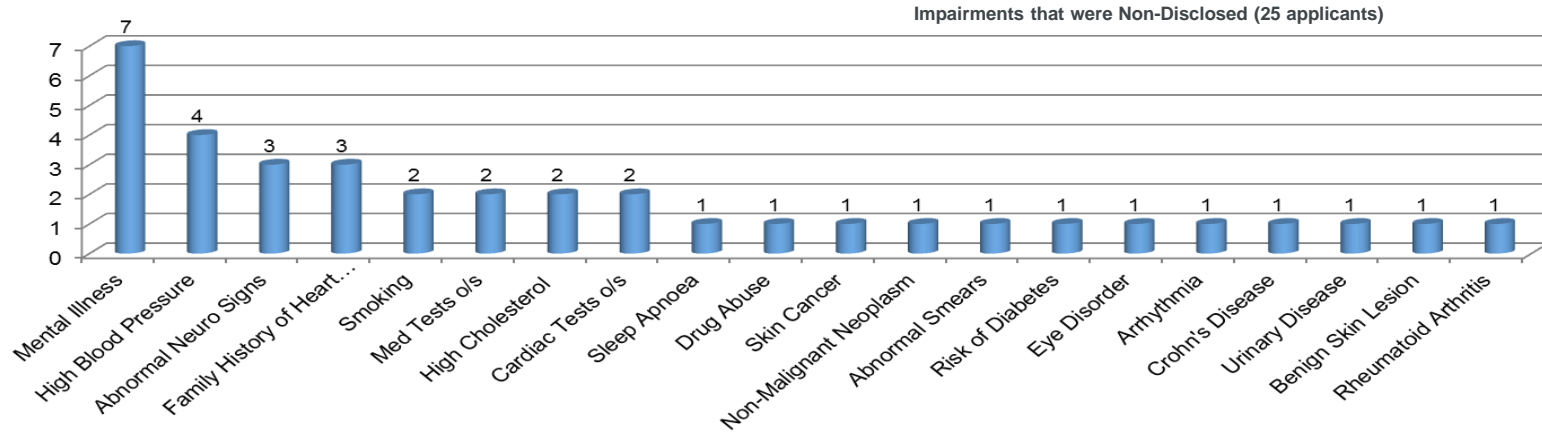
Terms were amended and revised quotes issued on 6 cases with a total CI cover amount of £550,900. 4 of these cases have since been cancelled by the customers. 2 are currently in force with a CI cover amount of £49,400

A further 6 cases were cancelled by the customer prior to any amendments taking place.

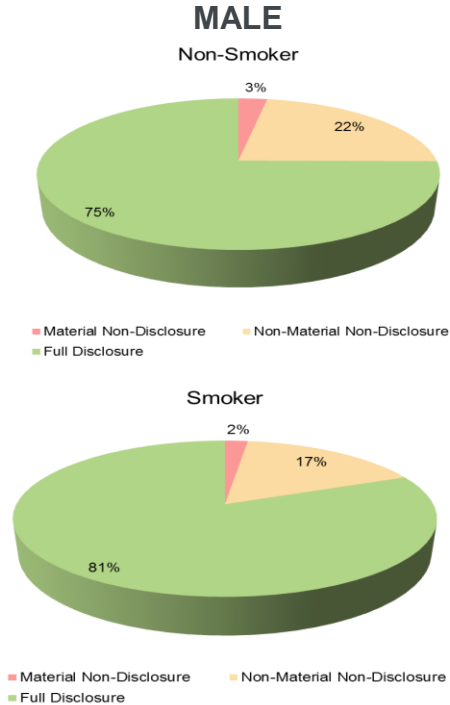


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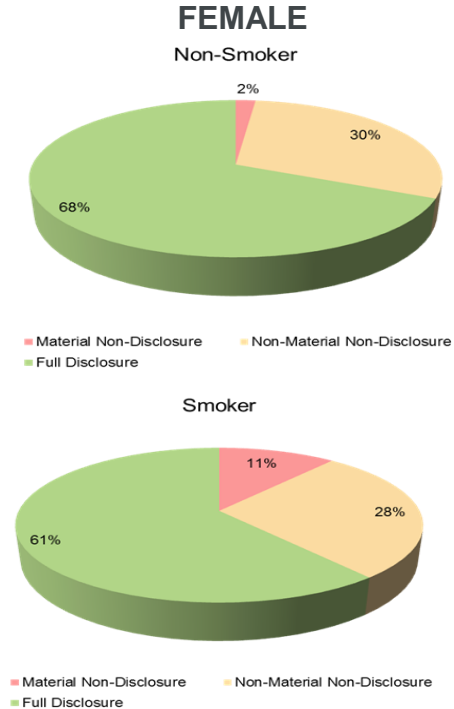
Material Non-Disclosure



