## Medical Underwriting

# The Constant is Change


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The profession of medical underwriting for health insurance carriers has changed considerably in the last ten years. Carrier underwriting departments had to reinvent their strategy with the limitations set forth from the Affordable Care Act (ACA) in 2010. The infiltration of new insurtech has also been impactful,

even though more slowly adopted in the health insurance space than in other sectors of insurance. Underwriting departments have also had to adapt to shifts in staff knowledge and capacity while managing substantial volumes of work. However, one challenge has remained the same for health insurance carriers in the last decade–how to balance risk mitigation and cost savings.

# ACA Impact

The ACA caused growth in the employer self-funded and level-funded markets where its limitations had less influence. While many carriers entered this market, some carriers were late to recognize unintended financial consequences, according to Nanette Penz-Reuter, Principal for medical underwriting consulting firm, Medwise Partners.

“Traditional employer stop-loss financial underwriting techniques used for larger group sizes have delivered less than desirable results in smaller group sizes due to the low credibility of claims history. Many programs have relied on standard financial Employer Stop Loss (ESL) underwriting techniques to produce rates for smaller group sizes, and this has often led to inadequate pricing and financial losses,” said Penz-Reuter.

As a result, a significant underwriting change is underway, which includes a move back to pre-ACA medical underwriting techniques that require the assessment of employee medical histories. Integration of automated technology and the method by which underwriters receive medical data will play a considerable role in underwriting moving forward. The advances in technology and the accumulation of this data positively impact pricing techniques because it allows for more focused medical underwriting at the micro-level.

“The challenge for carriers has been how to accurately assess group risk with increasing volumes of small group casework,” said Colin Ingram, CEO of FormFire, a front-end digital workflow for quoting, enrolling, and selling employee health benefits. “Carriers have to balance the use of digital tools with the skills and resources of underwriters to most effectively assess risk in a timely way.”

# Automation & Technology

The automation of front-end processes that incorporates online medical health questionnaires and quote-to-proposal workflows are stepping up the underwriting game. Automation is replacing much of the repetitive and low-risk underwriting, enabling the underwriter to focus on more complex issues.

“A single employee in a group can have a significant impact–one health condition or prescription drug can turn a quote upside down,” said Ingram. “Having employee medical health data organized into risk-groups according to a carrier’s debit sheet streamlines the underwriting process. Underwriters can focus on those gray areas which could fall in or out of acceptable carrier risk.”


These primarily “gray area decisions” require tacit knowledge and judgment from an actual person with experience in underwriting.

“We predict 85-90 percent of standard underwriting processes are or will be automated, with the underwriter providing the remaining 10-15 percent of the process which accounts for the highest level of decision making,” said Penz-Reuter.

However, when leveraging technology, carriers need to be mindful of integrating their systems with what their health insurance broker agencies and employer groups are using to gather health data. The use of different technologies can lead to bottlenecks in the processing of groups.

“In the 2019 renewal season, we saw many carriers experimenting with different approaches in gathering employee data,” said Ingram. “However, the inconsistent formats and terminologies impacted how the data was presented to carriers and increased quote-to-proposal turnaround times which compressed the time available for product sales. Carriers need to use a front-end system that works seamlessly with individual employees, employer groups and their broker agency partners.”

# Volume & Time

Underwriters continue to experience the conundrum of volume vs. time. Employers are increasingly under financial pressure and, as a result, may do more "shopping" for employee health benefits. Unfortunately for underwriting departments, this means an added volume of work but not a guaranteed win for the carrier. The pressure is on underwriters to secure new groups and maintain profitability for the carrier through accurate risk assessment.

"Carriers experienced slower turnaround times in processing groups as they were challenged with providing accurate risk assessment for larger volumes," said Ingram.

Carriers need to consider how to balance and optimize the combination of time, expense, and quality. They need to determine what is most important within their underwriting programs. Does the quote or renewal need to be generated within hours or days? If it is hours, then how can this be done in a timely matter while still resulting in quality decisions and risk mitigation?

A good risk strategy practice for underwriting departments is to create, implement, and randomly test the application of Underwriting Guidelines, end-to-end workflow processes, and intra-departmental hand-offs. A carrier

may have comprehensive underwriting guidelines which reflect the goals of the risk strategies, but then fail to test and audit the actual underwriting decisions. Were the specific goals of the guidelines implemented? The first sign of these problems usually begins with poor financial performance, and then underwriting departments must troubleshoot to figure it out.

"Carriers often discount the importance of process verifications, quality checks, and testing operational performance," said Penz-Reuter. "If the tactic has failed the strategy, the sooner any disconnect between guidelines versus reality is discovered, the quicker the ability to correct and mitigate losses."

# Underwriting Professional Landscape

Like other sectors, new technologies in medical underwriting have changed the way information is processed and therefore has created a generational shift within the talent pool. The underwriting profession needs to adapt.

“Carrier underwriting departments are facing a decreasing pool of trained underwriting talent, due to retirements and generational focus on technology versus basic block-and-tackle underwriting,” said Penz-Reuter.

The challenge for carriers is both managing and retaining underwriting talent while also training and passing on implied knowledge to the next generation of underwriters. Carriers need to invest in underwriter development if they want longer-term viability and financial success.

Some carriers have hired off-site, remote underwriters to stay competitive. Even before the pandemic, carriers and reinsurers had reduced on-site work policies in order to hire the best talent, which may not be in the same city or state.

“We expect remote underwriting workforces to continue post-pandemic, increasingly dependent upon streamlined processes and technology,” said Penz-Reuter.

If the first half of 2020 has taught us anything, it is that more change is on the horizon. The U.S. healthcare industry will be, perhaps, one of the largest recipients of these significant changes. Health insurance carriers will likely have to deal with increased claims in the near term and will re-tool new product offerings as a result. Health insurance brokers will continue to communicate and counsel remotely while more employer groups apply for health insurance digitally, changing the way information is passed on to carriers. The art of underwriting will continue to flex and grow in this new environment to thrive in the future.

# Start a Conversation

To achieve success, health insurance Carriers need a streamlined way to quote and sell products during annual open enrollment. However, Carriers are challenged with utilizing data from their medical health questionnaires to underwrite accurate quotes and provide pricing back to their Broker partners and employer Groups within a short time frame. FormFire can help.

For more information or a free demo, contact us at **216-357-7400** or **sales@formfire.com**.