Comments for the Center for Economic Justice

To the Market Analysis Procedures Working Group

Proposed Disability MCAS Ratios

April 19, 2019

CEJ offers the following recommendation regarding Disability MCAS ratios. We suggest the current proposed single complaint ratio – number 4 – be broken out to the following three ratios.

- Complaints relating to individual policies to number of lives covered under individual policies
- Complaints relating to group policies to number of lives covered under group policies
- Complaints relating to group policies to average number of group policies in force during the reporting period

We suggest it is reasonable and necessary to develop complaint ratios separately for individual and group products because a ratio combining the complaint experience will lead to unreliable results that are not comparable across companies.

With individual policies, if the policyholder wants to register a complaint, it will be filed with the insurance department, producer and/or insurer. (For purposes of the ratios, we ignore the possibility of a complaint to another regulatory agency or third party organization – like the Better Business Bureau.)

With group policies, the employer or the group organization is the policyholder and the individual insureds are the employees or group members to whom a certificate has been issued. In addition to the possibility of filing a complaint with the insurance department or insurance company, a certificate holder may also file the complaint with the employer or group administrator. In such a scenario, a significant number of certificate holders might encounter the same issue and complain to the employer or group administrator, who then files a single complaint about the common issue to the insurance company.

So, if, say, 20 individual policyholder were to file complaints about the same issue to the insurer, that would be reported as 20 complaints. If 20 certificate holders were file complaints about the same issue to the employer or group administrator and the employer or group administrator files a complaint about that common issue to the insurer, the insurer would report 1 complaint.

In addition, we suggest that individual and group products are sufficiently different to expect different complaint frequencies. We expect a higher frequency of complaints for individual policies because the insured is more actively engaged with the policy administration (application, underwriting, billing, coverage) than a certificate holder is with a group policy as the group policyholder makes many of the decisions that an insured under an individual policy is required to make.

If we accept that the reasonable frequency of complaints is greater for individual policies than group policies, then it is necessary to develop separate ratios for individual and group. To illustrate, suppose that the average expected frequency of complaints for individual policies is 4%, and for group policies is 1%. (For purposes of this illustration, the difference between the individual and group claim frequencies is relevant, but the absolute value of complaint frequencies is not).

Company A sells only individual policies and has a complaint frequency of 4%

Company B sells only group policies and has a complaint frequency of 1%

Company C sells only group policies and has a complaint frequency of 4%

In our example, Companies A and B both have an average number of complaints. But because Company A sells individual and Company B sells group, Company A appears to be an outlier compared to company B. Company C, which sells only group, is an outlier, but compared to Company A, does not appear as an outlier.

If, after a few years of experience, individual and group product complaint frequencies are the same, the ratios can be simplified. But, initially, the more refined ratios are necessary to identify whether there are significant differences in complaint frequencies – as expected – between individual and group products.

Finally, complaint frequencies for group products should be generated on the basis of both covered lives and average policies in force. To illustrate, assume companies D and E both have complaint ratios calculated on the basis of policies and both have 100 group policies in force and both have a 1% complaint ratio. But company D has 50,000 covered lives while company E has 5,000 covered lives. In this example, company E is producing a much higher frequency of complaints per covered life than company D. While this piece of information alone is not dispositive, it is very useful to supplement and interpret the related ratios.