The Employer Effect™
A case for industry champions

In "The Employer Effect on Disability Claim Costs," we theorized that different employer practices in the same industry result in different experiences with disability costs, an idea we refer to as the Employer Effect. In this article, we would like to discuss underwriting specialization and how aligning underwriting "industry champions," whose deep knowledge of risks within their focused industry may help improve underwriting profitability.

Risk analysis specialization within underwriting organizations

Group insurance companies are driven by the need to be more productive, in an industry where new business acquisition is very competitive, and is typically attained through rate decreases. Underwriting organizations are constantly looking for ways to achieve efficiencies. Carriers have implemented different strategies over the years in aligning the new business and renewal underwriting functions. Splitting the new business underwriting from renewal underwriting allows employees with different skill sets to specialize and focus on one or the other function. For example, renewal only underwriters can manage block renewal strategies more effectively than underwriters who are also doing new business quotes. On the other hand, having underwriters do both new business and renewal underwriting gives underwriters the ability to follow the progress of new business cases through the renewal cycle, and they can learn from good or bad decisions made in the initial underwriting process. Carriers have also moved away from specialization in any one line of business.

While efficiency is a good thing, there is an important piece being lost in the shuffle—risk analysis specialization. Importantly, the better we are at risk analysis, the more effective we can be at controlling benefits costs in the underwriting process. This is becoming even more important as many of us have entered a relatively new area—voluntary/worksite marketing and underwriting, with products such as Term Life, Mini-Med, Critical Illness and Accident being offered in addition to the traditional group benefits of Life, Disability, AD&D and Dental.

Years ago at group insurance companies, life, dental, and disability products were independent units, with separate underwriters who were product experts. Today, many carriers ask underwriters to quote on all lines of business, including the growing worksite products, requiring underwriters to be proficient in underwriting multiple lines of business. In this work environment, the question is whether or not it is realistic to think that a single underwriter can be an expert and provide the most effective risk analysis when working on multiple lines of coverage. Turnaround times are shortening all the time, the products are new to them, and it can be very challenging. It is our belief that a disability-only or dental-only underwriter will generally be better at evaluating disability or dental risks than an underwriter who works on all coverages.

We understand that there are pros and cons in any organizational structure, and many valid reasons organizations choose to train their underwriters on multiple products. We merely want to recognize that due to all of the changes we are witnessing – with complex and multiple products – we are losing something of value. With this in mind, let's explore a return to specialization through the use of "industry champions."

Industry champions – benefits of specialization

An industry champion can bring specialization by being responsible for and aligned by industry sector (e.g., hospitality, technology, transportation, etc.). Individuals are responsible for knowing trends, technology and other factors impacting a particular industry. For example, Wall Street firms employ individuals who know what's going on in all aspects of specific industries; their experts on the Airline industry can be seen on cable news shows commenting on the impact of rising fuel costs on travel trends and airline revenue and expenses.

We suggest that underwriting teams should have a similar specialist role and believe they would add significant value to a company's risk analysis. Regardless of whether the underwriting teams are set up by single or multiple product, or by new business versus renewal or both, industry specialists can play an important role on the teams. They will know which companies in their industry are financially sound, what strategies for growth they explore, the impact of technological changes, and more. They truly have their finger on the pulse of the industry. By aligning your underwriting to sectors that drive your growth and profitability, your "champions" would see and understand all risk related developments (positive or negative) to better understand the underlying risk.

This goes beyond just a specific type of risk or line of business. Knowing an industry, an underwriter could gain insight and business acumen on best practices that could easily translate to knowing what products are typically provided to employees in that sector. Underwriters can tap in to a claims specialist who will know what opportunities may be available in that industry for rehabilitation, or the current state of that specific industry for employment and return to work, and the nuances of plan features common to certain industries.

An obvious example of useful information for both LTD underwriters and claims specialists is employee satisfaction scores. The higher the scores, the less likelihood of disability risk, more likelihood of return-to-work potential, and the better the group LTD opportunity. Another example is improvement in technology and onset of automation. It would have been valuable for underwriters to know when meter reading was evolving from people to wireless as they were underwriting power and water companies, or when toll collection was transitioning to automation, or when phone books were becoming obsolete in favor of internet searches. Carriers who have a better understanding of the future health of specific industries are more likely to be successful at risk selection than those carriers who have little or no knowledge of these dynamics.

Trends in industry specialization

Carriers have begun or accelerated specialization in at least two major industries, for different reasons. The first is healthcare. Although a small number of carriers have had specialized teams working on healthcare, other carriers are now building dedicated units to gain expertise and focus on this industry. Healthcare related risks in the U.S. are changing dramatically because of the rapid changes in the form of technological advances, consolidation, and the need to reduce healthcare costs below a mandated level. The desire to understand this business so that they could compete with other carriers while also writing the healthcare business at a profitable level has caused insurers to pay much more attention to these risks than in the past.

Secondly, a number of carriers have developed a government sector unit to specifically deal with this very large, previously untapped market. In the past, carriers ignored this market because of the various barriers to entry, such as the comprehensive/difficult RFP and bidding process. Once these challenges were overcome, the opportunity to compete in a market that was relatively uncompetitive, became quite profitable.

There are many schools of thought on the best way to set up group underwriting organizations – new business or renewal only, new business and renewal together, single product or multiple products. Regardless of where your organization falls, industry champions on the underwriting teams can be a vital resource for the organization, not only for underwriting, but also for other parts of the organization, such as claims, product and investment departments. As specialists focusing on specific industries, they will collect and evaluate information related to their industry that can be used to improve risk assessment and manage claims. Carriers that choose to specialize, knowing which companies represent better risks in a given industry, will more readily be able to identify potential Employer Effect opportunities. They will be better prepared to take advantage of proposal opportunities, and will be more successful managing their renewal business.

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