Gender & Smoker Status



Total cases received for male applicants – 557,
509 (91.4%) were non-smokers, 48 (8.6%) were smokers
Percentages calculated are based on low volumes for smokers

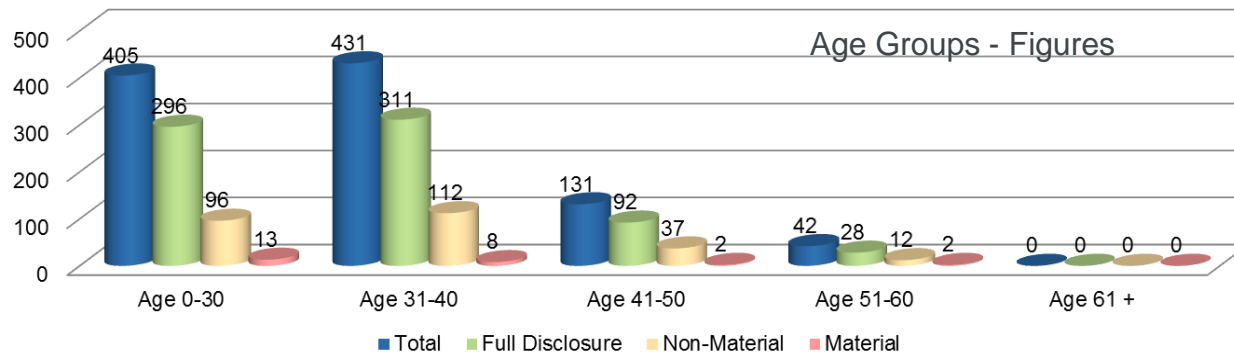


Total cases received for female applicants – 452,
434 (96%) were non-smokers, 18 (4%) were smokers
Percentages calculated are based on low volumes for smokers

