

# Non-Disclosure – Underwriting Considerations

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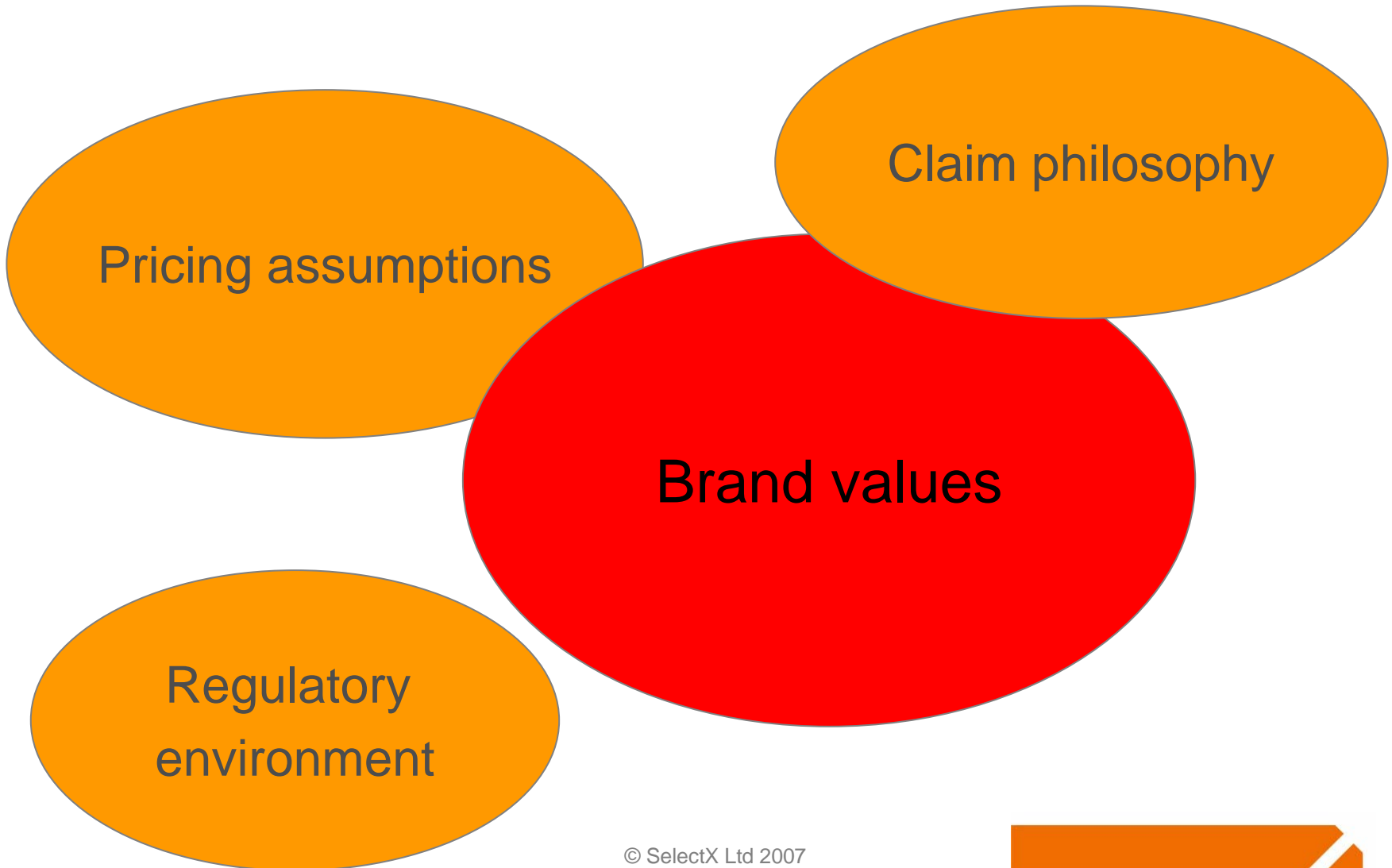
Joint AMU & HCF Seminar, 3<sup>rd</sup> May 2007

