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2010 US Group Life Medical Underwriting Survey

A White Paper on Results

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1 Introduction

Medical underwriting has been a valuable risk management tool for group insurers for many years. It is an important function that contributes to every group life carrier's bottom line. Munich Re first surveyed U.S. group life insurers in 2000 about the tools and services they utilized in their medical underwriting processes. This year we again surveyed the industry, asking some of the same questions, but also exploring other medical underwriting practices of U.S. group life insurers.

We began the 2010 Group Life Medical Underwriting Survey process in mid-June by approaching 61 group life insurance companies and administrators to participate in the survey. We were very pleased that 47 organizations, or 77 percent of those asked, agreed to participate. These organizations represent a broad cross-section of the U.S. group life insurance industry. The responding insurance companies accounted for approximately 70 percent of the total group life in-force premium as reported in National Underwriter magazine for 2009. Nine of the top ten companies on National Underwriter's listing are represented in our survey results.

In this survey, we focused on current group life medical underwriting operations and practices. We looked at the size and staffing of medical underwriting units and the average turnaround time for medically underwritten applications. We explored the tools and services that group life carriers are currently using and compared them to the tools and services carriers were using ten years ago. Our survey provides information about medical underwriting manuals and how often they are being updated. We inquired about changes in medical underwriting that U.S. group life insurers are planning to implement in future years. This survey also includes questions about guarantee issue limits and grandfathering coverage.

We also thought it would be interesting to analyze the practices of organizations similar in size to one another and, for some questions, have looked at the results separately for the top ten carriers, the 11th through 20th carriers, and all other carriers (by in-force group life premium as of 2009, according to National Underwriter magazine).

2 Medical Underwriting Staffing and Metrics

It is not a surprise that the largest group life carriers (by 2009 in-force group life premium according to National Underwriter magazine) have the highest medical underwriting application activity and the largest staffs involved in medical underwriting. In most instances, the largest carriers have a dedicated medical underwriting unit – as opposed to having the function handled by group underwriters, the company's ordinary life underwriters, or by an outside organization such as a reinsurer or third party administrator.

The ratio of average staff involved in medical underwriting at the "top ten" carriers compared to the "next ten" and the "all other" is roughly two to one and seven to one, respectively. In contrast, the ratio of average application per staff member between the "top ten" carriers in comparison to the "next ten" and the "all other" is considerably higher at six to one and 38 to one.

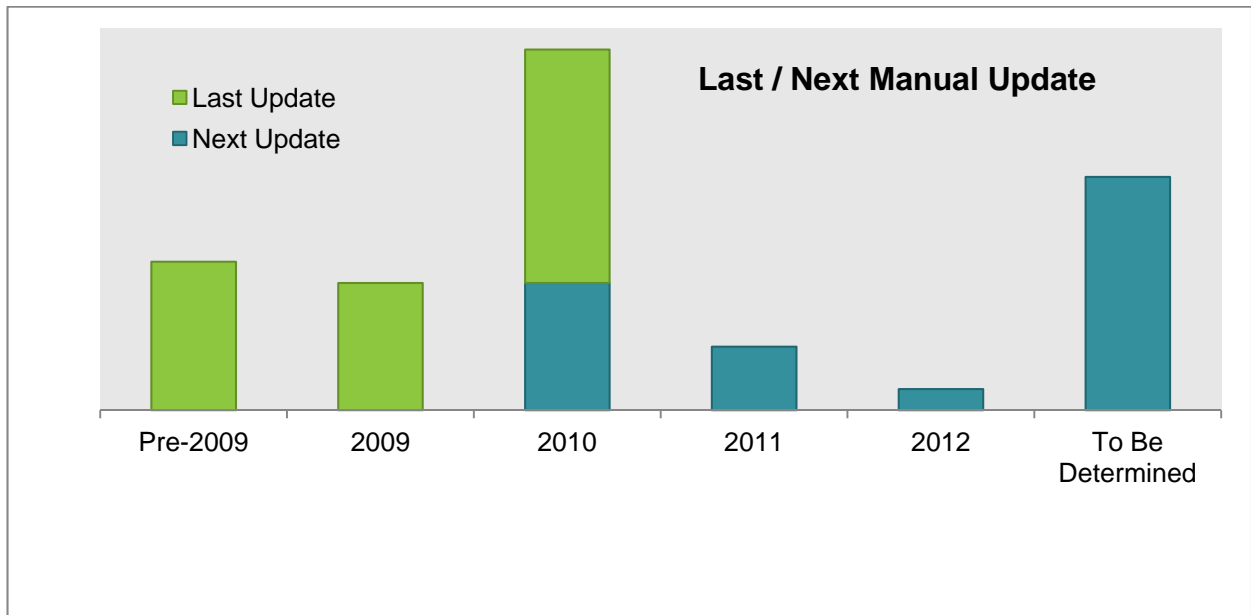
Taking that a step further, the average number of applications processed per staff member per month for the “top ten” is more than two and one-half times the average for the “next ten” and more than five times the average for the rest of the carriers. This leads us to believe that the large carriers have a more streamlined underwriting process than their smaller counterparts. We will point out however that turnaround times for the carriers with the ten largest medical underwriting units are not as good as those for the rest of our respondents: the average turnaround time from original receipt to first response and to final decision are roughly twice and one and one-half times respectively, compared to the other underwriting units’ averages.

