



SOCIETY OF ACTUARIES

**Health Spring Meeting
May 2008**

**Session # 6: Actuaries Working with
the Underwriter**

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Actuaries Working with Underwriters

Building a Partnership



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Building a Partnership

- > Take down the walls
- > Build bridges
- > Travel back and forth



Take Down the Walls

- > Be respectful
- > Show patience
- > Consider physical locations

3



Build Bridges

- > Explain your answers
- > Share the results of studies
- > Include each other in meetings
- > Talk about changes to formulas or factors
- > Collaborate on the timing of these changes

4



Travel Back and Forth

- > Rotate actuarial students through Underwriting
- > Work together on a team project

5



Repeat the Process

- > Incorporate new staff
- > Complacency is a foe

6

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Improving Communication Between Actuaries and Underwriters to Improve Pricing Accuracy

Achieving a Successful Partnership

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Actuaries and Underwriters: Stereotypical Extremes

Actuaries are typically...

- Conservative
- Analytically accurate but precision seeker
- Medium to long term focus and action oriented, limited urgency
- Financially result oriented/biased
- Program oriented
- Number persons with some people interactions, shy, quiet

Underwriters are typically...

- Moderate to Conservative
- Analytically accurate but flexible
- Short to medium term focus, responsive and fast paced action oriented
- Balancing financials with growth
- Customer oriented
- People persons with a Numerical focus, approachable, conversationalists

The best actuaries and the best underwriters understand these extremes...and have a little bit of both in their approach

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Actuaries and Underwriters: Successful Partnership

A few issues that impact successful partnership...but do not need to:

- Reporting relationship
- Leadership personality
- Clearly defined levels of responsibility and case review
- Respect for partner's skill sets

Actuaries and Underwriters: Successful Partnership

- Rate Development: Include U/W leadership in the rate development process
 - Actuaries: Do not create rates in a vacuum. Understand the marketplace and underwriting cycle by engaging U/W in discussion prior to rating action.
 - Underwriters: Inform, educate about the "optics" on certain rating variables as well as what is included in standard presentations by U/W and Sales to customers.
 - Both: Feedback dialog around market perception of rates

- Actuaries: Provide talking points for rating changes.
- Underwriters: Review such material quickly for understanding and use

Actuaries and Underwriters: Successful Partnership

- Responsiveness: Appreciate the pressures on each area
 - Actuaries: Underwriters are continually “on call” for Sales/Brokers who are trying to sell at the “best” price. As such, be responsive and understand the sense of urgency.
 - Underwriters: Understand the broad scope of duties of actuary and provide as much lead time and details of issues as possible.
 - Both: If at all possible, rotate actuarial pricing staff through U/W **as an underwriter** to allow actuarial staff to understand the dynamics of the underwriting job. At the least, have actuary staff attend U/W training sessions. In addition, support the use of underwriting staff in a short term rotation with the actuarial pricing staff to allow U/W staff to understand the dynamics of the actuarial job.

Actuaries and Underwriters: Successful Partnership

- Planning: Recognize the fact statements like “the rates won’t be ready until next month” or the “factors need another review” are not acceptable to an U/W department that needs to respond “now” or lose face.. or the case. At the same time, “I need a revised rating development now” is equally not acceptable to Actuary.
 - Both: Agree upon clearly defined rate development timelines that reflect the reality of the marketplace needs...and meet them. Work backwards from the U/W market lead time needs as much possible when setting actuarial deliverables.

Actuaries and Underwriters: Successful Partnership

- Implementation - Make sure that results calculated during rate and factor development actually are generated when put into the rating system.
 - Actuaries: Ideally, model the results of rate actions within the same rating engine used by U/W so that all interactions are played out exactly as would occur during rating. Remember that a small “average” impact may mask an actual spread of unacceptably high rates or undesirably low rates. Communicate a clear impact analysis of change prior to implementation.
 - Underwriters: Develop a transition plan for pricing changes. Recommend changes to Actuarial that achieve desired objectives but moderate the challenges of transition.

Actuaries and Underwriters: Successful Partnership

- Implementation - Make sure that results calculated during rate and factor development actually are generated when put into the rating system (continued).
 - Actuaries: Where possible, limit extreme fluctuations when setting variables (trend, manuals, retentions).
 - Underwriters: Communicate the impact of key or top groups on a segment’s pricing formula.

Actuaries and Underwriters: Successful Partnership

- Share and discuss key assumptions, especially levels of conservatism
 - Both: Agree on clear, traceable parameters and reporting for use of all or some of that conservatism. Without an understanding of actuarial goals, inadvertent results will occur. A lack of shared understanding of margins can have staff's working in opposite directions.

Actuaries and Underwriters: Successful Partnership

- Monitor results
 - Both: Monitor results timely. Once a year at review time is not adequate. Ideally, the rating system will support such monitoring activities.
 - Both: Monitor results consistently. Make sure common understanding of monitoring approach, i.e., if MLR used, then common formula OR routinely reconcilable differences (i.e. actual MLR versus rating MLR). Understand differences in tracking to manuals (actuarial) versus budgets (U/W)

Actuaries and Underwriters: Successful Partnership

- Communicate emergent impacts
 - Both: Develop a routine process for communicating emergent trends and potential changes in pricing strategy or formulas that might be in the pipeline.
 - Both: As new technologies become available, discuss appropriate process for inclusion/modification

Actuaries and Underwriters: Successful Partnership

- Continually review process handoffs.
 - Actuaries: Make sure that fixes or tweaks in the formula or factors do not result in double impact, if U/W has already instituted a “workaround” for the problem.
 - Both: Have regular meetings (biweekly is reasonable) of pricing actuarial staff and underwriting/underwriting system support staff to review process handoffs, timelines, deliverables, challenges. This is **not** a case review meeting but a focused communication meeting.
 - Actuaries: Develop a formal process to understand gaps in rating formula, approaches, etc that require U/W workarounds and set rational timeframes to correct and meet those timeframes.

