

# **How to Analyze Group Insurance Product Pricing and Underwriting**

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# Group Insurance Product Offerings

**Rule #1: Know your Company's product offering mix!**

- Group Term Life Insurance
- GUL/GVUL
- Specialty Group Life Insurance
- Accidental Death and Dismemberment
- Insured Dental (Indemnity, PPO, DHMO)
- ASO Dental
- Long Term Disability
- Short Term Disability
- ASO LTD & STD
- Long Term Care
- Medical (ASO, Indemnity, PPO, POS, HMO)

**Ranges:**

- ✓ 100% Employer Paid
- ✓ Partial Contributory
- ✓ 100% Employee Paid

# Group Insurance: Key Pricing Considerations

**Rule #2: Understand each product's risk profile!**

Legend: ✓ = risk exists    ✓+ = predominant risk

Product	Claim Frequency	Claim Severity	Individual Selection	Interest/Discount Rates	Expense/Operational Risk	Recovery Rates	Lapses
ASO Products	✓+				✓		
AD&D	✓+	✓+					
Dental	✓+				✓		
Group Term Life	✓+	✓+	✓				
GUL/GUVL	✓+	✓+	✓	✓	✓		
Specialty Group Life	✓	✓		✓			
LTD	✓+	✓+		✓+	✓	✓+	
STD	✓+	✓			✓	✓	
LTC	✓	✓	✓	✓+	✓		✓+
Medical	✓	✓	✓		✓		

# Group Insurance: Earnings By Source

**Rule #3: Understand your Company's Profit Potential Profile!**

<b>Product</b>	<b>Underwriting</b>	<b>Interest</b>	<b>Expense</b>
ASO Products	Not Applicable	Not Applicable	Very Significant
Dental	Very Significant	Not Significant	Significant
STD	Very Significant	Not Significant	Significant
AD&D	Very Significant	Not Significant	Not Significant
Group Term Life	Very Significant	Less Significant	Not Significant
GUL/GVUL	Very Significant	More Significant	Not Significant
Spec Group Life	Significant	Very Significant	Not Significant
LTD	Very Significant	Very Significant	Significant
LTC	Very Significant	Very Significant	Significant
Medical	Very Significant	Not Significant	Significant

# Group Insurance: Environmental Considerations

**Rule #4: Understand the environmental forces at work on your Company's products**

- **Long term mortality improvement**
- **Inflation**
  - ✓ **cost per covered procedure**
  - ✓ **operating expenses**
- **Utilization patterns**
- **Interest rate changes**
- **Economic cycles**
- **Concentration risk (geographic, industry, product mix)**
- **Tax**
- **Reinsurance Capacity**

# Group Insurance: Key Earnings Drivers

**Rule # 5: Identify the key earnings drivers of your Company!**

- **Underwriting Earnings**
  - ✓ **Incurred Loss Ratios**  
(incurred claims / premiums)
  - ✓ **Claims frequency**  
(incidence)
  - ✓ **Claims severity**
  - ✓ **Recovery / termination rates**
  - ✓ **Lapse rates**
- **Investment spreads**
  - ✓ **Portfolio yields**
  - ✓ **Average discount / crediting rates**
- **Expense Ratios**

# **Group Insurance: Considerations in Evaluating Incurred Loss Ratios**

- **Understand premiums versus fees**
- **Understand timing differences between premiums & claims**
- **Average group size of block**
- **Retrospective experience rating & financial arrangements**
- **Interest adjusted versus non-interest adjusted loss ratios**

# **Group Pricing: What's Different than Individual?**

**Rule #6: Understand & appreciate the differences between group and individual pricing!**

- **Prospective experience rating**
- **Transferred business analysis**
- **The uniqueness of each case (plan design, participation, demographics)**
- **The role of the group insurance underwriter**
- **The role of the broker or consultant**



# **Group Pricing: What's Different than Individual?**

**Rule #6 (cont.): Understand & appreciate the differences between group and individual pricing!**

- **The value of the renewal process**
- **Short versus Long term guarantees**
- **Retrospective experience rating at the case level**
- **Limited individual underwriting (anti-selection potential)**

## **Group Pricing: The Landmines**

**Rule #7: Learn to recognize pricing “gotchas” before they get you!**

- **Rapid sales growth in a transferred business market (closing ratios = cases sold / cases quoted)**
- **Transferred business sometimes means winning your low mistakes**
- **Use of the competitor’s experience to set rates**
- **The power of rate basis (ratio to manual)**
- **The critical role of the underwriter**
- **Individual underwriting requirements may vary from carrier to carrier**
- **Are average renewal increases consistent with expected improvements in loss ratios**

## **Group Pricing: The Landmines**

**Rule #7 (cont.): Learn to recognize pricing “gotchas” before they get you!**

- **Is a carrier failing to recognize future costs in today’s premium?**
  - ✓ **portable term excess mortality**
  - ✓ **conversion policy excess mortality**
- **Sluggish new business pricing responses to changes in market conditions**
  - ✓ **trend**
  - ✓ **interest rates**
- **Extended, multiple year rate guarantees**

# Group Insurance: Reflecting the Liabilities on the Balance Sheet

## Rule #8: Understand the predominant group insurance liabilities

	<u>Short Duration</u>			<u>Intermediate/Long Duration</u>			<u>MV</u>
	IBNR	Pending	Premium Stabilization Reserves	Disabled Life Reserves	Active Life Reserves	Accumulation Fund Balances	Separate Account Fund Balances
Dental	Yes	Yes	No	No	No	No	No
STD	Yes	Yes	No	No	No	No	No
AD&D	Yes	Yes	No	No	No	No	No
Group Term Life	Yes	Yes	Yes	Yes	No	No	No
GUL/GVUL	Yes	Yes	Yes	Yes	No	Yes	Yes
Specialty Group Life	Yes	Yes	Yes	No	No	Yes	Yes
LTD	Yes	Yes	Yes	Yes	No	No	No
LTC	Yes	Yes	Yes	Yes	Yes	No	Yes

## **Group Liabilities: The Landmines**

**Rule #9: Learn to recognize liability “gotchas” before they get you!**

- **Attempt to understand the Company’s philosophy for setting appropriate reserve discount rates (portfolio vs. generational) by product**
- **Monitor the difference between portfolio earned rates and average reserve discount rates.**
- **Any systematic under / overstatement of IBNR reserves over a period of years**
- **Policy acquisition costs generally lower for group products than individual products resulting in lower overall deferred acquisition costs.**

## **Group Liabilities: The Landmines**

**Rule #9 (cont.): Learn to recognize liability “gotchas” before they get you!**

- **Aggressive DAC policy may put group carrier at risk to quick shifts in lapse rates which may occur if renewal actions are necessary to correct transferred business based pricing mistakes.**
- **Are assets and liabilities well matched as a result of a well developed ALM methodology?**
- **Patterns of reserve strengthening may indicate management’s philosophy toward provisions for adverse deviation in GAAP liabilities**

# **Group Insurance: Summary**

**Six key factors for analyzing the Group Insurance business**

- **Product mix / sources of earnings**
- **Trends and loss ratios / interest margins / expenses**
- **Growth rates / persistency**
- **Asset liability management**
- **Watch out for aggressive DAC policies**
- **Understand the differences between GAAP and STAT earnings**

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