EXTRA PREMIUMS AND FALLING TERM RATES

Reassurers no longer vie with each other to offer the best terms for substandard lives. Covering these risks is no longer regarded as core business, and still less as a source of competitive advantage. These substandard books were always of dubious profitability; making money – or at least breaking even – depended on applying strong underwriting skills, honed by some years of experience and backed up by thorough knowledge of the (mainly) medical impairments and a 'feel' for the impact of extra risk on standard mortality or morbidity. (And of course, those skills and qualities are still necessary today.)

But with a great deal more attention on profitability now, the emphasis is on realistic substandard risk pricing, the trend having been encouraged also by the greater need for evidence-based ratings as a result of pressure from legislation and lobby groups. In passing, we might add that the industry, certainly in the UK, has a good record for dealing fairly with and offering cover to those in poor health, although on occasion challenges from outside have highlighted new research information, and decisions on individual cases have not always been correct.

So while in the pioneering days of 'substandard' underwriting terms were understandably cautious, gradually ratings fell across the board as risks became better understood and underwriters became more confident in handling them – and also as reassurers competed with each other to offer the most 'up to date' philosophy. Now ratings overall have rather stabilised, although they do of course recognise the impact of new, more effective therapies, and in a few instances have risen as new research information has come to light.

But it is interesting to reflect that as rating recommendations have come down, so have term assurance premium rates. Which gives rise to the question 'Has substandard mortality been improving at the same rate as that suggested by improvements in base mortality assumptions?' Crucially, +50, +100, etc do not imply the same number of extra deaths as they did a while back.
So how realistic are the assessments on substandard risks – and the borderline cases too?

Sticking to mortality risks, the answer depends on:

- The realism of historic mortality assumptions
- The realism of current mortality assumptions, in particular…
- … the degree to which rate reductions reflect improvements in underlying insured-life mortality (both historic and anticipated)…
- … and competitive forces in the market
- The behaviour of mortality among insurance applicants with a given medical impairment of a given severity.

It also depends on the availability of research information, the skill with which it is interpreted and the skill of the underwriters applying the resultant ratings.
So what is the answer? Well, it's unclear. But it's a fair bet that the sharp falls in term premium rates in recent years – even acknowledging that in the 1980s rates rose on account of the threat from AIDS – haven't been matched by improvements in mortality associated with medical impairments. Which suggests that ratings need to go *up* in order to reflect the numbers of extra deaths involved.

The lack of clarity and the simple perpetuation of more or less historic underwriting practice underline what in many ways an unscientific business life (and, for that matter, disability) underwriting is.
But that should be set to change somewhat. There is increasing pressure to understand profitability in all parts of the portfolio; essentially companies need to do business better. And distributors specialising in impaired lives will focus more attention on this type of business. They may even encourage greater segmentation of the market. Preferred lives? Maybe not as in the United States, but a change to the current UK status quo – and with implications for rating levels.