



**Comments of the Center for Economic Justice to the
Market Conduct Annual Statement Blanks Working Group**

Response to ACLI Letter of 10/20/2017

October 27, 2017

In this comment submission, CEJ reviews ACLI's October 20, 2017 comments in opposition to reporting of Life and Annuity MCAS by more detailed product types.

General Review and Rating

CEJ gives ACLI poor ratings for this uninspired, half-hearted effort. We suggest ACLI review some of the property casualty trades' opposition letters for examples of more creative rationales for opposing any improvement to MCAS reporting.

The comments in ACLI's 10/20/17 letter regarding CEJ's proposal to improve the usefulness and efficiency of the Life and Annuity MCAS Blanks through more detailed reporting by major product type fall into one or more of the following categories:

1. Blatant misrepresentation of CEJ's proposal and comments;
2. Vaguely interesting, but not relevant to the issues at hand; and/or
3. Incoherent gibberish

Argument 1: "CEJ concedes it has not provided necessary justification."

Summary of CEJ's Rating of ACLI Argument 1

Originality: 0 out of 10

Factual Accuracy: 0 out of 10

Relevance: 0 out of 10

Overall: This argument falls into the "blatant misrepresentation" category. Egregious falsehoods can never have any relevance or originality.

ACLI's comment, that CEJ "concedes that it cannot justify each of the new categories," falls into the blatant misrepresentation category. CEJ has, in fact, explained the justification for the breakout of broad life insurance and annuity groupings into more specific product groupings.

CEJ proposes the breakout of life insurance from the current cash value and non-cash value groupings into specific life insurance product groupings because the specific products types have significantly different characteristics and features, are sold in different situations and represent different types of potential consumer harm. Breaking out life insurance into more detailed product types than cash value or non-cash value products is analogous to breaking out private passenger automobile insurance into the reporting of nine specific coverages set out in the private passenger auto MCAS.

It is useful to re-present CEJ's recommendation. The current Life and Annuity MCAS requires reporting of experience broken out as follows:

1. ICVP Individual Life Cash Value Products (Includes Variable Life, Universal Life, Variable Universal Life, Term Life with Cash Value, Whole Life, & Equity Index Life)
2. INCVP Individual Life Non-Cash Value Products (Any life insurance policy that does not contain a cash value element)
3. IFA Individual Fixed Annuities (Includes Equity Index Annuity Products)
4. IVA Individual Variable Annuities

CEJ proposes the life insurance product categories be expanded to the following product categories:

1. Individual Term Life Insurance with no Cash Value
2. Individual Pre-Need / Funeral / Final Expense Life Insurance
3. ~~Individual and Group Credit Life~~
4. Other Individual Life Insurance with no Cash Value
5. Individual Variable Life Insurance
6. Individual Universal Life Insurance
7. Individual Variable Universal Life Insurance
8. Individual Whole Life Insurance
9. Individual Equity Indexed Life Insurance

CEJ proposes the annuity product categories be expanded to the following product categories:

10. Individual Immediate Fixed Annuity
11. Individual Deferred Fixed Annuity other than Qualified Longevity Annuity Contract
12. Individual Qualified Longevity Annuity Contract
13. Individual Equity Indexed Annuity
14. Individual Variable Annuity
15. Individual Fixed/Variable Annuity
16. Individual or Group Contingent Deferred Annuity

CEJ proposes the change to more detailed product categories to improve the efficiency, effectiveness and usefulness of the Life & Annuity MCAS. More detailed MCAS reporting by product category is more efficient because data editing and quality control can be enhanced by analysis of experience limited to specific products. Under the current MCAS categories, products with different sales and claims/benefit experience are combined, limiting the usefulness of some data quality processes. Better data quality creates more efficiency and fewer requests to reporting companies for data explanations.

More granular product categories allow more efficient and effective and useful market analysis by comparing companies with similar product markets. Market analysis is also more useful because industry and company ratios and trends better reflect specific product market experience instead of ratios and trends broadly averaged over multiple product markets.

