

## GUIDELINES FOR ACTUARIAL PRACTICE IN GROUP TERM LIFE INSURANCE

(Adopted 2000)

### 1. INTRODUCTION

The guidelines recommended herewith are based on the application of the Principles and Methodologies in the practice of Group Insurance Underwriting and Pricing in the Philippine life insurance industry.

The set of recommendations was prepared by the Ad-hoc Committee on Group Pricing of the Actuarial Society of the Philippines (ASP), and is a compilation of the combined experience of the Group actuarial practitioners in the ASP.

### 2. PRINCIPLES OF GROUP SELECTION

In preparing the Guidelines, the following principles were observed:

- 2.1 The group to be insured is composed of persons that have been organized for a purpose other than to obtain group insurance.
- 2.2 There is a steady flow of persons in and out of the group, as to achieve stability in the risk that is being insured.
- 2.3 A minimum participation requirement is imposed to minimize anti-selection and achieve a greater spread of the risk.
- 2.4 The amount of benefits is determined not by individual selection. It may be uniform or based on one of the factors inherent in the group, such as, salary, years of service, employment rank, amount of indebtedness or pre-need price.
- 2.5 The insurance cost is shared by averaging premiums for all ages of persons belonging to the group.
- 2.6 The administration of the group insurance plan is done by one person or organizational unit of the employer, association, or pre-need company, to achieve efficient collection of premiums and personal data from the persons insured.
- 2.7 The group to be insured is not generally required to be individually subject to medical examination or other evidence of insurability, except for individuals with large amounts of insurance cover, with ages beyond set limits, or for those classified as belonging to a non-standard risk class.
- 2.8 One single master insurance policy contract covers the entire group and it is issued to the policyholder, which may be the employer, association, or creditor, of the persons insured. However, individual group insurance certificates are issued to each person covered.
- 2.9 Although generally renewable yearly, group insurance contracts are considered of continuing nature whereby the plan may outlive individual members.
- 2.10 Premiums may be subject to experience rating at the end of each term when adjustment in renewal premium and/or experience refund are/is determined.

### 3. DEFINITION OF TERMS

- 3.1 Evidence of Insurability (EI). This may be a Health Declaration (short health questionnaire) or a Long Medical Questionnaire. It may also be a simple or comprehensive medical examination and/or medical procedure, and is required depending on the amount of insurance.
- 3.2 No Evidence Limite (NEL). Also called free cover limit, this is the maximum amount of insurance cover for an individual below which no evidence of insurability is required from that individual to be accepted into the group.
- 3.3 Non-Medical Limit (NML). This is the maximum amount of insurance cover for an individual for which submission of a simple Health Declaration or a Long Medical Questionnaire is sufficient compliance. Above this limit, the individual is required to undergo a medical examination.
- 3.4 Closed and Open Groups. A closed group refers to a group wherein individuals to be covered by insurance are subject to a rigid criterion such as employment. An open group refers to a group wherein individuals to be covered by insurance are subject to less rigid criteria such as membership in an association, or as debtor in a creditor group life insurance, or as planholder of a pre-need company.

### 4. UNDERWRITING GUIDELINES

#### Initial Underwriting

- 4.1 The following are the information generally considered in the underwriting of group term insurance: type of group (closed or open), age, industry class, gender, amount of insurance, employment status, employment classes, years of service, and some evidence of insurability such as a Health Declaration or Long Medical Questionnaire. For individual members of the group whose amounts of insurance exceed the NEL or NML set by the company in accordance with its underwriting policy, the standards for individual underwriting shall apply.
- 4.2 To achieve a reasonable spread of risk, the amount of benefit is determined in an automatic manner that precludes a member from selecting against the company.
  - 4.2.1 For closed groups, the amount of benefit is a uniform amount or a multiple of annual salary, or an amount based on employment rank or years of service, whereby the levels are of a reasonable relationship to the compensation levels for each category.
  - 4.2.2 For open groups, the amount of benefit is a uniform amount or an amount based on indebtedness, pre-need price, depositors' account balance, equities in provident funds, etc. The amount of insurance cannot be freely chosen by the insured member.
- 4.3 The level of Non-Medical Limit and/or No-Evidence Limit is set such that it bears a reasonable relationship to the risk inherent in the group, whether open or closed.

- 4.4 All the members in employee groups that are to be insured must be actively-at-work (as defined by the insurer) at the effective date of the insurance.
- 4.5 For contributory plans, enrollment must be within a prescribed period from date of eligibility. Otherwise, evidence of insurability is required.

#### Renewal Underwriting

The following are guidelines for underwriting group term life insurance at renewal date:

- 4.6 The minimum number or the minimum proportion of the group of persons to be covered is still satisfied at renewal time.
- 4.7 The membership in the group coverage must be updated using a report of the new entrants and terminations during the previous period.
- 4.8 The benefit schedule must be updated, if necessary.
- 4.9 Underwriting and eligibility requirements must be reviewed and updated based on the group claims experience.
- 4.10 The premium rate must be verified for adequacy after considering the changes required in the actuarial assumptions and other factors in pricing.

#### Reinsurance

- 4.11 In situations where amounts of insurance are beyond retention limits and maximum acceptance limits as defined in the reinsurance agreement, facultative reinsurance cover must be arranged.
- 4.12 In arranging for appropriate reinsurance cover, catastrophic hazards involving two or more deaths in a single event must be considered.

#### Underwriting Guidelines for Open Groups

While an open group may qualify as one composed of persons that were not organized to obtain insurance but for some other purpose, the underwriting standards for closed groups should be modified and adapted for each specific type of open group.