# Key message #1

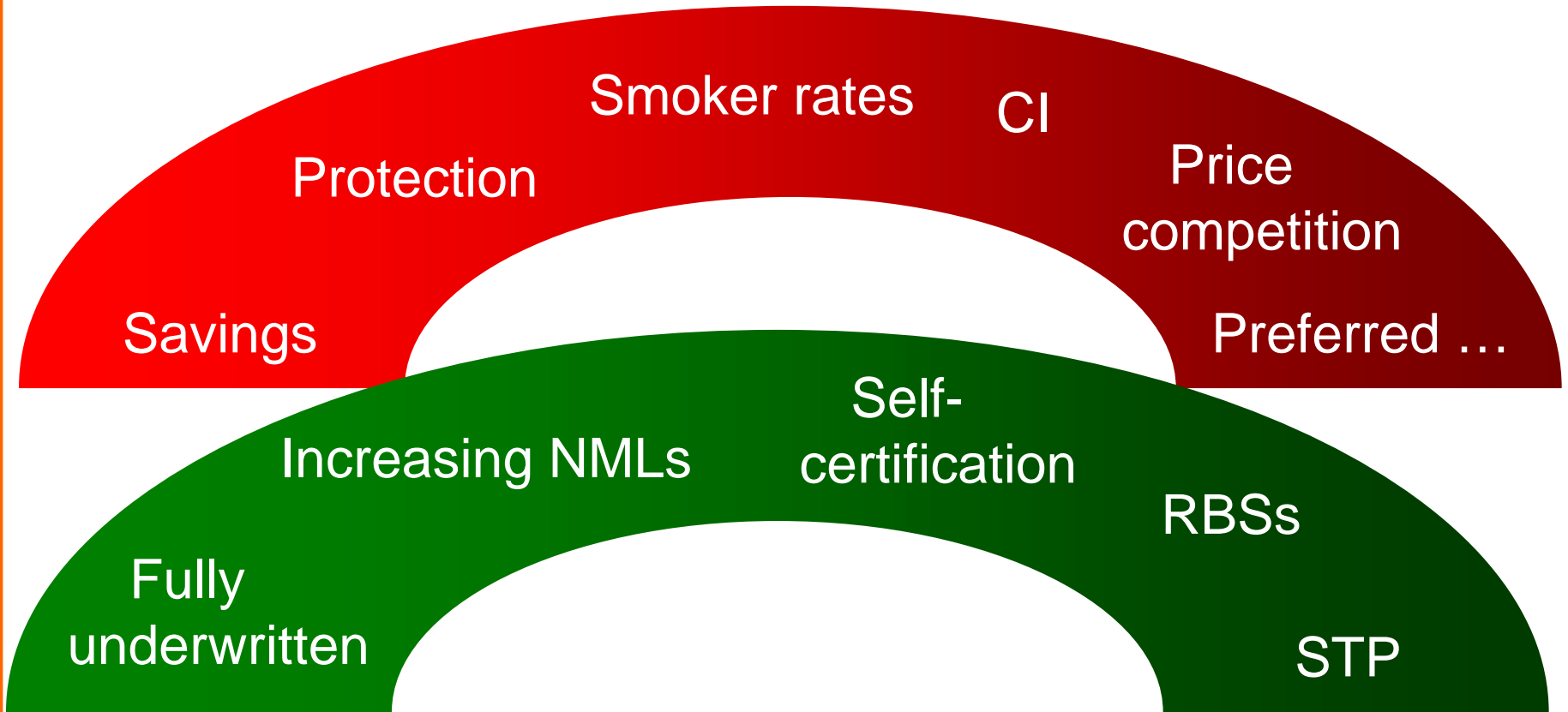
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Non-disclosure is a **relative** concept

