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Ian Duncan, FSA, MAAA, is a partner at Lotter Actuarial Partners, Inc. in New York, N.Y., and is editor of *The Independent Consultant*. He can be reached at [lduncan@lotteract.com](mailto:lduncan@lotteract.com).

## A SUMMARY OF "INSURANCE COVERAGE FOR ALL"

BY IAN DUNCAN

In "Insurance Coverage for ALL: And How Insurers Can Afford to Provide It" (see *NewsDirect*, Sept. 2003) Maria Thomson argues that if the extensive middle market insurance opportunity is to be tapped, insurers need to focus on achieving a faster and more streamlined issue process. This session at the San Antonio spring meeting was part of the series on "Bringing your Nontraditional Product to Market." It addressed underwriting, covering some practical ways that insurers can automate and improve their underwriting and pricing processes.

Michelle Moloney, vice president of business development at Transamerica Re in Charlotte, North Carolina addressed Transamerica Re's underwriting engine. This engine combines four different data sources (in addition to the application itself): MIB data, credit data, motor vehicle records and the "Rx Profile." The Rx profile is a new and innovative application of large databases of prescription drug-dispensing information that is becoming available.

Specific prescription drug use, either a single therapeutic class or multiple classes in combination, can be mapped to different categories of diseases, with different probabilities. The speed with which the data can be accessed, combined with the accuracy of diagnostic information, leads to a 20-plus percent improvement in price over simplified issue, Moloney says. Moloney went on to discuss the results of a study of 3,000-plus simplified issue applications, using the underwriting engine. In 27 percent of the cases, evidence of non-benign drug profiles were found in applicants who had said "no" to the health questions. Judging by the number

of questions afterward, this approach holds considerable interest for life insurers.

Medical Mutual of Ohio is another company that uses prescription drug data in the underwriting process, in this case in underwriting individual medical coverage. George Stadtlander, vice president of underwriting at Medical Mutual of Ohio, reminded us that in pricing it is critical to know your cost of claims, know your market, know your competition and know your company's objective. Medical Mutual has built an underwriting process that enables agents to issue policies in the field in many cases. Home office review is conducted, and pharmacy data is used when potential problems are noted. Historically, Medical Mutual flagged cases in which maintenance medication use triggered a review. This method was difficult, labor-intensive and unrewarding. Now, Medical Mutual uses the pharmacy database. Review of applications shows a very similar rate of nondisclosure of conditions (21 percent) to that noted by Moloney.

Van Beach, consulting actuary in the administration systems practice of Milliman USA discussed the practical aspects of data use in underwriting and pricing, particularly the need to monitor emerging experience. Changes in emerging experience should give rise to changes in pricing, as shifts in business are noted (for example, if pharmacy-based underwriting makes applicants more truthful and drives away dangerous risks). Van also pointed out that experience will be defined by the data that is collected, and that the value of experience data will be the greatest driver of return on investment in an administration system.

For those readers attending the Annual Meeting in New York, Michelle Moloney will be reprising her presentation. Judging by the reaction of spring meeting attendees, this is an area of considerable interest to the profession. Is this an area that the Nontraditional Marketing Section Council should be promoting—possibly through webcasts or other educational media? Let us know—[chrish@hauseactuarial.com](mailto:chrish@hauseactuarial.com). ■