Actuaries Summit
get involved, get ahead
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Actuaries Institute

Funeral Cover – Is there another way?

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What is Funeral Cover?

- Simple, guaranteed issue
- Low sums insured ($5-$20k)
- Provides cover many people would not have otherwise had

→ Some concerns have been raised in recent times

→ Need for this cover will likely continue to grow

Overview

What are the major concerns?

What are the options to address them?

Is anything sacrificed in doing so?

Common Concerns

Funeral Insurance - Common Concerns

- Premium becomes less affordable with time
- Get nothing back if you cancel your cover
- Too expensive – "better off putting your money in the bank"
- Can end up paying more in premium than the final benefit received

So…

…would you recommend this to your family?

Options

Options

- Product Modifications & Alternatives
  - Premium type
  - Underwriting
  - Additional benefits - "Bells & Whistles"
  - Contract Terms
  - Caps & Surrender Values
- Distribution
  - Segment (Who?)
  - Channel (How?)
- Communication

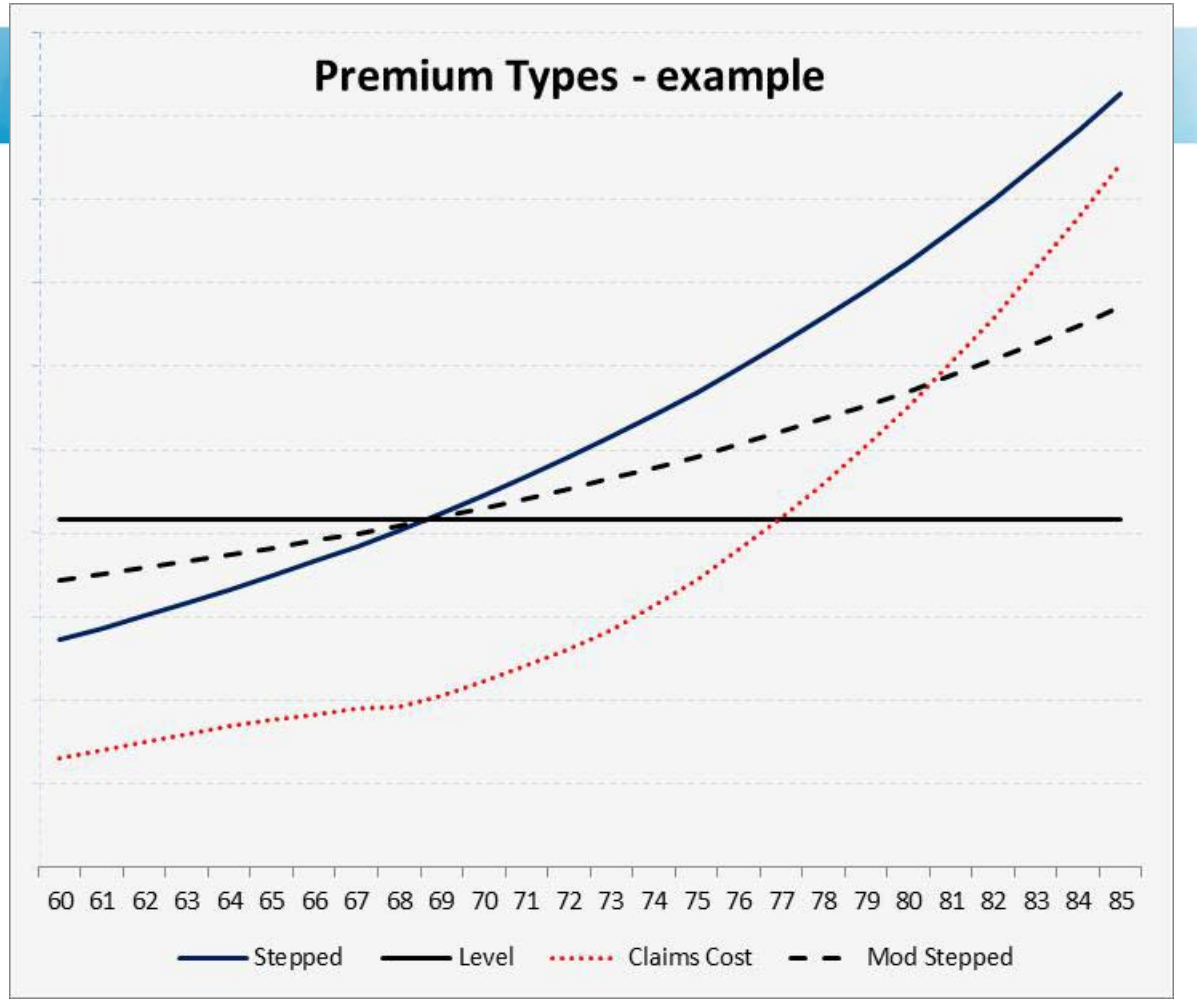
Product Modifications

Product Options – Premium Type

- Stepped

- Level Premium
  - Matches better with income of consumer
  - Lapse risk in tail
  - More expensive (particularly at outset)

- "Modified Stepped"
  - Premium depends on age & duration
  - Idea is to flatten out premiums, reduce tail lapse risk
  - Similar to "loyalty bonus" on normal stepped


Premium Types - example
60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85
Stepped
Level
Claims Cost
Mod Stepped

- Age 60, Male

Product Options – Underwriting

- Types
  - PEC
  - Short Form
- Options
  - Load
  - Exclusion
  - Extend accident only period
  - Separate product
- Need to consider costs of administering

Product Options – Additional Benefits

- Free Cover Period

- Higher benefit on accidental death
  - Increases claims cost by up to 10%

→ Weigh up marketing benefits v costs

Product Options – Contract Terms

- Lapses in early years are high
  - Up to 40% in 1st year

- Longer lock-in period
  - Eventual need to meet funeral costs is certain
  - 2 year contract
  - Contract for Life (eg Prepaid Funerals)?

Product Options – Caps & Surrender Values

- Premium cap or cease at a particular age (eg 90)
  - Still receive nothing on earlier lapse
  - Pay more in earlier years vs non-cap

- Surrender value
  - Return x% of premium
  - Saving + Insurance
  - High cost feature

Product Options – example

- Age 60, Male
- $5000 cover
- Alternative - 50% return of premium on lapse

Type	Premium p.a.	Pay until age	Payout on early Death	Payout on early Lapse
Standard Funeral Insurance	250	90	Full	None
Alternative Funeral Insurance	320	90	Full	Some
Funeral Bond (by installments)	250	77	Some	Some

Distribution Alternatives

Distribution – Current

- TV/Direct Mail
  - Over 50% of products still marketed by mail (Rice Warner Direct Life Report 2012)

- High Cost
  - More than half the premium can relate to distribution costs

→ Controls on distributor payments & loss ratios?

Distribution – Segment

- Key segment is Pensioners/Retirees
  - Hard to reach market → need focus

- Other forms of Life insurance for younger people
  - Can buy Funeral Cover from age 18
  - More likely with younger ages to have premium > benefit

Distribution – Other Channels

- Online
  - Social media, cross-sell insurance/banking/health
  - Market to children of elderly

- "Group" cover – eg Super
  - Target those in retirement/draw-down phase
  - Low balance trigger
  - Extend existing default/voluntary cover ages

Summary

Summary

- **There are ways to address the concerns**
- **Consider the cost & marketability of these alternatives**
- **Key is communication with consumer groups/advisers/public about all the possible outcomes and alternatives**
  - Actuaries on talkback radio??