When Good Products Go Bad

2002 Southeastern Actuaries Conference
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When Good Products Go Bad

• Individual disability income
  – an example of product deterioration and renewal

• General types of product challenges
  – relate to specific examples in individual disability income experience

• Identify a few potential current products with challenges
  – Your job and mine
UnumProvident Background

• 1997 - Provident purchased Paul Revere

• 1999 - Unum and Provident merged creating UnumProvident

• Background of Paul Revere

• Background of Provident

• Background of Unum
UnumProvident Today

Industry Rank by Inforce Premium

• Group long term disability (LTD) #1

• Group short term disability (STD) #1

• Individual disability #1

• Group life #4

• Voluntary benefits #2
Individual Disability in 1980

- Top 8 IDI companies by inforce premium
  - Earned Premium $395M
  - Premium growth rate about 15%
  - Statutory margin 12% of premium (pre-tax)
  - Sales increased 18%
  - Top companies had about 2/3 of the market
Individual Disability in 1985

- Top 8 IDI companies by inforce premium
  - Earned Premium $836M (more than doubled in 5 years)
  - Premium growth rate about 17%
  - Statutory margin 8% of premium (pre-tax)
    - down from 12%, but high sales drive high expenses
  - Sales increased 26%
Individual Disability in 1990

• Top 8 IDI companies by inforce premium
  – Earned Premium $1,763M (more than doubled in 5 years, again)
  – Premium growth rate about 17%
  – Statutory margin -4% of premium (pre-tax)
  – Sales increased 3%, expenses dropped as a percent of premium
Individual Disability in 1995

- Top 8 IDI companies by inforce premium
  - Earned Premium $2,595M (47% increase over 5 years)
  - Premium growth rate about 5%
  - Statutory margin -15% of premium (pre-tax)
  - Sales decreased 12%, expenses dropped as a percent of premium
Individual Disability in 2000

• Top 8 IDI companies by inforce premium
  – Earned Premium $2,772M (7% increase over 5 years)
  – Premium growth rate 3%
  – Statutory margin 9% of premium (pre-tax)
  – Sales decreased 4%, expenses dropped as a percent of premium
Top Eight DI Companies
Premium and Profit Margin


Premium (000,000)  Statutory Margin %
Concentration of Risk

• Problem: over-concentration of sales to a limited group of customers increasing vulnerability to shifts in experience

• DI Example
  – sales targeted to high income professionals
  – especially doctors, dentists, other healthcare professionals
  – healthcare reform effected MD’s income and job satisfaction
Untested Product Innovations

• Problem: effects of incremental product changes can be difficult to predict, particularly when combined with changes in marketing, underwriting, and the external environment

• DI Example
  – Lifetime benefit periods were gradually liberalized
  – Residual benefits added (for insureds not totally disabled)
  – DI is a long term business and non-can premiums can’t be increased after issue
Asset / Liability Management

• Problem: matching asset durations to liability durations and keeping pricing assumptions current

• DI Example
  – DI has very long term cash flows; too long to easily match to assets
  – Some DI asset portfolios were not well immunized against falling interest rates
  – 10 year T bill rates dropped from more than 10% in early 1980s to about 8% in 1990 and 6% in 2000
Keeping Underwriting Current
aligned with coverage changes and pricing assumptions

- Problem: Underwriting should change in anticipation of changes in economic conditions, medical advancements, market dynamics, government actions, or legal situations
  - And stay aligned with product changes and pricing

- DI Example
  - Most DI coverage had a pure own occupation definition of disability (full benefits if claimant can’t work at his / her job)
  - Earnings inflation fell dramatically, especially in medical occupations
  - Financial underwriting did not keep up with changing economic environment and more liberal coverage (Overinsurance)
Segmentation of Experience Analysis

• Problem: Relying on cross-subsidization is risky - monitoring or acting on only aggregate results can miss underlying dynamics that need immediate attention

• DI Example
  – Experience in California and Florida
  – Experience on short elimination periods
  – Experience by gender
Linking Cause and Effect

• Problem: Losing sight of the underlying characteristics that really drive results

• DI Example - premium discounts for association business
  – Experience on multi-life business is much better than single life business
  – Cause for the good experience: high participation ratio on multiple lives in a business group
  – Association business: multiple lives, but individual purchase decisions; should not have received favorable rates and underwriting just because of the large number of lives
Lack of Qualified Specialists

• Problem: Some lines of business need employees with specific skills and experience - supply can be limited

• DI Example
  – Heavily dependent on qualified underwriting and claims specialists
  – Smaller DI carriers didn’t (couldn’t) make the necessary investment in acquiring and training the specialists
  – Some companies left the DI market because they didn’t have people with the required skills
Focus on Secondary Goals

• Problem: A logical step toward a competitive advantage can be emphasized to the point that it distracts people from the primary goals

• DI Example
  – Focus on market share and premium growth
  – Compensation tied primarily to growth
  – People tend to do what you pay them to do
Narrow Distribution Channel

• Problem: Over-dependence on a limited means of selling a product can put pressure on profit margins and create volatility in new business volumes

• DI Example
  – A few producers specialized in DI sales and produced large amounts of new business
  – Competition for exclusive agreements with other companies for access to their agents
Reliance on Standard Tables

• Problem: Companies use outdated industry tables for pricing assumptions when more current tables are not available

• DI Example:
  – 85CIDA industry morbidity table
    – reflects data from the favorable 1970s
    – termination rates for durations 10+ are based on LTD and other sources because of insufficient data on DI experience