

SI/Accelerated Underwriting – VM20 Practice Work Group Update

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Preferred Mortality Project Oversight Group (“Joint
Committee”)

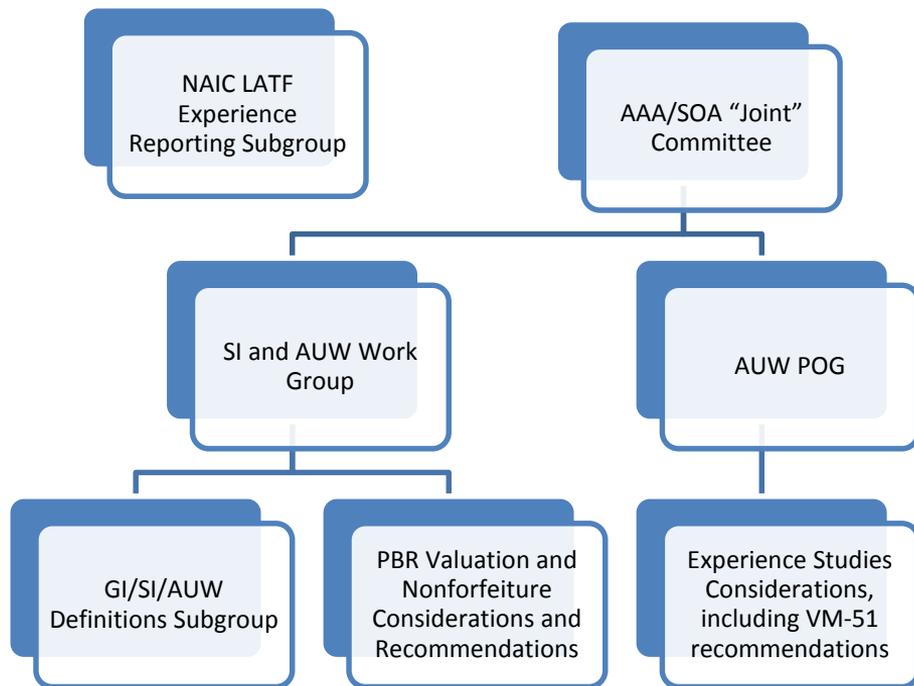
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Joint Committee Simplified Issue (SI) and Accelerated Underwriting (AUW) Structure



GI/SI/AUW Subgroup

- Define underwriting type definitions

PBR Valuation and Nonforfeiture (NFF) Considerations and Recommendations

- Identify issues when applying VM-20 to policies issued using an accelerated underwriting program

Definitions

- Still a work in progress
- Challenging to define with quickly changing landscape with delineation between various underwriting approaches blurring



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Traditional vs. Accelerated Underwriting

Traditional Underwriting

- Highest face amount
- Issue ages limited by design
- Expensive and invasive underwriting process
 - Examinations required
 - Fluid collection required
 - Lengthy underwriting process
- Multiple risk classes (e.g., sub-standard to preferred)
- Preferred premium rates provide coverage at the lowest cost

Accelerated Underwriting

- Face amounts limited (up to \$2 million) and expanding
- Currently available for issue ages 18 and up to 60
- Non-invasive underwriting process
 - Less expensive
 - Shorter time to decision
 - Predictive algorithms may be used
 - Extensive use of third-party data
 - Non-medical data used to achieve competitive rates
- May have multiple risk classes (fewer than traditional underwriting)
- Premium rates may be comparable to traditional underwriting



Simplified Issue vs. Guaranteed Issue

Simplified Issue

- Screening criteria may add protective value (actively at work, market segmentation, affinity relationships, participation requirements)
- Face amounts can vary by plan and strategy
 - Whole Life limited to lower face amounts such as \$25,000
 - Term policies generally provided for face amounts up to \$250,000
- Application often limited to 1-3 pages with limited protective value
- Underwriting criteria varies from one company to the next
- Secondary sources of underwriting data limited to established forms, e.g., MIB, Pharma history (Rx), Motor Vehicle Report (MVR)
- Premium rates are lower than Guaranteed Issue

Guaranteed Issue

- Face amounts limited to \$25,000
- Benefit structure may be limited in early durations (e. g., Return of Premium)
- No medical information is collected
- Restrictions based on age and membership in an eligible group
- Premium rates are the highest per \$1,000 of face amount



Accelerated Underwriting vs. Simplified Issue

Accelerated Underwriting

- Advancements over the last few years focus on:
 - Consumer friendliness
 - Less invasive
 - Added protective value that is close to medical underwriting
- Application length may vary, some are shorter and others mirror fully underwritten detail
- Pre-screening or knock-out questions are common
- Protective value comes from many sources

Simplified Issue

- New hybrids of SI are evolving to be more like AU
- Data collected during underwriting remains non-invasive and application may still be limited.
 - More health questions than older SI products but less than AU
 - Authorization language is more extensive and similar to that found on AU applications
- Less protective value from underwriting translates into higher premium rates than AU
- The level of mortality may vary from one company to the next due to different:
 - Target Markets
 - Distribution Strategies
 - Underwriting Nuances