# Non-disclosure is a relative concept



# Non-disclosure – the spectrum of tolerance

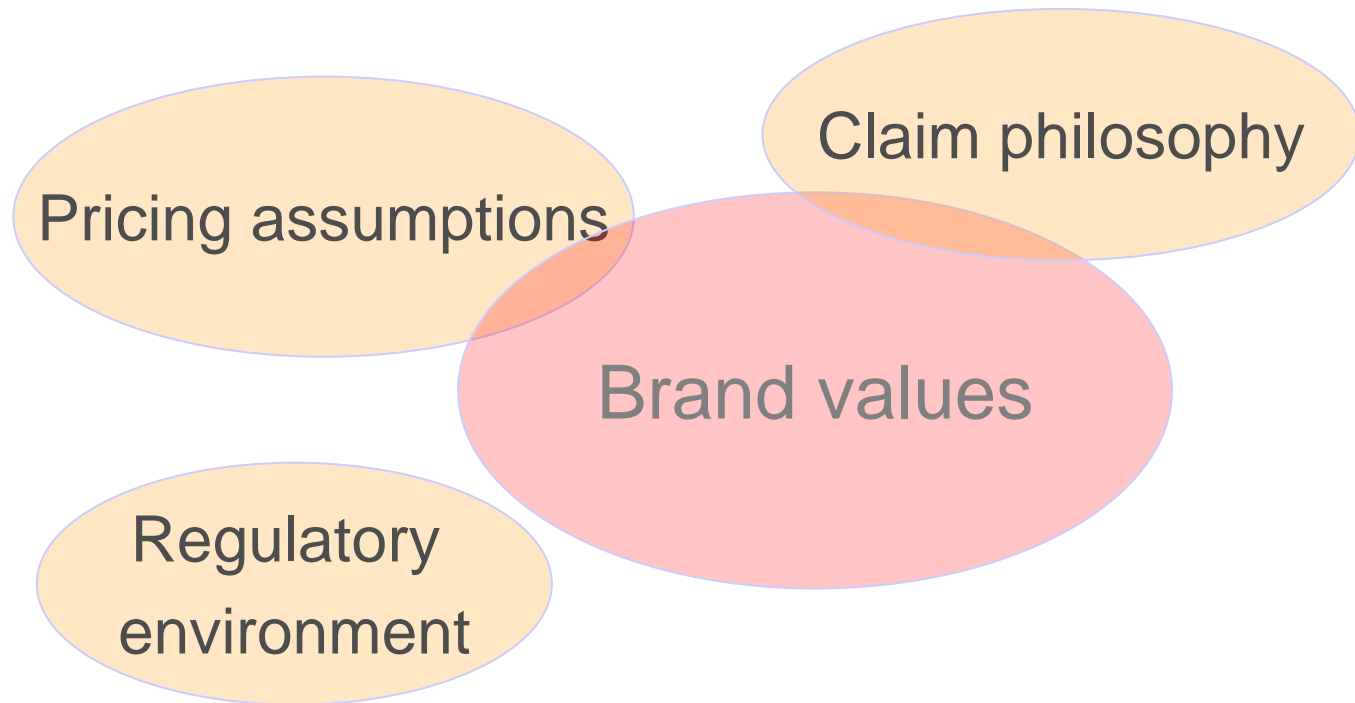


# Non-disclosure is a relative concept

- Think about your **own** company's stance (*Have you no tolerance for ND? Are you reasonably relaxed?*)
- What are the **pricing** assumptions (*Do the underwriters and claim adjudicators understand the degree of tolerance?*)
- What about your **brand** proposition (*Does this dictate how you approach ND? Can you use your stance on ND and claims handling for competitive advantage?*)
- Are underwriting philosophy, evidence requirements, stringency of selection etc **aligned with claims philosophy?**

# Non-disclosure is a relative concept

Each company must understand these elements in the context of their **own** business **before** formulating an underwriting policy on non-disclosure



# Does non-disclosure always = antiselection?

*No... incidental or innocent non-disclosure is far more of an issue* Best's Review 2005, "The two faces of non-disclosure"

*"A few cases of non-disclosure are deliberate; and a few are because people don't take care filling in the form..."*

