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Interview with Néfissa Sator—Part Two

by Etienne Dupourque

Interviewer's notes: This is the second of several interviews with Néfissa Sator, a long-term care actuary, about the approaches that the French take toward protecting against the long-term care risk. The next planned article will explore pricing.

For clarity, following are brief explanations of several specific terms in this interview.

1) 'Bancassurance' refers to the combination of banking and insurance activities. A popular insurance distribution system is the marketing of insurance products through a bank. Insurance and banking activities can be part of the same financial service group, but are subject to distinct regulations and monitoring requirements, they are two distinct corporate and legal entities with strict contractual rules of their insurance operations.

2) Government's postal services started in the 15th century in France. Between 1921 and 1991 postal services were part of a government communication monopoly: Postes, télégraphes et téléphones (PTT). While the current postal service, La Poste, provides a wide array of services, it is no longer a monopoly.

3) French insurance companies are regulated through three codes: Assurance, Mutualité and Sécurité Sociale. The actuarial aspects of the codes, such as reserves, all conform to the Assurance code.

4) Prévoyance is a branch of personal insurance, exclusive of property: life, annuity, accidental death and disability, disability, medical, dental, long term care, mortgage, burial. It usually complements Social Security benefits (Sécurité Sociale).

Q: Néfissa, after your experience within AG2R La Mondiale you worked with La Banque Postale Prévoyance (LBPP), a major player on the French LTCI market. What is La Banque Postale Prévoyance and why is the postal services in the insurance business?

A: La Banque Postale Prévoyance (LBPP) is a bancassurance regulated by the Assurance code. LBPP's ownership is evenly split between La Banque Postale, the oldest French financial service organization, and Caisse Nationale de Prévoyance (CNP), the largest life insurance company in France.

LBPP's business model is very interesting, it is based on the respective strengths of its shareholders: distribution is handled by La Banque Postale which has the largest physical network in France through its post office branches. Insurance operations, such as administration, asset management, underwriting, are implemented by CNP. LBPP is the primary insurer.

LBPP's in-house teams focus on the development of strategic planning through its actuarial functions, Asset Liability Management, and Enterprise Risk Management. It also handles the marketing plan, legal activities, and closely monitors outsourced activities.

Created in 1988, LBPP started its activities with mortgage insurance. It then entered the life and disability market. Prévoyance is now its main activity. Thirteen years after its entry in the Prévoyance market, LBPP is one of its top carrier.

LBPP's values are closely linked to those of its two shareholders, in particular La Banque Postale which distributes LBPP's insurance products. The portfolio covers the major individual risks and is adequately priced: LBPP specializes in products which are accessible to the post office's customers who are mostly lower and middle class.

Q: Is the postal service owned by the government?

A: La Banque Postale, the oldest financial service entity in France with savings accounts and postal money orders which had their origin with the post office, received its banking status Jan. 1, 2006 and now lends to individuals and enterprises.

It is entirely owned by La Poste, the postal service organization which is 3/4 owned by the state and 1/4 by La Caisse des Dépôts et Consignations (CDC), a public thrift institution

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whose mission is to foster France's economic growth and stability. CDC is part of the legislative branch and controls 40 percent of CNP, the co-owner of LBPP.

La Banque Postale's government ties give it an important social role which has an impact on the products which it sells and distributes. This is why LBPP developed first a portfolio of products covering catastrophic risks, like death, disability, and long-term care.

La Banque Postale is present in every post office, that is, everywhere in France. This allows it a close proximity to its 10.5 million clients.

Q: What are the distribution channels?

A: La Poste offers not only mail services, but financial services and is even a cell phone operator. It also provides email services. With 17,000 offices, it has the largest outlet network in France.

The post office outlets are very modern with areas designed and dedicated to the bank staffed with salaried sales agent and advisors organized by specialties such as insurance and mortgages; and by customer segments such as high income, middle/low income, or corporate.

Sales agents make contacts with the customers, analyze their needs and then orient them to specialized advisors.

The physical network is not the only mode of distribution of La Banque Postale, which is multi channel. In addition to the offices located everywhere in France, even in rural areas, the bank makes a large proportion of its sales through direct marketing such as mail, telemarketing and the internet. It is possible to go from one mode to another without losing the information already provided.

