

Insurance Basics

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What is Insurance?

- "Insurance" is a risk management tool
- It involves the transfer of risk from one party to another for compensation
- The concept of insurance is based on the Principle of Indemnity
- An insured should not benefit financially beyond the value of the loss

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Insurance Policy

- An insurance policy represents the legal contract between the insurer and the insured
- A policy states what is covered under the policy, the coverage limits, any conditions that the coverage is subject to, and any exclusions

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Benefits of Insurance

- Provides financial security, or “peace of mind”
- Reduces uncertainty
- Reduces and prevents financial losses
- Satisfies legal requirements (auto insurance)
- Satisfies business transaction requirements (home insurance necessary to secure loan)



Claim Costs

- Cost of claims are driven by frequency and severity
- Frequency = the number of claims filed in a given time period
- Severity = the amount (or cost) of the claim
- The length of time needed to settle a claim will also affect the cost
- Some claims are easily valued and settled quickly (auto collision) while others may take decades to fully manifest (auto medical)
- Claims that are settled and closed quickly are referred to as “short-tail losses” while claims that take a long time to close are referred to as “long-tail losses”



Claim Costs cont.

- Insurers use statistical probability and historical loss experience to calculate the expected frequency and severity of claims in an effort to accurately predict their anticipated losses.
- Insurers then spread these anticipated losses amongst all of their policyholders and charge policyholders a premium sufficient to cover the insurer’s anticipated costs.



Risk

- Risk Pools
- Larger risk pools are generally more stable and improve predictability
- Insurers calculate risks using a variety of factors, including historical loss experience and the hazards presented by the items being insured and the individuals seeking the coverage
- Coinsurance, deductibles, and co-pays are all forms of cost-sharing
- Cost-sharing is used to promote responsible behavior by insureds and mitigate an insurer's risk exposure which helps to reduce premiums for policyholders

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Pricing of Policies

- Insurance companies agree to assume risk based on the probability that the total amount of premiums they collect from policyholders will exceed the total amount of claims that they must pay in any given year
- Policies are priced to reflect an insurance company's anticipated exposure to risk
- Anticipated exposure to risk is based on a variety of factors including, but not limited to, previous experience, type of item being insured, policyholder behavior, and physical environment
- An insurer's ability to accurately predict a loss plays an important role in pricing

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Pricing of Policies cont.

- As a general rule, anything that increases or decreases an insurer's cost of providing insurance will be reflected in the policyholder's premium.
- When the cost of providing a particular *type* of coverage becomes too great, an insurer may cease to provide the coverage entirely or pull out of a particular market. Individuals must then seek this coverage through a "surplus lines," or "excess," insurer.
- When a particular type of coverage becomes unavailable to a specific *individual*, that individual must then seek the coverage on the secondary, or "residual," market (e.g. Auto Insurance Placement Facility).

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Reinsurance

- Insurance for insurance companies
- Insurance companies purchase reinsurance to help offset losses in the event of a catastrophic claim.
- Reinsurance helps to ensure that companies remain solvent and able to pay policyholder claims



Regulation

- Regulated at state level
- States enforce laws passed by Congress and state legislatures
- States regulate insurance:
 - Rates
 - Policy forms
 - Market conduct
 - Solvency
 - Individual licensing
 - Insurer licensing



Regulation cont.

- National Association of Insurance Commissioners (NAIC)
 - Encourages states' cooperation, collaboration and coordination
 - Drafts model laws and regulations
 - Has no direct regulatory authority



Property & Casualty

Commercial

Products purchased by businesses that are designed to address business risks.

- Commercial Auto
- Commercial Property
- Workers Compensation
- Comprehensive General Liability

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Property & Casualty

Commercial (cont.)

- Product Liability
- Directors and Officers
- Professional Liability
 - Policies specific to profession
 - Errors and Omissions
 - Medical Malpractice
 - Builders/Contractors
 - Architects/Engineers

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Property & Casualty

Personal

Personal, family or household purposes

- Home
- Auto
- Umbrella
 - Liability over and above auto and homeowners

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Home Insurance

- Insurance for a person's residence
- Home insurance means
 - Fire insurance
 - Other insurance intended to insure nonbusiness property, obligations, and liabilities that is contained in or endorsed to a fire insurance policy
- Most common coverage forms
 - HO-2
 - HO-3
 - HO-4
 - HO-6

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Home Insurance (cont.)

- Coverage
 - Dwelling
 - Appurtenant structures
 - Contents
 - Additional living expenses
 - Liability
 - Medical payments

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Home Insurance (cont.)

- Additional coverages
 - Personal property endorsements (floaters)
 - Water and sewer backup/sump pump failure
 - Flood
- Residual Market
 - Michigan Basic Property Insurance Association

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Auto Insurance

- No-fault
- Mandatory coverages
 - Personal Protection Insurance (PIP)
 - Property Protection Insurance (PPI)
 - Residual Liability Insurance (RBI)
- Optional coverages
 - Collision
 - Comprehensive
 - Mini-Tort
 - Uninsured/Underinsured Motorist (UM/UIM)
 - Towing/Road Service

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Auto Insurance (cont.)

