ACCELERATED UNDERWRITING AND EVALUATING THE RISKS
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PATRICIA MATSON, FSA, MAAA
UNDERWRITING METHODS

Traditional

- Collection of fluids (blood, urine, and saliva)
- Attending Physician Statement (APS)
- Long-form application
- Relatively extensive medical information
**Accelerated Underwriting (AUW)**

- Reduction in the requirements of traditional underwriting if certain minimum demographic or health-related requirements are met by the applicant.
- Alternative approaches and data used to segregate applicants by risk, and those with anticipated lower risk can be underwritten with a lesser amount of medical information.
- Price may be higher than under the traditional approach, but many programs are designed to enable similar pricing using alternative approaches and data.
Underwriting Methods

Simplified Issue (SI)

- Limited approach to underwriting
- Information only, without the collection of fluids
- Assumption is that mortality will, therefore, be higher, and the price reflects that mortality
AUW DATA ELEMENTS NOW

Source: Society of Actuaries Delphi Study
AUW DATA ELEMENTS IN 10 YEARS

Source: Society of Actuaries Delphi Study
RISK INDICATORS FOR AN AUW PROGRAM

- Uses few data sources, and does not consider electronic health records
- Failure to consider “sentinel effect”
- Uses data sources/vendors without internal verification or evaluation and controls
- Insufficient procedures to ensure compliance with HIPAA or FCRA
- Uses paramedical or paper application for medical data
- Relies on 1-2 pieces of information to make the acceleration pathway decision
- Has a short application (no drill downs, limited databases)
- Does not use random holdouts or post-issue checking
- Very significant focus on achieving cost savings
- Very high acceptance rate
- Low/no agent training
- Limited feedback loop/not incrementally changing with experience
- Significant difference in U/W class distribution vs traditional U/W
# Sample Inherent Risks

<table>
<thead>
<tr>
<th>Risk Statement</th>
<th>Likelihood</th>
<th>Severity</th>
<th>Inherent Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Company’s pricing assumptions for AUW business are aggressive, resulting in financial loss</td>
<td>M-H</td>
<td>S</td>
<td>H</td>
</tr>
<tr>
<td>The Company does not have sufficient in-house expertise to evaluate the external data used, resulting in U/W errors and financial loss</td>
<td>M-L</td>
<td>S</td>
<td>M</td>
</tr>
<tr>
<td>The Company’s mortality assumptions for AUW business are unreasonable, resulting in understated reserves</td>
<td>M-L</td>
<td>M</td>
<td>M</td>
</tr>
<tr>
<td>The Company’s reinsurance program does not adequately cover AUW business, resulting in capital strain</td>
<td>M-L</td>
<td>I</td>
<td>L</td>
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<tr>
<td>Errors in the AUW algorithms result in poor risk selection and financial loss or litigation</td>
<td>H</td>
<td>M</td>
<td>H</td>
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## SAMPLE TESTING

<table>
<thead>
<tr>
<th>Risk</th>
<th>Sample Substantive Test*</th>
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</thead>
<tbody>
<tr>
<td>The Company’s pricing assumptions for AUW business are aggressive, resulting in financial loss</td>
<td>Review pricing assumptions relative to experience, industry data, and the specifics of the program</td>
</tr>
<tr>
<td>The Company does not have sufficient in-house expertise to evaluate the external data used, resulting in U/W errors and financial loss</td>
<td>Review background/experience of internal and external AUW personnel and, if needed, evaluate the UW analysis and experience to date</td>
</tr>
<tr>
<td>The Company’s mortality assumptions for AUW business are unreasonable, resulting in understated reserves</td>
<td>Review the reserve adequacy analysis mortality sensitivities and potential exposure to higher mortality</td>
</tr>
<tr>
<td>Errors in the AUW algorithms result in poor risk selection and financial loss or litigation</td>
<td>Test the algorithm using backtesting, code review, and/or replication on a sample basis</td>
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</table>

*assuming no ability to rely on external audit*
QUESTIONS AND CONTACT INFORMATION

Questions?

Tricia can be reached at Tricia.Matson@RiskReg.com or at 860-305-0701.