



SOCIETY OF ACTUARIES

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# Industry Committees Help More Than Most Realize

by Jess Mast

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*Intercompany mortality studies provide vital data to the individual company as well as to the industry as a whole. In this article, Jess Mast provides specific information about why an insurer may want to participate in such studies. He expects the new millennium to produce profound changes and at an accelerated pace, making intercompany mortality studies even more important to the industry. He chairs the Mortality/Morbidity Liaison Committee of the American Academy of Insurance Medicine.*

**M**ention intercompany mortality studies at underwriting and actuarial meetings and one of two reactions generally occurs: eyes glaze over because of little or no knowledge about the studies, or only vague recognition evolves because of little or no commitment to participate in the studies.

These reactions are disturbing at both the company and industry level. The company is losing opportunities to gain valuable information, and the industry as a whole suffers because its members are not taking the collective longer and wiser view.

As chair of the Mortality/Morbidity Liaison Committee (MMLC), I see relatively few companies participating in intercompany mortality studies other than those involving impairments. For those not familiar with the MMLC, its membership includes:

- Actuaries, representing the Society of Actuaries Experience Studies Committee

- Medical directors, representing the Mortality/Morbidity Committee of the American Academy of Insurance Medicine
- Underwriters, who serve on the Underwriting Experience Studies Committee and represent the Home Office Life Underwriters Association and the Institute of Home Office Underwriters

The higher interest in impairment studies likely exists for two reasons: medical directors and underwriters want as much information as possible to use when underwriting decisions or practices are challenged, and stiffer competition in preferred-risk underwriting means companies relish contemporaneous data that helps them validate and further fine tune selection and qualification criteria.

A bright spot has been the Impairment Study Capture System (ISCS), introduced in the late 1980s. Many companies found the ISCS appealing because participation was relatively easy, so that more than 45 companies have submitted data to the MIB's Center for Medico-Actuarial Statistics.

## Company-specific benefits

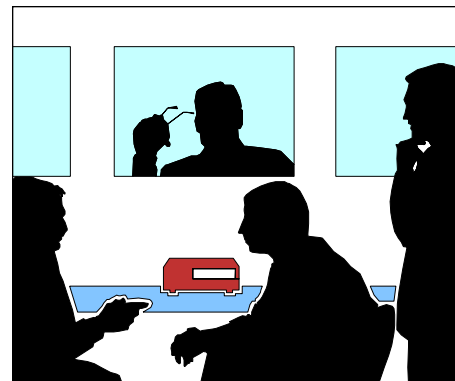
Companies who decide not to participate in intercompany mortality studies or conduct studies on their own business for internal use may be overlooking these benefits:

### *Retrospective review*

Mortality studies help a company better identify areas performing better or worse than anticipated and are consistent with the needs to perform due diligence.

### *Pricing and underwriting effectiveness*

Evaluate the effectiveness of pricing and underwriting periodically, including the ability to better estimate the impact of



previous or contemplated changes in underwriting or product pricing and evaluate or improve how well pricing and underwriting functions are coordinated.

### *Emerging experience*

Improve one's ability to understand emerging experience and validate it against corresponding pricing expectations for classification factors such as gender, age, policy duration, cigarette or other tobacco usage, screening requirements used (e.g., nonmedical vs. paramedical or physician examinations, tests such as those using blood/saliva/urine and electrocardiograms), and criteria used to distinguish preferred from other standard risks (blood pressure, build, blood test findings, other test findings, occupational/sports/aviation activities, driving record, misuse of drugs).

### *Intercompany data*

Compare your company's results against corresponding industry-wide results to help identify and possibly understand reasons for any major differences.

### *General population data*

Compare mortality among insured lives with corresponding segments of the

general population in order to extrapolate from population data at times when data on insured lives is absent.

#### **Better knowledge base**

Strengthen information within the organization for use in responding to challenges from regulators and others who request justification for underwriting practices, risk classifications or pricing assumptions.

#### **Credibility**

Enhance the credibility of the company's objectives and practices through integrity of data.

#### **Industry-wide benefits**

In addition to company-specific benefits, the industry as a whole stands to benefit as well.

#### **Volume**

Data on an industry-wide basis will be needed at times to provide sufficient volume to support the credibility of some bases used to select, classify and price risk. For example, since the elderly market presents different medical, underwriting and pricing challenges than either the middle or younger ages, a variety of inter-company studies is needed on the elderly. Also, certain data may be helpful from lab test findings, especially those combinations that occur relatively infrequently and may require a pooling of data from many companies to facilitate analysis.

#### **Deeper understanding**

The MMLC and other industry committees help companies understand their mortality experience on past and contemporaneous bases. The availability of additional disciplines from a wide variety of backgrounds — epidemiologists, statisticians, demographers and data-processing experts—either already resi-

analyzed and in their results. It is imperative that analyses and data reflect an understanding of the underlying issues faced by the contributing companies, particularly among the product pricing, actuarial, medical and underwriting functions. Obviously, confidentiality agreements are needed from everyone involved in all phases of data handling.

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dent on the MMLC or available within the companies represented on the MMLC and their sponsoring committees, brings the diversity needed to assure the usefulness of results. The findings are shared with contributors to the study and published for wider consumption. Currently the MMLC is analyzing mortality contributions to the ISCS and the Alcohol Abuse and Live Enzyme (AALE) Study for publication early in 2000.

#### **Confidence**

The totality of perspectives and expertise brought by members of the MMLC and their associates enhances confidence in how data are compiled, studied, and

Such studies help each company and help the industry as a whole. Your company's decision to participate in these studies assures a better future for the industry by helping to strengthen the foundation on which the underwriting process and risk classification stand.

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