

MEDICAL UNDERWRITING EDUCATION – A REINSURANCE RESPONSIBILITY?

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Introduction

The phrases "underwriting education" and "underwriter education" sound very much alike but are quite different. It's important to make this distinction at the onset so that there is no misunderstanding of what we are discussing.

"Underwriter education" means exactly what it says, namely education of the home office (lay) underwriter.

"Underwriting education" on the other hand is a nonspecific term referring to the art and science — the discipline if you will — of risk selection and classification.

Since so much of the underwriting discipline deals with medicine and the medical director, discussion of underwriting education necessarily overlaps with a discussion of the profession that many of us have devoted ourselves to, namely that of life insurance medicine. Insurance medicine and underwriting education are inherently and inseparably linked to one another.

By the way, while this article tends to focus on "life insurance," it's clear that much that is said about underwriting education would apply to disability and other types of insurance as well.

The following will involve a general discussion of underwriting education and life insurance medicine and in particular the role that life reinsurers have played in underwriting education in the past and will continue to play in the future.

Historical Overview

Those who have not picked up old volumes of ALIMDA's *Transactions* or a copy of *Selection of Risks* by Shepherd and Webster or *Risk Appraisal* by Dingman, to name but three publications, have missed some very interesting reading and a chance to look back through time to days when basic tenets of risk selection were being developed and classification practices, though relatively innocent by today's standards, seemed strangely sophisticated nonetheless.

Sure, medical science back then was primitive by today's standards. Nonetheless much had to be learned by the medical director. Educational undertakings within our industry were remarkably impressive.

In the last part of the 19th century and the early part of this 20th century, medical directors, in concert with their corporate actuarial counterparts, constructed the very tenets of modern day risk selection and classification. Appropriate underwriting practices were developed by the medical director and actuary and subsequently taught to those filling newly created lay underwriting positions. As Paul Harvey would say, "and now you know the rest of the story."

Today, most underwriting is done by lay (home office) underwriters. Underwriters far outnumber the medical director. As all medical directors can attest, underwriters are remarkably knowledgeable about nearly all aspects of risk assessment, including those of a medical nature. Having said this, it is a fact that the parameters of present day medical underwriting practices continue to be defined to a significant extent by ongoing research and developmental work performed by the insurance company medical director. Coupling this with other underwriting educational pursuits such as giving medical talks at ALIMDA, HOLUA and other meetings, writing articles for the *Journal of Insurance Medicine* and other industry publications, participating in mortality study work of one kind or another, and case-by-case underwriting discussions that most medical directors are involved with on a daily basis, it is clear that the marriage of underwriting education and insurance medicine endures.

It follows that medical directors continue to play a major role in the maintenance of sound industry medical underwriting practices. It also follows that in order to sustain such effort, medical directors must remain committed to continuing (underwriting) educational efforts and to teaching.

The Reinsurer's Commitment to Underwriting Education

Historically, some of the most notable contributions to medical research, development and education in our industry have been made by life reinsurers. For obvious reasons. Small to mid-sized direct writing, non-reinsurance companies that could not afford to do these things themselves have necessarily relied on their reinsurer for underwriter and medical director training as well as medical research and development of sound and equitable underwriting practices. These companies, which comprise the majority of all companies in our country, have depended to a great extent on their reinsurer's underwriting manual. Large companies, of course, have their own research and development units and their own underwriting manuals.

Reinsurers have provided education and training services to their clients, not only to satisfy client expectations, but even more importantly to help that client develop their underwriters to the point that fair and reliable classification decisions will be made. Given that these client company employees would eventually be putting the reinsurer on the risk for substantial amounts of insurance, it was clearly in the best interest of the reinsurer to provide training for clients who had need for such assistance. No better historical illustration of a "win-win" relationship can be found than that of the reinsurer and the reinsurer's client company. In fact, the real beneficiary

of all this was the insurance applicant, who, thanks in no small measure to the reinsurer's manual, was appraised objectively and equitably, regardless of whether the company they applied to was big or small, new or old, experienced or not so experienced.