3 Medical Underwriting Manual

The majority of group life carriers use on-line medical underwriting manuals provided by their reinsurer, such as Munich Re’s all new EDGE manual. Updates to underwriting manuals—whether online or printed—generally occur either on an as-needed basis or at least once a year. For 2009 and later, many carriers updated or have scheduled manual updates. These updates may be in conjunction with recent reinsurer manual updates or the adoption of new underwriting tools and services, or may be the result of analyzing the drivers of group life mortality improvements.

The following graph summarizes the responses to our questions regarding the recency of updates to carriers’ underwriting manuals:

“When was your underwriting manual last updated? When is the next underwriting manual update planned?”



4 Medical Underwriting Tools and Services

New medical underwriting tools and services have been adopted since we conducted the 2000 survey, namely Motor Vehicle Record (MVR) and prescription drug checks, teleunderwriting and outsourced Attending Physician's Statements. These new tools and services are currently being used by a relatively small number of carriers. It surprised us that the "all other" carriers are the early adopters of these new tools and services, rather than the "top 20". It is possible that the larger carriers have more difficulty making changes to their standard process as a result of their large dedicated underwriting teams. Carriers may also want additional evidence of the predictive value of these tools before choosing to adopt them.

We compared the percentage of carriers using tools and services in 2010 versus 2000. By and large, the percentages have declined for the various tools being used. For example, the Paramed Exam and MIB were used by all respondents in 2000, compared to 84% and 58% today. Those figures contrast with the increased use of the short form application, which has grown from 50% utilization in 2000 to 67% in 2010. This tells us that carriers have decided to reduce the number of tools used in the medical underwriting process, picking and choosing those that work best for them. Additionally, carriers may be relying more on the short form application in making medical underwriting decisions now than they did in the past, and relying less on ordering medical exams and tests in favor of automating and outsourcing information gathering.

In the 2010 survey, we asked carriers what tools or services they used in the medical underwriting process. We asked a similar question in the 2000 survey. We were able to compare the responses from the 2000 survey to the 2010 survey as a percentage of total respondents.

Tool / service used	Carriers	
	2010	2000
Paramed exam	81%	100%
Attending Physician Statement (APS)	74%	94%
Long Form Application	69%	81%
Short Form Application	67%	50%
Blood profile	79%	94%
Home Office Specimen (HOS)	69%	80%
EKG	48%	53%
MD exam	26%	44%
Medical records	64%	81%
Health statement declaration	64%	50%
Medical Information Bureau (MIB)	58%	100%
Motor Vehicle Record (MVR)	24%	n/a
Prescription drug check (Script check)	14%	n/a
Tele-underwriting	14%	n/a
Outsourced APS summaries	7%	n/a

As a general theme, carriers are looking for new tools to improve turnaround times, free up staff to concentrate on more complex issues, improve customer service and manage costs. In most instances automation is linked to creating an on-line medical underwriting application, which makes sense when considering all that can be done via the Internet today.

