



By
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We've all seen it—basic group life rates that look more like AD&D rates; rate guarantee periods that resemble a mortgage contract; liberal guarantee issue maximums; and more.

In pursuit of a large case, the carrier that wins the race to the bottom often finds various and creative rationales for pricing below the credible claim cost. Some of these unhealthy rationales may include:

- **Experience rating:** One might be tempted to forgive a large claim

but even if priced correctly, a large case may be a disproportionate drain on resources. It may require a dedicated service team or performance guarantees, for example. Further, if you're willing to price below expected claims, you need to consider whether that risk is justified for a case that may not stay on the books beyond the initial rate guarantee period.

- **Liberalizing plan design:** There is increasing pressure to grant open enrollments simply because of a change in carrier. Granting open enrollment when there is no material change in the benefit design may lead to anti-selection. Similarly, granting an open enrollment request on an in-force

Returning Sanity To Large Life Plans

Prudent pricing and underwriting have been disappearing from group life sales.

or claims without adding a corresponding pooling charge. It's defensible, perhaps, if it's an accidental death claim, but hard to justify otherwise.

Volatile claims experience should also inspire caution, especially if a three-year rate guarantee is at stake.

Or there may be credible claims data, but it doesn't show any open waiver of premium claims. An optimist might price this as if that anomaly were the norm, but prudence calls for including an expected number of incurred waiver claims in the experience rating.

- **Credibility:** Underwriters may expand credibility where the experience is favorable, yet hesitate to apply a converse standard when the case has poor experience. A better approach is to incorporate the expected and actual number of claims. Don't forget to factor in whether or not there is a balanced plan design.

- **Intangibles:** Landing a marquee account can help meet a sales goal,

case with liberal guarantee issue terms can easily result in adverse experience.

Annual open enrollment is becoming more common on large group life cases, but is better suited to medical and dental lines. It may make sense for employer groups with extremely high employee turnover, but that isn't a characteristic typically targeted by group writers.

- **Discipline begins with proper targeting:** Carriers should review their risk selection guidelines to ensure they prospect for—and take their best shots at—the right cases, based on their strategy and comfort level. The quality of underwriting data available is a key factor in determining if a prospective case fits the profile. Review this strategy and profile on a regular basis.

Disciplined prospecting, underwriting and pricing may mean occasionally walking away from an opportunity that isn't a good fit.

Every carrier wants a high persistence rate on its large case segment, but an unfortunate reality is that if the pricing doesn't generate a reasonable profit within the initial rate guarantee period, then it is likely not a sustainable strategy.

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