

DECISIVE INITIAL UNDERWRITING

In an era when service, including speed of service, rightly counts for so much, life companies are spending vast amounts on IT projects aimed at process enhancements and even re-engineering. And not before time underwriting processes are being integrated within unified end-to-end administration systems.

But in life and health underwriting, and even with 'expert' point-of-sale systems, the processing of a significant proportion of cases still depends on human decision-making, especially at the initial proposal form evaluation before any other evidence might be obtained. Is it a normal risk that can be accepted right away? Or is further risk information needed, either from the life proposed or from a health professional?

In the context of a portfolio of business this is arguably the most important piece of decision-making. Getting further information incurs costs and delays acceptance but helps accurate risk assessment. Accepting there and then enables rapid acceptance and keeps the new business pipeline flowing, but ask for too little information and experience and profitability begin to suffer.

The most important decision-making this might be but, ironically, it is usually delegated to the least experienced underwriting staff. Maybe it is because they are mindful of their responsibilities that these underwriters tend to act over-zealously as 'guardians of the life fund'. Whatever, too much information is often obtained at the initial underwriting stage.

What can be done? Well, tele-underwriting can help a great deal. Apart from cutting costs, another of its virtues is its ability to unblock the new business pipeline, enabling quicker acceptance of cases. But tele-underwriting only works effectively if it is based on sound rules.

There are two real keys to effective initial underwriting, and they are closely related. First, believe the applicant. If the 'story' is plausible, accept it at face value. If there has been non-disclosure or serious misrepresentation, claims can be repudiated on those grounds. The test is how a prudent underwriter would have interpreted the application form disclosures. But note that any arbiters of the company's actions will also look at the adequacy of wordings in the application form and any supplementary questions. Underwriters can only rely on risk information provided by applicants as long as the means for gathering that information are effective.

Second, don't insist on incontrovertible proof that a disclosure is what it purports to be. If the circumstances, taking account of age, treatment, time off work, follow-up and risk factors, make it highly unlikely that the disclosure is significant, then go ahead and accept. Insurance is based on probabilities. And after all, when lives are accepted on the basis of an application form only, and without any other form of screening, it is implicit that insurers do not have comprehensive knowledge of the risk.

And, incidentally, the same sort of philosophy can be applied to the content of GPRs too. No matter that a medical 'story' has not demonstrably been brought to a conclusion: if the GP and/or a hospital clinic appear to be unworried or to have ceased their involvement, or if symptoms awaiting investigation are suggestive of a trivial condition (especially when there is no urgency to establish the cause), chances are that there is little of underwriting significance.

If some of this sounds elementary, it is. But companies are making unnecessary problems for themselves. The benefits of lower costs and a smoothly flowing new business pipeline - that pleases customers and intermediaries and results in fewer NTUs - far outweighs the rare extra premium that might be missed. Effective underwriting needs to combine prudence with boldness and confidence.