

Intercompany Studies: A Valuable but Underutilized Resource

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Appearing in this issue of the *Journal* is the latest study from the Morbidity and Mortality Liaison Committee (MMLC). The MMLC is made up of an interdisciplinary group consisting of actuaries, medical directors and underwriters whose mission is “to promote and facilitate the preparation and dissemination of mortality and morbidity information on medical impairments and other extra risks.” The accompanying paper does just that by reporting intercompany mortality results for diabetes mellitus. (*J Insur Med.* 2005;37:89–100)

Although this study has its limitations, which are well described by the authors, it clearly delineates several key points. First, the presence of diabetes, in most cases, is an indication of increased mortality risk. Second, the overall risk, for a variety of reasons, has been diminishing in recent years. Finally, and most importantly, current underwriting practices appear to accurately assess and price the degree of extra risk.

In this study the cases issued at standard rates had experienced results compatible with

standard mortality. Those issued substandard rates had results compatible with substandard experience. Furthermore, the results obtained for those applicants taken at substandard rates were compatible with the rating that was actually applied.

This report is especially important because it reflects contemporary experience. It describes the mortality risk encountered by individuals with diabetes who have been subjected to the risk selection process in recent years. Since the study only covers policies in force, the results obtained are those actually experienced by the participating companies.

The existence of this type of data is invaluable when responding to critics of the risk selection process. Regulators require that fair ratings be based on “actual and reasonably anticipated experience.” Studies such as this, ones that detail the actual experience on a block of insured lives, are the gold standard for providing this support.

Perhaps more important to many companies than the regulatory issues, however, is the need to remain profitable in an increas-

ingly competitive business environment. Balancing mortality risk management and optimization of sales is critical to generating that profitability. Knowledge, especially knowledge related to what risks are acceptable and at what price, is the key.

In recent years much of that information has been obtained from reinsurers. However, with the contraction in the reinsurance marketplace, two things have happened. First, research data and assistance are less available. Second, pricing assumptions have shifted. As a result it has become increasingly more likely that, in the future, direct insurers will be bearing a larger portion of the responsibility of managing the mortality costs themselves. Except for the largest companies, the knowledge and expertise necessary to manage that risk will be difficult to obtain internally. Thus, the collection and analysis of pooled insured lives data will likely to be of increasing importance.

The mechanism for producing studies such as this analysis of the mortality risk associated with diabetes exists today in the form of the Impairment Study Capture System (ISCS). The ISCS is a database of MIB Coded Report records collected from companies that have indicated their willingness to participate in cooperative mortality studies. Once a company agrees to participate in the program, records are collected on a daily basis as codes are submitted to the MIB. At the end of the first calendar year, these records are sent back to the reporting company where they are matched with policy files, and it is determined whether the contract was placed in force. In subsequent years the status of these in-force policies is updated, ideally on a regular basis, so that deaths and lapses can be accurately recorded.

Using this system, various impairment codes can be identified for study via the MIB reporting system. Modifying factors, to the extent they are captured in code form by MIB, can also be delineated. From the company's policy files, other information critical to the scaling of mortality risk such as age, issue date, smoker status and policy classi-

fication can be obtained. By pooling data from multiple contributors, mortality studies with statistical power and the ability to dissect various risk drivers can then be performed.

Analysis of the data has been carried out by the members of the MMLC in conjunction with the professionals at MIB. Once a topic is chosen, a subcommittee is formed for the particular project, and the data reviewed. With multiple disciplines and companies represented on the MMLC, the end product benefits from a variety of different points of view. The material is frequently analyzed and reanalyzed using varying parameters. The results have also been subjected to extensive statistical analysis using the expertise available through the committee itself, as well as the MIB. As was the case with the diabetes paper, the result is extensive review and re-review of the document to ensure accuracy and relevance before a final version is published.

The advantage of this approach for most companies is clear. Data can be pooled from several sources, which increases the statistical power of the results. The extensive technical capabilities of MIB, outside the scope of many insurers, can be fully leveraged. Finally, the evaluation of the material is essentially "outsourced" to a group of professionals with mortality expertise, extensive industry experience and a commitment to understanding risk.

The biggest challenge for the ISCS system and the MMLC is *the failure of companies to participate and participate fully*. The greatest limitation for these studies, including the diabetes paper, is the volume of data available. Since its inception in 1989, only 30 companies have agreed to participate in the ISCS system. For many of those who originally agreed to participate, obtaining updates on policies that have been identified has been a challenge. In many cases, this is the result of a reduction of or shift in priorities for needed resources. The net result is a limitation of full company participation and a reduction in the potential value of the studies produced.

Acknowledging all of the realities of the current business environment, the bottom line is that intercompany studies of mortality are probably more important today than in the past, both for individual insurers and the industry as a whole. The key question is whether companies are willing to make the commitment necessary to optimize the value

of this heretofore underutilized source of critical supportive and competitive knowledge.

For more information on the MMLC, please consult their Web site at www.mmlc.org. For more information about participating in the ISCS study system, please contact Ms Jan Ebert at MIB, Inc by phone at (781) 751-6128 or e-mail at JEbert@MIB.com.