This rationale is the same for each and every proposed product breakout. In addition, the NAIC has recently worked on Contingent Deferred Annuities, concluding that the product does not fit neatly into the fixed or variable annuity product categories. Consequently, it is important and necessary to create a separate product category for CDAs to ensure consistent reporting across companies reporting CDA experience.

The usefulness and relevance of reporting by major product group is illustrated by a few recent actions and reports. The NAIC has recently developed and implemented Actuarial Guideline 49 to enhance and supersede, in part, the requirements of the NAIC Life Insurance Illustration Model to specifically address problems with indexed universal life insurance illustrations. It would clearly be beneficial to regulators, consumers and insurers to be able to isolate IUL illustration/sales problems from sales of other cash-value life insurance. IUL is clearly a different product from Whole Life, a simpler product with a far longer history than IUL, but both are currently reported in the cash value life insurance category.

Longevity risk annuities and contingent deferred annuities are new product categories, different from other annuities and from each other. It makes no sense to group, for purposes of market analysis, longevity annuities which are designed for use with tax-preferenced retirement accounts with immediate or deferred fixed annuities.

The current MCAS provides no guidance on reporting of CDAs. Even if there was an effort to provide such guidance, the NAIC's determination that CDAs do not fit neatly into either fixed or variable annuity categories demonstrates the need for a separate reporting category for CDAs.

The attached article, "Hot Hybrid VAs Draw Complaints by Some," discusses Hybrid variable annuities, also known as structured or buffer variable annuities. The article states:

A senior manager with the Financial Industry Regulatory Authority (FINRA) earlier this year reported more complaints related to hybrid variable annuities, which raises questions about the suitability of the products.

Andrew Stoltmann, a Chicago-based plaintiff's attorney who has brought cases against annuities of all stripes, calls buffer variable annuities "toxic and odious."

"They are the worst of both worlds – the worlds of the fixed annuity and the worst of the variable annuity worlds," he said.

High fees, the illiquid nature of hybrid variable annuities and the large commissions or fees used to entice advisors to sell them ensure that buffer variable annuities remain a bad deal for contract holders, he said.

"The ones who believe in these products are the ones being richly compensated," said Stoltmann, who has handled an estimated 200 arbitration claims and lawsuits involving annuities.

About 80 percent of hybrid variable annuities are sold through independent broker-dealers and banks.

Putting aside the current complaints about this product, the relevance of this article for the issues at hand is the fact that buffer annuities are different products from standard variable or fixed annuities. The article also illustrates that the sales are predominantly by broker-dealers and banks – in contrast to other types of life insurance and annuities which are sold by people licensed only as insurance producers. This illustrates the justification for more detailed product reporting than the current four categories – they are different products sold in different markets by different types of entities. Collecting combined data on disparate products reduces the usefulness of the data for market analysis since particular problem products, markets or sellers can be easily subsumed in broader, aggregated product data.

Further, ACLI demands separate justification for each proposed product category but has not stated, or even suggested, what type of information ACLI wants for such justification. Nor has ACLI contested any of the CEJ's justification, but merely repeated the falsehood that CEJ hasn't provided justification. For example, ACLI has not contested that any of the proposed product groupings are, in fact, distinguishable from one another. Nor has ACLI contested the justification that MCAS data specific to major products would improve the market analysis functionality of the MCAS data. Nor has ACLI contested CEJ's assertion that these common product categories can be easily reported by insurers.

ACLI's statement that CEJ has "conceded it cannot justify the new categories" is like CEJ stating that ACLI has resorted to misrepresentations because it has no remotely plausible reason to oppose this common sense improvement to the life insurance and annuity MCASs. No, wait, that's not a good analogy because it's a true statement.

Argument 2: "CEJ provided more detailed justification for lender-placed and private flood insurance"

Summary of CEJ's Rating of ACLI Argument 2

Originality: 4 out of 10

Factual Accuracy: 0 out of 10

Relevance: 0 out of 10

Overall: This argument falls into the vaguely interesting, but not relevant category.

