

Munich American Reassurance Company



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# **2006 Individual Disability Income Survey**

**May 4, 2006**

## **Anti Trust Disclaimer**

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## **Introduction**

Earlier in 2006 MARC sent a survey to companies identified as actively marketing Individual Disability Income to identify current trends in risk management practices. Questions in five areas were asked: Financial / Marketing / Actuarial, Underwriting, Claims, Administration, and Reinsurance. Following is the summary of responses of the 14 companies that responded to the survey.



## **Participating Companies**

Munich American Reassurance Company (MARC) wishes to thank the following companies that participated in this survey.

Assurity Life Insurance Company  
Auto-Owners Life Insurance Company  
Berkshire Life Insurance Company of America  
IDS Life Insurance Company  
Illinois Mutual Life Insurance Company  
Metropolitan Life Insurance Company  
Northwestern Mutual Life Insurance Company  
Ohio National Life Insurance Company  
Pan American Insurance Company  
Principal Life Insurance Company  
Standard Life Insurance Company  
State Farm Mutual Automobile  
Union Central Life Insurance Company  
UNUMProvident



## Executive Summary

- Fourteen companies participated in this survey.
- There has been small growth in total premium for this business.
- The IDI industry remains predominantly Non Cancelable.
- Paid claims increased slightly from 2004 to 2005.
- Paid loss ratios have remained stable.
- Target markets have not changed significantly.
- There are no overall patterns in A/E morbidity results.
- Policy persistency is reported as expected to better than expected.
- There is a wide variation in the distribution of placement rates.
- Wastage rates are higher among Guaranteed Renewable writers than Non Cancelable Writers.
- The number of open claims increased slightly from 2004 to 2005; claims staffing levels have grown along with the increased volume of claims.
- Reinsurance Administration staffing does not vary by size of IDI company.
- A few companies do not reinsure their IDI.



## Financial / Marketing / Actuarial

### *Total Written Premium*

Among the companies surveyed, total premium grew by 3%. 2005 new business sales essentially were flat, with an increase of less than 2% over 2004 sales.

Total Written Premium in \$ millions	2004	2005
Inforce	\$3,314	\$3,383
New Business	\$280	\$285

Companies showed a wide variation in the growth of new business premium. Four companies reported negative growth. Five companies reported growth ranging from 0% – 4%. Five companies reported growth of 6% or more. Also, the inforce grew for most companies, which indicates that overall the industry is doing a good job of keeping business inforce.

### *Premium by Renewability*

The market remains predominantly Non Cancelable; the distribution of Non Cancelable premium remained unchanged at 89%.

Total Premium in \$ millions	2004	2005
Guaranteed Renewable (GR)	\$336	\$350
Non Cancelable (NC)	\$2,985	\$3,073
Total	\$3,321	\$3,423

Note that the totals by year do not match the totals in the previous section; seven companies reported inforce premium that did not match total of premium split by renewability.

There was slight growth among both the NC and GR writers.

### *Premium by Underwriting*

Multi life premium as a percentage of the total premium declined slightly from 21% in 2004 to 20% in 2005.

Total Premium in \$ millions	2004	2005
Fully Underwritten	\$2,491	\$2,597
Multi Life	\$604	\$611
Unknown	\$226	\$215
Total	\$3,321	\$3,423



Multi Life refers to individual business issued to a group that has had some level of reduced underwriting and premium discount.

The 'Unknown' category represents premium that was not identified.

*Paid Claims*

Paid claims increased by 3% for 2005. This corresponds with the increase in total premium for 2005.

in \$ millions	2004	2005
Paid Claims	\$2,250	\$2,326
Paid Loss Ratio	67.9%	68.8%

In considering claims, the paid loss ratio (paid claims divided by premium) is a better indication than just the dollars of paid claims. Overall, there was not a large change in the paid loss ratio between the years studied. The larger NC companies tended to have higher paid loss ratios than the GR companies. Note that this observation does not give a complete picture of the experience of a given company; there are many variables that can impact the paid loss ratios, including the age of the block of business, the age distribution of claimants, benefit options, and target markets.

*Target Markets*

Companies indicated their target occupational markets below. Note that companies were allowed to choose more than one market.