By the way, recent proposals to modify the McCarran-Ferguson Act and subject the insurance industry to federal regulation purportedly threaten to bar reinsurers from sharing underwriting guidelines (i.e., underwriting manuals) with their client companies. What a loss this would be for everyone concerned, especially the consumer.

Reinsurers tended to have one additional advantage over many direct writing companies, namely considerable experience with impaired risks and the opportunity to do meaningful mortality and other kinds of studies on insured lives. Over the years, certain reinsurers have invested considerable time and effort in such undertakings, contributing not only to their own well-being but to the advancement and maturation of the underwriting discipline.

Lincoln National's longitudinal diabetic and chest pain studies, which were initiated in the 1940's and which ran for several decades, serve as good examples of major "scientific" contributions to our industry — contributions that probably would not have been made were it not for the fact that Lincoln National was not only a direct writing company but a leading reinsurer as well. As a reinsurer, Lincoln National felt obligated to explore new vistas and to report our study findings.

Today, insurers are often unfairly criticized for restrictive underwriting practices, so the importance of voluntary experimental initiatives like these which expanded coverage to many previously uninsurable people cannot be overstated. Underwriting education and resultant refinement of the science of underwriting leads to more affordable and more accessible insurance coverage.

Our Changing Environment

The rapidly changing business environment in which insurance medical directors now find themselves is characterized by uncertainty and danger on one hand and challenge and opportunity on the other.

Randomly selected scenarios below serve to illustrate the diversity and electric nature of our 1990 environment and give us a feel for the type of educational and professional challenges that face corporate life insurance physicians head-on in this upcoming decade.

1. Closer adherence to sound underwriting practices

Prices that actuaries now calculate for competitive, mostly interest-sensitive, products of today are generally based on mortality assumptions that are attainable only if home office underwriters adhere closely to sound medical principles and guidelines. More than ever before, companies are banking on future mortality profits and holding their medical director accountable for support in this regard.

2. Coordination of pricing and underwriting

In today's environment, medical directors must under-

stand the importance of coordinating both the underwriting and pricing functions. If the actuary has developed special rates or discounts for nonsmokers, then the medical director dare not also grant "credit" for nonsmoking when evaluating the risk. That would allow such individuals too much credit. Another example! When advising that an applicant be rated "150%," the medical director must at a minimum appreciate the importance of asking the question 150% "of what?"

3. Explosion of medical knowledge

Many talk about the "explosion" of medical knowledge that has occurred in the last couple decades. There is now far more to read and learn than 10 or even 5 years ago. Today's medical director, and corporate medical departments as well, must find ways to cope effectively with the challenge of "keeping up" with important medical literature, both today and in the future, and all that that entails.

4. Less improvement in population mortality

Greatly improving population mortality of the 1960s, '70s and even the '80s, which helped insurers hide underwriting imperfections and meet mortality objectives, is not expected to continue indefinitely and could plateau or even worsen as we near the year 2000. This means less room for error and expanding corporate need for professional guidance in the underwriting arena.

5. External threats to underwriting

Serious and unprecedented external threats to risk classification have surfaced just within the last decade, including unisex, AIDS, and now genetic testing. These explosive medical issues demand new types and levels of involvement by industry professionals and especially by medical directors. Activities of a political nature that rarely involved medical directors in times past are now affecting many of us on a regular basis. Few medical directors are immune to this. Dealing effectively with this startling expansion of our universe requires that we find ways to strengthen our professional capabilities.

6. Deteriorating public image

The low and worsening public image of auto and health insurers impacts life insurers as well. The 1990s promise to be the decade of consumer advocacy movements and increased governmental regulation. More and more people appear to feel that underwriting, by its very nature, is unfairly discriminatory. They believe that regardless of someone's risk, all people should pay the same rate. Increasingly, insurance medical directors are being asked by their employers and the trade associations to speak out in defense of industry underwriting principles and practices.

7. Validating substandard offers

Public pressure to substantiate the medical justification and actuarial necessity of adverse underwriting actions is sure to increase. The medical directors of tomorrow will

have to develop means of ready access to the clinical literature as well as understand and routinely apply the principles of mortality methodology. Increasingly the medical director will also be asked to work with others to develop whatever experience data might be available on insured lives.

