

# Risk and Preferred Rating

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Technical Seminar: Improved Risk Rating

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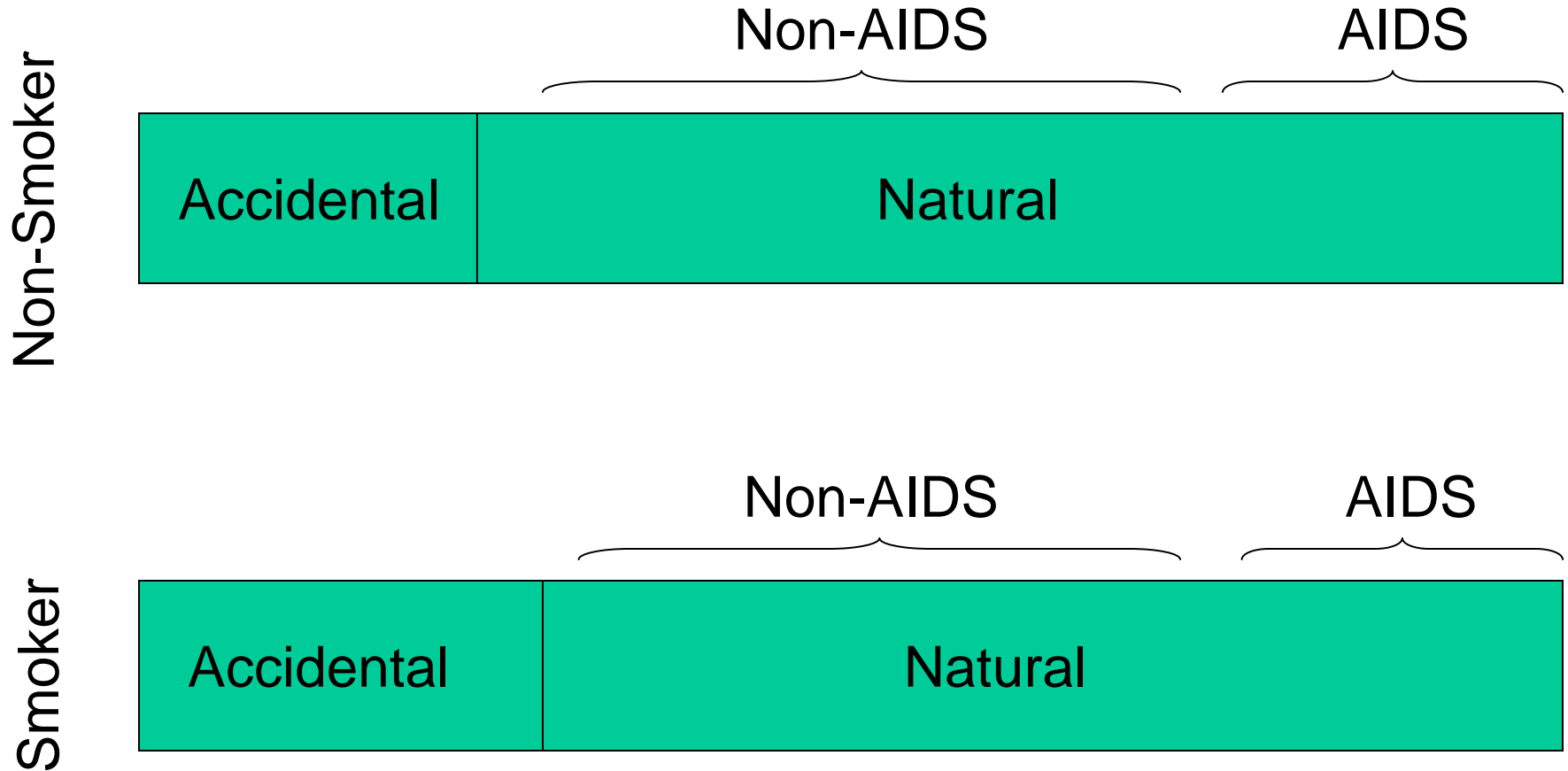
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# Agenda

