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Chairperson's Corner

by *Phil J.T. Cernanec*

Here we are on the doorstep of the "new millennium," at the start of the un-named decade, in the 50th anniversary year of the Society of Actuaries, and in my 25th year of association with the actuarial profession!

So, what is going on in our industry (primarily life insurance and annuities), our profession, and our area of interest—product development? My observations in this column today are primarily personal and anecdotal.

First, with regard our industry, life insurance and annuities no longer carry an industry identification, but are now a segment of the broader industry of financial services. The convergence of banking, brokerage, and insurance has been driven by technology, demographics, consumers' perception of needs, and the combination of competitive pressure and struggle for profitability. The implications of this convergence of offerings certainly resonates around distribution of product, with many organizations moving to multi-channel approaches to the market.

The challenge seems to be providing a differentiated product/service that interfaces with the customer in the way of the customer's choice. And, customers will choose different media at different times, not based solely on product. Today's media choices include an agent, the telephone (to a call center/possibly "voice response unit" or VRU), the Internet (from information exchange to e-commerce), and the postal service. The spectrum of life insurance and annuities sales and services today are still dominated by agent interface, with other media growing in frequency and preference of use as consumers' expectations and comfort grow. The traditional value proposition for life insurance and annuities is under pressure. What had been nontraditional even five years ago, is becoming common practice today.

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Long-Term Care Topics

by *Michael S. Abroe*

Editor's Note: This article is based on a speech prepared for the Southwest Actuaries Club Meeting on November 20, 1998. This is intended as a primer for long-term care insurance and is geared for one with limited knowledge. This is the first two articles that will appear in this newsletter and is a general overview of long-term care insurance and related business issues.

This is not intended to be a technical discussion, as no details on modeling or pricing are presented. Part Two of this article will appear in a future issue of Product Development News.

This article is organized into the following sections:

- Long-Term Care Market—An overview will be presented
- Regulatory Environment—The environment will be outlined.
- Product—Typical product design features in today's market.

Long-Term Care Market

The long-term care (LTC) market in the United States has experienced considerable (25% average annual) growth rates in recent years. This high growth is believed to be the result of several factors: the relative "newness" of the market; the aging of the U.S. population, increased media attention, Health Insurance Portability and Accountability Act (HIPAA) legislation, limitations of government funding sources, and the increase in the number of companies selling long term care insurance.

The following data is excerpted from the *Long-Term Care Insurance Experience Reports for 1996*, published in December 1997 by the NAIC. The 1997 report was scheduled to be released in December 1998.

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Our profession is likewise under pressure and is changing, with the new syllabus and path to Fellowship looking much different than that of 25 years ago. This year will include significant efforts in establishing what are the minimum requirements or skills necessary to a product development actuary. And, the method of transitioning from Associateship to Fellowship level will include professional development specific to the area of practice, though much less "country-specific" (US/Canada) than previously. This involves taking stock of the roots of product development, and a healthy review of what is a profession, versus the completion of an academic program.

Interesting issues in interesting times.

With regard to product development, we will focus on three "tiers" of interest: strategic, process, and specific topics/techniques. The strategic tier links product development to the organizations strategy and value chain. Here product development is a competence, possibly a differentiator, that includes product portfolio planning, contribution objectives, and certainly macro-modeling for an organization. Product process involves choosing what to do, designing, implementation and performance measurement. The product process has been impacted significantly by technology, with "targeted performance levels" taking the stage versus "assumptions," "customer intimacy" enabled through technology versus mass market approaches, and "knowledge management" and "rapid application development" over "product specifications."

We, the council, are looking forward to a stimulating and challenging 1999 in service to the membership. If you have any thoughts, ideas, or comments, please contact me by email (pcernane@usa.capgemini.com). Thank you for your support.

Phillip J.T. Cernanec, FSA, is Director, Cap Gemini in Littleton, CO, and is Chairperson of the Product Development Section.

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Long-Term Care Insurance Experience Group and Individual Combined			
Year	Cumulative Premiums (millions)	Yearly Premiums (millions)	Growth Rate
1996	\$12,727	\$3,218	40%
1995	9,509	2,298	20%
1994	7,211	1,921	

The NAIC report is based on long-term care experience data included in the Statutory Statement. The NAIC annually compiles and publishes the results. Please note the NAIC does not audit the data as it is not used for statutory income purposes. However, note the growth rate in premium shown by the data.

Health Insurance Portability and Accountability Act of 1996

This Act contains provisions for establishing "tax-qualified" LTC policies. These tax-qualified policies allow some portion of their premiums deducted from a person's taxable income, if the person has total medical expenses high enough to qualify as a deduction. Since

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