

UNDERWRITING OCCUPATIONS

Occupational underwriting seems to be becoming a bit of a lost art. One could be forgiven for thinking that the occupation title counts for everything and that *the duties involved* matter little. This possibly originates from the use of quotes systems and the need to provide a simple indication of price. But this practice is perpetuated by most underwriting manuals, and the quotes systems argument is weak – this is surely the tail wagging the dog.

To understand occupational risk – and for disability especially – the underwriter needs to know, at a pretty basic level:

- Whether there is an accident risk, eg a risk of falling
- Whether handling hazardous materials or substances is involved; is there a health risk?
- How much manual work is involved.

And then for disability covers there are additional factors that influence the risk of claim:

- The amount of physical effort required, for example lifting
- Is the job physical in other respects, for example requiring bending, kneeling, crawling, reaching, manual dexterity?
- Whether there are exceptional health or physical fitness requirements
- Whether exceptionally keen sensory abilities are required – sight, hearing, smell, taste
- Is the work mainly outdoors?
- Does the job necessitate driving, even if it is not a 'driving' occupation?

We believe that the way most underwriting manuals and rules engines deal with occupational risk needs a penetrating review. Many occupation titles are well past their sell-by date. Some guides have been created in one location and exported to foreign markets where at best they perform sub-optimally and at worst they lack credibility (one wonders how UK job titles such as 'screw man' are translated into other languages). Furthermore, occupation titles are becoming increasingly vague and unhelpful given the trend in many industries towards giving them what might be called 'an air of importance'; for example, in some UK railway depots what used to be 'fitter' and 'fitter's mate' are now known as 'senior technician' and 'technician'.

Surely the industry owes consumers more accurate risk assessment and pricing, based on detailed knowledge of what a job entails. We believe that a duties-based approach to underwriting occupations makes a lot of sense. It much better reflects the risk for disability products and mirrors an increasing number of proposal forms that ask applicants to describe what they do. And for reassurers faced with the need to produce an underwriting manual for use in markets all over the world it means that tailoring ratings to local conditions is much easier.

Some of the reluctance to change may be driven by the apparent disconnect between underwriting best practice and the use of job titles in on-line quotation systems. But isn't it much better to create a reasonable expectation in the mind of the applicant (and the sales adviser) as to the level of the premium to be charged? Another objection is that rules-based underwriting systems cannot use a duties-based approach. But there is a system that does just that.

And after all, basing assessment on a thorough understanding of what the job entails complements, for disability covers, the very necessary attention to those so important 'soft factors':

- Job monotony: the boredom factor
- Work intensity and pressure: the stress factor
- Motivation

- The effect of prevailing economic conditions
- The potential for moral hazard.

Isn't it about time that underwriting manuals and rules engines reflected best practice in underwriting occupations? Duties-based is the way to go. (And by the way, we at SelectX have done it.)

July 2009