



**HANK
GEORGE**

FALU, CLU, FLMI is a consultant, writer and professional speaker. He is founder and editor-in-chief of "On The Risk" journal, as well as author of his own bimonthly newsletter, "JournalScan" and free monthly e-newsletter, "Hot Notes."

The founder and chair of LOMA's International Underwriting Congress, George also chairs five study groups devoted to life and health risk management. He has published over 100 articles and papers, and is co-author of "Getting It Issued," a book on underwriting for brokers. George is the only underwriter to have ever addressed the Million Dollar Round Table from the main platform, having done so in 1988 and again in 2000.

A frequent educational and motivational speaker, George travels the world from his home base in Milwaukee, WI. His web page is www.hankgeorge.com and he may be reached at hankgeorge@aol.com.

Alternative Underwriting

This underwriter recently penned (no, make that "typed" with two fingers) two essays, published here, on the theory and practice of teleunderwriting.

It is now appropriate that consideration be given to a very promising sister concept. One that has come to be spoken of as *alternative underwriting*.

And, as is true of teleunderwriting, this concept will likely be defined somewhat differently by each informed person you ask.

There are, I am told, some who seek to focus alternative underwriting on personal financial issues, such as debt handling, with the inference that how one deports oneself in this domain is significant to longevity. As it may well be.

Be that as it may, I choose to approach alternative underwriting from what I consider a more consumer friendly direction—personal health habits. Before we delve into what this means and how it might work allow me to explain, briefly, how it all started.

In the last quarter of the twentieth-century, the life insurance industry undertook the first of two radical modifications in its approach to determin-

ing insurability. Which, of course, was to distinguish cigarette smokers from non-users of this prevalent nicotine delivery system, in terms of how life insurance was priced, marketed, and underwritten.

Smoker/non-smoker, as it evolved between the late seventies and the early nineties, was warmly received by most customers and, in fact, even applauded by some outside our industry. (A refreshing change, if you will, from how the risk selection process had been perceived previously.)

The second radical innovation was *preferred*, which expanded upon smoker/non-smoker, employing a bevy of then-innovative factors, measurable with conventional underwriting requirements, to create a one-dimensional profile of the proposed insured, driven largely by physical measurements and laboratory tests.

Simply stated, if one met stated preferred criteria (or, came close and had an assertively tenacious advocate), one was held to be preferred and afforded a lower premium than a mere standard risk.

Preferred was a huge success, begetting super-preferred, preferred smoker,

and even being expanded vertically, legend has it, to the point of conjuring wishful states of near-immortality (for which, alas, no carbon-based life form can qualify).

The impact of preferred became crystal clear to me, when, after speaking to an audience of chief underwriters in Hong Kong, I was barraged with questions on that very subject. And today, we see prototypes of smoker/non-smoker embraced globally. Preludes, no doubt, to whatever configurations of preferred are deemed apropos given the characteristics of specific global markets.

Smoker, non-smoker, and preferred were twentieth-century innovations.

Alternative underwriting is poised to be the third radical modification of traditional underwriting, taking place here in the early years of the new millennium. How appropriate.

This underwriter's vision of alternative underwriting works something like this. There are personal health habit choices and behaviors which reliably correlate with mortality risk.

We have abundant data at hand, for example, documenting a clear mortality and morbidity association with the extent of one's indulgence in leisure time physical activities.

The same is true for food choices, extent of alcohol use, voluntary embrace of certain preventive medicine steps (e.g., an aspirin-a-day at older ages), and so on.

Beyond these factors, we also have eye-opening data showing that favorable implications may be drawn from certain voluntary behaviors that transcend the putative direct benefits conferred by these behaviors. These implications have come to be known, in epidemiology at least, as the *healthy user effect*.

The healthy user effect may be illustrated by the fact that some recent studies have indicated that wine drinkers have the most favorable outcome when we subdivide temperate alcohol users into wine drinkers, beer drinkers, and hard liquor aficionados.

Is this attributable solely to the healthful benefits of wine? Or does it also speak to other desirable health-related considerations that happen to be more prevalent among wine drinkers? Like a higher level of education, greater compliance with Rx, more willingness to accept physician advice to have periodic health screening, and so on.

Fact is, there is a growing body of evidence supporting healthy user

effect. One that fits, like a hand in a glove, with the risk appraisal process. Fits, that is, in a teleunderwriting mode, where underwriting-salient information is gathered solely by trained interviewers.

In other words, health-habit-drive alternative underwriting has incredible potential only if driven by telephone (and, perhaps, in the days ahead, Internet) interviews.

In 1980, addressing the Canadian Life Insurance Medical Officers Association's annual meeting, Manufacturer's life actuary Robin Leckie, FSA, spoke of the desirability of looking to what he called—in terminology still appropriate in those days—"lifestyle underwriting" as a refreshingly new potential component of risk management.

Over two decades later, this concept has not, to my knowledge, been fully integrated into an operational underwriting model.

Those insurers who opt to move ahead with health-habit-drive alternative underwriting will likely enjoy faster, cheaper, and better risk appraisal.

Not to mention a warm reception by the very prospective policyholders they most wish to insure.

Ready when you are. o