Accelerated Underwriting Regulator Survey

Mortality and Longevity

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The SOA Research Institute engaged Milliman to perform a study examining life insurer practices on accelerated underwriting and how COVID-19 has impacted them. This effort included a separate outreach to actuaries working for twelve different state insurance departments. As accelerated underwriting processes gain a foothold in the life insurance industry, a company's documentation and reporting will include mortality assumptions influenced by this type of underwriting. As regulators examine a company's principle-based valuation or asset adequacy testing, for example, they will need an understanding of the accelerated underwriting concepts and how each company is measuring and monitoring the outcomes of their accelerated underwriting process.

At the time of this report, three responses to our regulatory survey had been received. Therefore, the results of the three-question survey are discussed in broad terms, rather than using numerical measurements.

Critical Concepts

Ten topics were ranked from high to low priority in terms of concepts the regulator would need to understand in evaluating a company's experience mortality for the group of policies issued using accelerated underwriting program(s). Based on the responses, the topics fall into the three tiers as shown in Table 1.

Table 1

RELATIVE IMPORTANCE OF UNDERSTANDING THIS CONCEPT IN EVALUATING A COMPANY'S MORTALITY EXPERIENCE WHEN ACCELERATED UNDERWRITING IS USED

HIGH	MIDDLE	LOW
Algorithm	Issue age and face amount limits	Propensity to smoke model
Reliance on reinsurers	Random holdouts	Credit data
	Consumer data	Identification (check or authentication)
	Post-issue audits	Vendor scoring tools

Table 1 provides indicators of the key elements and characteristics a company may want to include in its documentation of the accelerated underwriting program. The items that the regulators were most interested in to better understand a company's experience were the algorithm used to drive the accelerated underwriting and the reliance placed on a reinsurance partner's accelerated underwriting program and expertise.

Actuarial Support for Company's Mortality Assumption and VM-20 Margin

By now, some regulators have had an opportunity to review the principle-based reserve actuarial reports (PBRAR) of companies that utilize accelerated underwriting techniques. In these reports, regulators responding to our survey indicated the frequency with which they see the different types of support for the company's mortality assumption for policies issued using accelerated underwriting.

Table 2

OCCURRENCE IN PBRAR OF THESE TYPES OF ACTUARIAL SUPPORT FOR A COMPANY'S MORTALITY ASSUMPTION FOR POLICIES ISSUED USING ACCELERATED UNDERWRITING

FREQUENT	SOME OCCURRENCES	SELDOM
Reinsurer's experience data	Industry mortality study	Published medical or clinical study
Actuarial study	Retrospective demonstration using own company data	

Table 2 indicates what these regulators have seen coming through the PBRAR documentation as support for the underlying mortality assumption. The most frequently provided type of support was reinsurer's experience data and an actuarial study.

The final question focused on VM-20 margins for policies issued using accelerated underwriting. Specifically, the question asked for commentary about the rigor companies are putting into margin determination and whether the company's rationale for the margin is sufficient, in the regulator's view. The paragraphs below paraphrase these responses.

VM-20 Section 9C6d requires prescribed margin percentages be increased to reflect the level of uncertainty, in other words, the greater the uncertainty, the larger the margin. Responding regulators have seen companies add an additional mortality margin when policies issued using accelerated underwriting are included in the policy group. This margin reflects the added uncertainty associated with the mortality segment given the maturity cycle of the accelerated underwriting program. However, regulators have also seen companies adding no additional margin, even though the program is in early stages of its use. Responding regulators view this as *not* meeting the requirement of Section 9C6d. As uncertainty dissipates and mortality experience becomes more relevant and credible, the additional margin can be reduced if the emerging experience supports and justifies a reduction.

The rationale for the development of the additional mortality margin has been reviewed by responding regulators as part of the PBRAR documentation. Responding regulators provided examples of how the PBRAR discusses the rationale behind the additional mortality margin. These examples are summarized below.

- Describe how the company's mortality studies recognize the accelerated policies and any policies that may have initially qualified but were ultimately fully underwritten, whether randomly or for cause.
- Provide a narrative around how the company monitors the effectiveness of the AU program – what type of analysis is used to understand mortality slippage?
- Clear demonstration of the fully underwritten mortality experience and the accelerated underwritten mortality experience – how did this measurement factor into determination of the additional mortality margin?

Conclusion

The SOA Research Institute and the authors thank the respondents to the accelerated underwriting regulator survey. These findings provide insights for a company when documenting and managing its accelerated underwriting practices. In particular, regulators will be interested in understanding the company's algorithm for accelerating the underwriting process and the company's reliance on a reinsurance partner's accelerated underwriting program and expertise. The findings of this survey also include that as accelerated underwriting policies are valued under VM-20, regulators expect a comprehensive narrative around the company's additional mortality margin development for policies issued using this method.

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