Occupation	Number of companies indicating this occupation is targeted
Business Owners	9
Financial Professionals	6
Legal Professionals	6
Medical Professionals	7
Other	7

Among the 'Other' occupations listed by companies are: blue/gray collar occupations, white collar professionals, business professionals, and executives. Companies that sell primarily Non Can products tended to respond that they targeted the four listed groups – Business Owners, Financial Professionals, Legal Professionals, and Medical Professionals. Companies that sell primarily GR products tend to target the blue/gray collar occupations.



*Distribution of Inforce*

There was little change in the distribution of inforce from year end 2004 to 2005.

	12/31/2004				12/31/2005			
	Policies	as a % of Total	Monthly Benefit	as a % of Total	Policies	as a % of Total	Monthly Benefit	as a % of Total
Total	2,648,088	100%	6,116,256,529	100%	2,683,754	100%	6,324,410,189	100%
With any occupation definition of disability	670,353	25%	436,168,549	7%	652,055	24%	447,242,290	7%
With modified own occupation definition of disability	507,941	19%	1,341,657,072	22%	544,180	20%	1,452,514,627	23%
With pure own occupation definition of disability	969,836	37%	3,375,113,429	55%	943,286	35%	3,338,027,413	53%
Unknown definition of disability	499,958	19%	963,317,479	16%	544,233	20%	1,086,625,859	17%
With COLA benefits	603,907	23%	1,661,476,924	27%	624,195	23%	1,717,674,072	27%
With FPO benefits	546,109	21%	1,126,983,281	18%	548,844	20%	1,127,048,401	18%
With residual benefits	1,121,692	42%	3,232,324,376	53%	1,148,993	43%	3,364,793,498	53%
Medical Occupations	481,655	18%	2,048,864,842	33%	484,995	18%	2,087,866,811	33%
Non - Medical Occupations	1,610,530	61%	3,370,393,331	55%	1,606,203	60%	3,457,394,626	55%
Medical / Non Medical Unknown	555,904	21%	696,998,356	11%	592,557	22%	779,148,752	12%

The following definitions of disability were used:

‘any occupation’ – total disability defined as the inability to perform major and substantial duties of any occupation.

‘modified own occupation’ – total disability defined as the inability to perform major and substantial duties of your own occupation, and not working.

‘pure own occupation’ – total disability defined as the inability to perform major and substantial duties of your own occupation. You are allowed to work elsewhere and collect the disability benefit.

For most companies the ‘modified own occupation’ and ‘pure own occupation’ definitions are applied to the end of the benefit period. However, a few companies feature these options for a period that is shorter than the benefit period. In these instances, amounts for the most liberal definition were listed.

The ‘Unknown definition of disability’ category represents inforce information where the company did not report a definition of disability.



The distribution of inforce indicates that the IDI industry as a whole still primarily sells policies with an ‘own occupation’ definition of disability. While companies that reported their target markets as primarily blue/gray collar occupations have a high concentration of inforce with an ‘any occupation’ definition, note that these companies represent a small proportion of the overall inforce.

*Experience Studies - Morbidity*

Following are the numbers of companies that indicated whether they track morbidity by the following categories.

	<b>Number of Companies Reporting</b>
Gender	11
Occupation class	11
Specific occupation	6
Medical / non medical occupations	7
Policy size	9
Definition of disability	7
Geographical location of policy holder	11
Distribution channel	7
Other categories not listed above – please specify	7

The following items were listed in the ‘Other’ category: underwriting (fully underwritten vs. multi life), block of business, benefit period, elimination period, renewability, and age.

Of the companies that indicate that they do track morbidity by the listed categories, following are the frequencies that they track the various categories.

	<b>Annually</b>	<b>Semi-Annually</b>	<b>Quarterly</b>	<b>Monthly</b>	<b>Other</b>
Gender	8	1	1	0	1
Occupation class	9	1	0	0	1
Specific occupation	4	1	0	0	1
Medical / non medical occupations	3	1	0	0	1
Policy size	5	0	1	0	1
Definition of disability	5	0	0	0	1
Geographical location of policy holder	8	2	0	0	1
Distribution channel	4	2	0	0	1
Other categories not listed above	3	2	1	0	1

The ‘Other’ frequency included responses such as: ‘when requested’, or ‘every 2 – 3 years’.



Gender, Occupation Class, and Geographic location topped the list of most studied categories.

Companies were also asked whether they perform actual to expected morbidity studies in the following categories, and what their results showed. Following is the number of companies that perform actual to expected studies.