*But the biggest issue is where people try to make judgements about what's important"* Nick Kirwan, Scottish Widows, 2005

*Estimated that 70 – 80% of non-disclosure in life and health insurance is 'innocent'*

# Key message #2

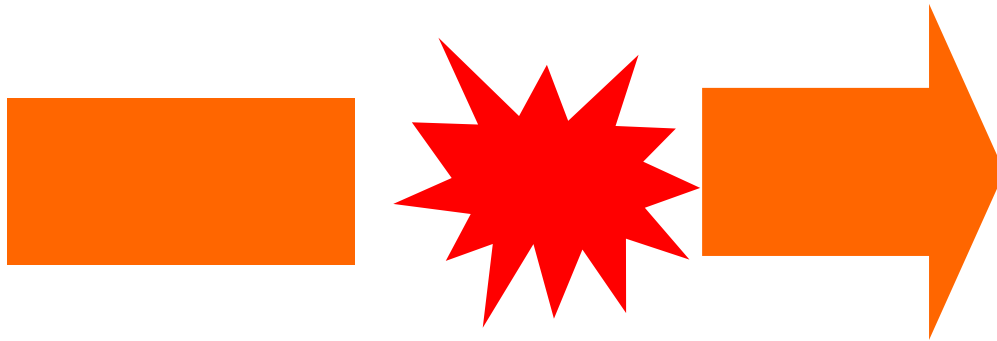
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Think like the **customer**

# Think like the customer

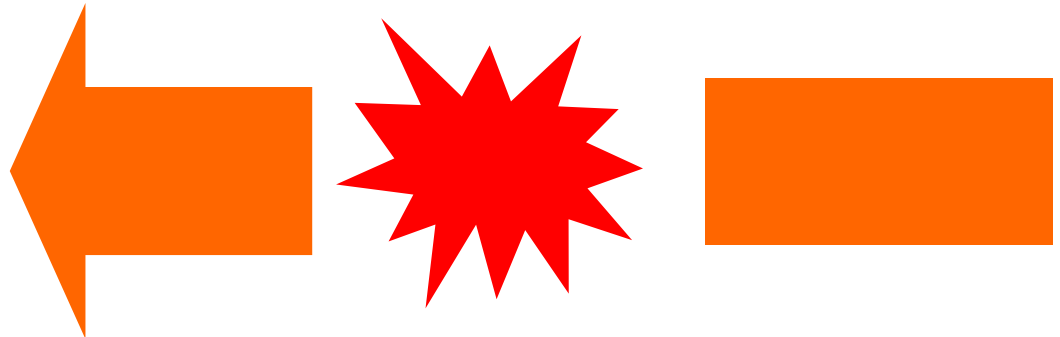
- If we accept that the majority of non-disclosure is inadvertent, how can we assist applicants to make the most accurate disclosure?
- In the modern world, does it make sense to rely on a paper application form filled in by an adviser with unwritten and unrecorded advice?

# Communication breakdown



- Questions unclear
- Questions not asked
- Adviser input – applicant 'led'

- Applicant misjudges importance
- Misunderstanding
- Applicant doesn't know
- Embarrassment



# Help the applicant to disclose

- Ask the **right** questions in the **right** way of the **right** people
- **Tailored** questions – no ‘one size fits all’
- **Design for the norm** rather than the exception
- Industry initiatives on ‘**clarity**’ good and long overdue – but...
- Only so far we can go with tinkering with words and phrases on the application form - remember we will **rarely win a legal war of words**

# A battle of words we cannot win ...?

“When I use a word,” Humpty Dumpty said, in rather a scornful tone, “it means just what I choose it to mean - neither more nor less.”

“The question is,” said Alice, “whether you *can* make words mean so many different things.”

“The question is,” said Humpty Dumpty, “which is to be master – that's all.”

# Help the applicant to disclose: Tele-interviews

- Removes the adviser from medical information gathering
- Asks the questions in the right way
- Clarifies what is required – minimises need for applicant to make judgments
- Helps applicant to remember
- Validates previous answers – treatment, durations etc
- Clear and recurrent non-disclosure warnings
- Scripted and consistent
- Recording – powerful sentinel effect!