ACLI's comment that CEJ's justifications for proposing LPI and Private Flood MCAS were longer in page length than CEJ's justification for proposing Life and Annuity MCAS reporting go from 4 overly-broad product categories to about 16 specific-product types falls into the interesting, but not relevant to the issues at hand category. ACLI fails to note there is a significant difference between adding a new line of insurance for MCAS versus refining an existing MCAS line.

Argument 3: CEJ is proposing more data collection for the heck of it.

Summary of CEJ's Rating of ACLI Argument 3

Originality: 0 out of 10

Factual Accuracy: 0 out of 10

Relevance: 0 out of 10

Overall: This argument falls into the incoherent gibberish and blatant misrepresentation categories. ACLI's use of selective quotes to suggest an intent for MCAS and market analysis completely opposite of the actual intent is an insult to regulators and consumers.

ACLI states several times that CEJ is proposing the collection of more granular MCAS data for life insurance and annuities “for the heck of it.” ACLI claims that CEJ:

elevates “market analysis” *per se* – in all of its abstraction – as *the* desirable goal. By doing so, it avoids mention of any reasonable goal or goals for market analysis of the data to be obtained for each category, thereby ignoring any which might exist in favor of collecting more data for the sake of collecting more data.

Putting aside that this argument is incoherent gibberish, it also misrepresents CEJ’s presentations on market analysis – that the goals are more efficient and effective market regulation in which regulators have the capability to more quickly and pro-actively identify problem markets and licensees and focus regulatory resources on problem markets and licenses while leaving alone licensees producing good consumer outcomes. The essential tool to achieve these goals is market analysis – the ability to analyze markets and consumer outcomes in a timely fashion to identify problems. And, in turn, the foundation of market analysis is timely data on consumer market outcomes. While other sources of information – such as consumer complaints and financial data and more – have been used and will continue to be used for market analysis, these other sources of information are insufficient to meet the goals of more efficient and effective market regulation. Regulators have recognized this through the creation of the MCAS. Regulators have also recognized that, in addition to more and better data for market analysis, MCAS can and should reduce the need for costly special data calls. The current MCAS is largely the same as the pilot-project MCAS created over a decade ago. There is clearly a need to enhance MCAS in order to improve market analysis and, in turn, better achieve the goals of more efficient and effective market regulation for the benefit of licensees and consumers.

ACLI then resorts to selective quotes to misrepresent the role of MCAS. ACLI offers the following citation from a 2003 GAO report – the italics are by ACLI. Curiously, ACLI chose not to highlight “routine and special requests for company data.”

Among other things, market analysis can provide information on insurance companies’ compliance with applicable laws and regulations, highlight practices that could have a negative effect on consumers and help identify problem companies for examination ... Analyzing complaints and complaint trends does provide regulators with useful and important information *and should be part of any market analysis program*. However, *other types of information can also help regulators* and deal with market conduct issues, including data from financial reports, rate and form filings and other company filings, routine and special requests for company data and information from other federal and state regulators. All this information...can help regulators identify companies that examiners need to look at more closely or that merit regulatory actions.

The full passage from the GAO report, plus other essential findings by the GAO, makes clear that the ACLI argument attempts to stand the GAO report and the role of MCAS on their heads. In the following, CEJ uses *bold italics* to identify missing excerpts from the GAO report and **bold underline** to highlight a key finding related to MCAS. We would also be remiss not mention that in the 14 years since the GAO report, state insurance regulators and the NAIC have made some significant progress in improving and formalizing market analysis.

Few States We Visited Did Systematic and Routine Market Analysis

According to NAIC, market analysis provides an important tool for monitoring the broader marketplace, allowing states to identify regulatory problems and better prioritize and coordinate market regulation functions, and establishing an integrated system for responding to market problems. Among other things, market analysis can provide information on insurance companies' compliance with applicable laws and regulations, highlight practices that could have a negative effect on consumers, and help identify problem companies for examination. *NAIC and some states recognize that market analysis can be a significant regulatory tool, and all of the states we visited performed some type of market analysis, but in most cases these efforts were fragmented and lacked a systematic organization and framework. We found that in many states market analysis consisted largely of monitoring complaints and complaint trends and reacting to significant market issues.* Analyzing complaints and complaint trends does provide regulators with useful and important information and should be part of any market analysis program. However, other types of information can also help regulators identify and deal with market conduct issues, including data from financial reports, rate-and-form filings, other company filings, **routine and special requests for company data**, and information from other federal and state regulators. All this information, *consistently and routinely evaluated by well-trained analysts*, can help regulators identify companies that examiners need to look at more closely or that merit regulatory actions.