<b>Category</b>	<b>Companies that Perform A/E Studies</b>
Gender	7
Occupation class	7
Specific occupation	4
Medical / non medical occupations	6
Policy size	5
Definition of disability	5
Geographical location of policy holder	6
Distribution channel	4
Other categories not listed above	3



Of the companies that perform A/E morbidity studies, following are the results for 2004 and 2005 the companies reported.

<b>2004 Results</b>	<b>Better than Expected</b>	<b>As Expected</b>	<b>Worse than Expected</b>	<b>Some Better than Expected, some Worse than Expected</b>
Gender	1	2	0	3
Occupation class	1	3	0	2
Specific occupation	0	0	0	4
Medical / non medical occupations	0	1	0	4
Policy size	2	2	0	1
Definition of disability	0	1	0	2
Geographical location of policy holder	1	3	0	2
Distribution channel	2	1	0	1
Other categories not listed above	0	2	0	2

<b>2005 Results</b>	<b>Better than Expected</b>	<b>As Expected</b>	<b>Worse than Expected</b>	<b>Some Better than Expected, some Worse than Expected</b>
Gender	2	1	0	3
Occupation class	3	1	0	2
Specific occupation	0	0	0	4
Medical / non medical occupations	1	0	0	4
Policy size	2	2	0	1
Definition of disability	1	0	0	2
Geographical location of policy holder	3	1	0	2
Distribution channel	1	2	0	1
Other categories not listed above	2	0	0	2

The survey asked companies whether the studied experience was better than expected, as expected, or worse than expected. Some companies reported that their A/E morbidity studies showed that some results within the same category were better than expected and some results were worse than expected, so the last category listed reflects this response that was given. One company indicated that they do perform A/E morbidity studies, but did not report their results. Companies reporting that they performed A/E studies did not study all the categories listed above.

Companies did not study the difference in A/E in morbidity between Medical vs. Non-Medical occupations as widely as we expected, even though the morbidity is monitored for this split by a majority of the companies.

Six companies indicated that they do not perform A/E morbidity studies.

This question was not intended to give an indication of the industry's overall performance. Rather, it was designed to gauge where each individual company saw its experience, relative to its own expectations.



*Experience Studies – Policy Persistency*

Companies were asked about their policy persistency experience relative to expectations. In this context, ‘better than expected’ means that more policies persisted than expected.

	2004		2005	
	In early durations (policy years 1 through 5)	In later durations (policy years 6 and beyond)	In early durations (policy years 1 through 5)	In later durations (policy years 6 and beyond)
Better	7	8	3	3
As Expected	5	4	2	2
Worse	1	1	0	0

For the most part, companies report their persistency experience to be as expected, or better than expected. The growth in inforce premium from 2004 to 2005 tends to reinforce this observation.

One company did not report their policy persistency results. Eight companies had not completed their 2005 persistency studies at the time of this survey.

*Pricing Basis*

Companies indicated their pricing bases as follows:

	Number of Companies Reporting
Statutory	14
GAAP	5
Other	0

Five companies reported that they price on both Statutory and GAAP bases. At the same time, six companies reported that they do not report financial results on a GAAP basis, so they do not price on a GAAP basis. Mutual companies tended not to report financial results on a GAAP basis.



### *Pricing Targets*

Companies reported their pricing targets as follows.

	Number of Companies Reporting
IRR	9
ROE	3
Profit Margin	4
Other	1

Two companies listed their IRR targets of 15%. Most companies did not report their specific pricing targets.

The company reporting 'Other' indicated that they also price to a breakeven year. Three companies reported using more than one pricing target.

### *Pricing Horizon*

Companies were asked about their pricing horizons. Following is a summary of the responses.

	Number of Companies Reporting
10 years or fewer	1
11 – 20 years	1
21 – 30 years	3
31 – 40 years	6
41 – 50 years	0
51 years or greater	0
Product lifetime	2

One company did not respond.

### *Disabled Life Reserve (DLR) Methods*

Several questions on various topics were asked about disabled life reserves.

### *Incurred But Not Reported (IBNR)*

Companies reported the following methods to determine IBNR.

	Statutory	Tax	GAAP
Loss ratio	0	0	0
Percent of premium	3	3	2
Based on Lag Studies	7	7	3
Other method	4	4	4

Under 'Other', companies reported using a percentage of the benefit amount, as well as combinations of loss ratio and percent of premium based on lag studies.



### *Pending Claims*

Companies reported the following methods to determine reserves for pending claims.

