SOCIETY OF ACTUARIES

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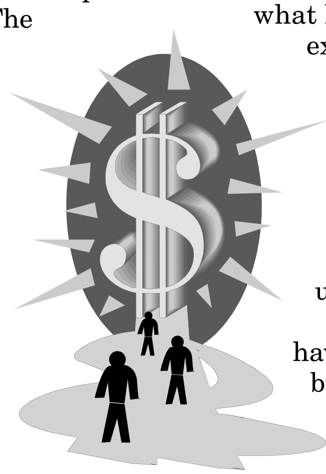
How Much Can You Save?

Surprisingly, POS technology isn't very expensive. If they choose the right vendor, even small companies can readily afford it. The POS vendor will charge a fee to set up the software on its system. After that, there's a small fee for each use. Since the vendor takes full responsibility for maintaining and upgrading the software, the insurer doesn't have to add expensive software specialists to its staff.



A company should be able to readily recoup its investment in streamlined processing. In a recent case story, we estimated it costs $283 to underwrite and issue each policy under traditional "slow issue." Instant issue could slash this to $141.50 per policy and also virtually eliminate the applications that are lost in the issue process due to withdrawals, incomplete information and not-takens (this averages 15%). The savings can be substantial, even if somewhat higher mortality is experienced. However, with the advance in technologies and databases, mortality and morbidity very well could be just as good as with traditional, slow methods, especially at issue ages under 40.

Even small insurers today have a large staff for new-business processing. Much mailroom work comes from taking in applications and delivering them to underwriting, and sending out policies. Additionally, the underwriting and issue areas are generally large. With streamlined processing today and instant field issue within about two years, an insurer can eliminate most of these people, plus their attendant computers, processing software, furniture and space—saving millions annually for an average-sized insurer. If software is developed that takes information directly from the electronically submitted application and uses it to directly feed the administrative system, then all that will need to be retained of the current new business processing personnel are a portion of the underwriters. This is because the best expert underwriting systems can usually only evaluate 50% to 70% of all apps, depending on the target market.

Faster, better, cheaper underwriting and issue is truly a survival issue for smaller companies, and those that move ahead now will be in the driver's seat to thrive in the years ahead.

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Section 7, Section 8, ASOP 7, and ACG4

by Godfrey Perrott

Recently, the NAIC substantially revised the model Actuarial Opinion and Memorandum Regulation (AOMR) eliminating the old Section 7 (which covered statutory opinions where asset adequacy analysis [cash flow testing] was not required. The Actuarial Standards Board revised ASOPs 7 and 22 and repealed ASOP 14 to update them. These revisions contemplate the 2001 AOMR but all States have not yet adopted the 2001 AOMR. How do these various forms of guidance to the actuary fit together, and which applies to each situation?

- ASOP 7 applies to any cash flow testing regardless of the purpose. ASOP 7 applies to cash flow testing done for appraisals, pricing, valuation, or any other purpose. It applies to both stochastic and deterministic cash flow testing.

- ASOP 22 applies to all actuarial opinions that require asset adequacy analysis. Thus it applies to all opinions in States that have adopted the 2001 AOMR without substantial modification, and Section 8 opinions in States that have not adopted the 2001 AOMR.

- Actuarial Compliance Guideline 4 (ACG 4) of the American Academy of Actuaries applies to Section 7 opinions in states that have not adopted the 2001 AOMR and to any other circumstance in which an actuarial opinion on statutory reserves does not require asset adequacy analysis.

Keep this handy guideline in your pocket for future reference! (ASOP 14 is no longer applicable to anything. It was repealed since its guidance [to the extent it is still relevant) is now in the revised ASOPs 7 and 22.]

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