While all states do some kinds of market regulation, including issuing licenses and responding to consumer complaints, two key tools—market analysis and on-site examinations—are used inconsistently, if at all. The result is inconsistent and often spotty coverage from state to state and potential gaps in consumer protection. Formal and rigorous market analysis, which could be used to determine which companies to examine and how broad the examination should be, is in its infancy among state regulators, and states that do perform examinations vary widely in the way they choose companies to examine and the scope of the examinations they conduct

NAIC Has Identified Market Analysis and Examinations as Areas Needing Significant Improvement

Market analysis consists of gathering information on a company, an agent, or a market and evaluating that information to identify issues, problems, and trends.

The excerpts ACLI omits emphasize the importance of routine and special requests for company data as part of the market analysis function as well as, of the time of the report, dramatic need to improve market analysis capability through far more than monitoring complaints. The ACLI's use of the selective quote to imply that more and better data for market analysis is not needed is unfortunate and misleading.

Argument 4: CEJ's rationale for 16 product categories is a slippery slope – why not 161?

Summary of CEJ's Rating of ACLI Argument 4

Originality: 3 out of 10

Factual Accuracy: 0 out of 10

Relevance: 0 out of 10

Overall: While the slippery slope argument is new, this argument falls into the blatant misrepresentation and vaguely interesting, but not relevant categories. It is a poor example of a strawman argument.

ACLI false asserts that CEJ's rationale for collecting "more data for the heck of it" is based on separate product coding in the product filing matrix. After falsely ascribing this argument to CEJ, ACLI then attacks the strawman by arguing, why stop at 16, why not use all 161 product codes?

The short answer to the question, why not 161 product categories, is that isn't the proposal before the working group. CEJ has proposed product categories that are already contained in the current reporting guidance. Instead of a program to extract data from an insurer's system that combines a variety of product types, CEJ's proposal would lead insurers to modify the data extraction programs to extract data by major – and well recognized – product types.

Summary

CEJ's proposal to require Life and Annuity MCAS reporting by more detailed product types is a reasonable, logical and necessary improvement to MCAS. The opposition from ACLI is without substance or merit. ACLI has literally provided no argument why this proposal will not significantly further the purpose of MCAS and improve market regulation through improved market analysis.

ACLI – and other industry trades’ – opposition to enhanced data reporting by insurers on consumer market outcomes – and their questioning of “more data is better” – stands in stark contrast to the actual actions by industry. The life insurance industry has expanded its collection of data from and about consumers in recent years for both more granular risk assessment and for accelerated underwriting. As the attached presentation on accelerated underwriting in life insurance demonstrates, life insurers certainly believe more data is better when it comes to risk assessment. It is therefore disingenuous, at best, for ACLI to argue that more granular MCAS data by product type will not improve regulators’ risk assessment capabilities.

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Hot Hybrid VAs Draw Complaints From Some

By [Cyril Tuohy](https://insurancenewsnet.com/author/cyril-tuohyinnfeedback-com)
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Hybrid, or buffer, variable annuity sales are rising so far in 2017, according to the latest LIMRA data.

Sales of a new type of variable annuity are running hot, but the product line isn't without complaints.

Hybrid variable annuities, also known as structured or buffer variable annuities, protect, or buffer, contract holders from market downturns to a limited extent. In exchange, higher caps are added to interest credited to the policyholder.

As such, these hybrid variable annuity products operate between a variable annuity and an indexed annuity.

A senior manager with the Financial Industry Regulatory Authority (FINRA) earlier this year reported more complaints related to hybrid variable annuities, which raises questions about the suitability of the products.

Andrew Stoltmann, a Chicago-based plaintiff's attorney who has brought cases against annuities of all stripes, calls buffer variable annuities "toxic and odious."

