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Editor:  
SelectX Ltd

Publisher:  
John Krinik

## IN THIS ISSUE

Underwriting Manuals

Confidentiality in the Facebook / Twitter Age

Women, Obesity and Cancer

Statins and Myopathy

Celiac Disease Mortality

Financial Underwriting Clinic *Classic*—"Just Trust Me"

## UNDERWRITING MANUALS: STRATEGIC DILEMMAS PART II

In part one of this series of articles (July 2009 *e-Alert*) we considered maintaining and resourcing an underwriting manual.

In this second part we look at how access rights are granted and managed, how manuals can work as training resources, and consider briefly the hot topic of evidence-based ratings.

### Access

On the Web, a manual usually has secure entry because the producer wants to protect its intellectual property. It wants to deny non-clients the benefits of its efforts and to avoid competitors downloading material, benchmarking ratings and plagiarising content. Secure entry also means that the producer can analyse usage, enabling a sharper focus for ongoing research and development – that is, concentration on the subjects that matter.

So the issue of access to the manual presents its creator with a series of dilemmas:

- What is the distribution strategy – who gets it?
- Does it give it away to all and sundry for free?
- Do only 'good' clients get it?

- Should users be charged explicitly – a cost per click, maybe?

### Training

Most manuals try to be all things to all people. Indeed most manuals claim they are aimed at underwriters of all experiences from old hands to junior underwriters who are just learning the art (or the science depending on your point of view).

But is this a reasonable objective? Can this be achieved in the one delivery vehicle without ending up pleasing no one? In these days when technology can provide so many tricks in terms of flexible navigation, is it reasonable to clutter up a rating guide for a senior technician with a wealth of textual content that simply isn't needed? Equally, can a manual truly be a training tool for more junior underwriters, or should this be achieved by another, more focused, delivery method?

Another complexity surrounds who actually writes the content. If it is a medical officer, there is the possibility that the content is more accessible to doctors than to underwriters, who have to keep reaching for their medical dictionaries. Some might argue that it would be better, and cheaper to use, say, the *Merck Manual* as a resource, but that would be far from ideal: underwriters' information needs are different from those of the general

public or medical students. The right solution may be to construct a manual that is written by underwriters for underwriters, and consider training as a separate issue.

### Evidence base

What level of supporting evidence is required for the manual of the future?

In recent years there has been wide acknowledgement of the need for evidence-based ratings in the same way that the medical profession has increasingly looked at evidence-based approaches to treating patients.

It is unlikely that all the ratings in the manual need to be robustly supported by large quantities of insured data. But research should be applied to devising rating approaches that are up to date and in line with statistical data where it is available. This enables justification and explanation of rating policy to consumers, regulators and other stakeholders as necessary. Ratings need to differ from one geographical region to another, and, sometimes, from country to country within those regional boundaries. There then arises the challenge of obtaining suitable data supporting these individual approaches.

In the past insurers have relied heavily on their reinsurers for evidential support to challenges, and no doubt this will continue. However, given the power and persistence of the challenges from modern-day consumers, pressure groups, etc. (the Internet has enabled access to and sharing of knowledge on a scale almost undreamt of a decade ago) responses to them need to be thorough and highly credible. Importantly, action in this area needs to be much more than mere reactive defence or back-covering; consumers everywhere have the right to a fair deal from their local life, disability and health insur-

ance industry.

In the final article of this trilogy we will examine some of the other strategic issues faced by the producers of underwriting manuals.

## MANAGING UNDERWRITERS IN THE AGE OF FACEBOOK AND TWITTER

During 2009, a survey was sent to deans of student affairs, their representatives, or counterparts from each institution in the Association of American Medical Colleges ["Online Posting of Unprofessional Content by Medical Students," *JAMA*. 2009;302(12):1309-1315].

The survey was intended to measure the percentage of medical schools reporting incidents of students posting unprofessional content online, type of professionalism infraction, disciplinary actions taken, existence of institution policies, and plans for policy development.

Sixty percent of US medical schools responded. Of these schools, 60% reported incidents of students posting unprofessional online content. Violations of patient confidentiality were reported by 13%. Student use of profanity (52%), frankly discriminatory language (48%), depiction of intoxication (39%), and sexually suggestive material (38%) were commonly reported. Of 45 schools that reported an incident and responded to the question about disciplinary actions, 30 gave informal warning (67%) and 3 reported student dismissal (7%). Policies that cover student-posted online content were reported by 38% of deans. Of schools without such policies, 11% were actively developing new policies to cover online content. Deans reporting incidents were significantly more likely to report having such a policy (51% vs 18%), believing these issues could be effectively addressed

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(91% vs 63%), and having higher levels of concern. The authors concluded that many responding schools had incidents of unprofessional student online postings, but they may not have adequate policy in place.