- 4.13 A minimum participation requirement should be specified as that consistent with what was assumed in the pricing.
- 4.14 Lower underwriting limits than closed groups are generally provided to open groups. In general, coverages are not issued on a No-Evidence basis.
- 4.15 A higher average age is generally expected from open groups.

- 4.16 Individual underwriting is generally very limited in open groups.
- 4.17 Credit Life policies covering debtors are also bound by guidelines for open groups.
- 4.18 For a pre-need group, the following are some suggested underwriting and pricing guidelines:
  - 4.18.1 For pre-need groups, the coverage is normally expressed as a function of some pre-determined amount provided in the plan, such as the pre-need price or the maturity value. The maximum amount must be verified so that the coverage for each plan does not exceed the maximum amount limit set in the group term insurance policy. The insured members in pre-need groups are individually solicited; thus it is advisable to have lower maximum limits in the amount of insurance than the limits for closed groups.
  - 4.18.2 A higher estimated average age than that assumed for an employee group should be used to take into consideration the difference in the composition of a pre-need group of insured planholders.
  - 4.18.3 Other underwriting information for employee groups, such as employment class, employment status and other underwriting safeguards like an actively-at-work proviso are for practical reasons, not applicable to pre-need groups. Thus underwriting requirements will have to be more rigid.
  - 4.18.4 In the pricing of the group term insurance for pre-need planholders, additional elements of cost must be taken into consideration, considering the diverse membership of a pre-need group. The requirement to issue individual certifications to pre-need planholders is an important element of cost.
  - 4.18.5 In the regulation of securities by the SEC, more disclosure is required, hence a group insurance contract with a set of terms and conditions specific to pre-need must be prepared. The following Guidelines issued by the Insurance Commission for Group Yearly Renewable Term Insurance covering pre-need should also be given due consideration in drawing up the group insurance contract, and in allocating cost of administration of this particular group.
    - 4.18.5.1 The term “Policyholder” whenever used in the group policy shall mean the pre-need company as custodian of said policy.
    - 4.18.5.2 The life company shall issue to the pre-need company for delivery to each planholder an individual certificate setting forth a statement as to the insurance protection to which he is entitled, to whom the insurance benefits are payable, and the rights set forth in paragraphs (h), (i), and (j) of Section 228 of the Insurance Code.
    - 4.18.5.3 The planholder shall bear the entire cost of his group insurance.
    - 4.18.5.4 The proceeds shall be payable to the designated beneficiary of the planholder in the event of his death.

## 5. CLASSIFICATION OF GROUP ACCOUNTS

- 5.1 New Accounts. These are groups that have had no prior group insurance program.
- 5.2 Transfer Accounts. These are group accounts that have had prior group programs whether insured or self-insured. These include take-over accounts, where the insurance company that has taken over adopts the terms and conditions of the previous contract in its entirety.
- 5.3 Renewal Accounts. These are yearly renewable group insurance contracts that are already with the life insurance company, and are due for renewal.

## 6. PRICING CONSIDERATIONS

- 6.1 When pricing group insurance, distinction should be made in the pricing assumptions between refunding and non-refunding accounts.
- 6.2 Pooling and experience rating concepts may be applied to groups with low credibility, e.g., less than 1,000 members per group. The experience of groups with high credibility may be considered self-sufficient for pricing purposes.
- 6.3 The minimum gross premium for New Accounts must consider the net risk premium plus all applicable taxes and adequate loadings. An appropriate mortality table, either a published standard table or one arising from the company's own mortality experience, shall be used to estimate the net risk involved.

Expense loading assumptions should be based on an expense study applicable to the experience of the company or of companies with comparable experience.

Premium tax, documentary stamp tax, municipal tax and other annual taxes shall form part of loadings for expenses.

Maximum interest rate, if used in pricing, is 6%.

Because of the disproportionately high documentary-stamp-tax rate of P2.50 per P1,000 of the amount insured, some companies decide on spreading this one-time tax charge over a period of five years. The insurance company is thus subject to the risk of inadequate expense loading for taxes paid, in case the group insurance contract is terminated before the end of the five-year period.

- 6.4 Additional or reduced mortality, and/or occupational loadings may be considered in the pricing if appropriate to the profile of the group, and justified by prior years known experience.
- 6.5 For Transfer and Take-over accounts, the claim experience of the account should be the basis for pricing, subject to adjustment, using credibility factors, and any changes in the terms and conditions of the existing group insurance contract, as approved by the Insurance Commission.

- 6.6 For Renewal accounts, net premiums are usually based on the expected mortality of the group as indicated by actual claims experience. A credibility factor depending on size, risk profile of the group, type of coverage, and other relevant characteristics of the group, may be applied. If revisions in the group contract are contemplated, the actuary is advised to evaluate the effects of the revisions on all the elements of pricing.

7. **RESERVES IN GROUP TERM INSURANCE**

- 7.1 Reserves are determined on a group basis, and are computed from data that have been verified to be complete and correct to the best extent possible.
- 7.2 Among the reserves to be set up are unearned premium reserves, reserves for due and unpaid claims, claims in course of settlement (ICOS) and incurred but not reported claims (IBNR), reserves for experience refunds, reserves for extended disability or waiver of premium benefits, and reserves for conversion options, if any are provided in the contract.
- 7.3 Certain provisions in the reinsurance agreement are considered in setting up the insurer's reserves.
- 7.4 Changes in age and projected claim trends are factors that are considered in the valuation of claim fluctuation reserves.

8. **LEGAL AND REGULATORY REQUIREMENTS**

The actuary shall make sure that the group master insurance policy contract, individual insurance certificates, application forms, and other forms to be used are approved by the Insurance Commission. The actuary shall coordinate with a lawyer in the preparation of the group insurance contract if no applicable contract already previously approved can be used for the group to be insured. The applicable provisions of the Insurance Code must be followed.