"They are the worst of both worlds – the worlds of the fixed annuity and the worst of the variable annuity worlds," he said.

High fees, the illiquid nature of hybrid variable annuities and the large commissions or fees used to entice advisors to sell them ensure that buffer variable annuities remain a bad deal for contract holders, he said.

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About 80 percent of hybrid variable annuities are sold through independent broker-dealers and banks.

101 Cases Served for Variable Annuities in 2017

FINRA doesn't break down the specific types of variable annuity cases in customer arbitration, so it's difficult to know if complaints specific to hybrid variable annuities are on the rise.

As of Sept. 30, there were 101 cases involving all variable annuities in 2017 compared with 115 variable annuity cases for all of 2016 and 104 cases for 2015, according to FINRA's database.

In the past year, Allianz Life Insurance of North America, a major seller of hybrid variable annuities, has received nine formal complaints related to the product line out of more than 14,000 hybrid variable annuity policies sold, said Matt Gray, senior vice president of product innovation with Allianz Life.

That puts the complaint ratio for Allianz Life's hybrid variable annuities at less than .1 percent.

Axa and Brighthouse Financial also sell hybrid variable annuities and more insurers are expected to enter the market niche, which represents a bright spot in an otherwise shrinking overall U.S. variable annuity market, experts have said.

Financial advisors are drawn to hybrid variable annuities because they come with fewer investment restrictions.

Insurers like them because they require less capital to support than traditional variable annuities.

Nor do companies have to hedge hybrid variable annuity risks in the way they would the risks posed by traditional variable annuities.

Sales Rise 36 Percent in 2Q

Hybrid variable annuity sales in the second quarter rose 36 percent to \$1.8 billion compared with the year-ago period, according to industry tracker LIMRA Secure Retirement Institute.

Hybrid variable annuities account for about 7 percent of the U.S. variable annuity market, a market expert said.

“The structured ones are doing very well and a few companies are driving growth,” said Todd Giesing, director, Annuity Research, with LIMRA SRI.

Overall U.S. variable annuity sales in the second quarter shrank 8 percent to \$24.7 billion compared with the year-ago period.

Sales of all variable annuities in the first half dropped 8 percent to \$49.1 billion compared with the year-ago period.

InsuranceNewsNet Senior Writer Cyril Tuohy has covered the financial services industry for more than 15 years. Cyril may be reached at cyril.tuohy@innfeedback.com.

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Simplified Issue and Accelerated Underwriting

Mary Bahna-Nolan, MAAA, FSA, CERA

Chairperson, Joint AAA Life Experience Committee and SOA Preferred Mortality Project Oversight Group (“Joint Committee”)



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What is Accelerated Underwriting (AUW)?



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What is Accelerated Underwriting (AUW)?