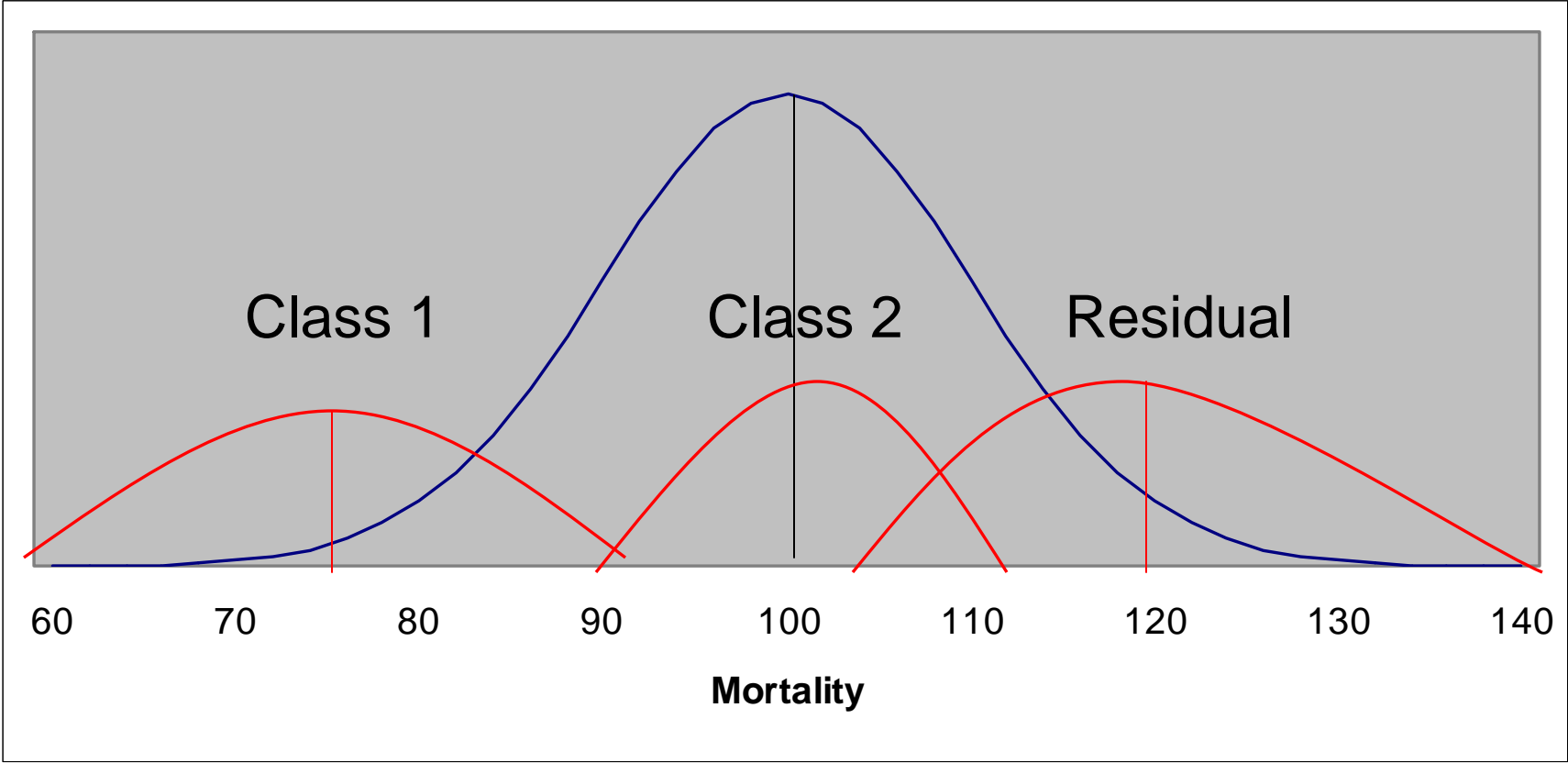


- **Risk Rating**
- **International Preferred Products**
- **South Africa**

# Risk Rating



# Segmenting the Risk



Same rate charged

# International Preferred

## North America

- **2 year non-contestability clause**
- **Underwriting requirements extensive**
- **Identified additional rating factors**
- **Now 90% of policies issues are preferred products**

# International Preferred Criteria (Society of Actuaries)

## Most Significant Impact

1. Cholesterol
2. Blood Pressure
3. Build/ BMI
4. Family History
5. Time since last tobacco used
6. Driving record
7. Personal Medical History

