

Does Underwriting Make a Difference? – An Actuarial view

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Is Roy Chappell an Actuary?

No!

But I do know that.....

- ▶ π (pronounced pie) is one of the most important mathematical constants, approximately equal to 3.141592654. It represents the ratio of any circle's circumference to its diameter in Euclidean geometry.

So does underwriting make a difference



It depends!

Let's break it down.....

What is the current process and is it working?

Does “strict” underwriting make us more profit?

Is there a better way?

- ▶ E.g. the US model?
- ▶ Something Else?
- ▶ No underwriters?

Is underwriting an ivory tower or part of the team?

What is the current process and is it working?

In our current process underwriters assess:

- ▶ Medical info, Lifestyle info, Financial info

With key objectives of:

- ▶ Removing the uninsurable
- ▶ Charging the “correct” premium to non standard risks

Is it working?

- ▶ Remove uninsurable - In general yes
- ▶ Charge “correct premium” - Significant variation across market!

Do your extras wash their face?

Typical portfolio (excluding declines) - pricing view

▶ 65% standard rates	65 * 100
▶ 35% rated	
● 15% at +25	15 * 125
● 20% at bigger loading, say an average of say +75	20 * 175
▶ Total premium take	11,875

Do your extras wash their face?

You guys agree to waive the +25s!

Typical portfolio (excluding declines) – after +25 given away view

- ▶ 80% standard rates 80 * 100
- ▶ 20% rated
 - 20% at bigger loading, say an average of say +75 20 * 175
- ▶ Total premium take 11,500

You give away $15 * 25 = 375 = 3\%$ premium = approx 25% profit!

Does strict underwriting make us more profit?

It depends!

If the result of strict underwriting is fed through to the price then:

- ▶ No per policy benefit; but
- ▶ Potentially an increased volume is achieved through lower price; but
- ▶ How many sales are lost because of the “stricter process”

Do you provide the MI and does your company use it to work out the optimal position?

Is there a better way? E.g. the US model?

US model = underwrite every customer to death!!

Not better just different!

- ▶ An even more difficult job to balance process risk vs accurate pricing
- ▶ Same issue as “no +25” = pressure to put in more preferred group

UK brokers would be reluctant to change to US model : but

- ▶ If a major player went down this route might it force the market to change?
- ▶ Would it be sensible or would it reduce the cake?

Is there a better way?

Something else!

- ▶ Biggest pricing considerations for the actuary is socio-demographic profile of end customers
 - Distribution type and / or sum assured banding used as proxies
- ▶ But underwriting process could investigate socio-demographic class and apply the correct rate at an individual life level => opportunity for innovation

No underwriters?

- ▶ PECs, Moratorium, group approach - “free cover”
- ▶ Technology making the role of underwriters more important!

Is underwriting an ivory tower or part of the team?

Isn't it reinsurers who sit in Ivory Towers?



Is underwriting an ivory tower or part of the team?

I will leave it up to you to decide!

Pricing

- ▶ Are you providing data and Mi to your actuaries?
- ▶ Or are you expecting your actuaries to guess what you are doing?

Product & Process

- ▶ Are you proposing alternative methods of underwriting?
- ▶ Have you thought what would work / what wouldn't?
- ▶ Are you an active part of the control cycle in your company?

Summary - Do underwriters make a difference?

Yes but there is so much more value you good bring!

- ▶ You are the active link between the actuaries and the distributors
- ▶ You should be influencing the process and the pricing, not react to it
- ▶ Information available to consumers means
 - underwriting is increasingly important to match price to risk
 - successful companies will be those who can do this best.