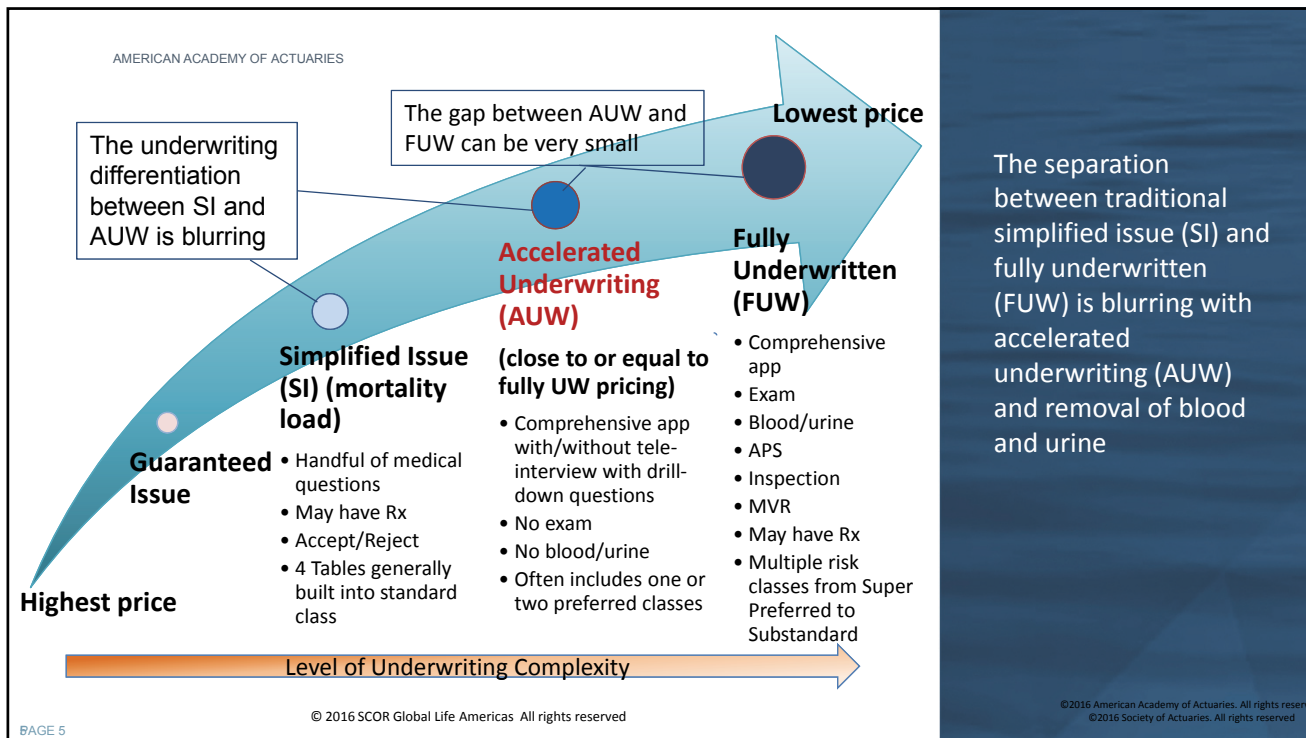
- **Working definition*:** AUW is a process that is dynamic in that non-medical and medical information gathering may be customized to the individual applicant.
 - The information gathered on two applicants for the same product, at the same face amounts, and for the same gender, age, and smoking status may be different
 - The impact on the retail premium is not expected to be significantly different from impact of traditional fully underwritten processes as we know them today
 - To achieve this dual goal the approach may involve:
 1. Reliance on traditional and non-traditional sources of information
 2. The use of predictive models that quickly interpret available information
 3. Parse the applications into cases that can be rated through non-traditional methods alone and cases that have to go through traditional underwriting

* Formal AUW definition currently being worked on by the SI and AUW Work Group

The result of AUW processes is to “right-size” the underwriting with a less invasive underwriting approach and faster time from application to issue for certain applicants with higher likelihood that collection of additional information would not change the underwriting decision.

Identifying AUW

- AUW may look like an expanded simplified issue process but with mortality that aligns more closely with fully underwritten business
- AUW is often modeled using predictive modeling and complex algorithms
- May include
 - Traditional underwriting sources collected through different means such as MIB, MVR, criminal history, Rx data, electronic lab data, and health records; and
 - Expanded application and tele-interview process
 - Non-traditional data such as clinical lab data, credit profiles, facial analytics, etc.
 - In many cases, exclude fluids (blood/urine) for cases that qualify



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Measuring the impact of AUW regimes

- AUW approaches are not homogenous and have different mortality impact expectations
 - Expected mortality differences by class typically range from small expected impact to in excess of 10%
 - Most result in shifting of mix of business between standard and preferred classes

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Innovation and disruption in underwriting is driven by several factors: New data sources, predictive models and analytics