## Other

8. Occupation, Aviation & Avocation
9. Alcohol and Drug Use
10. Other Blood Work
11. Foreign residence/ travel / citizenship
12. Felonies, Bankruptcies, credit reports
13. Fitness/exercise

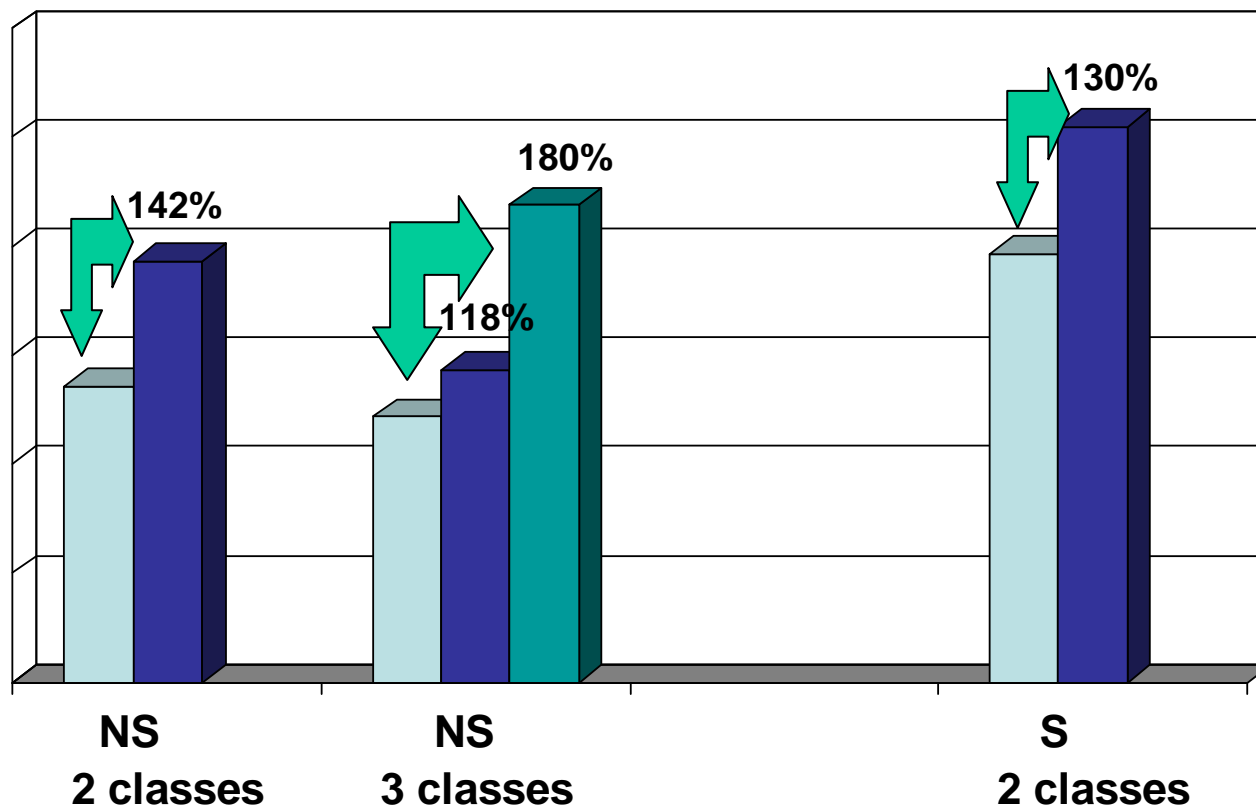
# Preferred Criteria

- **Application form modifications**
- **Additional Medical requirements**
- **Lifestyle considerations**

**Cut-off points for criteria depend on marketing and pricing**

# US Mortality Experience

## Actual vs Expected by Preferred Class



Recently published report SOA 2004-2005

Expected basis: 2001 Valuation Basic Tables (separate Non-Smoker and Smoker)



# Risk Rating Criteria

- **Objective**
- **Measurable**
- **Verifiable**
- **Correlated to the risk**
- **Legally and socially acceptable**
- **Cost effective**
- **Material impact**

