

Underwriting Pricing Decisions

What are the various reasons and techniques underwriters use to stray from formula pricing (on manually rated cases).

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Straying can be up or down. But...

- Most instances will be to decrease the rate
- Underwriters have a number of tried and true reasons.
- There are valid instances when the rate should be lowered and many times it should not be lowered.
- The “art” of underwriting is knowing when to do what.
- The downside of making an incorrect decision directly affects the bottom line of the line of business and the company.
- Raising rates is less of an issue as the downside is simply to not sell the case.
- Track to find out if adjustments are warranted.

This workshop will explore the most common reasons to lower rate and the implications.

DUH!!

- No Discount

\$100 Premium
- \$70 Claims
- \$20 Expenses
\$10 Profit

- 5% Discount

\$ 95 Premium
- \$70 Claims
- \$20 Expenses
\$ 5 Profit

Process for Workshop

- 11:00 – 11:10 Review Reasons
- 11:10 – 11:20 Poll Audience
- 11:20 – 11:30 Record Results
- 11:30 – 12:00 Discuss Top 5

Important Broker

- Pros
 - Many sales are relationship sales and this can help the relationship.
- Cons
 - However, if this sale is a price sale, the underwriter is simply giving away profit.
- Underwriter Actions
 - Check to see how much business the broker places
 - Does this rep say this frequently (to other underwriters)?
 - Document
 - Renewal plan for getting back to the correct rate.
 - Has broker sold rate increases in the past
 - Does this broker share/provide good information?
 - What does this broker's book look like? Profit, Industries, etc.

Growing Employer

- Pros
 - Early in on a growing case.
 - Growing employers tend to have better experience.
 - Hiring younger employees
 - Jobs for claimants to go back to
 - Positive work environment
- Cons
 - Workplace stress can result from too rapid growth.
- Underwriter Actions
 - Check other financials
 - Why are the lives growing?
 - Has employment been cyclical (up and down)?
 - Renewal plan for getting back to the correct rate.
 - How are peer companies performing

Conservative Plan Design

- Pros
 - This can greatly influence risk.
 - Lower benefit levels
 - Incentive for RTW
 - Er understands disability not a dumping ground and intent is not to support lifestyle but standard of living
- Cons
 - Dissatisfied employees
 - Other risk factors may come into play that are beyond plan design.
- Underwriter Actions
 - Does that justify a further rate reduction as manual rate already adjusted for this?
 - What other risk factors are there?
 - Renewal plan for getting back to the correct rate.

Make it up on a Pooled Risk

- Pros
 - Some protection from risk spread of pool.
 - Can help in “relationship sales”.
- Cons
 - Difficulty in selling the “next time” higher rate.
 - Expectation that you can do this every time.
- Underwriter Actions
 - Make sure all parties (sales rep, broker, management) agree to the “make-up” phase.
 - Renewal plan for getting back to the correct rate.

Provision for Free

- Pros
 - No “real cost”
 - If provision is viewed as important or something the competition does not have, can differentiate
- Cons
 - Still lowering price.
 - When free provision is a rate guarantee, the ee population ages over the length of rate guarantee.
- Underwriter Actions
 - Ensure there is no “real cost” – such as paying a service provider (e.g. EAP provider)
 - Renewal plan for getting back to the correct rate.

Target Industry

- Pros
 - In industries where your company has had success can lead to more success
- Cons
 - Over-concentration
 - Is the industry a target because of the effect of the industry or some other factor such as plan design?
- Underwriter Actions
 - Make sure your target industry list is up to date and nothing has happened since the list was published.
 - Do your manual rates already discount for this?
 - Have you researched the economic outlook for the industry?

