



**SOCIETY OF
ACTUARIES**

MARKETING &
DISTRIBUTION
SECTION

ISSUE 78 MAY 2019

News Direct

3 Chairperson's Corner

By Bill Bade

4 Letter From the Editor

By Mark Sayre

4 Consumers Drive Change

By Richard De Sousa

8 Narrowing the Nat CAT

**Protection Gap in Latin
America**

By Carlos Arocha

12 Narrowing China's Health

Protection Gap

By Robert Burr and David
Zhang

14 Medigap: One Part of a

**Quest for a Fantastic
Health Care Future**

By Jing Lang and Rajiv Sood

Consumers Drive Change

By Richard De Sousa

page 6

Medigap: One Part of a Quest for a Fantastic Health Care Future

By Jing Lang and Rajiv Sood

Before I moved to New York from Toronto, I was warned by many that the health care system in the U.S. is different; while it delivers faster service and excellent quality of care, it is also unnecessarily complex, especially when compared to Canadian universal health care. I was skeptical. After all, the U.S. is home to Amazon, LinkedIn and Google. With such strong emphases on customer experiences, health care in the U.S. surely cannot be that far behind in terms of simplicity and personalization—can it?

After 18 months in the U.S., I stand corrected. The statement “I have insurance!” in the U.S. offers little clarity on coverage nor certainty on out-of-pocket costs—there seems to be an infinite number of coverage types and payment methods. I unwillingly joined millions of consumers in a tumbling, vicious cycle of confusion, unclear expectations and negative customer experiences. While many other aspects of the U.S. economy and society are revolutionized by personalization and a relentless focus on customer experience, health care is not there yet; but I’m confident it is coming—and we could start with Medigap.

WHAT IS MEDIGAP

You may be asking “why Medigap?” and the answer to that question can be found among the 10,000 people who turn 65 every day. This number represents a critical mass of increasingly savvy individuals who bring with them higher expectations for the new world of health care. It is in this context that Medicare’s relatively standardized product (known as Medigap) has an opportunity for real innovation and personalization.

Before we discuss the personalization efforts currently under way, let’s first start with a recap of Medicare’s main components:

- **Medicare Part A**—often called “hospital insurance”—covers inpatient care, including the costs of hospital stays, nursing facility stays (if specific criteria are met), home health care and hospice care.
- **Medicare Part B**—often called “medical insurance”—covers outpatient expenses, including physician and nursing fees as

well as a range of services (such as x-rays, diagnostic tests, and so on)

- **Medicare Part C**—aka Medicare Advantage (MA)—allows Medicare beneficiaries to receive Medicare-covered benefits through private health plans that typically include extra benefits such as prescription drug coverage. In exchange for the benefits, coverage may be limited to a network of providers.
- **Medicare Part D**—prescription drug coverage—provides substantial savings on prescription drugs; Part D plans are designed and administered by private health insurance companies.

Medigap, also known as Medicare Supplement, is a standardized insurance policy that fills the gaps—deductibles and copayments—in Original Medicare (Medicare Part A and B). It is considered supplementary coverage that only people who elected Original Medicare are eligible to purchase. People who elected Medicare Advantage are not eligible to purchase Medigap. Given recent changes to the Medicare Advantage market, there is also a need to rethink Medigap to innovate on the standard chassis as well as improve the customer experience.

Medigap is sold by insurance companies. There are 10 standardized Plans—named A through N—and each offers different benefits with various coinsurance and deductible amounts. Since the plans are standardized, there is no baseline variation in benefits. No matter which insurance company provides your coverage, the benefits and deductibles will be the same. As a result, price and service along with innovation become important considerations when selecting coverage and an area for companies to differentiate themselves from the rest of the market.

CURRENT OPPORTUNITIES: WHY SHOULD YOU BE EXCITED?

Although there are many reasons why carriers should innovate on their Medigap offerings, here are our top five:

1. Growing customer base due to shifts in demographics.
2. Opportunities to complement your existing product suite or as a way to leverage and cross-sell a final expense or other product.
3. Standardized designs that provide consistency and make it easy for customers to focus on new innovations that matter to them—and easy is good!
4. Compared to Medicare Advantage, its ultimate rival, Medigap buyers are generally more affluent (better health and higher income), all typically pointing to better underwriting results.

- 5. Market resources, including reinsurance, are available to help you enter, expand or exit.

FUTURE DIRECTION

With technology advancements through wearables, like the Apple watch, health-care options will become increasingly customized and personalized. It doesn't matter whether we are talking about technology, care management, underwriting or clinical aspects, personalization is here to stay. Here are some areas where we're seeing considerable movement:

- **Propensity models**, such as smoker propensity models, use data-driven predictive analytics to predict (with a high level of accuracy) whether a declared nonsmoker is, in fact, a true nonsmoker. This then allows an application to be routed to a faster and more streamlined track for underwriting and approval for initial life insurance coverage or increases in limits as life circumstances warrant.
- **Accelerated Underwriting** enhances the customer experience by facilitating the offering of competitively priced fully underwritten products without the need to complete a medical exam. One may also be able to identify applicants who are most likely to be preferred based on nonmedical components, thereby further supporting cross-selling efforts.
- **Behavioral economics** explores the effects of psychological, social, cognitive and emotional factors on various economic decisions and the consequences of those decisions. This can then lead to modified buying behavior, price changes, rates of returns, and so on.
- **InsureTech** speaks to several ways in which technology can enhance the way insurance is bought, sold, evaluated or managed. Common uses today include AI software to harness, examine, calculate and determine both price and sales opportunity.
- **Life scores** produce risk scores based on a variety of application data, like laboratory test results and prescription data, in increasing the efficiency and degree of transparency in decisions.
- **Wearables** and sensors track biometric data and fitness to promote overall wellness and to encourage healthier behaviors, while providing new data and actionable insights.
- **Modifiable (AKA Improvable) Risks** represent conditions like diabetes or other cardiovascular risks that may initially lead to declinations of coverage, but can be modified or improved over time, thereby resulting in a different coverage decision.
- **Consumer engagement** seeks to better understand how protection and other needs fit into people's lives so that a relevant



solution can be presented in a very personalized way. It is hard to do this without understanding emotions, behaviors, motivations, concerns, obstacles, social determinants, and so on.

- **Genetics** looks for changes to a person's genes (or characteristics of) in order to identify disease and health risk. This could lead to increased awareness that in turn could help in managing or improving that risk, thereby potentially increasing longevity. This may also support the development of new markets or products, like critical illness.

While this is not an exhaustive list, it shows that we are well on our way as an industry toward delivering better customer experience and, ultimately, personalization. Some of these things may be revolutionary, others evolutionary, but all of them speak to rapid change from the ways that things have historically been—and are currently—being done. Over time, more of these will be incorporated into the product's design, effectively upending the current vicious cycle, turning it into a virtuous one.

At the end of the day, simple and easy wins. Delighting the customer wins. May the company who best delights their customers through innovative and simple experiences win. After all, as football legend Paul Bryant said, "Winning isn't everything, but it beats anything that comes in second." ■



Jing Lang, FSA, FCIA, is product manager at iptiQ, an insurance start-up. She can be contacted at jing_lang@iptiQ.com.



Rajiv Sood is an end-to-end health care, health insurance, risk and reinsurance executive. He can be contacted at rajiv@soodhealth.com.