

## Life

By Hank George

Failure to use underwriting judgment and exercise resolve damages insurers, reinsurers and the industry as a whole.

## Enough 'Exceptionitis'

With “-itis” as the medical suffix for inflammation, “exceptionitis,” a convenient neologism, might be defined as an inflammatory process in the decision-making locus in the underwriter’s cerebral cortex. When unchecked by a countervailing force (judgment), it induces migraine-equivalents in that region of the reinsurer’s brain that accommodates patience in the face of rogue clients.

One just concern of reinsurers is the sheer volume of underwriting exceptions being made by direct writers. These oft-objectionable cave-ins are (ill) begotten in the face of hideous pressure from producers and their irrepressible advocates to accommodate (perceived) demands of clients.

Said in a more genteel manner: In our highly competitive marketplace, direct writers must be sensitive to producers lest they forfeit good business. Are blatant exceptions “good” business? When legitimate “table sixes” are force-fed into “table four-to-standard,” programs’ mortality shifts in the wrong direction.

When risks are consciously under-debited and then unconscionably auto-ceded, pricing of that block of business is inexorably insufficient to cover the aggregate risk. This, in turn, propels reinsurers to intensify client audits. Persistently unfavorable audits beget either higher reinsurance premiums or an end to the relationship. Worse yet, they may conjure worrisome clauses intent on allowing reinsurers to sidestep claim accountability on the basis of putative “negligent underwriting.”

What is a reasonable exception, based on defining an “exception” as a deviation from guidelines in the reinsurer’s underwriting manual? If the underwriter has information that clearly improves the risk—documented for audit (not to mention, Sarbanes-Oxley) purposes—then, the decision to use that information is proper and should not be pedantically chastised by the reinsurer.

Consider a borderline cardiovascular risk profile in that gray zone between Preferred and Standard. The underwriter orders the high-sensitivity C-reactive protein test, a proven marker for unstable coronary disease. If the test comes back within the acceptable range, the risk becomes that much better. This argues for more favorable action. A point needs to be made in this regard. Reinsurers are obliged to keep their manuals current. When this is not done, the reinsurer may forfeit credibility when finger-pointing over ostensible exceptions.

How does an “exception” differ from a “business decision”? An exception is either based on sound judgment or is an outright surrender. The latter is a business decision. However, there is a more menacing subspecies of this phenomenon: the outlandish capitulation.

One recent scenario comes to mind: approval at

“standard rates” of an elderly applicant who had sustained both a heart attack and a stroke. This person was incredibly uninsurable. However, this did not deter the insurer one iota from jamming this risk into an automatic program.

By comparison with garden variety inappropriate exceptions, this malignant genre of business decisions is flat-out catastrophic to insurer-direct writer relationships and, insidiously, to the industry as a whole.

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How do they impact the industry?

They egg-on producers, and the brokerage agencies that support and draw sustenance from those producers, to make more and more demands — “You did it for Mr. Smith, why not for Mr. Jones” — ad nauseam.

Brokerage agencies are sophisticated in their knowledge of underwriting and the risk-embracing proclivities of their “outlets” with regard to specific impairments. Some of our top underwriting professionals have “crossed over” (as we delight in chiding them), bringing their considerable skills to bear for such agencies. When you have that kind of talent facing off with home office underwriters, exceptions escalate, as indeed they have.

Where to do we go from here? First, we examine our conduct. If exceptions are undermining our reinsurer relationships, we clamp down on unfettered concession-making. We guide our underwriters in defining appropriate vs. inappropriate “exceptions.” Moreover, we avail ourselves of available and affordable resources to further assess borderline cases.

Second, we end more than a decade of ambivalence to proper education. We recognize that having our “most experienced” underwriters audit less senior peers is often little more than canonizing outmoded thinking barnacle-ized (a synthetic verb so definitive in this context) to the mindsets of many longtime underwriters.

If mortality gains are our preeminent source of potential profitability, only underwriters on the proverbial cutting edge dare hope to navigate the field of risks and thus reap the harvest.

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