Computational tools to analyze and develop sophisticated predictive models

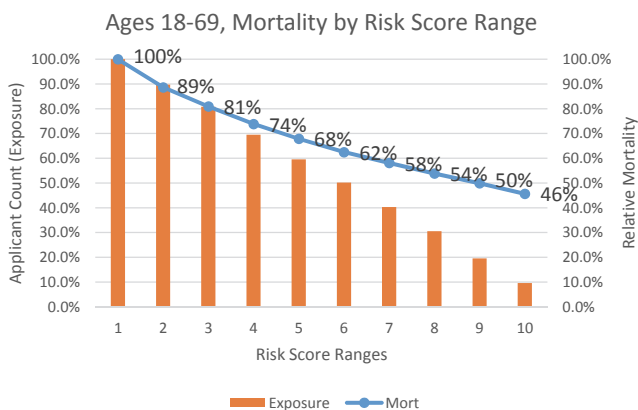
Steady increase in availability and usefulness of instantly accessible data sources

- Majority of applicants through age 55 or 60 can be fully underwritten towards 'Standard Mortality,' including preferred, without exam/fluids, using combinations of alternate information sources. This can be achieved by:
 - Knowing and appreciating the degree and power of appropriate pipeline selection; and
 - Carefully stratifying applicants suitable for 'no fluid' selection by using other favorable parameters that can be obtained non-intrusively (Rx check, MIB, MVR, credit profiles, enhanced application, detailed questioning, etc.)
- Use of other data sources, smarter applications, and tele-interviews are replacing the traditional underwriting process for certain ages and face amounts

New data sources include:

- Enhanced applications with use of behavioral economics
- Predictive models
- Credit profiles
- Electronic Health Records
- Electronic Clinical Lab Records
- Smoker propensity
- APS Summaries
- Applicant candor
- Use of wearable devices
- Facial analytics
- Criminal history
- Other emerging technologies

Use of risk scores via single or combined data sources becoming common in AUW programs



Underwriting towards any desired level.

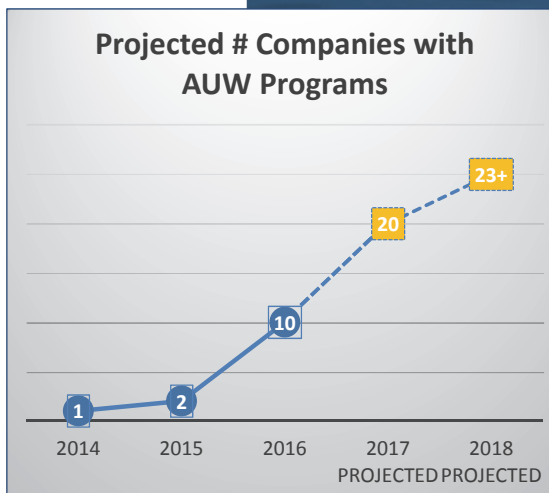
Unlike legacy UW approaches, selection by Risk Score can be finely tailored towards a specific target across a wide range of possible scenarios.

As less favorable risks (by score) are 'removed' from the group, the mortality of the remaining applicants improves in predictable fashion.

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Number of companies with AUW programs is increasing at a rapid rate

- In 2014, one major plan introduced AUW for fully underwritten products
- In 2016 and 2017, significant increase in the number of companies with AUW programs
- SOA survey conducted in 2016
 - Results of 27 respondents currently being compiled
 - 10 have implemented in some form;
 - 10 working on implementing;
 - 3 currently evaluating



Source: Society of Actuaries 2016 Predictive Analytics and Accelerated & Enhanced Underwriting Survey Preliminary Results and SCOR Global Life internal research

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Company motivations and approach to AUW varies and often drives structure of program

Motivations for change

- Attract new customers
- Aging underwriter force
- Aging distribution network
- Reduce expenses
- Improve the customer experience
- Improve risk selection and add consistency

Approaches vary

- Knock-out
- Triage
- Parse
- Predictive decision model
- Most utilize Rx rules engine
- Underwriter may review all cases
- Some limit classes
- Most limit and face amount
- Some require tele-med on all cases and revised application

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A single table or approach is difficult for SI/AUW products



- Mortality outcome for any underwriting regime is a factor of many selection levers
- All levers need to be considered
- For these reasons, two seemingly similar programs may not result in a similar mortality outcome
- Key determinants to mortality outcome include:
 - Application structure
 - Target market
 - Distribution method
 - Individual selection criteria
 - Claims adjudication policies
 - Program management

The Accelerated Underwriting Challenge

