INTERNAL UNDERWRITING AUDIT BEST PRACTICES
– AHOU APRIL 2013

- **Highlights from ALU Underwriting Audit Survey**

  (Donna Daniells & Kristin Ringland)

Highlights from ALU survey
- Internal life underwriting audit practices

- Goals of the survey
  - Support quality assessment in our underwriting profession.
  - Identify common industry practices so you can benchmark your own program.
  - Further industry insights and knowledge.

- Internal audit survey includes fully underwritten life business in both direct and reinsurance markets.

- Full results will be sent to those who participated. OTR article to follow later this year.

- Survey group members:
  - Donna Daniells, AXA-Equitable
  - Carol Flanagan, John Hancock
  - Chris Olson, Lincoln Financial Group
  - Kristin Ringland, Generali USA Life Reassurance

Who responded?

- 113 companies from Canada and the U.S. (one response per company)
  - 86 % direct carriers
  - 10% reinsurers
  - 4% underwriting service providers

- Number of underwriters in companies who responded
  - fewer than 10   56%
  - 11 to 50   27%
  - more than 50   17%

Do you have an internal underwriting audit program?

- 83% have an internal underwriting audit program

- 17% do not have a program, citing the following reasons:
  - developing a program within the next year.
  - cost and resource constraints.
  - other reasons include – small department, cases discussed in open forum.

- Of those who do not have a program, approximately half indicated they do audit MIB codes.
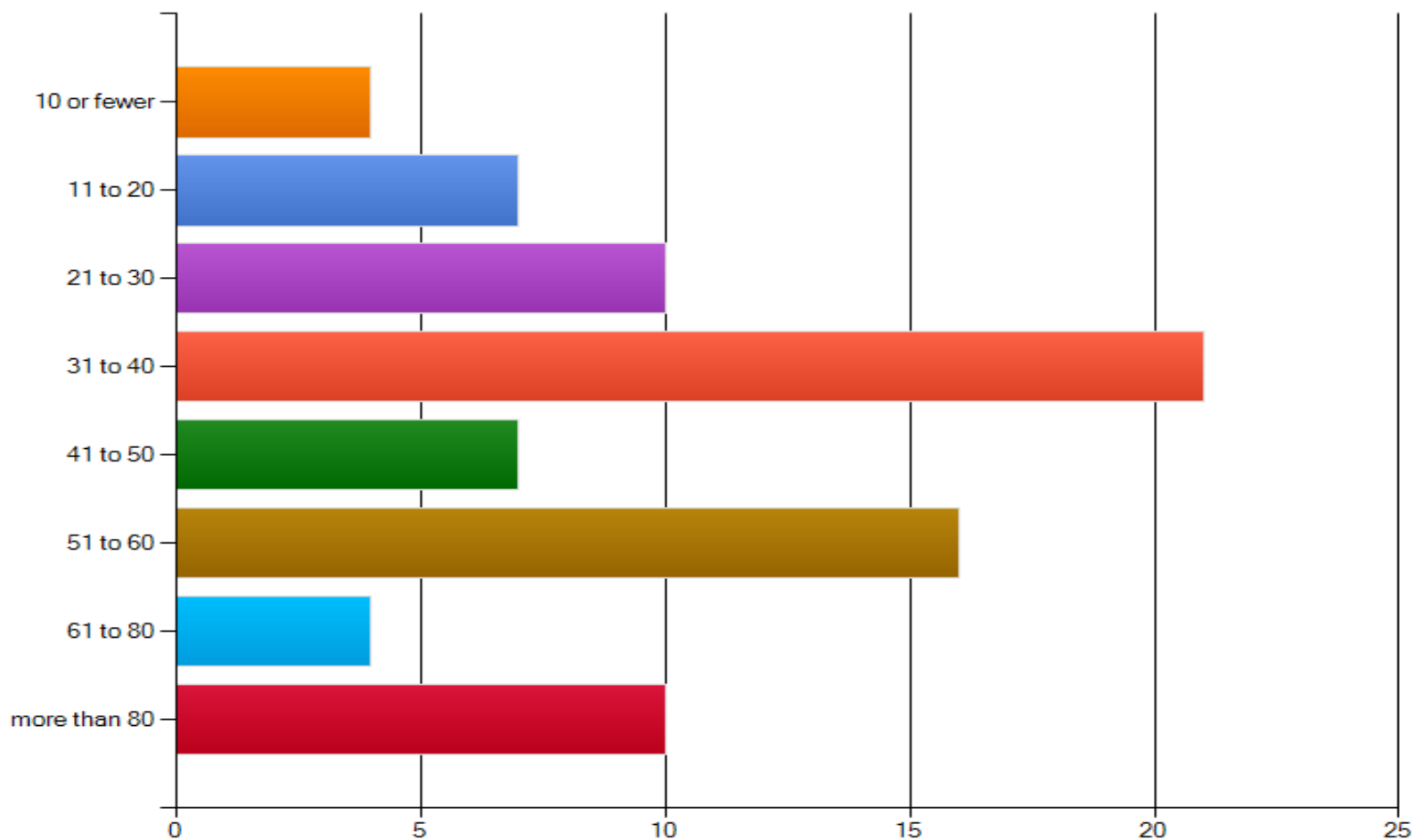
Who is audited?