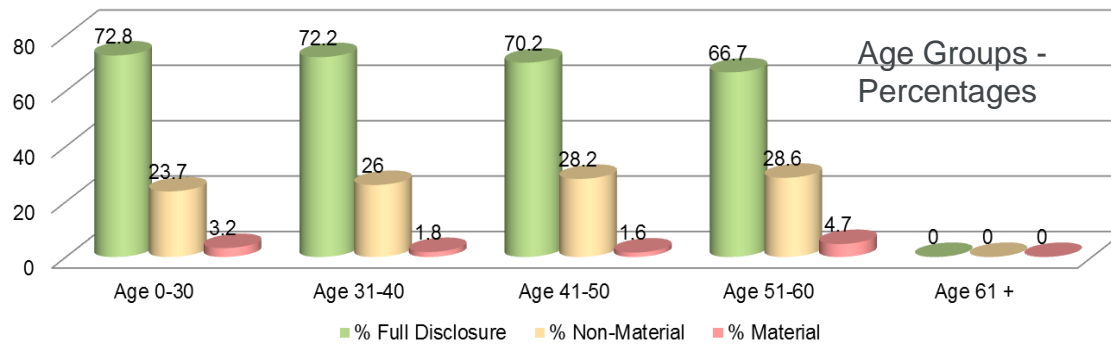


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Age Groups



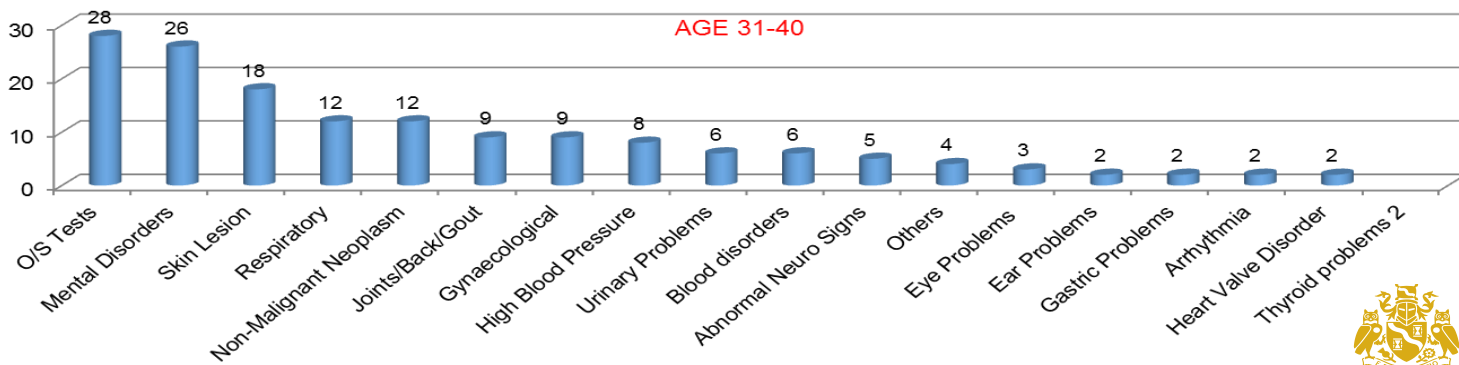
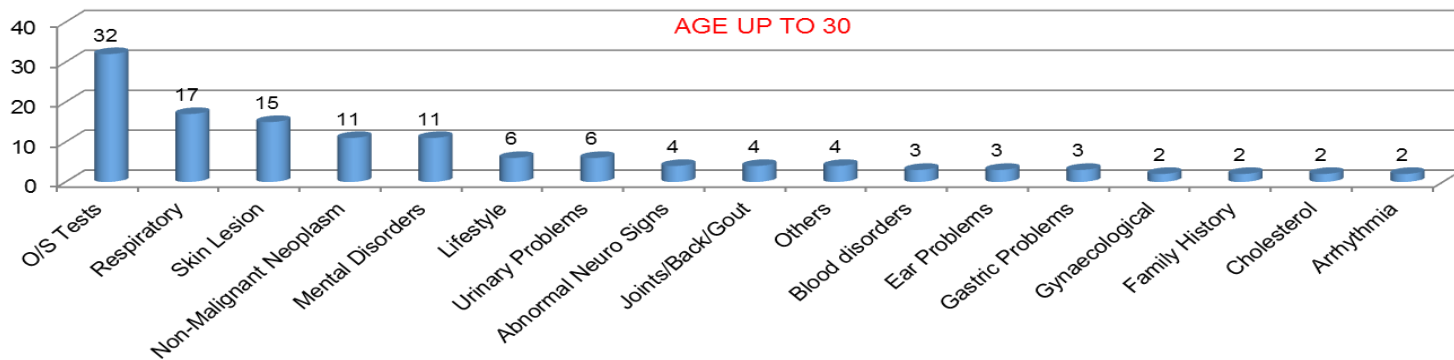
The upper chart shows the number of GPR's received in each age range, with the actual number of customers who fully disclosed, made non-material non-disclosure & made material non-disclosure.



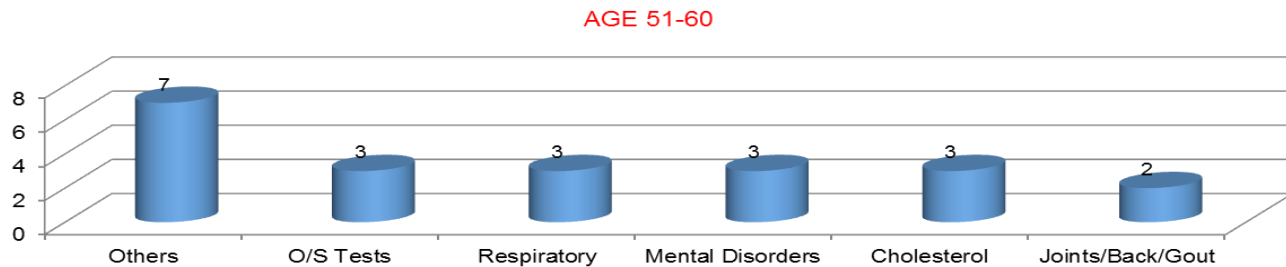
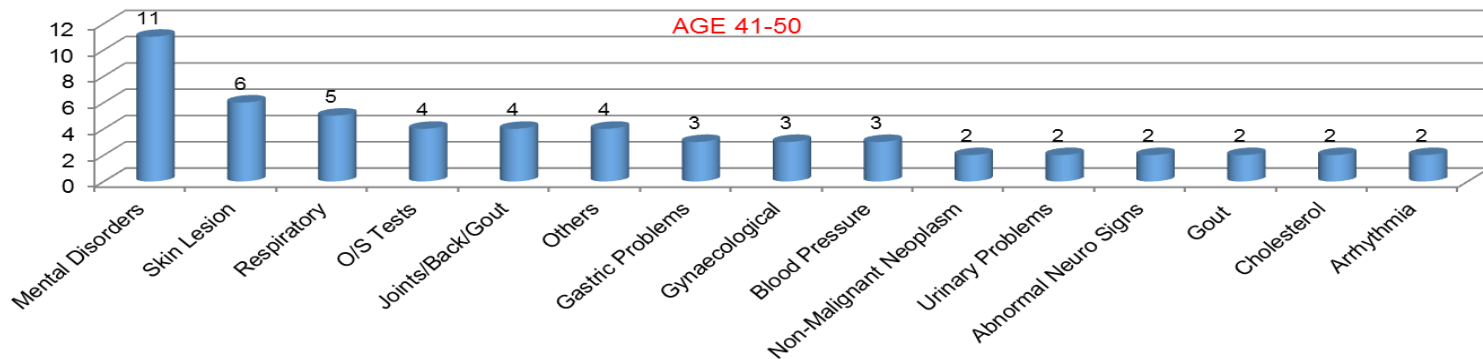
The lower chart shows the percentage of customers in each age range who fully disclosed, made non-material non-disclosure & made material non-disclosure.



