

by Sandy Kelly  
Assistant Vice President, Life New Business and Underwriting  
John Hancock Life Insurance Company (U.S.A.)

### **Understanding Impaired Risk Underwriting in Today's Market**

The face of impaired risk underwriting has changed over the past few years. It used to be that just a handful of companies specialized in underwriting impaired lives, but now virtually all major life carriers have expertise in the assessment of these cases. In addition, impairments that were once ratable may now be offered standard insurance or better. Understanding the reasons behind these changes can help you understand the perspectives of both carriers and producers.

First, let's take a high level view of what has been going on in recent years to get us to the point where we are today in this market. We have been through a period of intense competition in impaired risk underwriting, with companies competing for market share and BGAs employing their own underwriting experts. BGAs have also been leveraging companies' decisions against one another in order to obtain the most favorable offer possible.

Within the past 12 to 18 months there has been a shift in a different direction as companies reduce or eliminate their table waiving programs largely due to mortality reserve costs. At the same time, significant mergers in the reinsurance market have left fewer outlets for the sharing of risks. Some of the advantageous pricing enjoyed by direct companies has reduced and the remaining reinsurers have become much more rigid in their demands of the direct company underwriters. Reinsurers have also become more restrictive in interpretation of treaty terms surrounding underwriting practices.

From the perspective of Home Office carriers, all these competing priorities – i.e., maintaining good future mortality results, keeping customers happy with the competitive offers and ensuring adherence to reinsurance treaty terms – have increased pressure significantly on underwriters.

### **Factors contributing to shift in today's market**

Now let's take a look at some of the underlying factors that are contributing to the increased sophistication we see in today's market. Improved diagnostic tools, an aging population, and more understanding of risk factors in general as well as health indicators in older ages have all played a role.

#### *Improved diagnostic tools*

The range of diagnostic tools and treatments available in U.S. medical care has dramatically increased in the past several years. Underwriters must meet the challenge of staying ahead of the curve in understanding the significance of the information provided in the medical reports they review. An example of a major area of increased information is cardiac. At one time underwriters had access to EKGs and the occasional treadmill; now they see echocardiograms, perfusion studies, stress MPIs, EBCTs, and much more.

Another example: in the past an underwriting manual would be current for a number of years, whereas today they must be continuously updated to reflect the way to assess all of the new information obtained. Now, it's critical for carriers to invest in the research that relates the results of the new testing and treatment regimes to expected mortality results.

#### *Aging population*

As the population ages, there is an inevitable increase in medical impairments. Coincident with this is a shift in the amount of business being underwritten on the senior population. Underwriters have had to modify their perception of insurability, since the majority of elderly lives have such a variety of medical impairments. When assessing people in their 70s and 80s, a knowledgeable underwriter must understand the significance of different disease states. As an example, a Class II

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cardiac history in a 35-year-old may be a decline, and in a 55-year-old may call for a 200% rating. But in an 80-year-old it could be a standard. This phenomenon is of course related to the disease prevalence at different ages, and the expected mortality at those ages.

#### *Importance of risk factors and risk factor control*

The importance of risk factors and risk factor control plays an ever-increasing role in underwriting decisions. What began as a differentiation between smokers and non-smokers in the 1980s has become the basis for most preferred and superpreferred rates. Blood pressure and cholesterol that are well controlled on medications can make the difference between a substandard rating and a preferred offer. Consumers influence the life insurance offers they can receive by actively modifying their own risk factors. In addition to factors such as blood pressure and lipids, most insurers will use other known risk factors such as weight, driving records and family history as ways of determining "best class" risks.

#### *Greater understanding of health indicators in older ages*

In underwriting applicants in their 70s and 80s, there is a shift in determining insurability as well as "best class." Factors such as unintended weight loss or frailty in an elderly proposed insured portray a potential early claim that may be declined by the underwriter. On the other hand, poor family history is no longer a concern for preferred since the longevity of these applicants have proven that the genetic predisposition for certain diseases is not present.

#### **Getting the results you want**

In light of the aforementioned changes in impaired risk underwriting, there are several ways BGAs can continue to get the results they want.

BGAs have a responsibility to the producer and to the ultimate consumer to find the right product at the right price. However, most BGA principals have recognized that the practice of shopping to a multitude of carriers is not the most efficient way to do so. They understand both the administrative cost of this practice as well as the efficiencies and influence they can gain when a few select carriers develop in-depth knowledge of their business and needs. They also understand that in today's competitive marketplace Home Office underwriters find it difficult to give priority to a BGA's needs if there is very little business that ever places. Therefore, restricting the number of companies that their cases are sent to will – over time – absolutely work in a BGA's favor, as well as all other parties involved.

Many BGAs are also recognizing the value of offering services to producers and insurance carriers. Obtaining evidence is one example. If the BGA does offer this service, ensuring that it is completed on time and completely saves case processing time, as the Home Office underwriter or case manager will not need to order and wait for further evidence.

Cover letters to the underwriter of a core carrier can also provide many benefits. The letter can help position what the producer is trying to achieve through the sale, and relay information that may influence the underwriter's perception about the risk from a financial or health perspective. It can also provide personal insight that will help the underwriter help the BGA in closing the case.

Finally, a BGAs overall knowledge of the impaired risk underwriting market is their best tool for success in today's marketplace.