8. Consent, counseling and confidentiality

Profound and legitimate concerns regarding informed consent, counseling and confidentiality have arisen with the AIDS issue and carry over to genetic testing and beyond. Today's medical director must understand and be sensitive to privacy and related issues and help others within their companies and in the trade associations as well to share comparable appreciations.

9. Cutting costs; improving productivity

Competition is intense, profitability opportunities are reduced, and many companies are struggling to improve expense ratios and cut underwriting costs at the very time that more information and greater care in risk evaluation are needed. This can present tremendous productivity challenges to medical directors who are caught in such a bind.

10. Move toward greater self-reliance

Now that the diversion of reinsurance "shopping" of the late '70s and early '80s has come and gone, attention of the direct-writing company is again focused on the performance of their own home office underwriters and medical directors. Satisfying agent expectations is still important and always will be, but now many companies consider their most important goals to be productivity and profitability, including the attainment of mortality expectations. Whether such goals are attainable depends largely on the medical director's level of professionalism.

11. The era of the lab

Medical directors necessarily get involved in evaluating new screening technologies and attempting to balance promises of added protection and pressures to be out front (or at least to implement what peers are already doing) with corporate directives to trim acquisition costs, facilitate the underwriting process and eliminate unnecessary adverse underwriting actions. Medical directors must understand such things as sensitivity, specificity, disease prevalence, positive predictive value, pre and post-test probability of disease, etc.

12. Computer technology

Expert systems are coming, demanding high knowledge and skill levels from those asked to help engineer new systems or modify existing systems, those asked to make case-by-case exceptions to system decisions, and those expected to appraise the difficult cases that expert systems are incapable of assessing. We are already entering the era in which medical directors will have no choice but to be computer literate.

13. The graying of America

With the dramatic increase of healthy Americans over age 65 already occurring, insurers will be writing more business on people in the 70s and 80s. Having a professional understanding of what health and illness mean at advanced ages will soon be very important to medical directors. Perhaps more so than at younger ages, the medical director must understand older age products and the actuarial assumptions made in pricing these products. One might start with the question "does the actuary expect 40% of persons age 75 to be classified substandard or is 20% or even 10% all right?" and then go from there. The questions seem endless.

To cope effectively with the above changes, some of a "megatrend" nature, life insurance medical directors will have to expand their professional capabilities via various educational opportunities. For the majority of medical directors, continuing education, both medical and otherwise, will be the key to how successfully they can retool and contribute to the future success of their corporation. As a discipline, insurance medicine must be as dynamic as its environment. If it is, it can continue to provide the parameters of underwriting education. If insurance medicine does not adapt to change, medical directors are apt to lose their leadership privileges.

Reinsurer's Response to Increasing Needs for Underwriting Education

If today's working environment is placing significantly greater challenges on the medical director than ever before, it follows that the need for continuing (underwriting) education is escalating.

How have reinsurers responded to such need? They have been very variable in their approaches to education. Sometimes one, sometimes another, has obviously recognized the need and provided a wide range of educational services. More often a few have focused on one or two aspects; though all, to a greater or lesser extent, have attempted to culture the opportunities for teaching inherent in the underwriter to underwriter relationship of facultative business.

To illustrate the many areas open for educational activity I am going to discuss the commitment of my company to ongoing underwriter education, as this is the circumstance I know best. Lincoln National is sensitive to impending environmental changes and the need to anticipate and develop a variety of skills required of medical underwriting professionals by the year 2000 and beyond.

The following are a number of specific areas related in one way or another to underwriting education that the medical staff of my company is intimately involved with:

1. Life Underwriting Manual

Research and development with complete revision of our present life underwriting manual took place between 1984 and 1987. To illustrate the enormity of a project like this, well over 10,000 person-hours of work were invested in this project, much of this representing time spent by our physician accountable for medical research and development.

Since 1987, considerable additional work has been devoted to modifications and additions to this manual.

2. Life Underwriting System

For nearly three years now, two of Lincoln National's medical directors have been part of a team of people who are developing a "knowledge engineered" life underwriting system. We feel that Lincoln National and other companies must go this route to satisfy future productivity and profitability demands.

