



CASE STUDY # 15



Cognitive Bias in Underwriting!!

Male, Married, Graduate, Salaried Individual - NRI (United Kingdom) working in the Food and Beverages industry, specifically a Cake shop as an administrative service manager had provided all NRI documents along with valid Salary slips and Bank statements with regular credits. The overall profile including the photograph had all the makings of the ideal profile. The declared income of 15Lac per annum was the cherry on the top and all the underwriters were inclined to issue the policy.

Underwriters day in and day out underwrite numerous NRI policies and slowly it starts sinking in that NRIs make a lot of money especially when converted to Indian rupees and over a period, it starts becoming an assumption.

Today's case is about something similar... Out of the 3 underwriters who analysed the case, the first one conveniently went ahead with the declared income. Its cumbersome calculating international incomes since sometimes they are weekly, sometimes fortnightly... Add to it the hassle - that the credits do not necessarily follow the predictable date format. Sometimes the week ends at odd dates every month making it difficult to evaluate the monthly salary and hence the annual income (We do use approximation in such cases, but there is still a lot of head scratching involved).

The second underwriter put in slightly more effort into the bank statement, added all the month's credits and arrived at a salary which made the profile eligible for cover.

When the Underwriter at INCHES started underwriting this case, there were a few points that were discomfoting –

- 1) The Salary slips were of varying duration – 1 of 2 weeks, 1 of 3 weeks, 1 of 1 week;
- 2) None of the months had consistent working duration, the individual worked for 1, 2 or 3 weeks a month over a period of 4 months, never for the entire month;
- 3) Keeping this in mind when the salary per annum was calculated, the income was hardly 5 to 6 Lac per annum. This made the Life assured eligible for the applied cover but the most important condition that the minimum income criteria for an NRI is 10Lacs was entirely missed by both the previous underwriters.

Cognitive biases related to most NRI cases, could have led to this case being issued even though the Life assured was not otherwise eligible for the policy. Hence, a piece of advice, beware of cognitive biases when underwriting...

For details, drop in a mail to info@inchesgroup.com