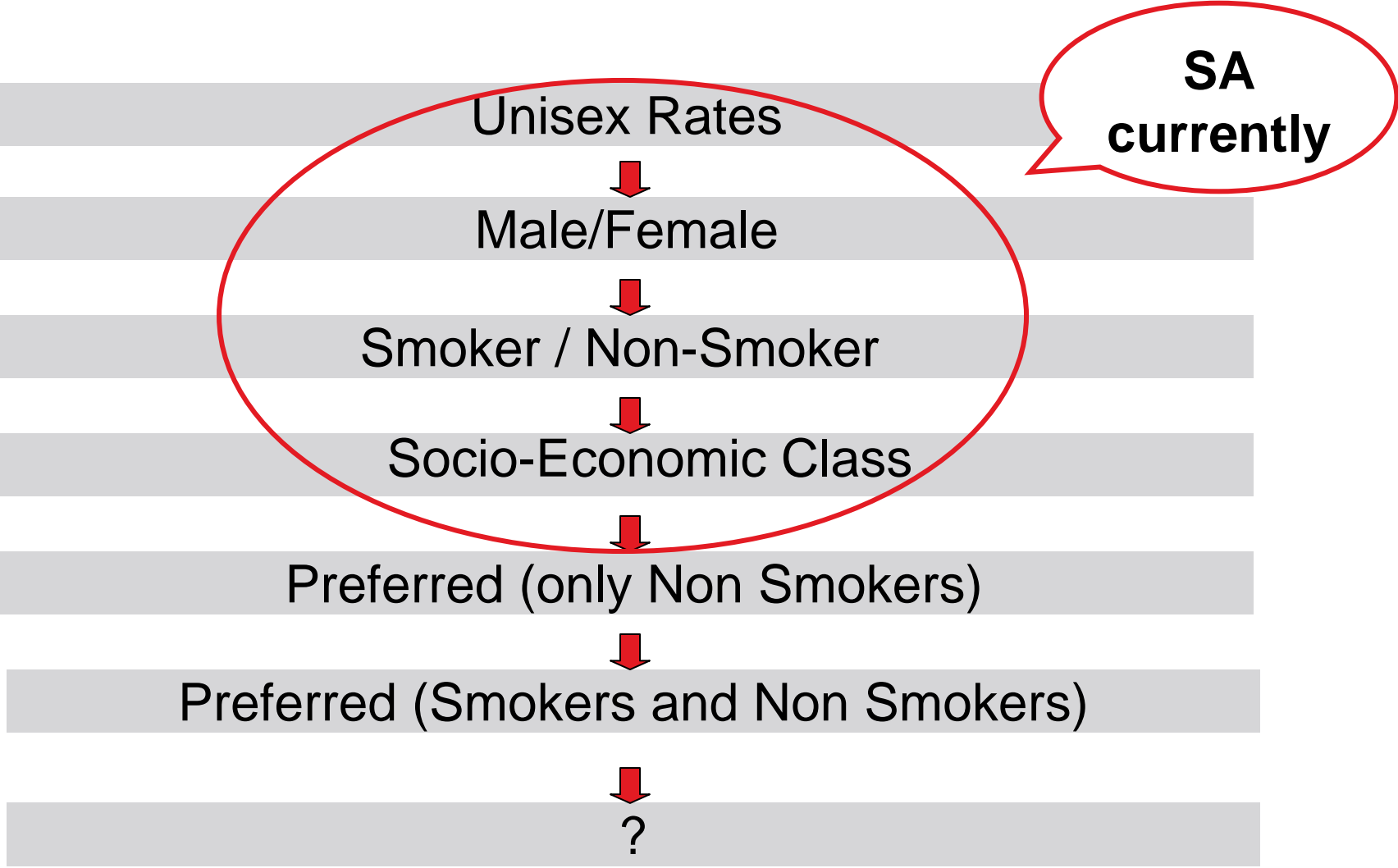
# Risk Criteria

- **Strict rules around borderline cases**
- **Company with tighter preferred criteria:**
  - Gets healthier preferred risks in the preferred class
  - Gets fewer borderline preferred risks in standard class
- **Company with looser preferred criteria:**
  - No longer gets “better” preferred risks
  - Gets more borderline preferred risks that do not qualify at other company

# Impact of Preferred

- **Real savings for healthier customers**
- **Underwriting revisited**
- **Focus on cost effectiveness**
- **Marketing new product concept**
- **Promotes health awareness**