	<b>Statutory</b>	<b>Tax</b>	<b>GAAP</b>
Full DLR	6	6	4
% Of DLR	6	6	4
Included in IBNR	2	1	0
Other method	0	0	0

One company did not indicate a method for calculating Tax pending reserves.

### *Litigated Claims*

Companies reported the following methods to determine reserves for litigated claims.

	<b>Statutory</b>	<b>Tax</b>	<b>GAAP</b>
Full DLR	5	5	5
% Of DLR	4	4	4
Included in IBNR	0	0	0
Other method	4	4	4

'Other methods' reported includes: count, based on historical payments, percent of DLR plus a flat amount, and 'varies'.

One company indicated that they do not hold a reserve for litigated claims.

### *Residual Claims*

Companies reported the following methods to determine reserves for residual claims.

	<b>Statutory</b>	<b>Tax</b>	<b>GAAP</b>
Full DLR	4	4	1
% Of DLR	7	7	6
Other method	1	1	1

The company reporting 'Other' determined the DLR for residual claims 'based on recent loss of earnings and benefit period and riders applicable to residual disability'.

Two companies indicated that they do not offer a residual benefit.



*Interest Rate Assumed for Indexed COLA Claims in Calculating DLR*

Companies were asked what interest rate was used to project future benefits for calculating reserves for COLA claims.

	<b>Number of Companies</b>
CPI	2
Fixed Interest Rate	10
Other	1

The company responding 'Other' uses a minimum of the CPI and a fixed interest rate.

One company did not respond to this question.

*Discount Rate Used in Reserve Calculations*

Companies were asked for the discount rates they use for reserves. Following is a summary of the average reported rates.

	<b>Statutory</b>	<b>Tax</b>	<b>GAAP</b>
2004	4.14%	4.86%	5.14%
2005	4.12%	4.55%	5.27%

There was some variation in the discount rate for statutory reserves. One company used 0%, two companies 4.00%, and one company used 4.85% and 4.60% for 2004 and 2005, respectively.

The discount rate for tax reserves varied even more widely as follows.

	<b>2004</b>	<b>2005</b>
4.00% - 4.49%	0	2
4.5%	2	9
4.51% - 5.00%	9	1
5.01% - 5.50%	2	0

One company reported that the discount rate was set by year of claim incurral. One company reported that the 2005 tax discount rate was not yet determined.

Companies reporting GAAP results had the following distribution of discount rates.

	<b>2004</b>	<b>2005</b>
4.00% - 4.50%	2	1
4.51% - 5.00%	1	1
5.01% - 5.50%	2	1
5.51% - 6.00%	0	0
6.01% - 6.50%	0	0
6.51% - 7.00%	1	1



Two companies reported that the GAAP discount rate varied by incurral year or issue year. One company reported the GAAP discount rate varied by policy form.

*Claim Termination Rates for DLR*

Companies were asked what termination rates they use for calculating DLR. Following is a summary of the number of companies reporting that they use the indicated termination rates.

	<b>1964 CDT</b>	<b>1985 CIDA</b>	<b>1985 CIDB</b>	<b>1985 CIDC</b>	<b>Company Experience</b>	<b>Other termination rates</b>
claims in first two years	2	5	1	6	6	1
claims beyond first two years	4	8	1	5	5	1

Several companies reported using different termination rates for different reserves bases. The companies reporting ‘other termination rates’ reported using different termination rates for different benefit periods, and using different termination rates for different blocks of business.

Only one company reported using 1985 CIDB for DLRs. 1985CIDB was not adopted widely when introduced; the more widely accepted reserve standard is 1985 CIDC.

*Termination rates for Own Occ Period*

Companies were asked if they used different termination rates for calculating DLR’s for claimants within their own occupation period and for claimant past their own occupation period.

Eleven companies reported that they did not use different termination rates after the own occupation period. One company reported that they use different termination rates. Two companies did not respond to this question.

*GAAP DLR Provision for Adverse Deviation*

Companies were asked if GAAP DLR assumptions reflected a Provision for Adverse Deviation, and they responded as follows.

	<b>PAD In Morbidity</b>	<b>PAD In Interest Rate</b>
Yes	5	8
No	3	0
N/A	5	5

The companies responding ‘N/A’ do not report on a GAAP basis. One company did not respond to this question.



*DLR Treatment at Claim Termination*

Companies were asked if the DLR is released upon claim termination.

