



By
Eric Swanson

All the familiar issues associated with an economic downturn have come back into focus for group underwriters these days, and it's high time to take stock of our risk-assessment approach and tools. The issues facing us include increasing merger and acquisition activity related to troubled companies, increases in the number of companies seeking bankruptcy protection, the diminished ability of firms to make timely premium payments and the seemingly endless string of

contracting economy, these types of requests need to be evaluated prudently and case-by-case, based on the financial health and payment history of the policyholder.

Group disability underwriters can point to industry studies that show a strong correlation between higher unemployment rates or lower consumer confidence and higher rates of incidence of disability claims during a recession. Although there appears to be a significant lag (four years) between the end of a recession and peak levels

of disability claim incidence, underwriters need to be on guard for deteriorating loss ratios. This can be done via an ongoing detailed analysis of the portfolio of business, including a segmentation by case size, industry sector and diagnosis type.

For underwriters of new businesses, the traditional risk-selection tools that focus on the financial health of companies include researching companies through their Web sites as well as checking local newspapers, and using subscription services for various databases.

In addition, some group carriers have begun using more sophisticated predictive modeling tools to enhance their risk-evaluation process. Such modeling tools can be used to better predict the likelihood of a policyholder going out of business or not paying bills. Besides helping to identify poor risks, this modeling also can be used to identify and target prospects that may be better opportunities in terms of business risk.

Now more than ever, companies need to assess the effectiveness of their business risk-assessment approach, including risk-assessment tools. This will ensure that a carrier's limited resources are focused on retaining their best customers while also identifying and avoiding poor business risks and making it easier to manage problem accounts.

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Underwriting Risks During a Downturn

The poor economy presents group underwriters with special challenges in managing life and disability insurance risks.

high-profile layoff announcements.

The economic challenges facing policyholders and their contracting work force largely are shared by carrier underwriters who must manage profitable portfolios of business. One result is group underwriters are fielding more policyholder requests to liberalize plan designs or contract provisions related to the growing ranks of severed employees.

Another challenge is the need to identify and manage emerging trends in claim experience.

Underwriters are seeing requests from clients to modify policy provisions in advance of anticipated layoffs or temporary mandatory schedule reductions. Examples of this include requests for liberalization/extension of the continuation of coverage provisions, requests for reduction in the minimum number of hour-per-week requirement, and requests to modify the earnings definition to establish prelayoff earnings as the basis of benefits after a layoff or schedule reduction. With a

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