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LINKS

INDEPENDENT UNDERWRITING AUDITS–WHY SO FEW?

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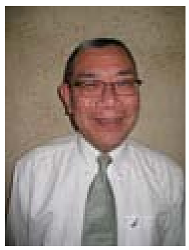

The topic of this article is independent underwriting audits. The question is why so few?

In a typical life insurance company the underwriting department does their own routine desk audits. Different companies have different procedures, but typically 25 to 50 cases per underwriter are audited by higher level, experienced underwriters on a routine basis, perhaps on a quarterly or semi-annual basis. Reinsurance companies conduct their own audits every two years or so of perhaps a hundred files. Despite the obvious lack of statistical validity, what's wrong with this picture?

Audits done by internal staff and/or by reinsurance companies essentially will inform management of issues such as the following:

- Adherence to internal underwriting guidelines and procedures;
- Consistency;
- Trend identification;
- Identify concentrations of mortality risk by impairment, sales channel, underwriter, or plan of insurance;
- Quality of underwriting decisions;
- Quality of file documentation;
- Adherence with or deviation from approved underwriting manuals;
- Adherence with or deviation from generally accepted industry standards; and
- Identify areas for group or individual training.

I'll ask the question again–what's wrong with this picture?

Audits performed by a company's own underwriters or reinsurers are not independent. The readership for this article is a smart sophisticated audience. The value of an independently conducted objective underwriting audit should be readily apparent. Our industry can ill afford another Equity Funding scandal. But the question is why are there so few independent underwriting audits?

My upcoming audit engagement is with a NYSE listed company whose Internal Audit department conducts independent life underwriting audits in partnership with a life underwriting subject matter expert. The life underwriting expert changes in a regular two- or three-year rotation. Internal Audit reports only to the Audit Committee of the Board of Directors, not to internal management. The final audit findings are reported also to the Audit Committee of the Board of Directors.

After many years and many audits in the life insurance business it was quite refreshing to come across a company who applies stringent standards of risk management to the risk selection process.

I have ideas and suspicions on why so few independent life underwriting audits are performed. In a few months I'll have one life company�s rationale for conducting independent life underwriting audits. Stay tuned.

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