

Special Committee on Race and Insurance

Use of Criminal Convictions in Life Insurance Underwriting

Advancing Economic Empowerment & Racial Equity (EERE)



Expand Access to Financial Security in Underserved Communities

**In the Hands
of Every
American**

Advance Diversity and Inclusion Within Companies



Achieve Economic Empowerment Through Financial Education

Expand Investments in Underserved Communities



Life Insurance

- Life Insurance serves to protect individuals and families from economic uncertainties by exchanging the impact of the uncertainty for a cost.
- Broadly life insurance is different than most other lines of insurance. Specifically, when purchasing life insurance:
 - Individuals and groups choose to purchase these products, including coverage term and the amount of the coverage.
 - Claims often not filed for many years (could be 30+ years)
 - Underwriting occurs once and policyholder cannot be individually reclassified
 - Viability of the marketplace depends on accurate risk classification

LIFE
INDIVIDUAL POLICIES

P&C PERSONAL LINES

Decision to buy	Buyer chooses when and how much to buy	Generally required by law or contractual requirement
Underwriting	Done once at time of application	At renewal (6-12 months)
Rates	Changes in individual's health cannot affect rates	Generally change at renewal; Can reflect individual's claim experience
Coverage	Decades to a lifetime; Cannot be canceled by insurer	6 – 12 months; Can be canceled by insurer

Risk Classification

A fundamental precept of any workable private, voluntary insurance system

Grouping individual risks with reasonably similar expectations of loss for the purpose of setting prices

Necessary to maintain a financially sound and equitable system

Enables equitable treatment, which ensures the availability and affordability of coverage

Three Primary Purposes of Risk Classification

- Enhance Fairness to All Policyholders
- Protect the Financial Soundness of Insurance Systems
- Permits Economic Incentives to Operate



Employer Coverage



Guaranteed Issue



Individual Coverage

Coverage Choices for Everyone

Adverse Selection in Life Insurance

- Adverse selection is essentially information asymmetry between the insurer and the applicant
- Significant threat to insurers' financial soundness

Foundational Requirements When Using Any Variable

Must Comply with the Unfair Trade Practices Act

- Purpose - to regulate trade practices in the business of insurance by defining, or providing for the determination of, and prohibiting all such practices that constitute unfair methods of competition or unfair or deceptive acts or practices.
- Defines Unfair Discrimination as making or permitting any unfair discrimination between individuals of the same class and equal expectation of life in the rates charged for any life insurance policy or annuity or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of such policy.

Must be based on Sound Actuarial Principles

- Actuarial Standards of Practice (ASOP), approved by the American Academy of Actuaries' Actuarial Standards Board, identify considerations, documentation, and disclosures made by an actuary performing an actuarial assignment in the United States.
- Actuarially sound is understood to mean reasonable and consistent with generally accepted actuarial principles and practices. Relevant ASOPs include:
 - ASOP 12 – Risk Classification
 - ASOP 23 – Data Quality
 - ASOP 25 – Credibility Procedures

Life Insurance Underwriting – Holistic Approach

Underwriting Decisions Are Based on a Variety of Factors

- Typically, one factor does not determine the outcome
- Additional factors
- Mitigating circumstances taken into account

Criminal Convictions

- Reasonable correlation to death exists
- Based on sound actuarial principles
- Context is important in considering felony convictions in underwriting. Context typically includes:
 - what crime(s) the applicant was convicted of,
 - when the applicant was convicted,
 - what is the applicant's current situation (i.e. employment or probation status)

Conclusion

- Information symmetry and appropriately assessing risk/pricing products is critical
- Need for flexibility to promote broad affordability
- Standardization could lead to lack of choice and stifle innovation