

# *Combination Products*

## **Product Administration and Risk Management Process**

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The logo for the Intercompany Long Term Care Insurance Conference (ILTCI), consisting of the letters 'ILTCI' in a white serif font inside a dark blue rectangular box with a thin white border.

ILTCI

A photograph of a two-lane asphalt road stretching into the distance, flanked by green fields and a red rock cliff on the left. The image is slightly faded and serves as a background for the bottom half of the slide.

15th Annual Intercompany Long Term Care Insurance Conference

- Define risk management
- Best practice 'Combo Products'
- Interacting for success
  - Processing & Administration
  - Risk Management Requirements Partner
  - Favorable Risk Management Results

- Dictionary definitions for business:
  - The identification, analysis, assessment, control and avoidance, minimization, or elimination of unacceptable risks.
  - The process of evaluating the change of loss or harm and then taking steps to combat the potential risk

# Phases of Risk Management for Combination Products

- Define the scope of associated risks
  - What are the potential risks
  - How likely are the risks to occur
- Prioritize risks
  - What is the impact (external, internal, both)
- Utilize documentation and other tools
- Assess experience of team
- Consult with others
- Minimize handoffs and maximize efficiencies

- Document processes
  - Ensure processes are clear and accurate
- Utilize process maps
  - When in doubt, create a process map to identify risks, hand-offs, bottlenecks
- Subject matter experts
- Training and Communication
- Reports or logs

- Systems in place
  - Do you have the necessary technology in place?
- Document quality measures
  - What are the expectations for quality?
  - What will be measured, when and by whom?
- Audit program
  - Review and audit the process
- Testing for results
  - Test the process

- Validate responses to processes
  - Solicit feedback
  - Review and react to responses and outcomes
- Analyze results using logs, reports, service levels, etc.
  - Are your outcomes as expected, why or why not?
- Update controls and processes as needed
- Continue the cycle



# Implementation and Administration of Combination Products

- Risks in Business Operations for Combo Type Products
  - Managing Service Levels and TATs
  - Accuracy and Consistency
  - Decision Making
  - Compliance risks
  - Proper documentation and procedures
  - Technology risks

- How do you manage risk within Operations for Combo type products?
  - Metrics and Report monitoring
  - Quality Assurance processes
  - Tools, Procedures and Resources
    - Expertise in product and process
  - Customer and Distribution Feedback
  - Analyze, React, Improve
  - Root cause analysis
  - Be Proactive

- Underwriting Combination Products
  - Underwriting for morbidity and mortality risk
  - Examples of streamlined process
- Process implementation
  - Life insurance process requirements
  - LTC process requirements
  - Different regulations for Life and LTC products
- Managing the business
  - Need expertise in the product in each department
  - Risk of treating the same as other life or LTC business
    - Process, technology

## Combo type products:

- To centralize or decentralize operations
- What processes can be leveraged from other businesses, what must be unique and why
- Knowing and managing to client, advisor and distribution partner expectations

# Risk Management Requirements Partner for Combination Products



- Develop a partnership
- Meet early and often
- Create requirements and scope for initial implementation
- Test, test, test
- Monitor post implementation
- Anticipate future needs

- Develop a Partnership
  - Seek to understand – Be proactive!
    - What has worked well, what hasn't
    - What are the existing processes/desired processes
    - Where is the product going
    - What are the drivers for success
  - Involve all relevant parties
    - Vendor management
    - PMO
    - SMEs
      - Pull in SMEs from both Life and LTC
        - » Op's leaders
        - » Underwriters
        - » Field experts
        - » CMOs
    - Business leaders



- Meet early and often
  - Seek to over communicate
  - Appoint leads on both sides
  - Establish regular meetings
    - Requirements team
    - Sr. Leadership team
    - Op's team
  - Clarify expectations as often as necessary



- Create requirements and scope for implementation
  - Critical to do early on and refine on an ongoing basis as you learn more
  - Involve SMEs from both Life and LTC side– assure you will be getting the depth of information necessary to make the right risk decisions
  - Create roadmaps, implementation timelines, contingency plans, test plans
  - Establish a Change Control Process and use it

- Test, test, test
  - Create test scenario's internally and between each other
  - Allow adequate time for testing and fixes
- Monitor post implementation
  - Meet with increased frequency after initial launch
  - Assure heightened awareness from both teams
  - Over communicate potential issues
  - Analyze successes and opportunities for improvement and leverage for future projects
  - Establish regular meetings:
    - Review performance to expectations (SLAs, monthly reports)
    - Review quality results
    - Review feedback from internal and external sources
    - Review data gathered to assure getting good Life and LTC info