Waiving the Pre-X

- Pros
 - On a take over with stable employment, can be no cost.
- Cons
 - There is always a claim out there (20% of the population reports having a disability)
 - Hard to understand ER and Broker motivation.
- Underwriter Actions
 - Get the reason why the pre-x should be waived.
 - Have a renewal plan in case there is a claim.
 - Track the result
 - You never want to do this

Underwriter Judgment

- Pros
 - It's why companies pay for underwriters.
- Cons
 - It can be something an underwriter hides behind.
- Underwriter Actions
 - Make sure you have a valid reason.
 - Discuss
 - Learn from your mistakes and mistakes of others

Great Financials

- Pros
 - Financially strong employers should perform better.
- Cons
 - Not a guarantee
 - Financials can change (or be mis-stated)
- Underwriter Actions
 - Make sure you have the latest figures.
 - Check factors besides financials.
 - Plan design
 - Demographics
 - Turnover
 - Peer companies
 - Outlook for the future

Over-Ruled

- Pros
 - Maybe the over-ruler has the big picture
- Cons
 - Maybe not!
- Underwriter Actions
 - Learn why
 - Be a part of the decision making process

Shadow Pricing

- Pros
 - None
- Cons
 - This isn't underwriting
- Underwriter Actions
 - Don't do it
 - Trust yourself
 - Is this an ER or broker you want a relationship with?

Match Inforce

- Pros
 - Easy
 - If your rate is lower, may give you some cushion
- Cons
 - Inforce may be wrong
- Underwriter Actions
 - Find out if the employer got a big renewal increase you don't know about.
 - See why is the case out to bid if the inforce rate is so good.
 - Does the current or proposed plan design make sense?
 - What has been the ER's loyalty to the carrier?

Write Another Case

- Pros
 - Can lead to more business
- Cons
 - No guarantees it will happen
- Underwriter Actions
 - Make sure you get the other case.
 - Find out what the other case is – do you want it?
 - Figure out how much you will be able to make up in lost revenue if you do.

Last Look

- Pros
 - Can put your company in the drivers seat.
- Cons
 - Used as a simple ruse to lower the rate.
- Underwriter Actions
 - Ask how many other carriers are getting “last look”?
 - If you take action will your company be recommended?
 - Don’t sell mistakes.
 - Don’t fall for this more than once

Sell All Lines

- Pros
 - Stronger relationship with client
- Cons
 - You sell only the discounted line
- Underwriter Actions
 - Can you make money with the proposed discount?
 - Can the life make up for the LTD and is there a mechanism to do so?
 - Are you sure you'll be able to keep the life after lowering the LTD?

Discretionary Pools

- Pros
 - Allow the underwriter to get attractive business.
- Cons
 - Once everyone does it, it is simply giving away profit.
- Underwriter Actions
 - Track the pricing pools
 - Manage outliers

Bad Rate Factor

- Pros
 - Can get around bad manual factors
- Cons
 - Can't be sure it is bad
 - Makes analysis more difficult
- Underwriter Actions
 - What evidence do you have?
 - Work with actuarial on the factor if you think it is bad.
 - If the intent of the factor is to avoid selling something (punitive load) be careful of the effect of removing it.

Bad Manual Rates

- Pros
 - Act on rates that are out of the market.
- Cons
 - Can't be sure the problem is with your rates
 - Makes analysis difficult
- Underwriter Actions
 - Is there some reason why your manual is off on this case?
 - Do you participate in industry studies that you can look at?
 - What makes you think the competition is right?

Sales Goals

- Pros
 - Hitting sales goals is an important objective.
- Cons
 - Anyone can sell lower rate.
 - A short term fix can lead to a long term problem.
- Underwriter Actions
 - Sales goals are important, but what about profit goals?
 - Is it just for one rep or office?
 - Work with management.

Look Credible

- Pros
 - Credibility is important to the relationship between the rep and broker.
- Cons
 - How do you know competition is correct?
 - What if you sell the case?
- Underwriter Actions
 - Try to find out why a no quote or a “right rate” isn’t credible.
 - Avoid selling your mistake
 - Is a better reply “we can’t match them on this one because we think they have a very competitive rate”?

Better Claims

- Pros
 - If true, you should get credit
- Cons
 - Ensuring it is true.
- Underwriter Actions
 - Talk to claims to ensure they can manage the risk and it warrants a rate decrease.