Q: How long has LBPP sold long-term care insurance? What is the importance of LTCI to the total insurance portfolio?

A: LBPP launched its first long-term care insurance contract mid 2004.

Today it manages over 150,000 inforce policies, which represent more than 12 percent of individual long-term care policies in the marketplace, or 4th overall. The number of policies inforce grows annually at about a 13 percent rate with little variation, or 17,000 to 20,000 new policies in 2012. It represents 30 percent of national new sales and LBPP is now the leader in the individual long-term care insurance sales.

Long-term care is the second largest line in LBPP's Prévoyance portfolio for reserves held and third based on premium income. The claim exposure is substantial: almost five times the reserves, i.e., present value of future benefits = 4 x present value of future premiums.

At many older ages, the portfolio is not yet mature: claims incurred are still low. Estimated upward future liabilities are being funded through reserve adjustments, which explains its high level.

Reserves are very sensitive to investment market conditions and the experience of the policies. Reserve levels depend on policy claim experience and policy duration, but also on the rate of return of the underlying assets, and on the interest rate of government backed bonds. Under the current low interest rate environment, reserves have increased close to 15 percent annually while premiums have increased about 10 percent.

New policies have higher premium rates due to the lower level of interest rates and the experience of the portfolio. Premiums and benefits of many existing policies also are increased by about 1 percent to 2 percent annually because the guarantee is indexed to the cost of living or the cost of LTC services.

Premiums of the current portfolio can be adjusted also to the experience and the interest rates. There is no regulatory limitation to increase premiums on inforce policies, but a reputation risk exists for the company as well as the risk of massive lapsation if the increase is too high.

Q: What is the proportion of individual to group insurance?

A: LBPP issues only individual policies. Coverage is elective with medical underwriting. Each policyholder selects the level of coverage. Average monthly coverage is $650 per month (based on €1 = $1.30) for full dependency, and 60 percent of that amount, or about $400 a month, for partial dependency. An average lump sum of $4,000 is added to the first monthly payment. Benefit payments are not based on the cost of long-term care expenses: practically all policies are on a cash basis, not on a reimbursement basis. Monthly payments are triggered by dependency levels at the beginning of the claim period. Payments are lifetime but contingent on the demonstration of the continuation of disabled status. Multiple assistance services are also offered with the insurance contract.

Individual contracts are on a guaranteed issue basis which requires an insurer to continue coverage without consideration of the condition of an individual premium paying insured, and benefit levels are relatively high.

Depending on the group contract, coverage is yearly renewable, cancelable, or lasts only during the salaried worker's employment with the insurance contract's owner. To continue coverage upon leaving the organization, the covered individual must usually continue payment of a premium which is no longer based on the mutualization of the risk of the group. The ex-employer no longer pays a large portion of the premium, if any. Underwriting may not be required if conversion occurs within three to six months.

Among the largest group insurance contracts are the ones from AXA which in 2008 launched a contract with defined benefits and services.

OCIRP (Organisme Commun des Institutions de Rente et de Prévoyance), offers an indexed product where premiums are based on a point system whose values it calculates. OCIRP is a Prévoyance group insurance conglomerate which covers over 6 million people through over a million covered companies and organizations. It is the designated insurer of several liberal professions such as lawyers.

CNP manages a large group contract for two million teachers through the health mutual organization of the national education union, MGEN (Mutuelle Générale de l'Education Nationale).

Other large insurers such as AG2R issue group contracts. Group insurance is not a significant part of AG2R's long-term care portfolio. The outstanding feature of the AG2R group contract is that it pre funds premiums while the employee is active. At retirement, the individual policy is paid up. This type of contracts is expensive, premiums being higher since they are funded during a shorter period. In general this kind of group contracts has lower benefit levels. The certificate-holder can supplement his or her coverage through an individual contract, with the subsequent benefits incorporating the group and individual policies to avoid multiple payments.

The difference between the insurance coverage of group contracts and individual contracts can be seen through the reserves held: they are much lower for group insurance than for individual insurance, this is true as well for premiums and benefits.

The total long-term care insurance market under individual contracts and group contracts covers more than five million people, of these less than two millions are covered through individual contracts (source: FFSA, Fédération Française des Sociétés d'Assurances). ■