

## UNDERWRITING IN THE 21<sup>ST</sup> CENTURY: MASTERING THE APS PARADOX

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**Executive Summary:** The premise of the first two articles in this series was underwriters thinking and acting like profit centers. We discussed the importance of distribution and underwriting working together in partnership, as well as the need to breach operating silos across the lifecycle of an insurance policy. We also examined market dynamics such as staff attrition, lack of training and long-term career development, and the emergence of global automation and outsourcing, all of which are posing serious questions for the insurance industry.

It is our supposition that underwriters in the 21<sup>st</sup> century are uniquely positioned to benefit from these dynamics by taking advantage of technology and outsourcing solutions to help manage the stresses caused by fluctuating volume cycles and the ever increasing impact of staffing challenges. Another challenge to consider in underwriting (and claims) is time and cost-effective use of the attending physician statement (APS). In this installment we will discuss tools available to better manage the process of acquiring and then utilizing the APS as a productivity driver—and not a productivity detractor.

### Introduction: The Paradox

Attending physician statements (APS) have long been an industry paradox. On the one hand, they are an important source of information about an applicant's insurability, but they are also inconsistent, duplicative, voluminous and expensive to procure. Why do companies use an APS? Simply defined, an APS contains information from medical records to allow proper pricing of mortality or morbidity risk according to company guidelines. The goal of every insurer is to cut down on the reliance/volume of APSs—and innovations in risk management such as teleunderwriting, rules-based engines and pharmacological databases have contributed significantly to that end. Nonetheless, the APS is an indispensable tool that will continue to play a role in the risk evaluation process for the foreseeable future.

Underwriting departments are backlogged with more trial apps and higher case volumes than ever before. Simultaneously, they are understaffed and, as a result, high-value resources (senior level underwriters) are being asked to perform administratively driven functions. The results of diverting the time of experienced underwriters in this way are:

- Decreases in productivity and case review cycle times;
- Opportunity *and* real costs per case are on the rise;
- A measurable decline in morale permeates the industry.

As the saying goes, "You get out of something what you put into it," and, in the case of an APS, certain companies are getting more value and return on investment from how they handle an APS as compared to others. As the population ages and becomes more affluent, the volume and complexity of the typical APS have risen considerably.

This simple fact has placed an increased burden on already overtaxed underwriting departments and has added to the friction between producers and underwriters. The question is: How does one balance the desire for expeditious decision making with the need for prudent risk management?

### First—Build a Better Mousetrap

Companies have been struggling for years with the methods and services available to retrieve an APS from a doctor's office. The cost and reliability of available options have been a challenge for companies seeking only to acquire evidence of insurability in a timely and cost-effective manner. Singlehandedly taking on the task of retrieving an APS from a doctor's office is clearly not practical in today's Byzantine environment of HIPAA regulations, special authorizations, myriad copy services, payment requirements and disorganized medical records departments.

There is no doubt that the advent of technological advances over the last 10-20 years should have re-

duced the time and difficulty of retrieving an APS. But the question must be asked: Are today's time frames ranging from 15-30 calendar days as good as it gets? Perhaps a few years ago that was impressive, but technology and means of communication have continued to advance—shouldn't standards and expectations for APS retrieval continue to advance as well?

### **Raise Your Expectations, Raise Your Productivity**

Companies need to take a hard look at what is acceptable in terms of time service, tracking/status and success rates when retrieving an APS. If you could shave today's average time frame by one-third to two-thirds—what would that mean in terms of productivity, field and customer relations, and persistency of applications taken? Underwriting departments are under ever-increasing pressure to increase productivity with decreasing resources—the ability to recapture days lost to unnecessarily protracted APS retrieval time frames can't be ignored. The time has come to expect better results and real-time information during the APS retrieval process—and an average of 10 calendar days is the new industry standard.

Another APS productivity factor is how underwriting departments handle the information once it arrives: Is the APS imaged or paper? Is it sorted and put into chronological order? Is the APS summarized with the key information presented as a concise health history? Are illegible entries and missing records annotated? Not only is the time it takes to get an APS important, but the circumstances of its arrival and utilization are also key factors that impact productivity.

### **What Is an APS Summary?**

An APS that is summarized by a trained and experienced risk management expert can be the difference between dealing with a frustrating burden and working with an important productivity tool. The components of a well-constructed APS summary include a health history synopsis that chronologically details tobacco use, medications, prior conditions, lab tests, BP, cholesterol, HDL, LDL and cholesterol/HDL ratio.

But how should companies use their internal, high value resources when it comes to the APS—to perform the laborious administrative task of deciphering and summarizing the medical information, or to focus on using the medical information to underwrite and make decisions?

A high level underwriter is not necessary to prepare an APS summary. Junior level underwriters and medical professionals can be trained (and are often better

qualified) to dissect an APS and create a composite of the applicant's medical history. A high level underwriter is necessary to interpret that medical summary against a company's guidelines and procedures to evaluate the insurability of the applicant and then issue a risk-based decision. An underwriter's focus should be on underwriting and not on sorting records to begin that process.