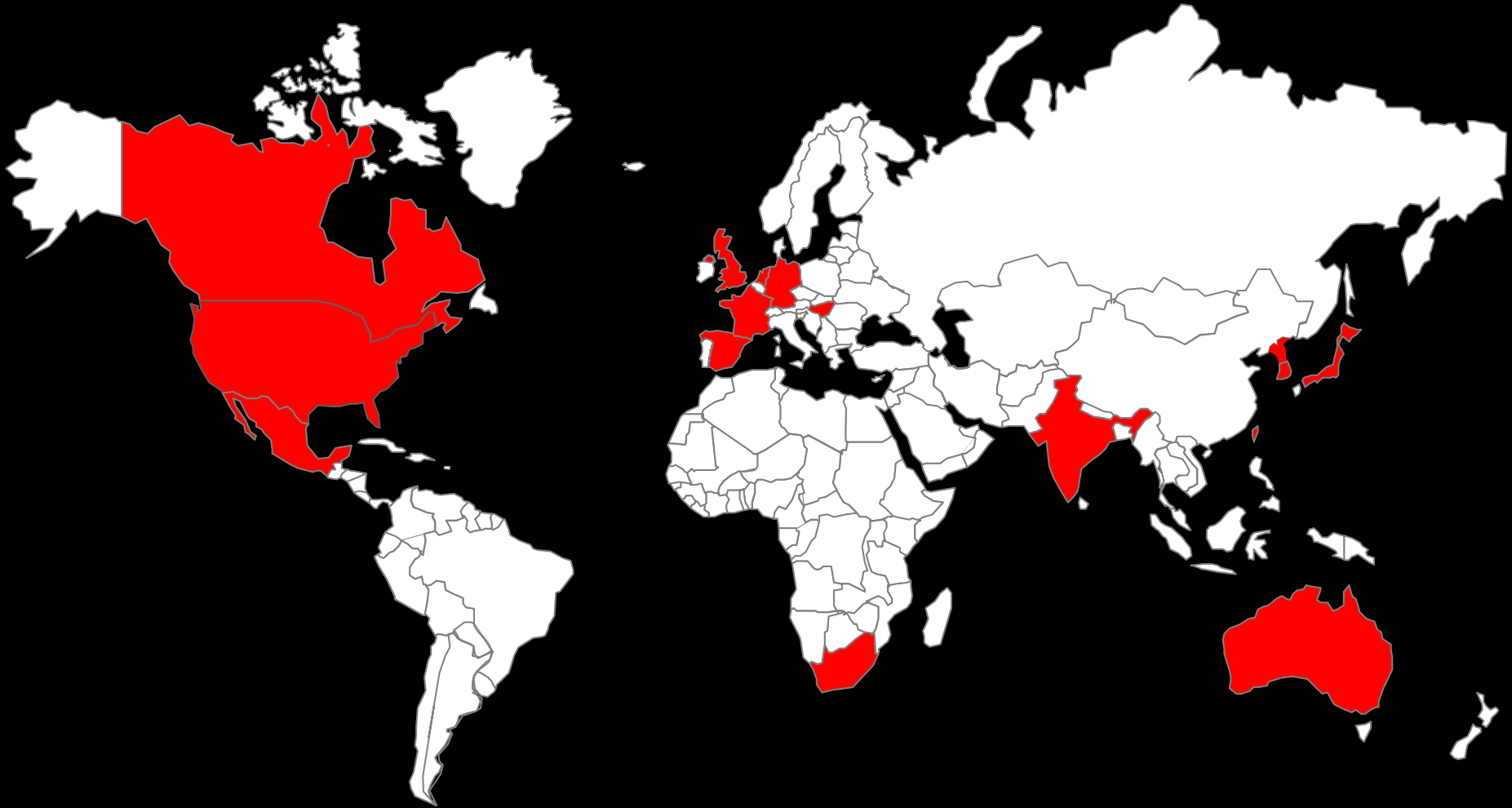
# South Africa Rating



# South Africa

- **Testing for HIV+**
- **Use of existing underwriting information**
- **Socio-economic rating factors**
- **Higher accidental risk**

# RGA Preferred Product Developments



Thank You!



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