- Underwriters with approval authority   100%

- Management staff with approval authority   39%

- Medical staff   7%

What is the average number of cases audited per year per underwriter?

- Approximately 75% of the companies audit > 30 cases a year and approximately half audit > 40 cases a year, per underwriter.

Does the number of cases audited vary by underwriter?

- Approximately 2/3 vary the total number of cases per underwriter.

- Reasons for variance, in order of frequency:
  - performance concerns
  - level of experience or role
  - consideration for promotion or signing authority increase
  - cases are selected on specific themes (for example a specific impairment, rider, product or program)

How frequently is each underwriter audited?

- Over half perform audits quarterly or more frequently

Legend:
- monthly
- quarterly
- twice per year
- annually
- other or as needed
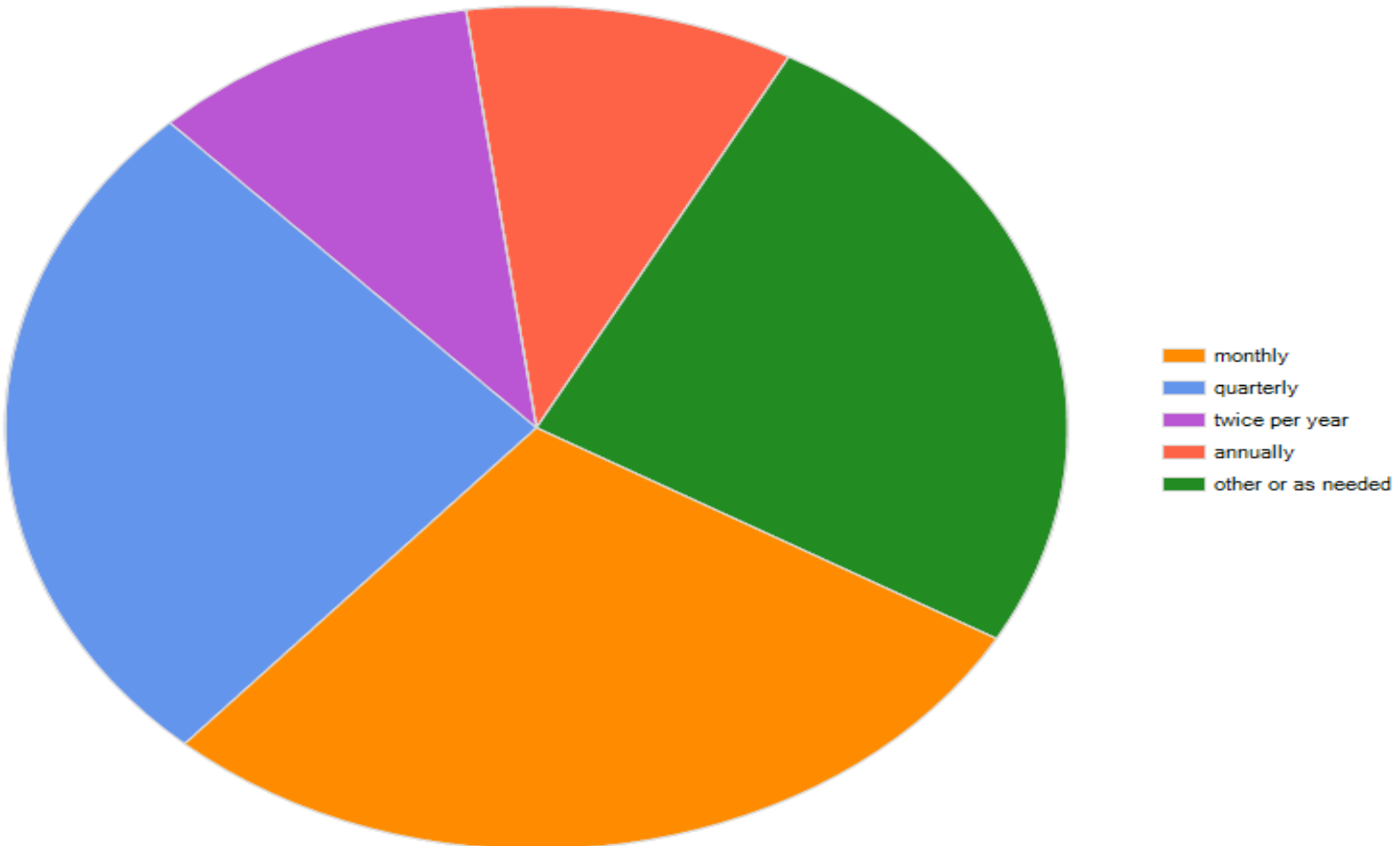
Who performs the underwriting audit?