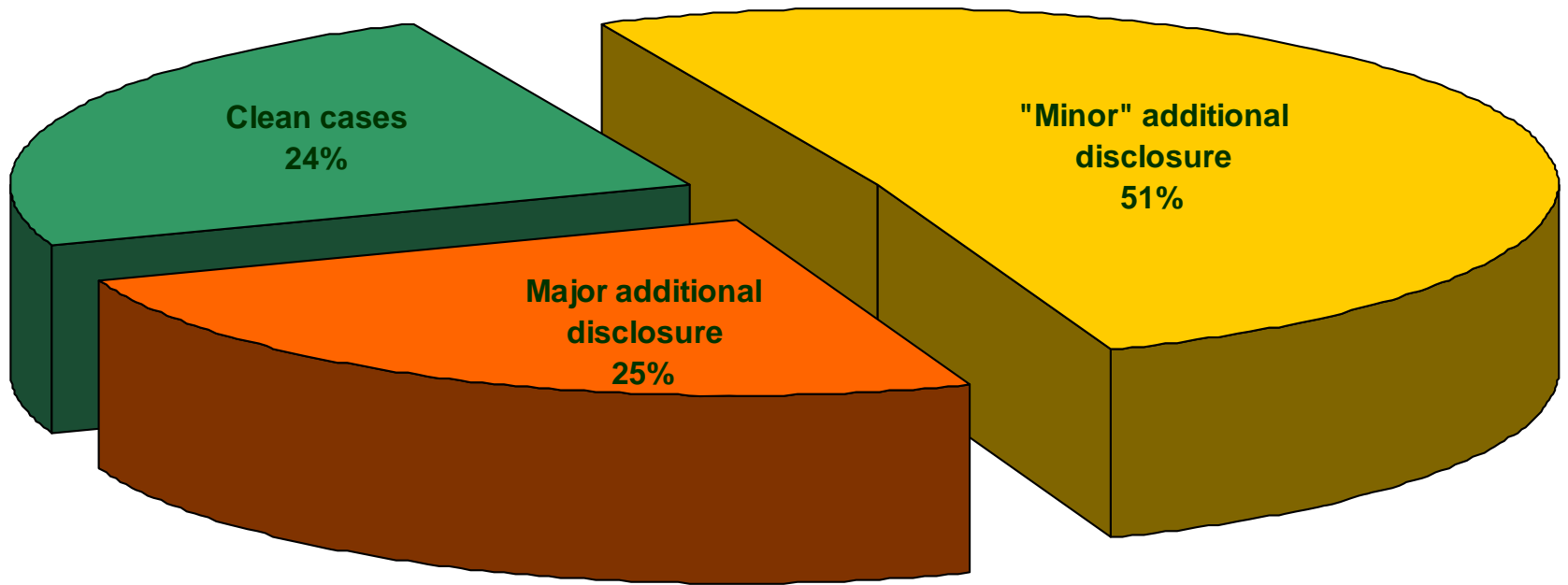
# The 'sentinel effect'

The percentage of applicants who do not apply for insurance or who do not antiselect, because they think they might get caught out.

# Where are we seeing the most TI value?

- Clarification of level of detail required
- Elaboration of 'minor' impairments and vague symptoms, eg musculoskeletal, fatigue, insomnia
- Recent symptoms, eg double vision, numbness, giddiness, chest pain
- Forthcoming visits to GP/specialist or private investigations
- Current treatment
- 'Embarrassing' health issues: gynaecological, sexual
- More detailed family history, habits and weight disclosures

# Tele-interviews - improved disclosure rates - UK



Source: MorganAsh 2006

# Duty of disclosure – and ongoing duty

- Leave applicant **in no doubt** what is required of them, including scope and detail of disclosures
- Clear and recurrent non-disclosure **warnings** – sentinel effect
  - on paper application
  - during tele-interview
  - responsibility of adviser
  - information leaflets – designed with customer in mind
- Opportunity to **review** answers

# Key message #3 ... and #4

Create a clear, secure, detailed audit trail

And collect data

# Rules-based underwriting systems

- **No standard application** – targeted questions and detail as required
- **Simplicity** – less irrelevant and confusing ‘noise’
- **Consistent** and standardised
- **100% questions** of 100% applicants
- Cannot ‘play’ the system – **continuity** of data
- Secure, **audit trail**

# Rules-based underwriting systems

- The **power of data** – analyse
  - by channel and individual brokers
  - product
  - target market
  - age
  - impairment ...
- Essential if companies are to recognise and focus on areas causing non-disclosure problems

# Smoker non-disclosure

- *DTC 1995 – 2002*: 6.3% prevalence rate of cotinine (+) in declared non-smokers
- *SelectX/ExamOne*: 2005/6 paper: smoker non-disclosure estimated between **7% and 10%**

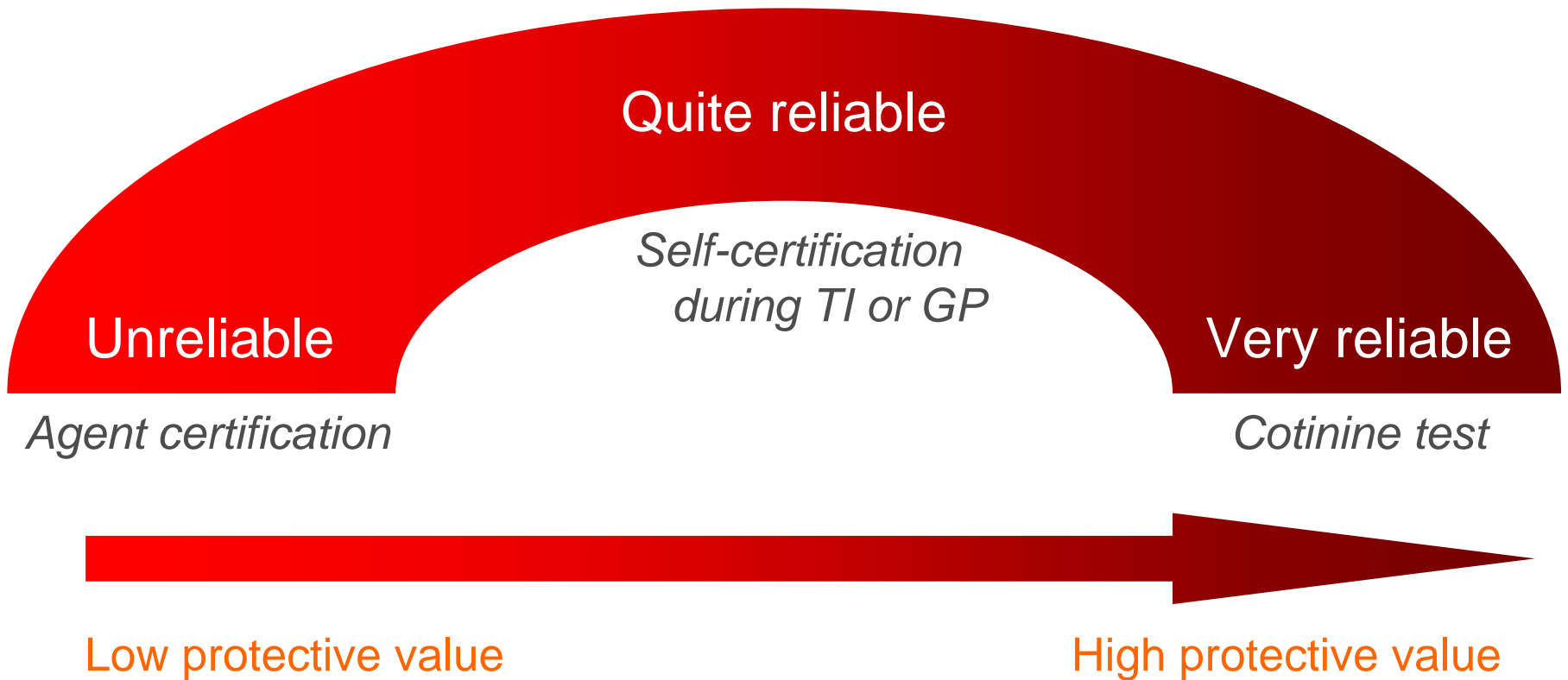
# Smoker non-disclosure

- Self-certification
  - enhance questions on application form and tele-interview
- Independent
  - Blood, oral fluid, urine cotinine screening
  - GPR
- Sentinel effect
  - Warning of random screenings

If companies want really accurate information, then they need to do more routine cotinine screening at lower sums assured

# The spectrum of reliability

Are you a non-smoker?



# Protective value (PV)

Underwriting information has protective value if:

Cost of obtaining information is  $<$  Mortality/morbidity savings

How many companies in the UK carry out PV studies?

# Build

- Key area of inaccurate disclosure
- Important because of **impact on all-cause mortality** and morbidity
  - Cardiovascular
  - Metabolic syndrome
  - Diabetes
  - Musculoskeletal ...
- Methods to counter **depend on company tolerance**
  - Degree of non-disclosure
  - Pricing assumptions