Actuaries and Underwriters: Successful Partnership

- Summary:
 - Appreciate that Actuarial Science and the Art of Underwriting are mutually supportive, not exclusive.
 - Acknowledge that each has a role in making the company financially sound and grow successfully.

Actuaries Working With the Underwriter

SOA MEETING MAY 2008

**Presented by: Tony Nista, Director
Humana Large Group Underwriting**

1

Index

- **Engagement Dynamic**
- **Building an Efficient Functioning City**
- **Building a Healthy Block of Business**
- **Business Strategy Continuum**
- **Practical Application of Pricing Models**
- **Underwriting Rules of Practical Application**
- **Financial Model Requirements – The Numbers**
- **Managing Business Blocks – The Strategy**
- **Rules of (Successful) Engagement – The People**

2

Engagement Dynamic

- Actuarial.....Underwriting.....Finance/CFO
- Three similarly grouped functions yet distinctly unique
- Independent – fractured processes, disconnects, poor results
- Inter-dependent – whole is greater than the sum of its parts

3

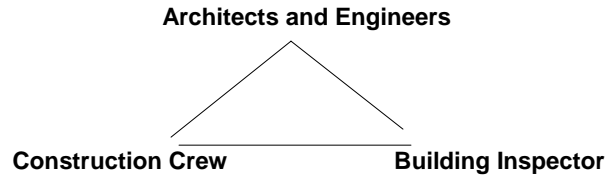
How Do You Model Success?

“We may not be interested in chaos, but chaos is interested in us.”

**(Robert Cooper, The Breaking of Nations
Order and Chaos in the 21st Century)**

4

Building An Efficient Functioning City

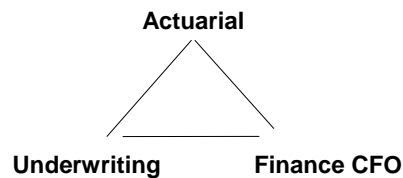


- **Architect/Engineer** - designs the building plans for the homes, roadways, utilities
- **Construction Crew** – Builds the actual homes and infrastructure using the plans
- **Building Inspectors** – Inspects the sites to evaluate construction meets the plan specs

**“It takes a Village!”
(Hillary Rodham Clinton)**

5

Building a Healthy Block of Business



- **Actuarial** – Sets the global pricing policies and risk strategy
- **Underwriting** – Applies the policy/strategy to actual groups/blocks
- **Finance/CFO** – Provides back-end reporting to measure results

**“Everybody else is just green! Have you seen the charts!?”
(Roger Waters, Pink Floyd)**

6

Business Strategy Continuum

Critical components to the success of any strategic plan:

- Develop the plan – what, when, why, where, how
- Execute the plan – make it happen
- Feedback/Results – how are we doing?
- Redefine the plan, and the continuum goes on.....

**“Battle is a fluid situation.”
(John Travolta, Broken Arrow)**

7

Practical Application of Pricing Models

- Actuarial pricing models are constructed on theory and methodology
- Case-specific situations are volatile and contain more moving parts
- Decisions are impacted by many factors, both tangible and intangible
- Underwriter “instinct” plays a big part in success

“I get paid to be suspicious when there’s nothing to be suspicious about.”

(Wilfred Brimley, The Firm)

8

Underwriting Rules of Application

- **80/20 Rule – 80% of the claims generated by 20% of the population
(Focus critical time on large claims avoidance)**
- **90/10 Rule – generally only 10% quoted business will close/sell
(Focus critical time on top 25% of prospects – avoid suspects)**
- **50/50 Rule – no matter how good the tools, results are subject to chance
(Do the numbers – then “underwrite” the account)**

**“Doctor, you can run your numbers and charts all you want, but in the field, this is how it works...”
(George Clooney, The Peacemaker)**

9

Financial Model Requirements – The Numbers

Effective Balancing of Three Main Dynamics:

- **Target Membership Volume**
- **Target Medical Loss Ratio**
- **Target Underwriting Margin (Premium less Claims)**

**“I feel like I just gave birth – To an Accountant!!!”
(Rodney Dangerfield, Back to School)**

10

Managing Business Blocks – The Strategy

Categorize Business as Follows:

- **“Must Keep” Accounts – At All Costs**
- **“Try to Keep” Accounts – Reasonable Price Points**
- **“Willing To Let Go” Accounts – Unless Priced to Profit**

***Actuarial, Underwriting, Finance and Sales must collaborate for this to work effectively!**

**“Don’t let adverse facts stand in the way of a good decision.”
(General (Ret.) Colin Powell)**

11

Rules of Engagement - The People

- **Understand the Role, Disciplines and needs of Each Party**
- **Be Willing to Take Ownership, and Know When to Release It**
- **Communicate! Communicate! Communicate!**

**“Never doubt that a small group of committed people can change the world. Indeed it is the only thing that ever has.”
(Margaret Mead)**

12

QUESTIONS