	<b>Number of Companies Reporting</b>
Release DLR Upon Termination	11
DLR Held for an additional period after Termination	3

The companies indicating that a DLR is held for an additional period after termination, reported periods that range from 2 to 12 months after termination.

*Active Life Reserve (ALR) Methods*

Several questions on various topics were asked about active life reserves.

*Adjustment to CIDA if your company uses more than four occupation classes?*

Companies were asked whether they adjust morbidity assumption for ALRs if more than four occupation classes are used.

	<b>Number of Companies Reporting</b>
Use More than 4 Classes, Adjust CIDA	1
Use More than 4 Classes, Do Not Adjust CIDA	7
Do Not Use More than 4 Classes	6

The companies indicating that they use more than four occupation classes and not adjusting CIDA reported that they map their classes to the four CIDA classes.

*Future Purchase Option / Guaranteed Purchase Options in Reserves*

Companies were asked how GPOs and FPOS were reflected in reserves.

	<b>Number of Companies Reporting</b>
Hold Separate Reserve	2
Add Margin to reserves to Reflect Options	4
Establish Reserve when Options are Exercised	6

Two companies did not respond to this question.



*Premium Waiver Period*

Companies were asked about which period was assumed in calculating reserves for premium waiver benefits.

	<b>Number of Companies Reporting</b>
Policy Benefit Period	8
Policy Coverage Period	5
Both	1

The company responding 'Both' indicated that they use either the benefit period or the coverage period, depending on the policy form.

*GAAP Benefit Reserve Provision for Adverse Deviation*

Companies were asked if the GAAP benefit reserve assumptions reflected a Provision for Adverse Deviation, and they responded as follows.

	<b>PAD in Benefit Reserve</b>
Yes	8
No	0
N/A	5

The companies responding 'N/A' do not report on a GAAP basis. One company did not respond to this question.

*Pricing Programs*

Companies were asked what pricing programs they use.

<b>Program</b>	<b>Number of Companies Reporting</b>
TAS	2
PTS	2
AXIS	1
ALFA	2
Internally developed	5

Two companies responded that they use both an internally developed program as well as a purchased program. Purchased programs have been in use for an average of six years.

Two companies did not respond to this question.



*Reserve Valuation Programs*

Companies were asked what valuation programs they use.

<b>Program</b>	<b>Number of Companies Reporting</b>
ARCVAL	4
Polysystems	4
Internally developed	5

Two companies reported that they used both a purchased system and an internally developed system. Purchased programs have been in use for an average of seven years.

One company did not respond to this question.



## Underwriting

### *Distribution of Placement Rates*

Companies were asked about the distribution of issued policies in the following categories.

#### Issued Standard

<b>Range of Reported Standard Placements</b>	<b>Number of Companies Reporting 2004</b>	<b>Number of Companies Reporting 2005</b>
60% - 69%	3	3
70% - 79%	6	5
80% - 89%	3	4
Average	72%	75%

#### Issued with Extra Premium

<b>Range of Reported Standard Placements</b>	<b>Number of Companies Reporting 2004</b>	<b>Number of Companies Reporting 2005</b>
0% - 5%	3	2
5% - 10%	6	7
10% - 15%	2	2
Average	7%	7%

#### Issued with an Exclusion

<b>Range of Reported Standard Placements</b>	<b>Number of Companies Reporting 2004</b>	<b>Number of Companies Reporting 2005</b>
10% - 20%	4	6
20% - 30%	6	3
30% - 40%	6	1
Average	19%	16%

#### Issued with Extra Premium and an Exclusion

<b>Range of Reported Standard Placements</b>	<b>Number of Companies Reporting 2004</b>	<b>Number of Companies Reporting 2005</b>
0% - 5%	9	10
5% - 10%	1	0
Average	2%	%

The overall average distribution in various categories did not change significantly from 2004 to 2005. However, there was a wide variation in the distribution of reported results.



The distribution of Standard placements tended to vary by target market. The companies that targeted white collar occupations had a lower percentage of policies issued standard, and had a higher proportion of policies issued with an extra premium or with an exclusion. The companies that targeted blue collar occupations tended to have a higher percentage of policies issued standard.

Two companies did not report their distribution of placement rates. Two companies did not report the distribution of issues in all categories.

*Wastage Rates*

Companies were asked for the average wastage rates. Wastage is defined as the sum of declined applications, postponed applications, and incomplete applications. Wastage is essentially the number of applications for which some level of processing has been performed that were not issued. Below is average wastage rate for 2004 and 2005.