- Audits are performed by (more than one option could be selected)
  - management staff   50%
  - dedicated auditor/underwriter   33%
    (who spends half their time or more conducting audits)
  - experienced underwriters   32%
  - external organization   7%

- How many different people in your organization complete the internal audits?
  - 1 or 2 people   62%
  - 3 to 5 people   28%
  - more than 5 people   10%

Which of the following factors are addressed as part of the case evaluation for an underwriting audit?
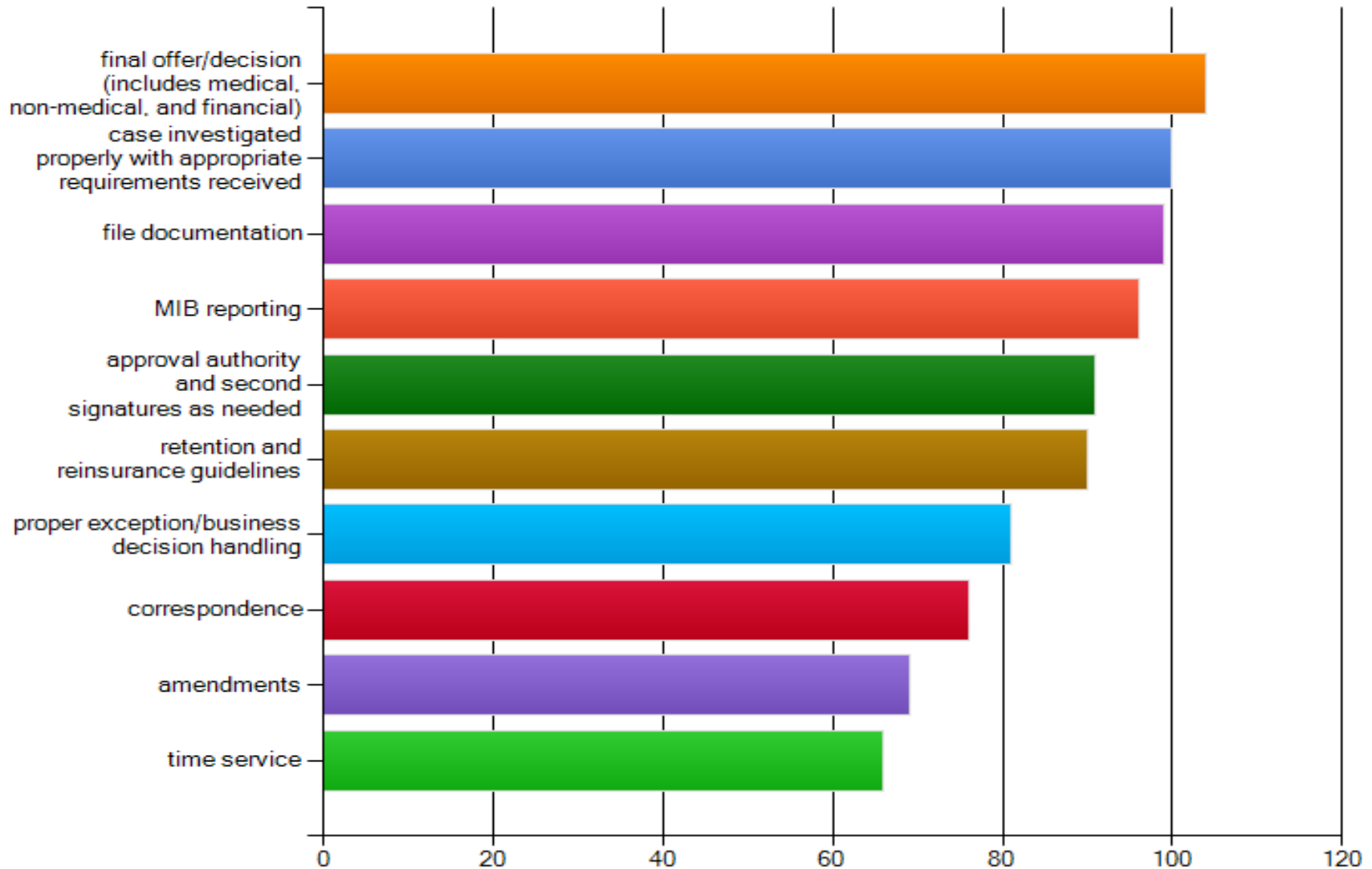
Is there a numerical score for each case?

- Approximately 40% have a score for each case and 60% do not.

- When there is a numerical score for each case, the items are ranked as follows on a 7 point scale, regarding degree of impact on the score.

    (7 is greater impact and 1 is lowest impact)

    - final decision   6.9
    - case investigated properly   6.2
    - documentation   5.1
    - communication   4.8
    - MIB reporting   4.7
    - amendment   4.4
    - other administrative items   3.4

How is the audit sample selected?