- Legislatively created entities related to auto insurance
 - Michigan Automobile Insurance Placement Facility (MAIPF)
 - Michigan Assigned Claims Plan (MACP)
 - Michigan Automobile Theft Prevention Authority (ATPA)
 - Michigan Catastrophic Claims Association (MCCA)

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Essential Insurance Act

- Unique to Michigan
- Rating
- Underwriting
 - Definition of "eligible person"
 - Underwriting eligible persons
- Group v non-group

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Health and Life Insurance The Basics

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The Nation's Healthcare Dollar: Where It Came From

Source	Percentage
Private health insurance	33%
Medicare	20%
Medicaid (federal, state and local)	16%
Other third party payers and programs	8%
Government public health activities	3%
Investment	6%
Out-of-pocket payments	12%
VA, DOD and CHIP	4%

Source: Center for Medicare and Medicaid Services, 2012

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Health Insurance

Individual

- 2013 Data
 - Premium- \$605 Million
 - 244,607 MI Insureds

Small Group

- 2013 Data
 - Premium- \$2.5 Billion
 - 571,283 –MI Insureds
- Purchase coverage through your employer
- 1/1/2016, definition of small employer, 100 or fewer FTE employees
- 1 to 50 employees is the current definition of small employer

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Health Insurance

Large Group- Insured

- 2013 Data
 - Premium- \$7.4 Billion
 - 1,652,477 – MI Insureds
- Purchase coverage through your employer
- 1/1/2016, definition of large employer, 100 or greater FTE employees

Large Group- Self-Insured

- 2013 Data
 - 3,814,393 – MI Insureds

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Health Insurance

Regulation

- Regulated by DIFS
 - Individual, Small Group & Large Group (insured)
- Self-Insured
 - Financial requirements- DIFS
 - Regulation by Dept of Labor

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Government Health Insurance

Medicare

Veterans Health Care Program

Medicaid

- Medicaid
 - Healthy Michigan
 - New Program 4/1/14
 - Enrollment: 546, 807
- MICHild

Administer/Regulation

- Medicaid
 - Administered by DCH
 - DIFS regulates the HMOs who write Medicaid

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Affordable Care Act & Market Reforms

Market Reforms

- Removal of lifetime/annual limits on health benefits
- Young adults can stay on parents plan until age 26
- Guaranteed Renewability
- Preexisting Conditions Allowed



Affordable Care Act & Market Reforms

- **Maximum Out of Pocket**
 - For 2016, Out-of-Pocket Maximums are \$6850 for individuals and \$13,700 for families.
- **Copay**
 - The fixed portion you pay for medical service
- **Deductible**
 - A set yearly amount you have to pay towards health services before your insurance begins
- **Coinsurance**
 - The portion you pay for service calculated as a percent of the total billed amount




Essential Health Benefits

Ambulatory patient services	Prescription drugs
Emergency services	Rehabilitative and habilitative services and devices
Hospitalization	Laboratory services
Maternity and newborn care	Preventive and wellness services and chronic disease management
Mental health and substance use disorder services, including behavioral health treatment	Pediatric services, including oral and vision care (pediatric oral services may be provided by stand-alone plan)



Essential Health Benefits, Cont.

- All individual and small groups must comply
- Large groups have option
 - Must comply with all provisions if offered
- Preventive Services
 - No cost sharing
 - Services such as well-child visits, flu shots, ...

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Mental Health Parity & Addiction Act (MHPAEA)

- Effective MI 1/1/14
- Financial requirements (such as co-pays, deductibles) and treatment limits (visits) no more restrictive than medical / surgical benefits
- All individual and small groups must comply

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Metal Tiers

- On and Off Marketplace must be assigned to one of four metal tiers or be classified as catastrophic.

Levels of Coverage	Plan Pays On Average	Enrollees Pay On Average* <i>(in addition to the monthly plan premium)</i>
Bronze	60%	40%
Silver	70%	30%
Gold	80%	20%
Platinum	90%	10%

*Based on the aggregate cost under the plan when benefits are provided to a standard population. This may not be the same for every (or any specific) enrolled person.

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Health Insurance Marketplace (Exchange)

- On Marketplace, Michiganders may:
 - Compare qualified health plans
 - Enroll in individual health coverage
 - Qualify for subsidy, if eligible
 - Find out if eligible for other programs like Medicaid or MICHild
- On Marketplace, Small Business may:
 - Compare qualified health plans
 - Enroll in SHOP health coverage
 - Be eligible for federal tax credits
- 2015 Enrollment
 - Enrollment 304,679 (as of 1/30/15)
 - 88% qualify for subsidy

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Life Insurance

Michigan has

- Premium - \$3.8 Billion

Markets

- Individual
- Group

Products

- Whole Life
 - Guaranteed cash value & death benefit
 - Withdraw funds/loan
- Universal
 - Life insurance & tax deferred account
 - Withdraw funds/loan
- Term
 - Coverage for specified period of time
 - No cash value
- Accelerated Death Benefits
 - Pays a portion of face amount prior to death
 - Qualifying event such as medical condition

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Life Insurance

Contract Language Requirements

- Spell out tax implication of Accelerated Death Benefit
- Allow conversion of group life to individual plan after termination of employment
- Discretionary Clause not allowed
 - Unilateral interpretations by company on its own language
- Claimants have up to 6 years to bring a legal challenge

Michigan - International Role

- Port of Entry
- Several US branches of Canadian insurers considered domestic insurers

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