3. Medical Seminars

Most Lincoln National medical directors participate in various Lincoln-sponsored training seminars for underwriters of client companies. We have been holding 5-10 such seminars yearly in the U.S. and Canada. This activity obviously represents a major commitment for Lincoln National's medical staff.

4. A Course for New and/or Part Time Medical Directors

Three years ago, Lincoln National initiated a two day "things you most need to know" training course for new and/or part time medical directors of Lincoln National's preferred reinsurance clients. All doctors on our staff participate on the faculty. We have held three of these courses, all of which have been very well received.

5. The Triennial Board of Insurance Medicine Course

Lincoln National has supported this worthwhile course from its inception. At the last course in 1988, two of Lincoln National's medical directors gave lectures and one conducted a workshop. In addition, one of our physicians attended as a student. In 1991, we will have one lecturer and two workshop instructors — plus another student.

6. ECG Training

Lincoln National developed a formalized electrocardiogram training course for underwriters in the 1970s, including the writing of a textbook (the first and possibly the only such textbook in our business), development of written examinations, etc. This course has turned out to be both popular and cost-effective and continues to be used, not only at Lincoln National and by other insurers in this country but by insurers in Europe as well.

7. Medical Resource

This is a new bimonthly newsletter written by Lincoln National's medical directors for medical directors (and underwriters) of our reinsurance clients — as well as our own underwriters. This vehicle gives our medical staff the opportunity to inform readers of many things that they may not already know, including Lincoln National's current medical position on various new and/or controversial matters.

8. Mortality Methodology; Other Professional Organization Activities Related to Education:

One of Lincoln National's medical directors recently relinquished his role as our industry's primary instructor of the "Mortality Methodology" course originated by Dr. Dick Singer and now required for board certification in insurance medicine.

Lincoln National's medical directors continue to serve on ALIMDA's Mortality and Morbidity Committee, the Joint ALIMDA/SOA Medical Impairment Study Committee, and the Joint HOLUA/IHOLU Risk Classification Committee. We also serve on the ACLI AIDS and Genetic Testing Committees, holding the original chair of the first, and the original plus current chair of the last.

9. Speeches and articles

Within the last four years Lincoln National's medical directors have given major speeches at national meetings of ALIMDA, the ACLI Medical Section, CLIMOA, HOLUA, IHOLU, the ACLI Round Table and the ACLI Spring Meeting, The National Association of Insurance Women, etc. We have given many talks at regional/local HOLUA, medical director, and CLU meetings. We have written articles for *Best's*, the *Journal Of Insurance Medicine*, *On The Risk*, and our own *Reinsurance Reporter*.

We have also talked to noninsurance civic groups such as Rotary, etc.

We've written rebuttals to newspaper and magazine articles — generally articles critical of the underwriting process — that were then printed.

10. Internal Underwriting Case Conferences

Like medical directors and departments everywhere, we periodically conduct formalized medical training for our own underwriters. We refer to these sessions as "underwriting case conferences."

It's unclear whether the educational activities listed above squarely address every one of the environmental dynamics mentioned earlier. What is clear is that we recognize that such needs exist, and we are doing a great deal to address these needs.

Is it Benevolence or is it Just Good Business?

Having articulated Lincoln National's feelings of responsibility to underwriting education, it is important to add that a number of reinsurers — I dare say the majority do relatively little in the way of underwriting education. Why this striking difference? Is it a matter of some companies having the resources to do this whereas others do not? Not really. Companies without the human resources to do such work could strive to build such capability. Why then would Lincoln National place so much importance on underwriting education and "Reinsurer X" does little or none of this? Differing business philosophies is the answer.

"Insurance is a business where the strategic use of information about future events is the key element of profitability." This

line from a recent article by Deborah Stone in *Social Research** entitled "At Risk in the Welfare State" describes well the philosophy of those insurers who remain committed to underwriting education. Certainly this is so for reinsurers. Underwriting education is knowledge; strategic use of such knowledge translates into corporate profitability.

Sometimes it is not fully appreciated that significant cost is associated with conducting medical research and development, developing and maintaining underwriting manuals, creating expert systems, and nearly everything else tied to "education." Reinsurers who continue to support such activity are obviously aware of these costs and feel that the eventual dollar return on such investment will exceed the cost.

Companies uncommitted to education either do not share the belief that knowledge is fundamental to profitability and survival or they figure that they can somehow be beneficiaries of such knowledge without making any major contribution themselves.

In this day and age, benevolence has little to do with whether or not a reinsurer invests heavily in underwriting education or not. Such investment is very much a business decision. Expertise acquired by reinsurers via investing in such things as medical research and development must necessarily be "strategically shared" with clients. Reinsurers share with their preferred clients. What is good for the reinsurer's client is ultimately good for that client's reinsurer.

Reinsurers committed to underwriting education today are committed primarily to gain, and to have their clients gain, competitive advantage over others. Knowledge is a tool by which insurers compete. Given its value and the expense of acquiring such knowledge, many of the offshoots of today's underwriting education come with a price tag.

Changing Mission for Many Life Insurance Medical Directors

If we stand back and view our industry from afar, it is apparent that in many companies the role of the corporate medical director has changed significantly in the last ten years. Certainly this is true at my company.

We have fewer medical directors in the life underwriting area of my company than 25 years ago and yet, as a department, we are now doing infinitely more tasks related to "underwriting education." To a significant extent, this change has occurred as a result of lay underwriters being given full or near full accountability for the final underwriting action. The medical director now serves as a consultant to that underwriter rather than as an underwriting co-partner. This little-heralded exchange of the baton has had profound effect.

Transfer of case underwriting responsibility to the lay underwriter is nearly universal. Why not. It makes perfectly good business sense. Today's professional home office underwriter is fully capable. In fact, medical directors can justifiably cite this as a success story. Were it not for the cornerstones of underwriting education put in place by medical directors over the last half century, lay underwriters would likely not be in a strong enough position to assume full responsibility for selection and classification of risks. With well-written underwriting

manuals and other forms of medical training and guidance, today's underwriter truly is a professional and can do an excellent job on their own of evaluating most risks — including tough medical cases. While the well-trained underwriter frequently turns to his/her medical director for advice, there is no mandate to do so.

By being relieved of this authority for final underwriting actions, the medical director is now able to spend more time on research, development and related professional activities for which there is great need and for which physicians are uniquely qualified. Given the far-ranging challenges that now confront the medical director and the ever-increasing push for greater productivity, the chance to take a half step back from day-to-day underwriting and reflect on matters pertaining to underwriting education is a blessing for those who have such opportunity.

In the context of this discussion, it needs to be parenthetically acknowledged that triumphs of underwriting education can and have had a downside. Where pressure to reduce operational costs of underwriting is very real, as it is today, some companies have chosen to reduce the size of their medical staff. Rationales sometimes given for this are that lay underwriters of today no longer need as much help from the medical director or that the reinsurer's medical staff can cover for whatever shortfall that might result from down-sizing the in-house medical staff.

It seems clear that those who hold with such beliefs fail to recognize previously articulated trends and the fact that many of these looming demands on insurers — most of which are somehow related to "underwriting education" — can only be addressed by the corporate medical director.

This is not to suggest that reinsurers have any intention of decreasing the professional assistance they provide to their clients. The point is that all companies, small ones included, have professional needs that can only be satisfied from within. There is every reason to believe that such needs will sharply increase between now and the turn of the century.

What Lies Ahead

One thing is certain. Medical directors cannot rest on their laurels. Accomplishments of the past make interesting reading, but there is little carryover from our past to what lies ahead.

There are three things that medical directors must do. Companies must find better and more cost-effective ways to select and classify risks, and medical directors must help their companies to accomplish this. Medical directors must not allow their companies to deviate from medical underwriting practices that are ethically defensible. Third, medical directors must help their companies and their industry sell the merits of sound and equitable selection practices to the public.

Life insurance medical directors are credited with having unique knowledge and invaluable capabilities. However we soon lose this advantage if we fail to meet challenges and live up to expectations. This upcoming decade promises to challenge the medical director as never before. Viewing such challenges as opportunities, the 1990s should be years in which we will have ample opportunity to demonstrate our worth.

*Deborah A. Stone, "At Risk in the Welfare State", *Social Research*, Vol 56, No. 3 (Autumn 1989), pp. 591-633.