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An Actuary, an Underwriter and a **Marketer in a Boat**

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OK—they were not in a boat but rather on a stage in Toronto in front of a couple of hundred underwriters, and those that love to hang around underwriters. It was the one part of a two-day meeting that I really wanted to see and hear, even though the meeting overall conflicted with other travel and client commitments. I thought that it, and lunch, would be worth the day's admission price. I was able to slide into the back of the room just as the session started and tried to stay as conspicuous as possible by remaining standing.

Regardless of the title they put on their presentation, it seemed to me a chance for the three key disciplines in our business to explain why we are in the position we are today. You could say that we are not in great shape, or you could boast that we are in great shape. It is the old "glass is half full or half empty" comparison. I was very curious to see if the three would meekly state their case and slyly point the finger of blame at the other two, or if there would be challenging and perhaps even derogatory innuendo thrown freely. I knew the actuary and the underwriter, so I did expect a feisty session. Surely someone would address the appalling state of customer service in the industry today as advisors, and even customers, scratch their heads in confusion over the new business service experience. Sorry, let me correct that, since the service for the "vanilla" case clear of even a facial blemish does slide through unencumbered by restrictive and confusing underwriting as recounted to me for the past two years by numerous advisors and managing general agents (MGAs).

What one hears or thinks they hear at a meeting and its presentations is as unique as one's bodily appearance. We listen with predetermined biases and in some cases with a conclusion already in mind even though the presenters have yet to utter a word. I am no different and as someone truly unique (interpret that as you wish), I do have strong biases and opinions honed at the table of underwriter, advisor, actuary and customer. Thus what I recount here is filtered through my psyche and then put onto paper. I stand to be corrected or challenged by anyone else who may have filtered the remarks differently.

Starting with the easiest person's remarks to muse over, one has to stretch desperately to find any recordable moments of insight from the marketer. There was one underlying theme to everything he said, I think. It was something along the lines of "lower the price." No, there was no pronouncement or regaling stories of new products or broadening the target market; after all, who wants to bother to sell to young people who only want term for amounts that produce premiums that do not afford enough commission to pay for gas and time?

I sensed no marketer shame in not being able to enunciate a way to sell or, better put, replace existing insurance than with a lower price. He failed to say that without a 35-year history of drastically lowering prices, many marketers could not have survived. Heaven forbid they might have to look for new applicants! We saw the great opportunities produced by lower prices when nonsmoker came along, even though we know 15 percent were smokers who lied; aggressive segmentation called preferred even though we know some 15 to 20 percent were underpriced until underwriters were audited; and then we had the aggressive reinsurance pricing and overlapping lapse-supported pricing. Lapse, oh please, lapse. Price is the bottom line, and for 35 years marketers have made their quota of sales and thus the great bonuses that follow. It's not surprising that I came away feeling the "marketeers" (not to be confused with "Mouseketeers," who generally have a very exceptionally good reputation) in general remain singularly focused and wonder why they reap such rewards.

The wise and overly self-confident actuary had the chance to step forward and cast out any doubt as to why we are in the position we are today. Instead he adumbrated again what the future holds as he has in the past. We have to lower prices to attract sales since everybody does it. Is there not a story about buffalo over a cliff? No, that is wrong since the buffalo were herded over the cliff together. Now lemmings, on the other hand, do migrate blindly following one another; and yes, they may go over the cliff into the sea. Actuaries in the product-pricing world spend countless hours trying to make it look like their pricing is original when really it is merely either their old price less enough pennies to make it be in the top five competitively, or better yet take the number-three price and subtract two pennies to assure a place in the top three. The bulk of the time is spent trying to bulk up their report to make it look like it was all original science!

> **"HEAVEN FORBID BEING THE ONLY COMPANY ASKING FOR A TREADMILL. ..."**

For decades it seems I have read (smuggled copies) or been told the contents, surreptitiously, of a noted reinsurance company's survey of Canadian actuaries. It always amazed me when I heard numbers like 90 percent in reference to the number of respondents who think everyone else's price is far too low, yet who believe that theirs is right. I always viewed the respondents as anonymously telling me that their price is set not on true projections and historical merit, but rather on what the competitor is doing. Once they set a price they send it to the reinsurer who says they can even do better so why not reinsure more? Thus, in Canada, we have some 75 percent of all life risk reinsured at prices I deduce are far from adequate. Lapse, oh let it lapse!

There was also actuarial jargon around large cases where the hint was that the price was inadequate to take into account anti-selection and compensate for the ever-diminishing requirements. Much of our data from past large cases was based on a requirement list that included medicals by guess who? Doctors! Also, we had treadmill ECGs and chest X-rays, and second medicals, and far more comprehensive third-party reports. Do our prices reflect stripped-down paramedicals and simply resting ECGs as sufficient to define the risk?

Lastly—and this was confirmed afterwards by an actuary I respect (yes there are some of those out there and I hold them in high esteem)—there is talk that the larger or megacase is showing a suicide rate unprecedented in the past and worrisome. Is anti-selection amongst the applicants for large policies growing? Many underwriters would think this a fair statement, yet they can do little as "marketeers" have more clout. The time pressure thing takes precedence over going the extra mile to investigate.

The smiling actuary took no blame for lower prices, lower margins and emerging results, but he had a good time at the meeting. I am sure he must have been thinking this was the easiest gig he has ever had. He priced it and any failure to meet long-term mortality and morbidity objectives is the fault of the underwriter who has meekly accepted a price that affords them little time or money to underwrite. But maybe these are the good old days; and time will say the business that lapsed, and the bad that did not, were covered by our lapse-supported product pricing.

Underwriters generally go out of their way to not rock the boat or upset those with more clout in our home offices. At this meeting the senior and well-respected (yes I do respect this leader) underwriting leader failed to tear apart the failings of our industry over the past decade. Instead it was pointed out that it was very much a case of follow the leader when it comes to things like requirements. Heaven forbid being the only company asking for a treadmill. I heard not one mention of true and extensive cost-benefit analysis. Risk and reward was where? I only sensed an accommodation to what reality laid in the palm of the underwriting leader. Minimal requirements budget, increasing underwriting salaries (often for people to read a file that is all "no" and could have been done by machine or a cohort of university students after classes), and pressure to concentrate on the "vanilla" cases letting the medically impaired fall by the wayside (is it true that we now decline 10 to 20 percent compared to 4 percent 20 years ago?).

No push back. No raising the ire of "marketeer" or actuary. Just a statement here and there that things are tough out there but we'll be all right, and I am meeting budget and time/service targets, and there is no reward for innovation or expanding the pool of insurable lives. The leader lives in the present and gets rewarded as she should. When was the last time she was rewarded for finding a way to lower the extra premiums on an impaired group of lives?

An interesting session, and I remain cognizant of the fact that it was worth the price of admission if for no other reason than to have our industry succinctly trivialized by three people in a boat. They were all happy to go where the current takes them. Let's just hope it is below the falls, not above. ■