- A combination of methods are used. (more than one option could be selected)
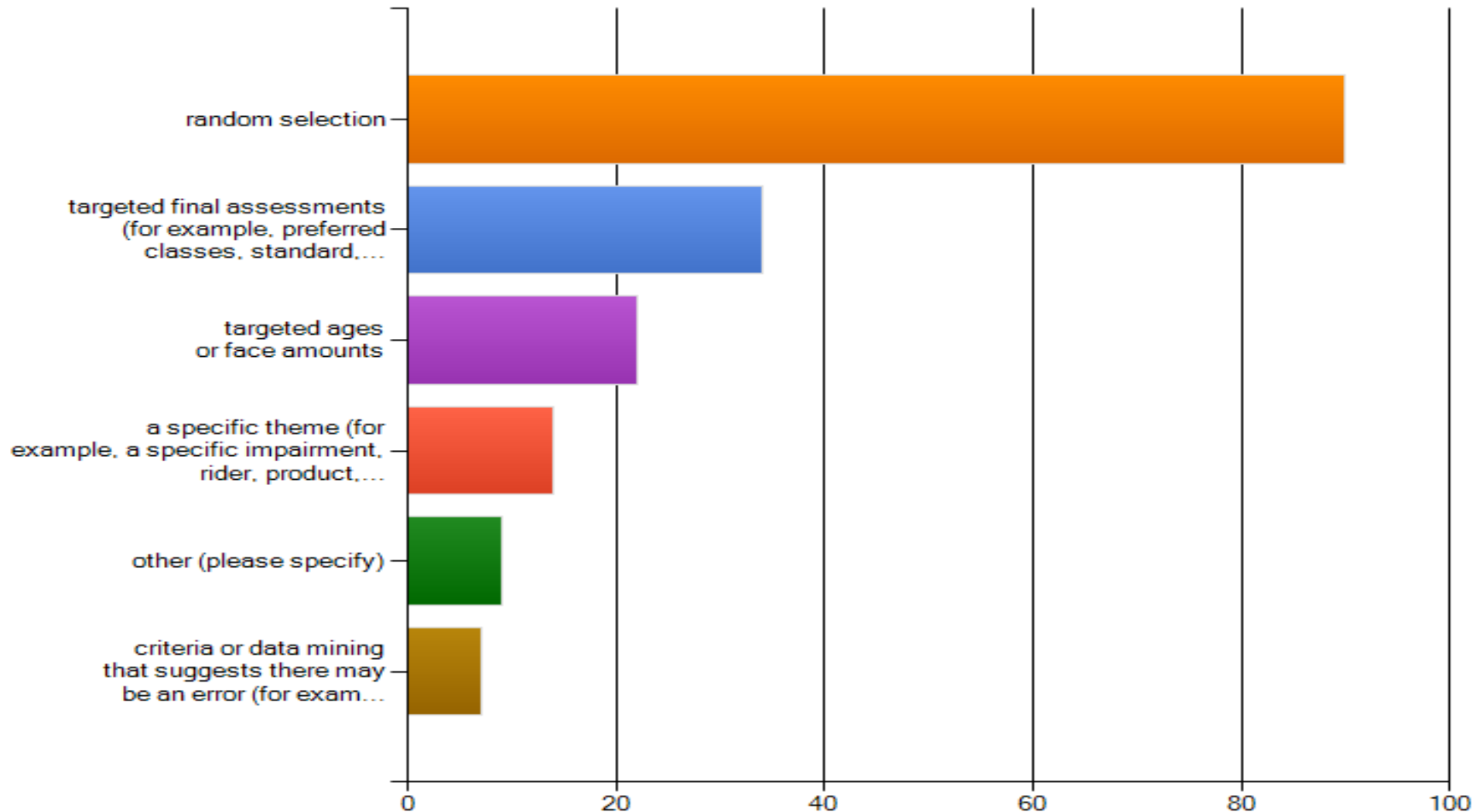
How are the audit findings used?

- Based on a 7 point scale, items are ranked in order of importance as follows:

  (7 is greater importance and 1 is lower importance)

