

The dwindling number of master underwriters and the industry's lack of commitment to developing them pose a grave threat to insurers.

Pay Now or Pay Later

Once upon a time, life was good. Most life insurers could count among their underwriting ranks a number of master underwriters, who were also mentors.

As mentors, they would spend time honing the risk-assessing skills of the firm's more junior underwriters. This allowed less-experienced underwriters to mature in their work in a manner akin to fine wine, acquiring both the technical knowledge and the risk-selection savvy essential to fulfilling their mission.

Underwriting is well known to be both an art and a science. It is equally true that great underwriters are both born and made. The "born" part comes from high-grade "right brain" functions (intuition, etc). The "made" part comes from long hours studying a diversity of subjects.

A top-notch life underwriter must be part-medical doctor, part-J.D., or juris doctor, part-E.S.A., or fellow of the Society of Actuaries and part accountant, and must also possess whatever it takes to sell unpopular decisions to forthright and often difficult individuals.

This package we choose to call the "life underwriter" is not assembled in haste. It may take a decade for a seasoned underwriter, with mentoring and resources for continuing education, to be able to carry off his primary accountability: gatekeeper of the stream of corporate profitability.

Reaching and sustaining this level of excellence was seldom an issue...in the "good old days." Travel budgets were generous (compared with nowadays, that is). Reinsurers and others competed with one another in terms of how lavishly (relatively speaking) they could serve up "free" education and other "value-added" entrees for clients. Not any more.

There is no need to recount the insidious factors, arising in the 1980s and accelerating into the millennium, which have relegated the foregoing to dimming memory. The result? A very real, very worrisome, dearth of master underwriters, which is starkly revealed in the sheer volume of contract underwriting work being portioned out to those who have tried (or been encouraged) to retire, and are now being lured back. What happens when they are gone?

Let me cut to the chase:

If you expect to sell life products with genuine appeal, you have three options:

- Underwrite adequately
- Price adequately without underwriting (and sell nothing to healthy people)
- Price inadequately without underwriting (and go broke)

Gutted travel and education budgets, "production-oriented" environments that (overtly and covertly) discourage learning, and, now, the demise of most all of the

freebies, are taking their toll.

Insurers are running out of "stop gap" measures (like reanimating retirees). And the worst is yet to come. Because one can only fly blind so long, before crashing.

In an August *Best's Review* essay, my friend Dr. Cliff Titcomb articulately recited the merits of "evidence-based" underwriting. Cliff is, of course, correct. In a perfect world. The real world of day-to-day underwriting in 2002 is not, however, quite so accommodating. Not when most underwriters struggle to keep their heads above water. Not when taking time to check out unfamiliar drug names in the Physicians' Desk Reference has become a luxury.

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Not when two hours out of production to learn what one simply must know to tread water in an ever-changing world is held, by too many bosses, to be unacceptable.

In the 1990s, expert underwriting systems were touted as our salvation. We believed we could soon dispense with (and thereby salvage precious dollars allocated to) most of our experienced underwriters. Henceforth, we would only need "underwriters" trained to extract choice tidbits from doctors' statements, plug these data into "the system" and push a button.

Today, as these white elephants, for the most part, collect dust in lieu of data, we come face to face with two sobering realities:

Underwriting is more important now than ever before to profitability. Master underwriters who possess the knowledge, the sophistication and the savvy needed to assure consistently profitable risk assessments are in short supply. That supply continues to shrink.

Will we pay for penny-wise/pound-foolish choices with our bottom lines? The mother of all grim realities is this: garbage in, garbage out.

It's that simple. It's that serious.

...tick, tock; tick, tock...

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