In one, a student posted identifying patient details on Facebook. Another requested an inappropriate friendship with a patient on the site. Others used profanity, according to the deans. "The number we found was higher than we expected," Dr. Katherine Chretien of the Washington, D.C., VA Medical Center, told the Associated Press. "And these are only the incidents that made it to the attention of the deans. This is the tip of the iceberg."

Most deans said their schools didn't yet have policies to help students figure out what's allowed online and what can get them kicked out of medical school. A quick search of YouTube found numerous videos posted by medical students, from harmless musical numbers to a prank with what appears to be a dead body. "I watched it and I definitely cringed," she said. "Disrespect for cadavers is one thing, but filming it and putting it on YouTube is another. It undermines the credibility of our profession."

OK, university student pranks and bawdiness are as normal as the sun rising each day. In the past, youthful indiscretions were usually localized and were known to a relative few. But the rapid growth of social networking sites on the Internet means the entire planet knows of one's indiscretions—forever. The Internet is breeding a profound change in views about one's personal privacy and professional confidentiality.

Disrespect for the privacy of insurance applicants is forbidden in the underwriting culture of the past 40 years. State and federal mandates certainly have played a vital role in promoting these attitudes. Access to patient records along with other highly sensitive personal information requires underwriters to be exceedingly vigilant in ensuring the confidentiality of application files. The penalties for violating such confidentiality can be

quite high and deservedly so.

To maintain this vigilance with a new generation of underwriters and administrative staff who have "matured" on Twitter and Facebook, employee policies on confidentiality must be updated to account for the new social networking technologies embraced widely by the young. Penalties for violations must be severe, must be in writing, and must be fully explained to current personnel in addition to new hires.

"Now they're waking up to the reality of older people and people with authority over them, like deans, seeing their Facebook pages," says Anastasia Goodstein, a San Francisco-based marketing expert who tracks youth trends on her *Ypulse* website.

Education doesn't end with one's undergraduate or post-graduate degrees. It's the responsibility of each older generation to impart its wisdom to younger generations. Although social and cultural norms constantly evolve, respect for others' privacy—even if not for one's own privacy—is now a legally mandated tradition that is here to stay.

## WOMEN, OBESITY AND CANCER

On September 24, 2009, Andrew Renehan, a cancer expert at the University of Manchester, claimed to a joint meeting of the European Cancer Organisation and the European Society for Medical Oncology ([www.ecco-org.eu](http://www.ecco-org.eu)) that obesity could become the leading cause of cancer in women in Western countries. Being overweight or obese currently accounts for up to 8 percent of cancers in Europe. Experts said that figure is poised to increase substantially as the obesity epidemic continues, and as major causes of cancer, such as smoking and hormone replacement therapy for menopausal women, drop dramatically.

Renehan and colleagues designed a model to estimate the number of cancers that could be blamed on being obese in 30 European countries. In 2002, they calculated that 70,000 cases of cancer out of about 2

million cancer cases were attributable to being overweight or obese. By 2008, the number had jumped to at least 124,000. Colorectal cancer, breast cancer in menopausal women and endometrial cancer accounted for 65 percent of all cancers linked to significant overweight. Renehan said that in the U.S., some studies found obesity was responsible for up to 20 percent of cancers.

Exactly why obesity increases cancer risk is unknown, but a connection to hormones is widely suspected. As people become obese, they produce more hormones like estrogen that help tumors grow. Obese people also produce more stomach acid, which is associated with stomach, intestinal and esophageal cancer.

However, "it is not likely (obesity) will have as severe an effect as smoking," said Jan Coebergh, a professor of cancer surveillance at Erasmus University, who has done similar research. Coebergh expected it would take a few decades before obese Europeans would see a parallel rise in cancer.

Actually, these narrowly focused researchers are missing the point.

In women under age 30, drinking to excess, overeating and depression are all related, according to new and existing research. A study in *General Hospital Psychiatry* (September/October) found that women with alcohol abuse issues at age 24 had three times the risk of obesity by age 27. And women who were obese at 27, the researchers found, were twice as likely to be depressed by the time they turned 30. "When you look across time, alcohol use and obesity predicted later depression. The big picture here is that these disorders, though they're different in manifestation and symptoms, appear to be related for some groups of women," lead study author Carolyn McCarty, a research associate professor at the University of Washington and Seattle Children's Research Institute said in a press statement.

