



AMERICAN ACADEMY
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NEWS RELEASE

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Actuaries to NAIC: Travel Destination Appropriate Actuarial Tool for Life Underwriters

Academy Testimony Raises Policyholder Equity and Insurer Solvency Issues

WASHINGTON – 9 Sept. 2006 – The American Academy of Actuaries provided testimony today to the National Association of Insurance Commissioners (NAIC) that it is appropriate for life insurance underwriting decisions to be based on an applicant’s actual past or planned future travel to certain destinations.

Testifying on behalf of the Academy, **Arnold Dicke**, a member of the Life Products Committee, said that travel destination is an appropriate risk characteristic for life insurance underwriting because time spent in certain locations, such as an area where an epidemic is occurring, may increase the likelihood of a claim. According to the principle of policyholder equity, premium rates should reflect the higher expected cost of coverage.

“If the premium rate charged to the policyholder did not reflect this increased risk, the cost of insuring the traveler would have to be subsidized by the remaining policyholders to ensure that sufficient premiums are collected,” said Dicke, adding that this violates the principle of policyholder equity.

He said that in the long run, the ability to purchase new or additional coverage below expected cost not only creates policyholder inequities, but also can threaten the insurer’s solvency.

“If neither the underwriting nor the premium rates charged reflect the actual cost of coverage, the applicants who are offered higher cost coverage at an insufficient premium rate will be more likely to purchase the insurance than those who are expected to cover the shortfall,” Dicke said. “This effect, called adverse selection, is of great concern to actuaries since, left unchecked, it can threaten the solvency of the insurer.”

Dicke also said that in a competitive marketplace, the ability of actuaries to independently assess risk factors provides consumers with a range of insurance options, allowing them to obtain

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coverage at rates they find acceptable. Thus, risk classification promotes the availability of life insurance.

Dicke's testimony is based on the *Academy Life Products Committee Position on the Use of Travel in Life Insurance Underwriting*. The paper was submitted to the NAIC and is available at www.actuary.org

For more information or to schedule an interview with Arnold Dicke, contact Andrew Simonelli, media relations manager for the American Academy of Actuaries, at 202.785.7872.

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The American Academy of Actuaries is the public information organization for the U.S. actuarial profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing.