

Why LTCI carriers must prioritize data & analytics

How AI technology and third party data can reduce risk and improve capital reserves for long-term care carriers

US long-term care insurance (LTCI) providers are facing significant challenges in the market today.

Despite a slight slowdown in claims due to COVID-19 and policyholders trying to stay out of long-term care facilities, low interest rates are creating a particularly challenging market environment. Carriers are realizing that the premium runway on their blocks of business is running short, and changes are inevitable if they're going to maintain their books in the long run. With billions in liabilities in the massive LTCI market, and many claims still to come, this is a significant challenge to overcome.

Current LTCI headwinds



Heightened claims



Aging inforce blocks



Brand reputation of LTCI products



Low interest rates

There are two key ways carriers can reduce capital and improve policyholders' lives through AI technology and third party data:

- 1 Use data to identify at-risk policyholders and optimize the best approach to reduce claims exposure and improve policyholder lives.**
- 2 Use data to identify the best option between re-rating, benefit reduction, and surrender value in order to improve profitability and increase capital reserves.**

A major challenge facing LTCI carriers today and in the years to come is the increasing need to predict claims, but figuring out how to engage with customers pre-claim without stimulating claims is difficult. Strategic use of AI technologies and third party data can help, but first the industry must overcome a historic aversion to change.

In a recent webinar, Montoux CEO Geoff Keast was joined by Nick Gerhart, Chief Innovation Officer at Homesteaders Life Company and ex-Insurance Commissioner for the state of Iowa, and Vince Bodnar, Oliver Wyman Partner and Long-Term Care Practice Leader, to discuss these opportunities in detail.

Why adoption of third party data and AI has been low in long-term care, and how to address it.

To begin to gain the benefits and opportunities that come with increased digital capabilities, third party data-driven insights, and AI technologies, carriers have work to do - and it needs to happen soon.

In current market conditions, carriers are pressured to meet the demands of today, preventing them from allocating the proper bandwidth and resources to consider the opportunities of tomorrow. But the market has evolved considerably in recent years. There are solutions, new technologies, and datasets available to carriers today that weren't present five years ago.

While claims have taken a brief dip during COVID-19, LTCI carriers should seize the opportunity to adjust their course and their attitudes towards AI technologies and third party data specifically. There's significant value to be found, some of which could go a long way towards addressing the major challenges facing these carriers today.

By gaining a deep understanding of what types of customers are likely to claim and when, carriers can better inform policyholders about their LTC needs and work with them to find the best approach; one that is both capital efficient and helps them to live a better life. **Without knowing which types of customers are likely to claim, LTCI carriers invest resources, capital and effort in policyholders that may not have immediate need and miss opportunities to proactively respond to those that do.**

Data and predictive modeling helps identify which customers are likely to claim and when, creating much more targeted interventions.

Advanced data and analytics can help LTCI carriers to:



Predict the types of customers who will claim and when



Better inform policyholders about their LTC needs



Work with policyholders to find the best approach for their needs, which is also capital efficient for the carrier

In addition to looking at different technology and data solutions, carriers should begin reaching out pre-claim to get customers LTC prepared and supported to identify what needs they might have to help them remain in home, or leverage community support. This is in the best interest of both parties, and carriers have a responsibility to ensure their policyholders have all the information they need to make the most informed decision about this important step in their lives.

"There's a common goal between policyholders and carriers: prolonging healthy aging so that they can age at home as long as possible," explains Vince. "Building this understanding and providing good information and support to policyholders is the right way to do this."

What are the risks of implementing data analytics and wellness based programs?

As carriers begin exploring new data and technology solutions, it will be critical that they do so with the end customer in mind. Communicating and demonstrating how these investments impact both the business and the customer positively is not only an important part of building strong customer relationships, but ensuring regulators are clear on how data is being used.

As Nick points out, regulators are looking closely at the financial side of carrier activity, but they are more likely to view new activities positively if they are completely clear on how these actions benefit the customer and help them to get the most out of their policy. Vince explains how this is particularly true when interacting with customers pre-claim.

"If you can invest in areas that help the policyholder closer to claim by providing information about the most cost efficient and preferable place of care, you can have a big impact on claim reserves," says Vince.

"Carriers need to consider ways to engage consumers and incentivize them to learn and educate themselves. It's paramount that consumers better understand their support options."

"Insurers have an obligation to learn what drives policyholders into homes and whether it's the right choice or because they feel there's no other choice."

All this points towards a need to balance customer and financial value, communicating with the right customers at the right time with information that's clear and helpful during an otherwise stressful time.

"Carriers need to consider ways to engage consumers and incentivize them to learn and educate themselves. Gamification could be one approach. Whatever it might be, it's paramount that consumers better understand their support options," explains Nick.

In order to make sure carriers are investing in the right technologies and datasets, however, they must put in some work. Carriers will need to do their research and be prepared to invest the time and resources required to find the right fit for their needs. This includes exploring any options that already exist in the market, particularly partner solutions and third party vendors addressing business challenges specific to the carrier. Where these solutions can be implemented successfully, carriers can save themselves a significant amount of time and resource investment.

