



Ehart is adamant that it is.

"It gives you the biggest bang for the buck in underwriting," he said. "You have to remember, it's not the number of fraudulent applications that's the problem, it's the potential negative effect each one can have on your bottom line. Identifying misinformation early in the underwriting process gives us greater control from the start over our business."

### **Milliman Measures Savings Potential**

Although USHEALTH Group has had extensive anecdotal evidence to support the cost-effectiveness of its use of medical history verification as an underwriting tool, the full extent of the impact was brought home recently when Milliman, Inc., one of the industry's most respected actuarial consulting firms, conducted a study to see the financial returns carriers can see on individual health lines when they use an independent verification of an applicant's medical history.

The study began with 894 randomly selected cases that mirrored USHEALTH's demographic mix. An independent consul-


tant examined 296 cases in which medical history information had been returned. In 68 of those cases, "useful" information was deemed instrumental in decisions to decline coverage, charge a higher premium or issue a policy with an exclusion rider. Milliman then retrospectively evaluated the 68 applicants individually to estimate claims expense over the term of the analysis.

The study calculated protective value of medical history verification based on its impact to a health insurer's loss ratio, as well as calculating the savings-to-cost ratio.

The result? USHEALTH shaved approximately six points off its loss ratio, and for every dollar spent on MIB checks, it saves \$49.

But the value to the bottom line is not the only advantage. According to Ehart, "Misrepresentation of medical history is insidious, and it is in more ways than one. The money it drains from a company has to be made up in higher premiums for everyone, and the higher the premium, the more out of reach coverage becomes for more people."

"As insurers, we're not in the business of declining coverage," he said. "We want

to write policies. But we want to be sure we have the most complete information available before we do so in order to make an informed decision on the risk presented. And we want to be sure we're charging the customer based on real risk factors. Issuing policies based on accurate information is one of the keys to helping keep coverage readily available for everyone." 

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**Doug Mertz**, vice president of e-Services Corp., has more than 30 years in executive management positions with leading insurance carriers.