

DUMBING DOWN

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An insidious crisis is quietly jeopardizing the future of life and health insurance.

We are permitting ourselves to “dumb down” as regards prowess and savvy in the art and science of risk selection.

One visible aspect of this has been intensive cost-cutting efforts of recent vintage. CFOs have been quick to cut “non-essential” travel, as well as spending for educational purposes. While everyone appreciates the need for prudent spending, these well-intentioned individuals are simply “picking off the low-hanging fruit” By doing so, they are unwittingly closing off essential avenues to maintaining technical proficiency. Sacrificing access to vital knowledge in these times of great and rapid change is the quintessence of pennywise/poundfoolish thinking.

Or, as one famed American motivational speaker is fond to say: STINKIN' THINKIN' !

Many chief underwriters co-perpetrate this crisis. Either they do not use their meagre funds wisely (choosing low-yield, perk-ridden events over those that deliver - dollar for dollar – the best return in terms of educational value) or, worse, they fail to perceive and heed to this looming crisis altogether.

Once upon a time, knowledge was abundant. Insurers had, by comparison with today at least, vast resources they could allocate toward this end. Underwriters received abundant training and progressed up the ranks as knowledge, skills and performance merited. Medical officers and others had the time and the fiscal support needed to provide for initial and continuing education. Veteran underwriting “pros” mentored less-experienced peers. Reinsurers - more or less - *lavished* “value added” services on their direct-writing customers. More often than not, such services were replete with complimentary (and, for the most part, high caliber) education offerings.

Not any more.

Today, we face the grim prospect of literally not having the talent to get the job done. This sobering reality is underscored when insurers find it necessary to recruit so many retired underwriters, lured from their favorite fishing holes to work on a contractual basis

This is nothing more than putting a *band-aid* on a site of hemorrhage!

What are the implications here?

First and foremost, many bad risk appraisal decisions are being and will continue to be made. Questionable insurable risks are being and will continue to be accepted and many whose real risks justify significant extra premiums will be underpriced. Carefully-crafted risk selection criteria are being and will continue to be undercut, largely by underwriters who have not learned the fine art of dealing effectively with producers.

All of these factors must result in a pool of risks whose ultimate performance, in terms of both mortality and morbidity, will not come close to meeting actuarial expectations.

In short, chaos will ensue.

One of the unfortunate forces propelling this outcome is a growing cadre of senior managers whose job performance is measured by short-term revenues only. The net result is that pressure is brought to bear on underwriters (and their bosses) to make exception after exception, to put placing business – at any ultimate cost – ahead of assuring a sound mix of business consonant with *long-term* profitability.

Mortality/morbidity gains have emerged recent years as a major component of insurer profitability. These gains come at an affordable price: competence. One does not enjoy these valued outcomes if one allows the skills of those whose actions determine the prospects for mortality gains to atrophy. One might add here that such gains are also improbable if the mandate *from on high* is to *issue, issue, issue...* without attention to the soundness of the block of business being accumulated.

First dollar quota share reinsurance (i.e. sharing every risk with the reinsurer) is seen as a buffer against this outcome. That perception is naïve. Reinsurers cannot afford to continue offering lucrative pricing to direct writers who infuse them with underpriced automatic business.

The worm is already turning in this regard. Word on the street on this side of the Pacific, is that reinsurance audits are becoming more frequent, more intense and less pleasing – when the verdict is given - to those who have been audited. This trend will continue until insightful reinsurers purge themselves of companies who cede unprofitable business. Then where will these knowledge-depleted, *issue-at-any-price* insurers turn?

The solution is not complicated.

- See beyond the next quarter's revenue to the real mission of life insurers.
- Pay heed to the fact that life insurance is a long term proposition and do what it takes to assure that when death claims ensue, they are not out of proportion to funds allocated for their payment.
- Rethink the tunnel vision inherent in cutting back on essential continuing education and training...even if it means spending a fistful of dollars or even, perish the thought (!), some judicious travel.
- Place genuine learning-experience travel ahead of travel that rewards but does not embellish.
- Take prudent, cost-effective steps to acquire the knowledge that underwriters need to stay current in the art and science of risk appraisal. This means subscribing to worthwhile publications, taking advantage of educational programs offered by service providers, attending seminars and participating other educational programmes and events that pay for themselves many times over in terms of knowledge and insights acquired by active participants.

- Make it a clear goal to recapture the savvy mindsets that made the most senior underwriters of the 70s and 80s so expert in building blocks of long-term profitable business. These mindsets are not passed through genes! They require an on-going investment in education and training, encouraging promising young underwriters the opportunity to matriculate through worthy programs, like those offered by the US-based Academy of Life Underwriting, etc.
- Avoid the trap of believing that credentials alone confer excellence. This underwriter has seen far too many peers with a string of credential letters after their names who could not, literally, underwrite their way out of the proverbial “paper bag.” *Earning designations is only a part of a process; a means to an end, not an end in itself.*

In a previous lifetime, so to speak, I once had the privilege of overseeing a team of super-talented Registered Nurses, recruited from their native habitat by the allure of wearing civilian clothes and working regular hours with better compensation. These RNs had unlimited potential. Potential that was never fully realized in those days because they were not infused with the necessary underwriting knowledge to blossom as practitioners of the science *and art* of risk appraisal.

As a late-in-life novice entrepreneur, this underwriter has worked with peers to fashion a generic continuing education program for underwriters. One would think life and health assurers, and reassurers as well - in clear if not desperate need of such a resource - would clamour to it (as well as other excellent educational resources for their underwriters). This has not been the case. It has been an uphill struggle to build an enrollment justifying the enormous effort expended by the programme faculty.

A number of excellent essays have appeared in the recent life underwriting literature, most notably in ON THE RISK, extolling readers to recognize and come to grips with this “dumbing down” crisis.

Have they all have fallen on deaf ears?

Have those chief underwriters and others who have read arguments advanced by visionaries like BEST’s Jack Hillman and ON THE RISK’s John Krinik not found the courage to act?

Our industry has grown and flourished for nearly two centuries. One of the pillars has been that we have nurtured and honed the skills we need to make certain the business we put on the books is priced in accord with the risk assumed.

What will happen in the coming decades? Will temporary and fortuitous improvements in mortality mask our current state of affairs? Don’t count on it. It is likely these short-term improvements will plateau for a long while.

The time is at hand to act decisively. To reverse the trends of the 90s and end this crisis. What we do about “dumbing down” could well determine the future of many assurers if not the industry itself.

You see, this is a wholly avoidable crisis!

One that can be intervened upon without great effort or expense.

But this will require initiative, not inertia.

Courage, not compromise.

Insight, not avarice.

Today, in fact, would be a perfect day to begin.

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