GUT FEEL: NOT GOOD ENOUGH

“Use your judgment, it’s what you’re paid to do.”

“Don’t go by the manual, it’s only a guide.”

“Difficult case and not sure what’s the right answer? Go by gut feel.”

Do these sound familiar? They are pieces of advice traditionally given by old underwriting hands to their less experienced colleagues. And there is more than a grain of commonsense in some of this stuff. Underwriters are paid to make judgments on the severity and pricing of risks. The best can make quick decisions, using detailed specialist information, that reflect a multiplicity of risk factors. And this is where their training and experience pays off – literally: they are far more effective in dealing with such risks than an automated engine could ever be.

And this is where underwriting manuals can never provide 100% reliable guidance. Manuals can’t cover every conceivable combination of risk factors or reflect the impact of age for every severity of every impairment (remember there is a distinct inverse correlation between age and mortality/morbidity ratios for most, but not all, medical conditions and risk factors). So quite often there is a need variously for interpretation, interpolation and adjustment to suit the individual risk being underwritten – a credit or discount here, an additional debit, maybe for a combination of adverse features, there. So manuals are only a guide, and life and disability underwriting is about more than just finding the ratings and ‘doing the math’ – summing the indicated debits and credits. Even calculators, such as for cardiovascular risks, need to be used intelligently: assuming the underpinnings – the rules and algorithms in the ‘black box’ – are correct, the results still need a sanity check at the end.

So what about ‘gut feel’? We feel pretty strongly about this. Put politely, it’s a poor way of reaching an underwriting decision. Not satisfied with the underwriting manual? Well the manual has been created with a great deal of effort including research, and there may well be a strong evidence base for those ratings, however odd they may look. Unless there is good conflicting evidence, those ratings are there for a reason.

Not sure what to do with a case? Well go and find some information that points towards a particular rating approach. Consult those with more knowledge than you. Sometimes those people will be outside your organisation.

Seen a case like this before and had good or bad experience with it? Well that was one case. Decisions need to reflect how a large group of similar risks would fare in terms of mortality or morbidity. Judgments based on small samples – let alone a sample of one – tend to be unsound. And if you’re taking a particular approach on a given type of case, what are your colleagues doing? Underwriting philosophy needs to be applied consistently by the whole team.

Really, gut feel just isn’t good enough these days, when there is so much information readily available and applicants are more likely to challenge how they have been treated by an insurer. Consumers have a lot of clout these days, via lobby groups and regulation – and many of them have access to the same information sources as the industry does. Hence the growing interest in evidence-based ratings: as knowledge about the familiar risk factors increases – and occasionally new risks come on the scene – so there is more pressure on us all to take an increasingly scientific approach to risk evaluation. And rightly so. We all owe consumers a fair deal.

Out of interest, and to ensure our discussion stays firmly in the real world, are consensus decisions acceptable in this tougher modern world? We think they are. If there is a very wide spread of answers, one end of the range is clearly wrong, so more research IS called for. But if there is a broad consensus then a rating in the middle of the range is good enough. How well does this play in the event of a challenge? “I discussed the case in detail with several of my colleagues. The overall view was that an appropriate rating would be in the range 150% to 250% extra mortality.” That should be quite acceptable – as long as those consulted could justify *their* answers in some reasonable way. Let’s face it, even with a decent evidence base, it is impossible to demonstrate with a reasonable degree of credibility that a particular risk should be rated +200 and not +150 or +250.

But gut feel? No. Consumers deserve better.

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