A number of carriers also identified an automated rules engine (for the medical underwriting manual) as a future new tool. Rules-driven underwriting engines are resource-intensive development projects and generally are used only to approve clean, complete applications up to a pre-determined dollar limit. Many carriers have implemented or are considering alternatives, such as Munich Re's EDGE manual, which clearly identifies impairments to decline and contains calculators to simplify and provide consistency in the underwriting process.

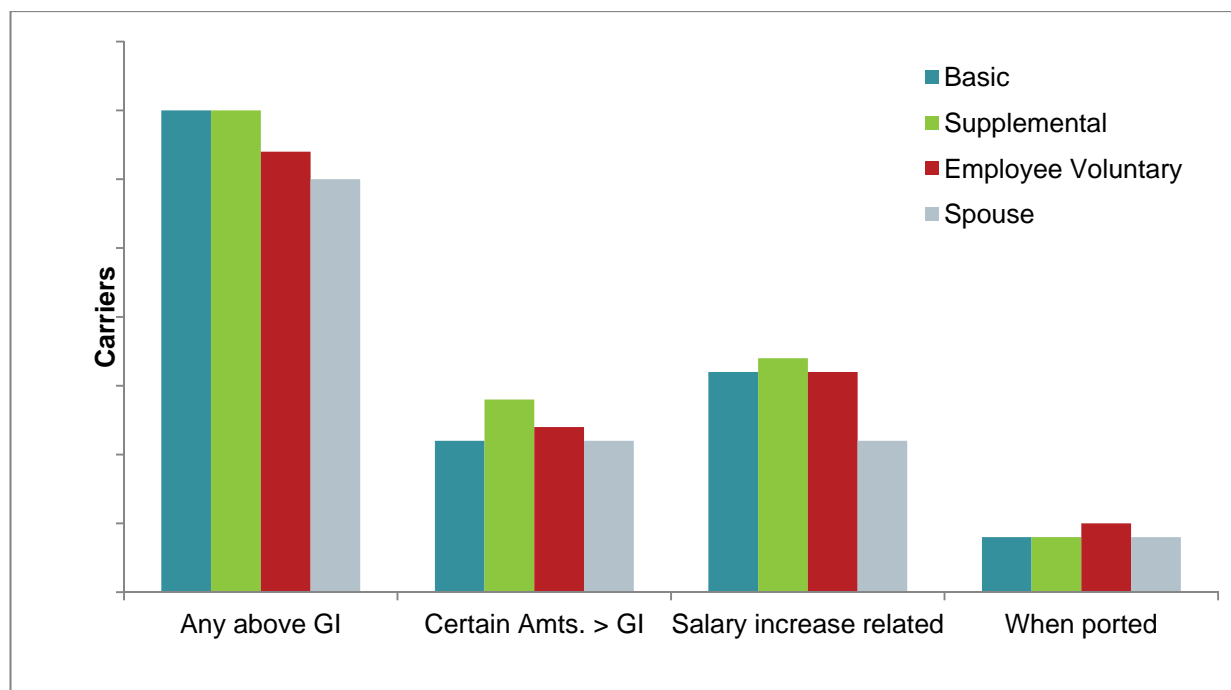
5 Medical Underwriting Requirements

The majority of respondents accept or decline applicants based solely on the information provided on the short form application, with the majority using 100 debits or less as the accept/decline cut-off point. In comparison to 2000, the accept/decline cut-off point has become more restrictive. It is possible that carriers who have liberalized other underwriting guidelines are looking to mitigate the additional risk by reducing the acceptable cumulative debits.

A significant majority of respondents indicated that they underwrite all applicants (depending on coverage type) for any amount that exceeds the GI limit. The remaining respondents underwrite the applicant if the amount over the GI limit exceeds a specified threshold, which may be stated as a dollar amount or a percentage. Having a dedicated medical underwriting unit increases the likelihood that a company will underwrite all amounts above the GI limit. We think it makes sense to allow some flexibility for amounts above the GI limit, as the costs associated with underwriting may be greater than the savings realized by underwriting small amounts above the GI limit, and the additional steps may slow down turnaround times.