Men in the same age groups did not have the same increased risks, according to the study. How women re-

spond to stress, as well as biological differences in the brain, may play a role in the gender difference, said McCarty.

Given all that data, other studies have also demonstrated increased smoking rates among young females during this decade. Add to that a widely demonstrated relationship between smoking and alcohol abuse, especially in young women, and you have a better understanding about interconnected long term consequences of these behaviors. And it's well understood that smokers who try to quit often gain weight from increasing food and alcohol intake in place of smoking.

The bottom line for underwriters? Females are at equal if not greater risk from obesity, smoking and alcohol abuse than men. More often than not, these risk factors co-exist in individuals. Underwriters should always view risk factors in a holistic perspective—i.e., where there's one risk factor, there's probably another ... and another.

## STATINS AND MYOPATHY

Over the past decade, statins have become the best-selling drug in America, accounting for \$14.5 billion in sales in 2008. They are metabolised in the liver and prevent or reduce cholesterol production. It has been widely known that some statin patients are at risk of muscle pain or overt myopathy.

A recent study suggests that statins may cause structural damage to the muscles of people experiencing muscle aches and weakness [*Canadian Medical Association Journal* 2009 181: E11-E18]. Study participants experienced pain severe enough to interfere with daily tasks and exercise, an obvious concern for disability insurers.

In fact, the damage seems to occur even when tests for creatine phosphokinase (CPK) are normal, and may persist even after statin use is halted. About 10 to 15 percent of people taking statins report myalgia, or minor muscle aches and weakness, according to the study. A

smaller number have the stronger, persistent pain of myopathy. Of the patients with myopathy, 66% were still taking a statin at the time of the biopsy, while 34% had discontinued their use for at least three weeks. Biopsies showed that 57% of those with myopathy had muscle damage, defined as injury to 2 percent or more of the muscle fibers. But only one patient showed elevated levels of CPK. Elevated levels of CPK indicate the enzyme is leaking out of the muscle cells, indicating muscle damage. The researchers also found that most participants showed signs of muscle injury even after they'd stopped taking statins.

"Although in clinical practice, the majority of patients with muscle symptoms improve rapidly after cessation of therapy, our findings support that a subgroup of patients appears to be more susceptible to statin-associated myotoxicity, suffering persistent structural injury," said senior study author Dr. Annette Draeger of the University of Bern, Switzerland. The researchers noted that expression of ryanodine receptor 3 was heightened in those with structural muscle damage, offering a clue to the genetic underpinnings for those who suffer statin-related side effects.

A study presented in September at the American Physiological Society ([www.the-aps.org/press/journal/08/32.htm](http://www.the-aps.org/press/journal/08/32.htm)) meeting found that statins may hinder the body's ability to repair muscles. Muscle cells exposed to increasing doses of simvastatin (Zocor) showed less ability to multiply and, therefore, heal and regenerate. In the new study, 41% of those experiencing myopathy were taking simvastatin (Zocor); 31% were taking pravastatin (Pravachol); 17% were taking atorvastatin (Lipitor); 7% were taking fluvastatin (Lescol), and 3% were taking rosuvastatin (Crestor).

Known risk factors for muscle pain include old age, high doses of statins, exercising vigorously while on statins and certain medications, including warfarin (Coumadin), cancer drugs, oral medications for fungal disorders and certain antibiotics, which interfere with the



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removal of statins from the body. In 2001, cerivastatin (Baycol) was withdrawn from the market because of a high incidence in rhabdomyolysis, a widespread breakdown of skeletal muscle tissue.

Aside from patients taking statins to assist in lowering elevated cholesterol, many patients have been requesting a statin as a preventive health strategy—perhaps motivated by the saturation advertising by pharmaceutical companies. In light of studies like this, preventive statin prescriptions may be inadvisable.

## **CELIAC DISEASE MORTALITY GREATER THAN THOUGHT**

Celiac disease affects people in all parts of the world. Originally thought to be a rare childhood syndrome, celiac disease is now known to be a common genetic disorder. More than 2 million people in the United States have the disease, or about 1 in 133 people. [*Archives of Internal Medicine*. 2003;163(3):268–292] Among people who have a first-degree relative—a parent, sibling, or child—diagnosed with celiac disease, as many as 1 in 22 people may have the disease. Celiac disease is also more common among people with other genetic disorders including Down syndrome and Turner syndrome, a condition that affects girls' development.

