Underwriting Health Insurance

The Key to Sustainability and Profitability

Ross A. Morton, FLMI
Trevor Hugh B. Stewart, DBA
Two Perspectives

- The Life Insurance Perspective
- The Health Insurance Perspective
Underwriting: Life vs. Health

- **Life Insurance**
  - Underwritten once
  - Medical underwriting
  - One claim per lifetime
  - Long term
  - Industry statistics

- **Health Insurance**
  - Underwritten annually
  - Non-medical underwriting
  - Multiple claims per lifetime
  - Short term
  - Carrier experience
History of Life Underwriting

- Conservative book approach based on looking backwards
- Liberal as reinsurers aplenty fought for market share via aggressive risk selection
- Book underwriting burdened by time constraints and over reliance on medical training
Burdens to Tolerate

- Privacy rules both legislated and company specific
- Fact based underwriting
- New realities --- suicide, lapsation, advisor
- The “Google” search
Legislation/Regulation Lessons

- Previous “battles”
  - HIV question and testing
  - Spousal abuse
  - special interest groups
  - removing gender price (US then & EU now)

- Ongoing
  - Genetics

- Risk selection is discrimination=> best economic interest of policy holders=> each policy holder pays equitable amount
Fact Based, Predictive Modelling, “Scores”, and Mores

- Rates are thin --- too thin for “gimmies”
- Speed to make decision, the final decision counts, pressure is intense
- Triage underwriting --- saviour or enemy? DAC!
- 4’10” 108 lbs BMI 22.6 age 14 active in hockey and soccer = DECLINE
- Highly paid versus “the newbies”
Can We Defend The Future?

- “A comprehensive multivariate approach to the stratification of applicant-level all-cause mortality risk”
  - output is “hazard score”
  - examples use 29 measurements (lab, para)!
  - “In underwriting the life insurance applicant, the underwriter and the underwriting managers have a fiduciary responsibility to utilize the best available tools to assess risk.”
  - “... could ultimately extend preferred level rates to as many as 75% of applicants.”

- On The Risk Magazine volume 27 n.1 (201
Can We Defend As Reasonable?

Male age 70, non-smoker, $350,000 AF
BP 128/72, 5’6” 210 (BMI 34)

<table>
<thead>
<tr>
<th>Test</th>
<th>Result</th>
<th>Normal Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>AST</td>
<td>42</td>
<td>1-41</td>
</tr>
<tr>
<td>GGT</td>
<td>50</td>
<td>1-65</td>
</tr>
<tr>
<td>CHOL/HDL</td>
<td>5.0</td>
<td>1.5-5</td>
</tr>
<tr>
<td>HbA1c</td>
<td>5.9</td>
<td>&lt;6%</td>
</tr>
<tr>
<td>All other tests</td>
<td>Normal</td>
<td></td>
</tr>
</tbody>
</table>
And the black box says ... so yes, but the flip side no!

- This gentleman “has an overall risk in the best 20% because, for age and gender, his test values, and even his BMI of 34, are not associated with excess risk, and he has a favourable systolic BP”
Annual Meeting of Successful $100,000 Term Salespeople
Replaced By ...

- Simplified issue
- Guaranteed issue
- Alternative distribution (banks!)
- “Approved for issue” broader and thus consumer friendly (forgetting price! and claims!)
- Or be prepared for just cursory underwriting and more declines (why bother?)
Sustain Traditional
“size matters”

- Pick a number like $500,000
  - premium with expense money
  - time balanced against expense
  - automation frees up “best” underwriters
  - coordinated use of numerical rating system, predictive modelling, data sources
  - all facilitates defence of underwriting except threat of triage
To Sustain Underwriting

A

- Actions defendable
- Alternative products
- “Influence” legislation and regulation!
- Explain underwriting at every chance to

B

Or
Life Underwriting is Sustainable but it will take some effort and attention to the fickle environment!

- Thank You
Life Insurance
- Underwritten once
- Medical underwriting
- One claim per lifetime
- Long term
- Industry statistics

Health Insurance
- Underwritten annually
- Non-medical underwriting
- Multiple claims per lifetime
- Short term
- Carrier experience
Underwriting Health Insurance

For health insurance, traditional individual underwriting is only one of the integrated tasks within the underwriting, risk management, or portfolio management function for sustainability and profitability.
Underwriting Health Insurance

- Six major components of a sustainable and profitable health insurance portfolio:
  - New business underwriting
  - Renewal underwriting
  - Competent employees
  - Proactive reinsurer
  - Balanced plan design
  - Advanced technology utilization
Underwriting Health Insurance

Tasks of portfolio management

- **New business underwriting:**
  - **Individual medical underwriting**
    - New entrants
    - Small groups
    - Use technology-based underwriting resource, such as Milliman Underwriting Guidelines (MUGs)
Underwriting Health Insurance

- Tasks of portfolio management
  - **Renewal underwriting:**
    - Establish target ratios (e.g. claim loss ratio – 70%, admin – 15%, contingency – 10%, return – 5%)
    - Include realistic IBNR projections
    - Monitor results constantly
    - Review and weight past three years of claims 90 days ahead of plan anniversaries
Underwriting Health Insurance

Tasks of portfolio management

- Select, hire, train, and empower competent employees to:
  - Underwrite
  - Settle claims
  - Provide superior customer service
  - Administer the portfolio
Underwriting Health Insurance

Tasks of portfolio management

- Select a **proactive reinsurer** for
  - Reinsurance capacity
  - Underwriting support
  - Claims administration support
  - Plan design support
  - Technical and administrative training
  - Value-added services
Underwriting Health Insurance

Tasks of portfolio management

- Develop **balanced plan designs** to include:

  - **Wellness initiatives**
    - Annual physicals
    - Wellness program participation

  - **Cost-containment measures**
    - Deductibles
    - Co-insurance participation levels
    - In network incentives

  - **Managed care features**
    - Provider network affiliation
    - Utilization management
    - Case management
Underwriting Health Insurance

Tasks of portfolio management

- **Utilize advanced technology** to reduce cost and enhance operational efficiencies by:
  - Reducing the cost of paper submission and storage
  - Improving the efficiency and effectiveness of staff
  - Allowing clients to self-serve (as in Internet banking)
  - Accepting and settling claims within days instead of weeks or months
  - Facilitating accurate management control through on-demand reports
Components of a sustainable and profitable health insurance portfolio:

- New business underwriting
- Renewal underwriting
- Competent employees
- Proactive reinsurer
- Balanced plan design
- Advanced technology utilization
Underwriting Health Insurance

The Key to Sustainability and Profitability

THANK YOU
Time For Easy Questions

Trevor Hugh B. Stewart, DBA
Ross A. Morton, FLMI

THANK YOU
Text