While the summary results might lead to the conclusion that carriers consistently apply the same medical underwriting guidelines to employee basic, supplemental and voluntary life, when we look at the responses at the carrier level, we see the criteria do vary. Interestingly, the "all other" carriers are more likely to underwrite all amounts in excess of the GI limit for basic life than for supplemental or voluntary life. Considering the selection issues associated with employee-paid coverages, the latter appears to be counter-intuitive. We asked the following question in the survey:

“When do you medically underwrite high amounts of group life insurance?”



6 Grandfathering

In today’s competitive group life environment, agreeing to grandfather current covered amounts is almost always a requirement. Since grandfathering is tantamount to a decision to forgo medical underwriting, we asked some questions about the practice.

The majority of respondents told us that they routinely grandfather group life takeover amounts. The trend, however, is that, the smaller the carrier the more likely that grandfathering is not allowed.

Of the carriers who responded that they do routinely grandfather, close to half said they have limits on the amounts they will grandfather. The limits are wide ranging, from a minimal margin up to the plan maximum, regardless of whether they are expressed as flat dollar amounts, percentages above the GI limit, or a multiple of the GI limit.

We agree that grandfathering is required to be competitive and secure new business opportunities in today’s market. Since it’s usually difficult to find out if and when medical underwriting last occurred for takeover amounts, the vast majority of “new” groups are taken over from another carrier, and allowing a one times salary buy up at takeover is a fairly common practice, it’s prudent risk management to place limits on the amounts to be grandfathered whenever possible.

7 Guarantee Issue Limits

We have observed a wide range of limits in the group life marketplace. Generally Guarantee Issue (GI) limits for groups of all sizes (whether measured by lives, volume or premium) become less restrictive (increase) as the size of the carrier increases, with the larger carriers offering the highest GI limits for the largest groups. More often than not, respondents use different GI limits for basic, supplemental and voluntary life products. A smaller number of respondents use one set of GI limits for basic and supplemental life, and different limits for voluntary life, while a few have one set of GI limits for all life coverages. There are many variations in the criteria used to determine the applicable GI limit; the most common criteria are lives, volume, or a combination of these.

Carriers are updating their GI limits far more often than in the past, possibly in response to the competitive market. Almost twice as many carriers reported they updated some or all of their group life GI limits in the last three years when compared to the 2000 survey. While it is important to review GI limits on a regular basis, we caution that changes to GI limits should be made carefully, based on credible data and/or relevant process changes.

8 Conclusion

Munich Re expects that medical underwriting will continue to be an important risk management tool for group insurers in the future, especially with the trend toward employee-paid, voluntary group life insurance coverage.

Once again, Munich Re would like to sincerely thank all of the companies who took the time to participate in this survey. Their participation has helped broaden and strengthen the scope of this survey and will help all of us gain a better understanding of current U.S. group life medical underwriting practices.

9 About Munich Re

Munich Re shares risk and expertise with clients around the world in all lines of life, health and property/casualty insurance. Founded in 1880, Munich Re opened a United States branch in 1899. Munich American Reassurance Company was established in 1959 to write US life and disability reinsurance. Munich Re has been reinsuring a broad spectrum of group products since 1962 and credit and debt protection products since 1991. Today, we are proud to be one of the largest group reinsurers in the US.

We strive to be industry leaders through our innovative programs—such as the “service hours” program that provides group life and LTD clients with access to actuarial consulting services, or our life and LTD rate manual analyses—and our active client education programs and involvement in industry groups. We respect the value of client/broker relationships and work actively with brokers to create unique solutions to their clients’ needs.

Clients can be confident that the risks they share with Munich Re are secure. We have sound financial fundamentals and some of the highest ratings in the industry.

10 Anti-trust Statement

Munich Re is committed to adhering to the letter and spirit of antitrust laws. This report is designed solely to provide general industry knowledge. Under no circumstances shall this report be used as a means for competitors to reach any understanding, expressed or implied, which tends to restrict competition, or in any way to impair the ability of participants to exercise independent business judgment regarding matters affecting competition.

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