"If I were running a LTCI business, I would set aside money to invest, knowing that you might have to try a few things to make one thing work," says Vince.

It might not be a slam dunk right away, but carriers that take the time to go through this process thoughtfully will reap the rewards in the years to come. It's also an important step towards ensuring everything is compliant with regulations.

Regulators are keeping pace with Big Data and AI, it's vital LTCI providers work collaboratively with them.

Nick's experience in regulation has shown him that use of data and AI are vital issues that will define the industry for the next fifty years.

In the past few years, regulators have worked to strike a delicate balance with regards to data use and AI technologies. If regulators are too close to the insurers, they leave little room for innovation. But straying too far from the front lines of innovation means an increased risk of negative conduct that has serious consequences for customers. Industry regulators are continuing to work to encourage meaningful innovation while also controlling conduct.

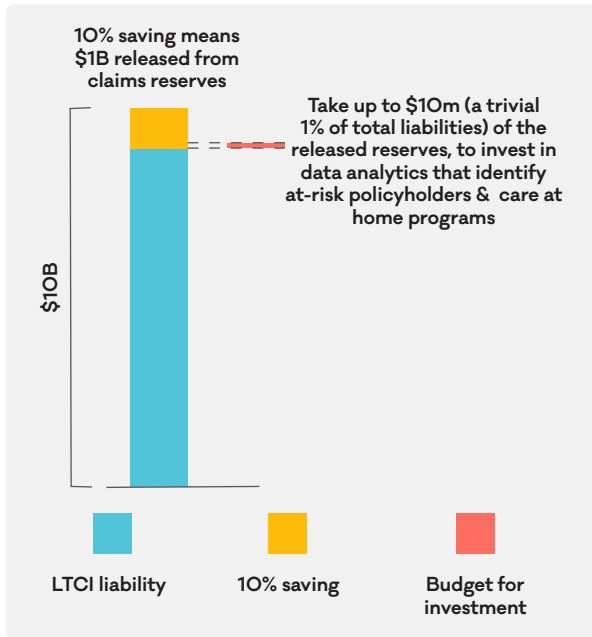
The way to begin integrating new solutions and technologies across an LTCI carrier's business is to work closely with regulators in an approach that's both transparent and trusting. This is particularly true when dealing with new technologies that have an inherent risk regarding personal data usage, like the risk biased datasets.

"Regulators need to be on top of discrimination, proxy discrimination and the use of black boxes to find insights. Current providers use excel spreadsheets that go down 37,000 lines. No human will know exactly what is taking place in those situations but if you are an actuary you should have an idea and same with the underwriter. The answer cannot be 'the model made me do it.' You need to be able to speak in an informed way to regulators," emphasizes Nick.

Bringing it to life: how do carriers encourage buy-in for the use of data-driven decisions across the organization?

Developing a strong and trusting relationship with customers and regulators is a vital backdrop to innovation in LTCI carriers, but it's not the only one. There are a number of steps carriers can take in order to ensure their business and teams are prepared and optimized to take on new technologies. This includes preparing their teams for the possibility that these initiatives may not perform as expected the first time around. Part of this involves committing to an innovation budget.

"The carriers I know that are working on setting aside a budget for innovation - they've done the math. If a carrier has a 10 billion dollar liability and can save 1% of it, that's worth \$100 million dollars. So if you take 10% of the 100 million, you have 10 million dollars to finance your initiative."



“The carriers I know that are working on setting aside a budget for innovation - they’ve done the math,” says Vince. “If a carrier has a 10 billion dollar liability and can save 1% of it, that’s worth \$100 million dollars. So if you take 10% of the 100 million, you have 10 million dollars to finance your initiative.”

Securing money outside of operating budgets ensures that, as the year progresses, the money is not removed if expenses need to be cut. It also provides a powerful incentive for members of the organization to contribute their ideas, time, and resources towards creating meaningful change and innovation. This is, after all, the next piece of the puzzle: getting the talent involved.

Carriers that commit to creating an environment where people feel free to collaborate and share ideas from different backgrounds and areas of the business are best prepared to take advantage of the opportunities that present themselves.

Ensuring people aren’t afraid to get fired for an error and being willing to learn what not to do,

cut the loss, and pivot is an important process to meaningful innovation in any industry, including LTCI.

Vince explains, “Part of innovation is learning what not to do, you just need to recognize mistakes for that and move on quickly. Support from the top is important, but it’s essential that bottom up innovation is possible because those are the people doing most of the work. It’s also important to recognize partnering as an option - it’s ok to bring in the people who do this every day. Do what you do really well, and then partner with best in class services to do the other stuff.”

Those carriers that push past the initial innovation challenge will reap rewards across their business and have the opportunity to move the business towards operating leaner, smarter, and faster in the years to come.

Want to continue the conversation?

If you are a long-term care insurer who recognizes that data and analytics are key to unlocking value for the future of your business, get in touch at info@montoux.com.

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