# Build ...

## An ounce of prevention is worth a pound of cure

- Self-certification
  - More detailed application questions
    - Up-to-date reading (within 6 months)
    - Abdominal girth
  - During interview
    - Clothing sizes
    - Weight loss programmes
    - Applicant weighs/measures during interview

# Build ...

## An ounce of prevention is worth a pound of cure

- Independent measurement
  - Current height and weight
  - Abdominal measurements
  - Waist/hip ratio
- Case for more routine paramedical examinations to accurately measure?
- Must be balanced with effect on process and underwriting costs ...

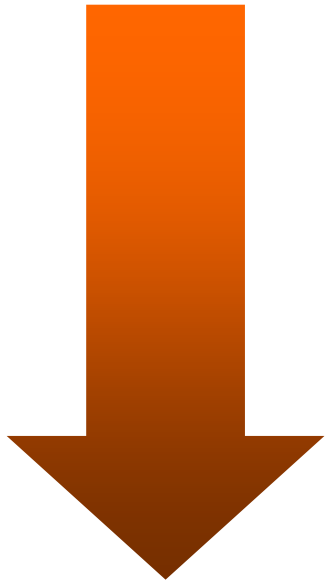
If companies want really accurate information, then they must get height and weight measured independently

# GPRs

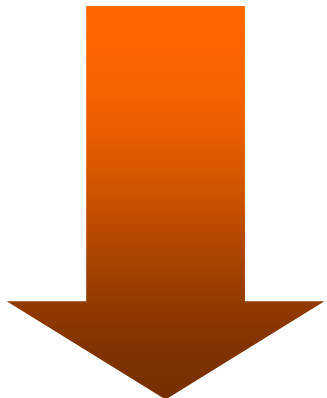
- Don't throw out the baby with the dirty bath water!
  - Use selectively: rarely routine, but...
  - At older ages has proven protective value and over age 50 there is a jump in non-disclosure rates
  - For certain impairments, still has great protective value
    - mental health
    - drug and alcohol abuse
    - applicant doesn't know own health status
    - chronic and complex impairments
  - Spot-check GPRs have sentinel effect



- Responsible selling (*IFAs can be liable ...*)
- Life registries (*as US model?*)



- Effective routine screening (*where it's really needed; based upon PV data / reliability*)
- Redesigned application forms (*help to make best possible disclosure; e-proposals, rules-based systems, tele-interviews*)
- Appropriate additional information (*underwriter judgement key...*)
- Sentinel effect (*warnings and reminders*)



- Effective process (*independent validation, audit trail*)
  - standardisation and controls for online processes; recording and signatures

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