Next Steps – Finalize the definition recommendations

GI working definition in place

- A policy or certificate where the applicant must be accepted for coverage if the applicant is eligible. Eligibility requirements may include:
 - Being within a specified age range
 - Being an active member in an eligible group (e. g., group solicitation in direct marketing)
- Inclusion in any of the following characteristics or product types disqualifies the policy as GI:
 - Actively at work requirement
 - Employer groups
 - Acceptance based on any health related questions or information
 - Waiving of underwriting requirements based on minimum participation thresholds, such as for worksite marketing
 - COLI / BOLI (Corporate/Bank Owned Life Insurance)
 - Credit Life Insurance
 - Juvenile-only products (e. g., under age 15)
 - Preneed

Current Practice:

- Low face amount and products may have limited or modified benefits in early policy years;
- The applicant may not choose the face amount of the policy (e. g., marketing associated with mortgage events)



Next Steps – Finalize the definition recommendations, cont'd

SI definition is challenging and evolving

- Mortality experience from one product to another can be vastly different
- Distribution and marketing segmentation influences mortality
- Medical information used during underwriting varies by company
- Accept / Reject decision using only information from the application versus use of other information (e. g., credit scores, electronic data, predictive analysis)
- Product type / design can influence policyholder behavior which in turn may impact mortality
 - Term vs. Whole Life
 - Premium Structure: Level vs. 5-Yr Attained Age Premiums
- Historical vs. newer versions can have vastly different approaches and designs
- SI is evolving to be more like AUW but currently have higher premiums than AUW
 - What happens with emerging electronic data sources such as electronic health records, clinical lab data and e-APS that is further closing the gap?



Next Steps – Finalize the definition recommendations, cont'd

AUW working definition continues to evolve

- 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. The segmentation of the applications into cases that can be rated through non-traditional methods alone and cases that have to go through traditional underwriting

Current Practice:

- Issue ages limited to 18 – 55 is common
- Face amount maximum currently \$2 million but often lower (e.g., \$1mm)

A further complexity in defining AUW is how to categorize non-medical applications of traditionally underwritten products

- AUW in some cases may be an extension of non-med bands of traditionally underwritten products



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PBR Valuation and Nonforfeiture Considerations and Recommendations (VM-20 Reserving Subgroup)



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VM-20 Reserving Subgroup Goals and Focus

- **Primary Goals**
 - Identify current valuation practice for underwriting types
 - Identify areas where additional guidance is needed
 - Out of Scope: Appropriateness of underwriting techniques
- **Focus on Mortality in Modeled Reserves**
 - Deterministic (DR) and Stochastic (SR) rather than Net Premium Reserve (NPR)
- **Durability**
 - Guidance to accommodate future innovation



Progress to Date

- VM Walk-through
 - The subgroup walked through application of VM-20 and VM-31 to new accelerated underwriting block
- Determined need for both a long-term and short-term approach
 - Unlikely to get changes into VM-20 in time for effective date prior to 1/1/2019
 - Companies will likely need guidance on calculating PBR until appropriate changes are made



Short-term Approach

- Timing: Would need adoption of VM changes by July 1, 2017 for effective date prior to 1/1/2019
- In the interim, guidance is recommended
- Question as to form of guidance/approach
 - Provide no guidance
 - Add guidance notes within VM
 - Develop a Practice Note that will evolve over time
 - Develop LATF Interpretations
 - Apply additional margin to mortality for all AUW



Moving Forward – Long-term Approach

- Research Study: Delphi Technique
 - A multi-round survey of experts
 - Draw conclusions regarding:
 - Emerging underwriting practices
 - Impact on observed mortality under emerging practices
 - Purpose is to provide practitioners and regulators with a framework that:
 - Clarifies how to categorize different underwriting practices
 - Benchmarks adjustments to base mortality tables for different practices
- Precedent for future changes and evolutions to products valued under VM-20



General Assumption Considerations

- VM-20 flags mortality as a risk factor to which statistical credibility theory may be appropriately applied (Section 9.A.6.a)
 - Blend company experience with industry data
- Heavier reliance on industry standards if statistical credibility theory is appropriate but can't be applied due to lack of data (9.A.6.b)
- “For risk factors that have limited or no experience or other applicable data to draw upon, the assumptions shall be established using sound actuarial judgment and the most relevant data available.” (9.A.6.c)



Specific Mortality Considerations

- May adjust own company experience to reflect “incremental change due to the adoption of risk selection and underwriting practice different from those underlying company experience data... provided that the adjustments are supported by medical or clinical...or other published studies...” (9.C.2.f.(i) and Guidance Note)
- If company data unavailable, can use an applicable industry table (9.C.1.b.i)
 - No specific Accelerated UW Table
 - A modified Valuation Basic Table is permitted (9.C.3.b)
 - Actuarial judgment as alternative to UCS Tool (9.C.3.d & e)



Where does this leave companies?

- What are a Qualified Actuary's options for calculating VM-20 reserves for AUW blocks?
 - Calculate net premium reserve using the current prescribed commissioners' standard ordinary (CSO) tables
 - For modeled reserves: Determine industry mortality for grading purposes based on a relative risk factor, actuarial judgment (9.C.3.e), and, if needed, adjusting tables to be consistent with mortality expectations.
 - Define mortality segments based on actuarial judgment. Additional margins per 9.C.5 and 9.C.6, as needed.



Thank you for the opportunity to provide input.

If you have any questions or would like to further discuss these topics, please contact Heather Jerbi, Academy Assistant Director for Public Policy, at Jerbi@actuary.org.



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