### **Consider a Visit to a Doctor's Office**

Think about your last check-up. When you arrived at the office, the reception area took care of your paperwork. When you went into the exam room, an intern or nurse measured your vitals and "summarized" basic medical elements such as height, weight, blood pressure, heart rate, etc., in advance of the doctor's arrival. The doctor's time and value are maximized by having a patient composite prepared in advance by trained professionals who know how to deliver a "summary" that allows the doctor to focus on core functions: diagnosis, treatment and prescriptions.

Henry Ford had it right when he devised the assembly line to manufacture automobiles—it is the most time- and cost-effective way to bring a group of trained professionals together to focus on delivering their area of expertise as part of a collective effort to produce the desired end product.

Just like in the doctor's visit, the components of an APS summary are very specific and play a similarly important role as part of the underwriting process. Specialists with underwriting and medical backgrounds are trained and have experience in the specifics of medical terminology, chronological sorting, reviewing, note taking, annotating gaps and indecipherable entries, and double-checking for duplicative entries/records, inconsistencies and spotting patterns. To ensure quality and reliability of data, very strict quality standards, training regimens and audit schedules must be in place.

Underwriters supported by this type of "information triage" will be more productive and can underwrite more cases per hour—and, therefore, become a more profitable contributor to the bottom line.

### **What Should a Company Look For When Outsourcing APS Summaries?**

An APS summary is a very specialized risk management tool. A minimum requirement to be able to prepare an effective summary is knowledge of medical terminology and pharmacology. Underwriters and medical professionals are well suited to be trained to apply their knowledge and experience in this direction. In the case of a third-party provider of APS summaries, look for a company that offers more than

a “one size fits all” approach to APS summaries. Every insurer’s guidelines and workflow demands are different, and an APS summary needs to be customized to match the needs of the underwriters.

Remember—the reason you are looking at an APS in the first place is to give you information about the insurability of an applicant so you can make a sound risk-based decision. An APS summary is a productivity tool specifically designed to increase the effectiveness of that process. If you decide to use outside resources to produce APS summaries, make sure you are working with an organization that understands your needs and has the appropriate personnel and processes in place to deliver a high quality tool that is consistent with your guidelines.

### Conclusion

Although companies are constantly looking for ways to reduce their reliance on the APS, it remains an important tool in the underwriting and risk management process. The key to success for an underwriting operation (and claims) is to obtain an APS faster than your competitor and then to extract and use the pertinent information in the smartest, most efficient manner possible. For those seeking to underwrite successfully in the 21<sup>st</sup> century, working faster and smarter will always be the key ingredients.

In today’s stressed underwriting environment, maximizing the value and utility of the APS is just what the doctor ordered.

### Post Script: The APS Index

Parameds.com (PDC) is proud to announce a first of its kind research initiative to examine and report on the “state of the APS.” The APS is one of the life and health insurance industry’s most widely used risk management tools, yet the opinions and attitudes of those who are impacted by this resource on a daily basis have never been examined on an industry-wide level. PDC’s “APS Index” will be a combination of quantitative data gathering via surveys covering a wide cross-section of carriers, BGA’s and medical facilities, as well as qualitative data gathering via one-on-one interviews and focus groups to be conducted over the coming months. Through this combination of surveys, one-on-one interviews and industry focus groups, the APS Index will examine and report on attitudes and opinions across the industry regarding the APS as an underwriting and claims examination tool. The APS Index will be released on an annual basis through *ON THE RISK* starting with the June 2007 edition.

To learn more about participating in the “APS Index” study, visit [www.parameds.com](http://www.parameds.com).

### About the Authors

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In 1998, Eli Rowe was one of the founding fathers of Parameds.com and has been very active in numerous roles within the company since then. Prior to that, Eli was President of Romex Examinations for eight years where he was responsible for the growth and direction of that boutique tri-state exam company. Eli earned his business degree summa cum laude from Touro College while simultaneously becoming one of NYC’s youngest Level 4 paramedics. He is the Secretary and Treasurer of MUD, the Metropolitan Underwriters Discussion Group and is an active volunteer paramedic and an avid instrument-rated pilot.

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Chris Orestis held senior positions on a number of political campaigns before working in 1993 and 1994 for both the White House and the Senate Majority Leader on Capitol Hill. From that point, he spent the next several years representing the health and life insurance industry as Vice President and Senior Vice President, respectively, for the Health Insurance Association of America (HIAA) and the American Council of Life Insurers (ACLI). As senior management for both organizations, he was responsible for external affairs and activities related to revenue generation including membership, marketing, business and financial development, industry conferences and industry-vendor coalitions/partnerships. In 1999, he was awarded the Robert R. Neal Medal by HIAA for distinction and service to the industry. Most recently, Chris served as the head of sales and marketing for Global Insurance Resources.