Non-disclosed conditions by age group

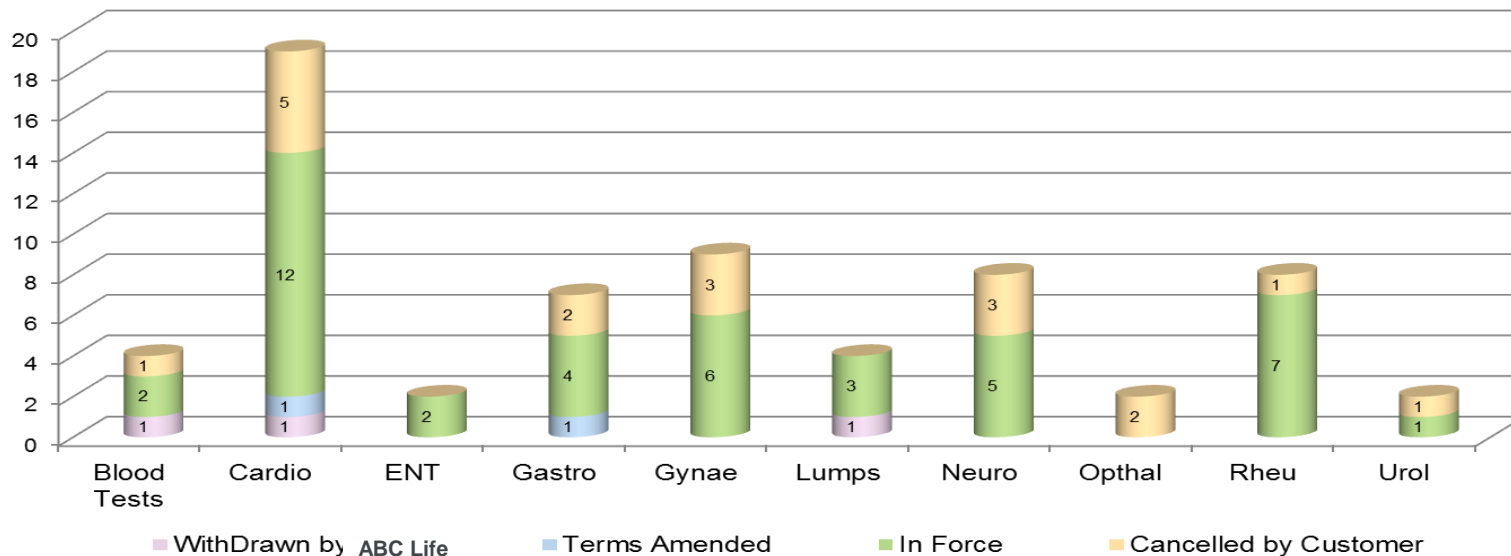


Non-disclosed conditions by age group



Outstanding medical investigations

(All Non-Disclosure)



Although a significant number of cases were identified where the customer had non-disclosed outstanding medical tests at the time of the application, the majority of these were completed in a short space of time and the applications are in force. 4.6% (3 cases) had terms withdrawn by ABC Life with a total CI sum assured of £279,680 and 3.07% (2 cases) had amended terms issued, CI sum assured £49,400



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Current Application form Question

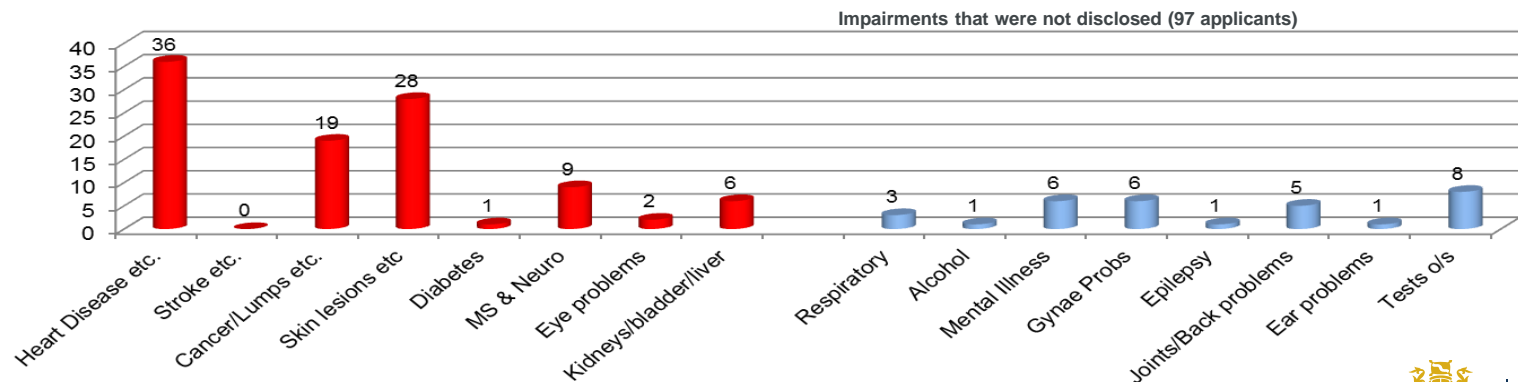
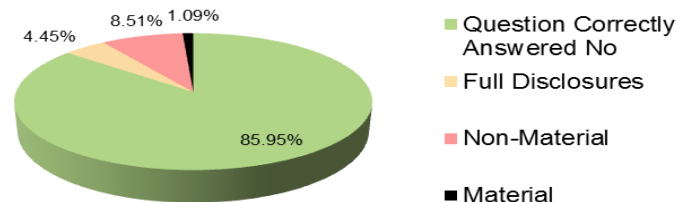
“Have you ever etc....”

140 should have answered YES

97 non-disclosed (11 material)

CI Sum assured - Non-Material Non-Disclosure £9,019,489

CI Sum Assured – Material Non-Disclosure £1,330,475



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Current Application form Question

Treatment in last 5 years

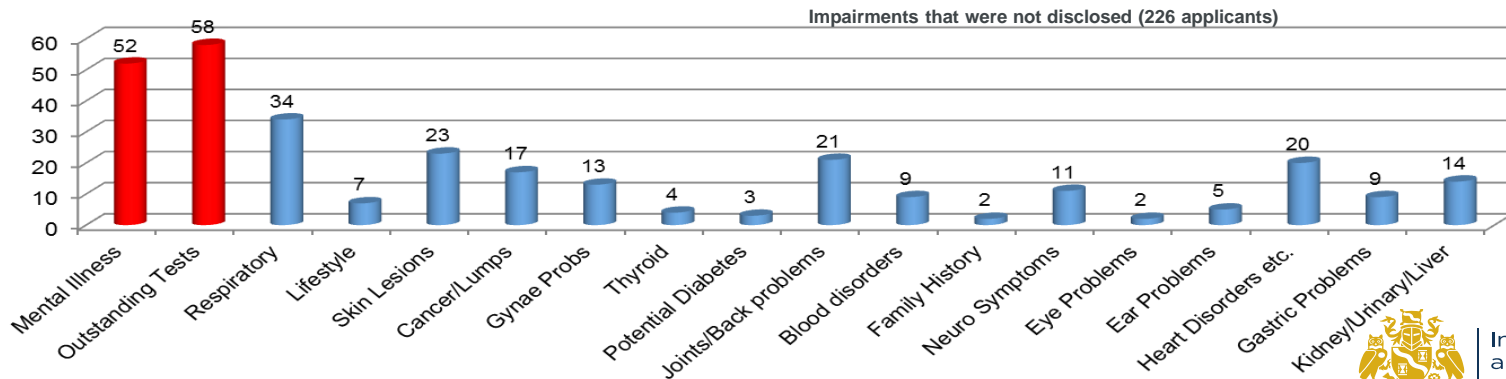
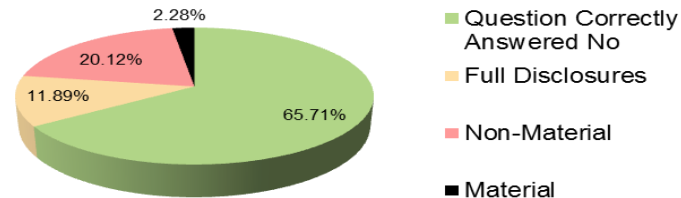
“In the last 5 years etc.”

