



AMERICAN ACADEMY *of* ACTUARIES

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December 18, 2020

Honorable Marlene Caride, Chair
Honorable Doug Ommen, Vice Chair
Life Insurance and Annuities (A) Committee
National Association of Insurance Commissioners (NAIC)

Dear Commissioner Caride and Commissioner Ommen:

On behalf of the American Academy of Actuaries,¹ the Life Underwriting and Risk Classification Work Group of the American Academy of Actuaries monitors developments regarding underwriting and risk classification public policies and their implications for the life insurance and annuity marketplace. Recently, state regulators and state legislators have made a number of policy decisions to limit underwriting flexibility, the potential consequences of which we would like to bring to your attention.

Specifically, we have observed regulatory and legislative actions in some states that limit in some manner underwriting questions in life insurance applications regarding COVID-19 or other mortality risk indicators (HIV status, family history, genetic information, age, and gender). Examples are included in the appendix to this letter.

Flexible underwriting programs are critical to maintaining a sustainable life insurance marketplace in response to changes in risk factors, particularly with increased uncertainty such as the case with the pandemic. The flexibility is needed because life insurance underwriting is done once for a lifetime of benefit coverage. Given the significance for life insurance products, and therefore life insurers, a thorough understanding of consequences is needed when considering restrictions or limitations.

- **Life underwriting facilitates the establishment of equitable premiums.** From an actuarial perspective, premiums are equitable when they are commensurate with risk. Underwriting allows for the classification of insureds into groups of similar risks, which allows for equitable premiums in each group. Without a thorough evaluation of the risks, actuaries cannot determine equitable premiums and/or must build margins into the premiums (i.e., increase costs for consumers).

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

- **Life underwriting safeguards the ability to pay future benefits.** Although insurers want to provide coverage to as many individuals as possible, some risks are too great or too unknown to prudently insure. Underwriting enables insurers to identify and rate, deny, or defer the acceptance of risks that are too unknown until they are better understood. If insurers cannot identify risks that are too great or too unknown it will result in premiums including larger margins for uncertainty.
- **Life underwriting provides data to study emerging risks.** Actuaries need to be able to collect information to evaluate the impact of emerging risks on consumers and the insured population. This enables types of insurance coverages to evolve as more information and new types of data become available. Limiting the ability to collect information will hinder risk assessment both now and in the future.

While we recognize that policymakers must balance different considerations when making public policy decisions, our work group wants to highlight the actuarial impacts from limitations on underwriting flexibility and how those impacts may affect the life insurance marketplace.

Given the importance of protecting consumers while maintaining flexible underwriting, establishment of underwriting policy principles could be a valuable resource for state legislators when considering new regulations or legislation. And, given some of the public comments made by state regulators relative to limitations, we suggest that you consider discussing recent regulatory and legislative limitations on underwriting practices in your Committee and consider developing a set of principles to be utilized when adopting policy related to life insurance underwriting. Our work group is available to support these efforts and provide analysis according to your needs. We also refer you to a June 2017 Academy issue brief, [*Life Insurance and Annuities: The Impacts of Regulatory Requirements on Consumer Cost and Consumer Choice*](#), that discusses some of these topics in more detail.

If you have any questions or would like further dialogue on these topics, please contact Khloe Greenwood, the Academy's life policy analyst, at greenwood@actuary.org.

Sincerely,

Sue Bartholf, MAAA, FSA
Chairperson, Life Underwriting and Risk Classification Work Group
American Academy of Actuaries

CC: Members, Life Insurance and Annuities (A) Committee
Jennifer Cook
Jolie Matthews
Reggie Mazyck
Mike Boerner

Appendix

Below are select actions observed by the work group.

- COVID-19-related actions and comments
 - o Notice to life insurance companies authorized to conduct business in Connecticut concerning COVID-19 related questions on life insurance applications
 - o “Florida, Washington Reject Application Forms That Ask About Covid,” www.lifeannuityspecialist.com, Elizabeth Festa, October 7, 2020
- Use of external consumer data and information sources in underwriting for life insurance
 - o NY Circular #1 (2019)
- Genetics/gender in underwriting
 - o Florida Law Section 627.4301, effective 7/1/2020
 - o Vermont Senate Bill S.197, an act relating to prohibiting discrimination based on genetic information
- HIV legislation activity
 - o New York State Assembly Bill 9552
 - o California Senate Bill SB961, The Equal Insurance HIV Act