<b>Range of Reported Wastage Rates</b>	<b>Number of Companies Reporting 2004</b>	<b>Number of Companies Reporting 2005</b>
10% - 19%	4	4
20% - 29%	3	3
30% - 39%	4	3
40% - 49%	0	1
Average Wastage rate	25.0%	25.5%

While the average wastage rate did not change significantly between 2004 and 2005, there was a wide variation in the wastage rate for individual companies

Companies using more specialized distribution channels tended to have lower wastage rates. This may be attributed to more sophisticated field underwriting by knowledgeable producers. Another factor that may contribute to the lower wastage rates among companies that use specialized producers may be more effective management of expectations – IDI coverage is expensive relative to life insurance coverage, and experienced producers may do a better job of easing the ‘sticker shock’.



## Claims

### *Leading Causes of Claim*

Companies were asked to list the top five leading causes of claim for 2004 and 2005. Below are the leading causes of claim, listed in the order of frequency that they were reported by companies.

2004 Leading Causes	Number Companies listing as leading cause	2005 Leading Causes	Number Companies listing as leading cause
Musculoskeletal	10	Musculoskeletal	15
Cancer	9	Cancer	7
Circulatory	8	Back Conditions	6
Back Conditions	6	Circulatory	5
Mental / Substance Abuse	6	Mental / Substance Abuse	5
Injury	4	Injury	4
Pregnancy	1	Miscellaneous	2
Upper extremity	1	Pregnancy	1
Lower extremity	1	Upper extremity	1
Digestive System	1	Lower extremity	1
Miscellaneous	1		
Carpal Tunnel	1		
Genitourinary Disorders	1		

Three companies did not report leading causes of claim.

The listing of pregnancy as a leading cause of claim is surprising. The company reporting pregnancy indicated that these claims were caused by complications related to pregnancy.

### *Open Claims*

Companies were asked for the number of open claims. The number of open claims reported increased a little over 2% from year end 2004 to 2005 as follows.

	2004	2005
Total Open Claims	61,771	63,053

The number of open claims varied as follows.

Range of Open Claims Reported	Number of Companies Reporting
0 - 1,000	3
1,001 - 2,000	4
2,001 - 3,000	1
Greater than 3,000	4

Two companies did not report number of open claims.



### *Litigated claims*

Companies were asked for the number of litigated claims. Following are the total number of litigated claims reported.

	<b>2004</b>	<b>2005</b>
Total Litigated Claims	21	29

Seven companies did not report the number of litigated claims, with most of them citing confidentiality concerns. Among the seven companies that did report the number of litigated claims, the totals were too small to make any meaningful observations.

### *Contestable Claims*

Companies were asked about the disposition of contestable claims. Following is the distribution of outcomes of contestable claims.

	<b>Rescinded</b>	<b>Reformed</b>	<b>Paid as Applied For</b>	<b>Declined</b>
2004	103	26	335	113
2005	114	23	290	83

The responses in each category varied as follows.

#### Rescinded Claims:

<b>Range</b>	<b>Number of Companies Reporting 2004</b>	<b>Number of Companies Reporting 2005</b>
0 – 15	4	6
Greater than 15	2	1

#### Paid as Applied For

<b>Range</b>	<b>Number of Companies Reporting 2004</b>	<b>Number of Companies Reporting 2005</b>
0 – 50	4	5
Greater than 50	2	1

#### Declined

<b>Range</b>	<b>Number of Companies Reporting 2004</b>	<b>Number of Companies Reporting 2005</b>
0 – 50	4	5
Greater than 50	1	1

There was little variation among the four companies reporting the number of reformed claims.

Seven companies did not report the outcome of contestable claims. Several companies did not report results for all categories. One company only reported results for 2005.



### *Claims Staff*

Companies were asked about the number of claims examiners. Staffing levels increased by 8% from 2004 to 2005 as follows.

	<b>Number of Companies Reporting 2004</b>	<b>Number of Companies Reporting 2005</b>
Total Reported Staff	173	188
Average	16	17

Staffing levels varied widely by company, tracking with the number of open claims reported. Three companies did not report staffing levels.

The number of examiners varied as follows.

