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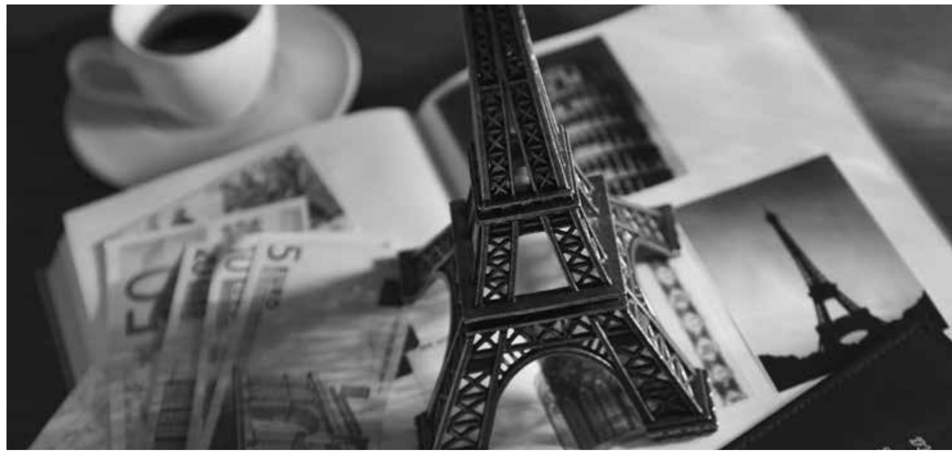
Interview with Néfissa Sator—Part One

By Etienne Dupourque



While working in the U.S. long-term care insurance market for several years, I have followed the French long-term care insurance environment, which seems healthier than here. One question that puzzles me is how an advanced social security environment, France, allows a thriving private long term care insurance market, while in an advanced market oriented environment, the United States, the market struggles. I am fortunate have the assistance of Néfissa Sator, who recently relocated to New York City from Paris and has been an active participant in the actuarial development of the French market. In a series of articles in *Long-Term Care News* we will attempt to shed some light on a very different system with shared goals: profit, or at least solvency, for the insurance players; and security, or at least solvency, for the insured. In the process, we will cover solvency 2, principle based reserving, products, the relationship of government benefits and private insurance products, and enterprise risk management.

Q: Néfissa, how did you become an actuary and can you briefly describe the French actuarial organization?

A: After a master of fundamental mathematics at the Université Pierre et Marie Curie in Paris, I studied actuarial sciences at the Institut de Statistique de l'Université Pierre-et-Marie-Curie (ISUP) and received my actuarial diploma.

Generally it takes five years after high school to become an associate actuary: two years of accelerated mathematical studies and three years of actuarial studies to pass all the exams, do a couple of internships, write a final actuarial paper, and successfully present it to a board of examiners.

There are a few schools and universities which offer actuarial programs and grant an actuarial diploma in major French cities (Paris, Lyon, Brest, Strasbourg).

After receiving my actuarial degree, I started as an associate member of the French actuarial organization, Institut des Actuaires (IA) while working with an actuarial firm. Three years later, I became a qualified member of IA. In addition to three years of practice, a candidate needs a qualified member sponsorship to become a fully qualified member of IA.

The Institut des Actuaires represents and organizes the French actuarial profession since 1893 and currently includes about 3,000 members. It certifies the actuarial universities and programs which may grant actuarial diplomas. It sets guidelines, professional standards and ethic codes, organizes training, conferences, research, working groups, and publishes actuarial literature.

The Institut des Actuaires participates in building standard mortality tables with the government (Institut National de la Statistique et des Études Économiques, INSEE). There are no national morbidity tables, which depend on the type of contracts and the insured population. Actuaries use morbidity tables set by a group that gathers various statistics from different insurers (Bureau Commun des Assurances Collectives, not connected with the Institute) or set by companies with credible experience to build their own tables.

In 2011, the Institut participated in the national debate about a partnership on LTC insurance contracts between the government and the insurers and made recommendations for reserving and risk monitoring, the impact of solvency 2 capital calculations, and portability of contracts from an insurer to another. I lead the portability workshop.

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Q: You worked with the insurance company AG2R-La Mondiale. In the mid 1980s AG2R was one of the first French insurance companies to offer long-term care insurance. Can you describe its experience?

A: Yes, in 1985 the insurance group AG2R launched the first LTCI contract in France: SAFIR, which means Financial Security and Autonomy for Retirees. It is insured by its non-life insurance subsidiary PRIMA.

The development of the product started with requests from retired policyholders (the historical activity of the group AG2R is retirement funds) because it was a cost that was not covered by any kind of insurance or public program. Retirees were struggling under the cost of the care they needed for themselves or for their spouse to stay home or in specialized nursing facilities.

Without any knowledge of the risk, AG2R created the first definition of LTC. The risk classification, known as dépendance, was mainly based on administrative conditions such as being in hospital for long stays and it was priced using Canadian statistics, the closest data that matched the type of benefits in SAFIR contracts (lump sum and annuities) and the type of the insured population. This was before the national long-term care insurance program, Allocation Personnalisée d'Autonomie, took effect in 2002.

SAFIR was heavily reinsured. Reinsurance, almost totally coinsurance, played a major role in the development of the French LTC market. It wasn't rare to share between 75 percent and 90 percent of the risk with one or more reinsurers.

PRIMA was a big success, it was selling around 20,000 contracts per year, while AG2R had two million of retirees inforce.

Pursuant to a 1998 regulatory audit, steep upward financial provisions were announced with an immediate requirement to increase reserves up to seven fold. But how was it possible to measure precisely the level of the reserves needed for the next 50 years with such a scant experience of the risk°?

Negotiations began with the regulators to establish a minimum required increase of the reserves on one hand and put in place a strict monitoring of the risk and extensive internal and external reporting on the other hand, to ensure that the level of the reserves were frequently adjusting with the evolution of the experience and the risk. It was the beginning of the construction of the PRIMA LTC experience and its regular monitoring. Now, PRIMA has the most mature portfolio and the experience of the risk at older ages.

Several repercussions followed this critical event: for the inforce, marketing of the current product stopped, the portfolio was managed very strictly in collaboration with the claim department, a slower indexed rate increase was established and spread over the duration of the contracts (10 years were needed to bring the portfolio to a viable level). It was critical to manage the portfolio in a very progressive way to avoid massive lapsation of the policies and a risk of reputation degradation. AG2R did not want to break its close relation with its retiree policyholders.

A new LTC product was designed with a stricter definition of risk, a premium increase of more than 30 percent, and extensive work with medical underwriting, and claim management was done.

All of this had a negative impact on distribution channels which were apprehensive about client relation problems. Sales started to decrease.

In 2004, PRIMA upgraded its long-term care product line by creating a contract that combines LTC benefits and savings that brought sales at a higher level.

Regulatory monitoring stopped in 2004, but a new audit started in 2007. This time the focus was mostly on contractual terms and policyholders' rights (communication, policy administration, policyholder requests, and revalorization of policy values).

This AG2R experience had an important impact on the French LTC market, it changed the behaviors of LTC insurers and reinsurers and it accelerated the sophistication of the management of this risk. No insurer or reinsurer has left this market. Now 5.5 million people are covered by individual and group LTCI contracts by over 20 insurance companies, which ranks the French market as the second LTCI market after the United States. The new challenge companies are facing is the decline in interest rates over a long period of time which has an important impact on reserve levels. ■