In adults, celiac disease may appear at any time in a person's life. The disease can be triggered for the first

time after surgery, viral infection, severe emotional stress, pregnancy or childbirth. CD is a multi-system, multi-symptom disorder. Celiac disease symptoms are extremely varied, can often mimic other bowel disorders and are not always gastrointestinal. Infants, toddlers, and young children often exhibit growth failure, vomiting, bloated abdomen and behavioral changes.

([www.celiac.org](http://www.celiac.org))

Symptoms of celiac disease may include one or more of the following:

- Recurring bloating, gas, or abdominal pain
- Chronic diarrhea or constipation or both
- Unexplained weight loss or weight gain
- Pale, foul-smelling stool
- Unexplained anemia
- Bone or joint pain
- Behavior changes/depression/irritability
- Vitamin K Deficiency
- Fatigue, weakness or lack of energy
- Delayed growth or onset of puberty
- Failure to thrive (in infants)
- Missed menstrual periods
- Infertility male & female
- Spontaneous miscarriages
- Canker sores inside the mouth
- Tooth discoloration or loss of enamel

Also, if the patient or a first degree relative has been diagnosed with the following:

- Type 1 Diabetes
- Chronic Fatigue Syndrome
- Fibromyalgia
- IBS

- Eczema
- Sjogren's Syndrome
- Peripheral Neuropathy
- Thyroid Disease
- Dermatitis Herpetiformis
- Osteoporosis

According to a new study [*JAMA*, September 16, 2009; 302: 1171 - 1178], the risks of gluten allergies have been underestimated. This study found increased mortality rates among people with celiac disease, which is triggered by exposure to gluten, a protein found in wheat, rye and barley. It damages the small intestines and interferes with the absorption of nutrients from food. People with celiac disease often also have other diseases which attack the immune system such as diabetes or arthritis.

However, celiac disease often goes undiagnosed until substantial damage has been done to the digestive system. Using data taken from biopsies taken between July 1969 and February 2008, researchers were able to examine the overall risk of death in individuals with celiac disease and digestive inflammation and compare it to the general population. Patients with inflammation had a 72% increased risk of death; patients with celiac disease had a 39% increased risk; and patients with latent celiac disease had a 35% increased risk of death.

Lead author Jonas Ludvigsson of the Orebro University Hospital concluded that there could be several explanations for the increased mortality risks. "Malnutrition of energy and vitamins and chronic inflammation may increase the risk of death," he wrote, noting that even patients who maintain gluten-free diets have persisting lesions. Those with inflammation who had not been diagnosed with celiac disease may have an overall worse prognosis because institution of a gluten-free diet often leads to normalization, concluded the authors.

"Until recently, gluten sensitivity has received little

attention in the traditional medical literature, although there is increasing evidence for its presence in patients with various neurological disorders and psychiatric problems," Peter Green of Columbia University College of Physicians and Surgeons wrote in an accompanying editorial. "The study by Ludvigsson and colleagues reinforces the importance of celiac disease as a diagnosis

that should be sought by physicians. It also suggests that more attention should be given to the lesser degrees of intestinal inflammation and gluten sensitivity."

The risk of death was highest in the first year of follow-up but decreased with age at diagnosis, with risk being higher for those diagnosed before age 20.



## FINANCIAL UNDERWRITING CLINIC CLASSIC

### “JUST TRUST ME” (NOVEMBER, 2001)

How many times does an underwriter hear a producer say “Trust me ...” when financial documentation is hard to get? *The New York Times* (12/9/01) calls these “two of the most common — and dangerous — words on Wall Street. Trust-me companies are companies whose financial results gallop ahead of their businesses, companies with seemingly perfect control over their quarterly sales and profits. Companies whose financial statements are loaded with footnotes ... ‘Trust me,’ Enron’s chief financial officer said. ‘We don’t want anyone to know what’s on those books,’ Mr. Fastow told *Fortune* magazine (3/5/01), seven months before Enron collapsed. ‘We don’t want to tell anyone where we’re making money.’”

The *Times* interviewed Howard Schilit, president, Center for Financial Research and Analysis, Rockville, Md., which analyzes complex balance sheets for institutional investors (like insurance company investment departments). “Trust-me companies are often strongly supported by Wall Street, because they pay investment bankers hefty fees to raise money for them or advise them on mergers ... the game is always doing transactions.” Sound familiar?