- Anticipate future needs
  - Keep open line of communication
  - Understand and plan for product changes, additional states, underwriting changes
  - Establish meeting cadence for building future strategy
  - Set aside time in future planned releases for programming needs to address:
    - Product design changes
    - Underwriting or claims requirement changes
    - New products

# Favorable Risk Management Results for Combination Products

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# Market Outlook

## 2013 Sales Results – LTC Hybrid Products Have Been Growing Steadily

- Total Premium : \$2.6B
  - 8% growth over 2012
  - Represents 13% of Total Individual Life Premium
  - ~98,000 Policies Issued (14% growth)
- Average Premium
  - Single Pay : Increased by 14% to \$81,134
    - Average Face - \$145,387
  - Recurring Premium : Increased by 34% to \$8,849
    - Average Face - \$342,555
- Product Mix
  - Acceleration Products Grew by 18%
  - Extension (Linked Benefit) Products Grew by 14%
  - 24% Extension Products / 76% Acceleration Products
  - Universal Life is Dominating (79% of policies sold)
- General Movement Towards Flexible Payment Products



# Thoughts on Market Outlook



- LTCI Linked Benefit Products offer a unique way for insurance companies to differentiate themselves in today's market without diving into stand-alone LTC
- Top discussion point with clients throughout last three years
- Products fill a distinct client need as baby-boomers continue to age and lack long-term care coverage
- The major risks underlying the products can be mitigated by solid policy / product design, underwriting, claims management processes, and newly designed reinsurance structures
- These products can help an insurance company significantly grow the top and bottom lines while effectively managing their overall risk profile

# Total Risk Management Overview

# Total Risk Management Overview



- Need to have both mortality and morbidity expertise and experience to assess key risk management topics:
- Product Design Assistance
  - Product development and pricing assumption assistance
  - State insurance department and “compact” filings
- Underwriting Services
  - LTC Assessments
  - Phone History Interviews and Cognitive Screening
  - LTC Underwriting and New Hybrid Underwriting Manual
- Reinsurance
- Claims Management
  - Claims, Care Management, LTC Claims Eligibility and Ongoing Claim Administration

# Product Design

## Product Design Assistance – Key Mortality Questions

- Underwriting
  - Are there additional underwriting requirements (cognitive testing, prescription drug checks, motor vehicle reports, etc.) and questions on the application due to the addition of the rider?
  - Do the maximum issue ages of the product change?
- Product Design and Marketing
  - Does the addition of the rider change the expected level of anti-selection in the product?
  - Are the lapse rates expected to change with the addition of the rider impacting mortality deterioration?
  - Is there a new simplified sales process? Will this attract more unhealthy lives?
  - Does the addition of the rider encourage more short-pay, asset accumulation sales?

## Product Design Assistance – Key Mortality Questions

- Policy Size
  - Does the addition of the rider change the expected distribution of business by band?
  - What is the maximum face amount policy that the rider will be added to?
- Target Market
  - Will the addition of the rider attract a different population to the base product (i.e. Sex, Socio-Economic, etc.)? What impact does this have on the mortality profile of the base product?

## Product Design Assistance – Key Morbidity Questions

- Underwriting
  - What information will be gathered in the rider underwriting (i.e. Tele-Underwriting, Medical Information, Bureau Screen, Prescription Drug Screen, Motor Vehicle Report, Cognitive Testing, APS Reports, etc.)?
  - Has a “Field Underwriting” guide been established with a series of knock-out questions for the rider?
  - What is the maximum sub-standard table that will be issued?
  
- Policy Size
  - What is the maximum face amount the rider will be added to?
  - What is the maximum amount per month that can be accelerated?
  - Are the rider maximums in-line with HIPAA limits?
  - Can acceleration amounts exceed the HIPAA limit?

## Product Design Assistance – Key Morbidity Questions

- Product Design and Marketing
  - Does the rider provide reimbursement or indemnity benefits?
  - What are the benefit triggers?
  - Over what period of time does the rider accelerate benefits?
  - What is the elimination period for the benefits? Is it the same for all eligible benefits?
  - Is the product tax qualified?
  - Will a licensed health care practitioner certify benefit eligibility?
  - What will be the criteria for establishing eligibility requirements for any international coverages?
  - For reimbursement benefits, what is the appropriate amount of salvage to factor in?
  - Who will be handling claims processing?



## Product Design Assistance – Key Lapse Questions

- Product Design and Marketing
  - Does the addition of the rider change the expected lapse rates of the base product?
  - Are there any “return of premium” features included in the design that will impact lapse rates?

## Product Design Assistance – Key Questions

- Assumption Development is More Complicated than a Typical Life or LTC Product
- Developing an Understanding of the Interplay Between the Assumptions is Critical
  - What Combination of Assumptions Produces “Poor” Results?
  - What Combination of Assumptions Produces “Good” Results?