<b>Range of Examiners</b>	<b>Number of Companies Reporting</b>
1 – 25	9
Greater Than 25	2

### *Caseload*

Companies were asked about the average caseload per examiner. The average number of claims per examiner increased by 4% from 2004 to 2005. The caseload varied as follows.

<b>Range of Claims per Examiner</b>	<b>Number of Companies Reporting 2004</b>	<b>Number of Companies Reporting 2005</b>
1 – 100	4	4
101 – 150	2	2
Greater than 150	3	3
Average caseload	99	103

Note that some companies split out caseload for permanent / later duration claims vs. active / early duration claims. Non can writers reported lower caseloads than GR writers. This may be a function of the larger size of claims, as well as increased complexity of adjudicating own occ claims.

Five companies did not report caseload statistics.



## Administration

### *Organization of Reinsurance Administration*

Companies were asked how the reinsurance administration function is organized. Most companies have a centralized department responsible for reinsurance administration.

	<b>Number Companies Reporting</b>
Centralized	11
Decentralized	2

One company did not report on this item.

### *Employees Involved in Reinsurance Administration*

Companies were asked how many employees are involved in reinsurance administration. Companies have an average of 4 employees involved in reinsurance administration. Companies did not report a wide variation of the number of employees involved in reinsurance administration. Companies reported staffing levels that ranged from 2 to 6 employees. This staffing level for this function does not seem to vary with the size of the book of business. The level of experience varies tremendously, with experience ranging from 1 year to 35 years

One company did not report their reinsurance administration staffing level.

### *Policy Administration System*

Companies were asked several questions about their policy administration system. Most companies developed their policy administration systems internally.

	<b>Number Companies Reporting</b>
Purchased	4
Developed internally	8
Both	1

When purchased, companies have used the system for an average of 16 years. When developed internally, companies have used the system for an average of 23 years.

Among the companies that purchased their policy administration system, there was no common product purchased. The systems purchased are: ID3, CFO, LifePro, and LIDP. One company had originally purchased their system, and then subsequently modified it internally to suit their needs.

All companies report that they have a business continuity / disaster recovery plan.



### *Reinsurance Administration System*

Companies were asked several questions about their reinsurance administration system. Most companies have developed their own reinsurance administration systems.

	<b>Number Companies Reporting</b>
Purchased	3
Developed internally	9

When purchased, companies have used the reinsurance system for an average of 5 years. When developed internally, companies have used the system for an average of 15 years. Purchased systems include TAI and HG-RE.

Two companies did not report whether their reinsurance administration system was purchased or internally developed.

Eight companies reported having a business continuity / disaster recovery plan specifically for their reinsurance system. Two companies reported they did not have a plan specifically for their reinsurance system, but rather that it was a part of their overall disaster recovery plan. One company reported not having a plan for the reinsurance system. Three companies did not respond to this question.

When asked whether there is a plan to replace or modify the reinsurance system, six companies responded 'yes', three companies responded 'no', one company reported that their reinsurance system was recently upgraded, and four companies did not respond.

### *How Policy Administration System Feeds Data to Reinsurance Administration System*

Companies were asked how data is transmitted from the policy administration system to the reinsurance system, and here are the responses.

	<b>Number Companies Reporting</b>
automatic feed	6
feed with some manual processing	5
Fully manual	1

Two companies did not report on this question.



## Reinsurance

### *Reinsurance for IDI*

Companies were asked if they currently reinsure their IDI product. Most companies have reinsurance for some portion of their IDI portfolio.

	<b>Number Companies Reporting</b>
Currently Reinsure	10
Do not reinsure	1
Do not reinsure new policies, but have reinsurance on previously issued policies	3

### *Reinsurance Arrangements*

Companies that reinsure their IDI were asked about the type of reinsurance arrangement they have. Among the companies reinsuring new business, the majority of arrangements are Excess.

<b>Arrangement</b>	<b>Number of Companies Reporting</b>	<b>Average Retention</b>
First Dollar Quota Share	7	41%
Excess	10	\$3,833

Four companies reporting excess arrangements have a different retention for long term benefit periods (i.e., T65) and short term benefit periods (i.e., 2 year or 5 year). Five companies with excess arrangements reported retention levels of less than \$4,000, and five companies reported retention levels of \$4,000 or more. GR companies tended to have lower retention levels.

Companies with quota share arrangements reported retention levels that ranged from 20% to 50%.

Six companies reported having more than one reinsurance arrangement to cover different products, so the total here exceeds the total number of companies that participated in this survey.