346 should have answered YES

226 non-disclosed (23 material)

CI sum assured – Non-material Non-disclosure £23,446,640

CI sum assured – Material Non-Disclosure £2,423,630



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Current Application Form Question

Family History

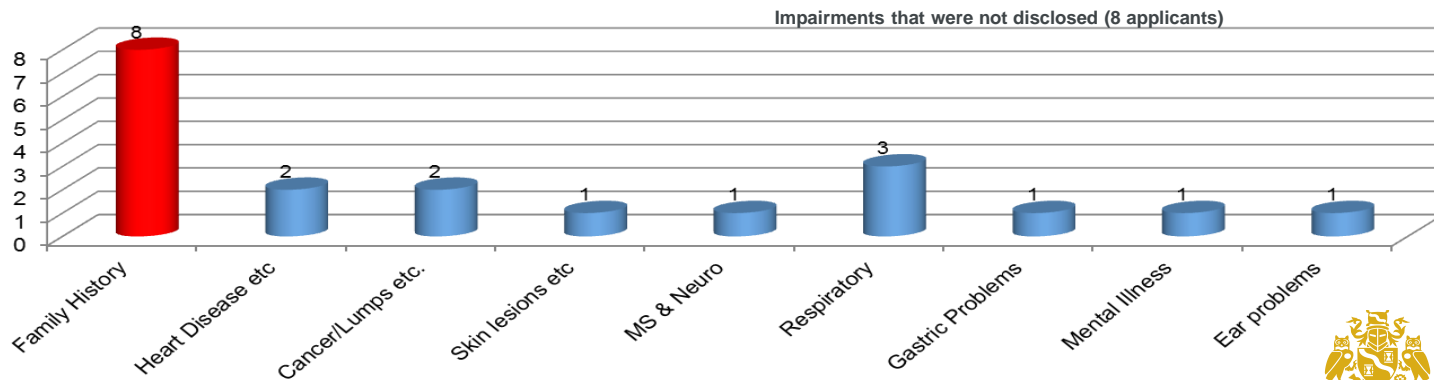
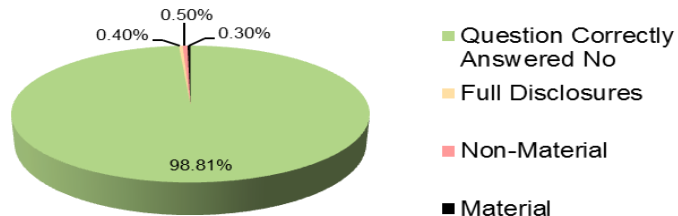
“Have any of your parents, brothers or sisters etc.”

12 should have answered YES

8 Non-disclosed (3 Material)

CI sum assured – Non-material Non-disclosure £625,000

CI sum assured – Material Non-Disclosure £277,450



Conclusions

- Misrepresentation rates - UK = 7.9%, Ireland ? 10%+
 - Wide variation of results between companies
- Companies are performing more monitoring of all kinds
 - Most are performing post-issue sampling – ? not always enough to make results credible
- Understanding “Misrepresentation” is increasingly being used as an important element of “Distribution Management” through systems generated data
- Some very good examples of analysis – some only measuring specific areas – lots of focus already on application form design – other areas now need attention
- Disappointing use in the justification of non-medical limits
- The results are widely circulated to senior management - some reluctance to share results or even make it known to intermediaries of monitoring
- Most companies show room for improvement
- Misrepresentation is costing the industry money!



Quotes from survey discussions

IFA quote = “To date I have had 21 clients that have suffered CI – all of them have been paid and I want it to continue”

“Investing time and money in reducing misrepresentation /non-disclosure will save money in the long run and improve public perception of the industry with more confidence in claims being paid”



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

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



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