# Underwriting

# Objectives of Life and LTC Underwriting



- Determine the viability of the life mortality risk
- Assess the risk of future ADL and cognitive dependency
- Most products are utilizing a more “simplified approach”
- What is the maximum sub-standard life risk that is acceptable for the LTC portion of the policy?
- Need to judiciously balance the risk of accepting too few with the risk of accepting too many who are high risk
- Decline rates are typically around 30%

## Underwriting

- Underwriting Practices
  - Underwriting Methodology
  - Underwriting Guidelines
  - Application Process
  - Cognitive Screening
  - Life vs. LTC Underwriting Experience

## Claims and Care Management Services

# Reinsurance Perspective



- Claims Management
  - Assessments
  - Care Plan Development and Management
  - Care Setting Management & Recertification
  - Proactive risk management and early intervention

# Reinsurance



## Reinsurance

- MRT / YRT Risk Structure
  - Reinsurance Coverages and Premiums
    - Base Policy Mortality Component
    - Face Amount Acceleration Rider
    - Extension of Benefits Rider
    - Inflation Protection Rider

## Reinsurance – YRT Structure

- Net Amount at Risk identified and calculated for each component
  - Mortality NAAR : Death Benefit less Account Value
  - Acceleration NAAR : Face Amount less Account Value
  - Extension NAAR : Amount of Extension Benefit Remaining
  - Inflation NAAR : Amount of Inflation Benefit Remaining
- Reinsurance Premiums developed for each component from expected benefit streams and vary by policy demographics

# Conclusions

## LTCI Linked Benefit Products Have Been Successful

- LTCI Linked Benefit Products offer a unique way for insurance companies to differentiate themselves in today's market
- Products fill a distinct client need as baby-boomers continue to age and lack long-term care coverage
- Products provide a multi-faceted solution in comparison to the stand-alone LTC market which has been declining sharply
- The major risks underlying the products can be mitigated by solid policy / product design, underwriting, claims management processes, and newly designed reinsurance structures
- Assumption Development is “Non-Trivial”; Spend Time Asking Questions
- These products can help an insurance company significantly grow the top and bottom lines while effectively managing their overall risk profile

# Questions?

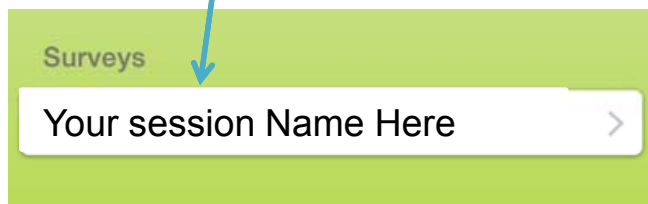
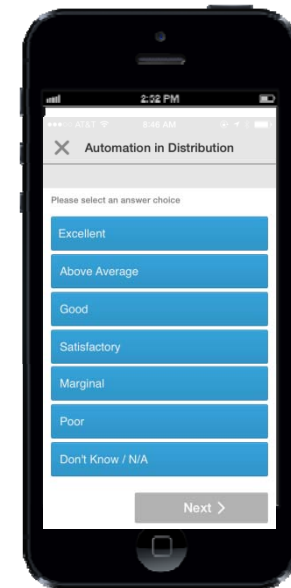
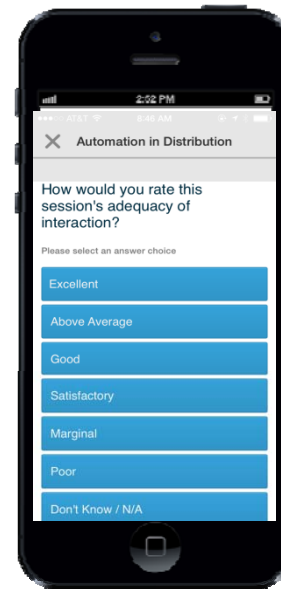
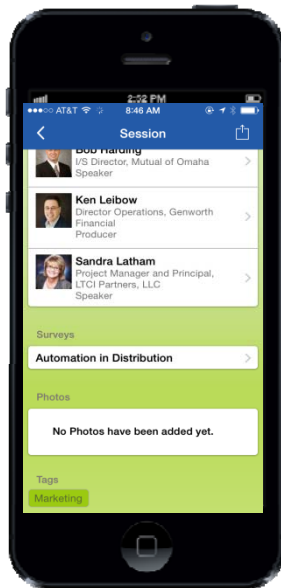
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1. Find the session
2. Scroll to the bottom
3. Tap on the session name below the survey



Tap on the answer you wish to submit

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