- determine training needs   6.0
- identify areas that need improvement   6.0
  (process and guideline clarity)
- underwriter performance evaluation   5.9
- measure consistency   5.8
- evaluate practices and controls   5.6
- share organizational metrics   4.0
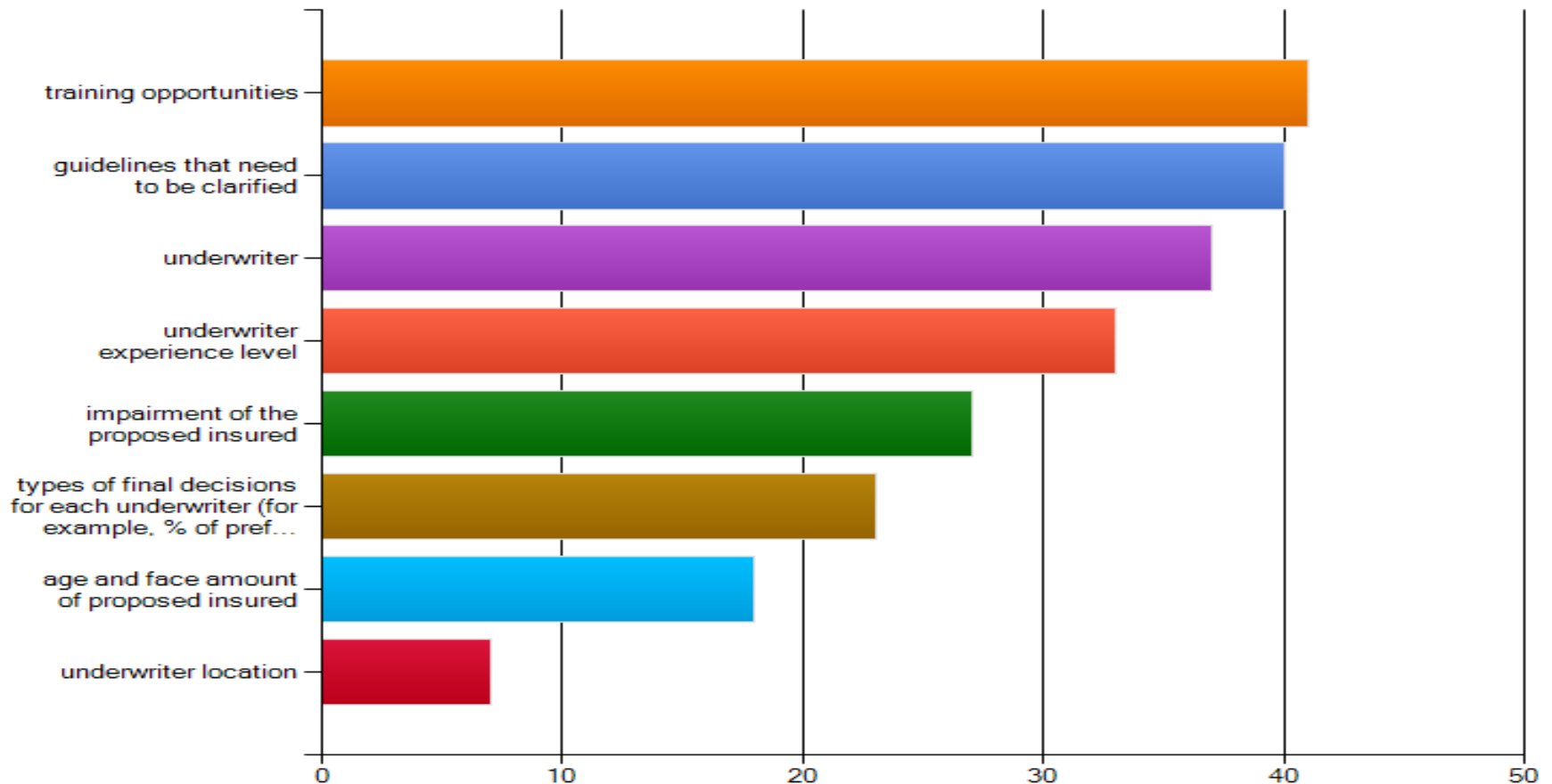- provide input for product pricing   3.2

Maximum allowable annual target error rate on final decisions

Maximum target	For the individual underwriter	For the entire department
We don't have one	58%	59%
0 to 3%	30%	33%
4 to 5%	11%	6%
6 to 7%	1%	2%

Trend analysis

- Half report they do not complete any data analysis.
- Those who do trend analysis, consider the following:

Did your organization meet its audit goals in 2012 for the number of cases to be audited and timeliness?

- 80% met their goals on
  - the number of cases to be audited per year per underwriter
  - and the timeliness of the audits

  - For the 20% that did not meet their goal on timeliness of the audits:
    - 32% were 1 to 2 months behind
    - 50% were 3 to 6 months behind
    - 18% were more than 6 months behind

What technology is used to support your internal audit program?

- Excel   68%
- Word   41%
- Microsoft Access   15%
- Web based system   12%

More than one option could be selected