No investor (or underwriter) could personally check all of a company’s operations or be certain that they have fully disclosed all of their investments and debts in the published financial statements. Some companies use off-balance-sheet partnerships to raise money or to buy assets. Certain companies, and certain industries, financial services companies, technology companies, software companies, electricity and natural gas companies are able to manipulate their earnings more easily than other companies.

Giant conglomerates also require skepticism because their operations are so large and complex as to be essentially unfathomable to outsiders. Poorly understood businesses and footnote-filled financial statements are not the only warning signs, Mr. Schilit told the *Times*. He pointed to companies that seem to rely heavily on acquisitions rather than product or services sales for their earnings growth and to offshore companies headquartered in the countries with loose banking and investment laws. Companies that heavily use acquisitions and charge-offs illustrate the way companies can play games.

Mr. Schilit said another sign of a trust-me company is one that transforms into “something that is much more sexy ... Enron was transformed from a pretty boring energy company with modest growth, low price-earnings ratio, to a newfangled energy trading company.” Many of Enron’s competitors have also moved aggressively into the business of trading power, especially in the recently-deregulated energy environment.

A Goldman, Sachs analyst told the *Times* he was wary of companies whose growth rate suddenly accelerates: “A

lot of these shooting stars that we've seen over the last couple of years — it's the new model, the new paradigm, which turns out not to be the new paradigm at all. Earnings which rise more quickly than cash flow are must be carefully scrutinized. There are many accounting techniques which will allow a company to report a certain profitability from primarily noncash earnings. The sale of subsidiaries or plants and other tangible assets creates an illusion of profitable operations. In fact, they may illustrate severe market problems for a company. Chris Galvin, an investment analyst at J. P. Morgan told the *Times* that "Reported profits can be confusing. The devil is in the details."

*Forbes Magazine* (12/24/01) says accounting manipulation of financial statements is worse in Europe. "If you want to run a telecommunications company, Britain is the place to keep your books. Look at London's Colt Telecom Group, whose American Depositary Receipts trade on Nasdaq. Using British accounting methods, Colt reported a \$29 million loss for the fourth quarter of 2000. Under U.S. accounting rules it would have reported a \$51 million loss."

If you're underwriting business life insurance on companies domiciled internationally, follow *Forbes* advice to investors: "Venture abroad with both eyes open. Know when the profit numbers you are looking at are computed under U.S. generally accepted accounting principles (GAAP) and when they are not." For example, British accounting rules allow telecommunications firms to immediately book revenue from sales of transmission space on their networks. U.S. GAAP rules require companies to amortize revenues out over the life of their contracts according to Jay A. Huck, the Center for Financial Research & Analysis, Rockville, Md.

Backdating sales contracts to improve poor numbers is another maneuver to artificially prop up the bottom line. One Dutch pharmaceuticals company recorded a \$240 million restructuring charge against earnings. Then they neatly offset the charge with gains from the \$271 million sale of an in vitro diagnostics unit. Although its filings stated the sale became effective June 30, the date of the financial statement, a press release dated July 3 indicated that buyer hadn't yet paid the \$271 million--and that the sale "will only come into force as soon as merger control clearance has been obtained" in certain countries.

What if the merger is disallowed? This is not unrealistic as more and more countries have begun to closely examine mergers, acquisitions and other deals which carry the odor of collusion and monopoly.

Due diligence in underwriting jumbo risks was never easy. But if you don't verify the financials now, you and your reinsurers may be looking for an offset to your own bottom line.

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**E-mail: [ali@firstfin.com](mailto:ali@firstfin.com)**

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**Service and subscription information:** John J. Krinik, *Publisher*

P.O. Box 2990, Binghamton, N.Y. 13902-2990

Phone : 607-724-3992, Fax: 607-724-0041, E-mail: [ualert@yahoo.com](mailto:ualert@yahoo.com)

**Editorial correspondence:** Susie Cour-Palais, *Editor*

Address: SelectX Ltd, P.O. Box 70, Rickmansworth, Hertfordshire WD3 5ZE United Kingdom

Phone: +44 1923 282 320, Fax: +44 1923 286 213, E-mail: [susie@selectx.co.uk](mailto:susie@selectx.co.uk)

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## **First Financial Underwriting Services, Inc.**

150 153rd Avenue, Suite 301  
Madeira Beach, FL 33708

**[www.firstfin.com](http://www.firstfin.com)**

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