

Group Insurance – The industry response

LIWMPC

8 April 2015

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Agenda

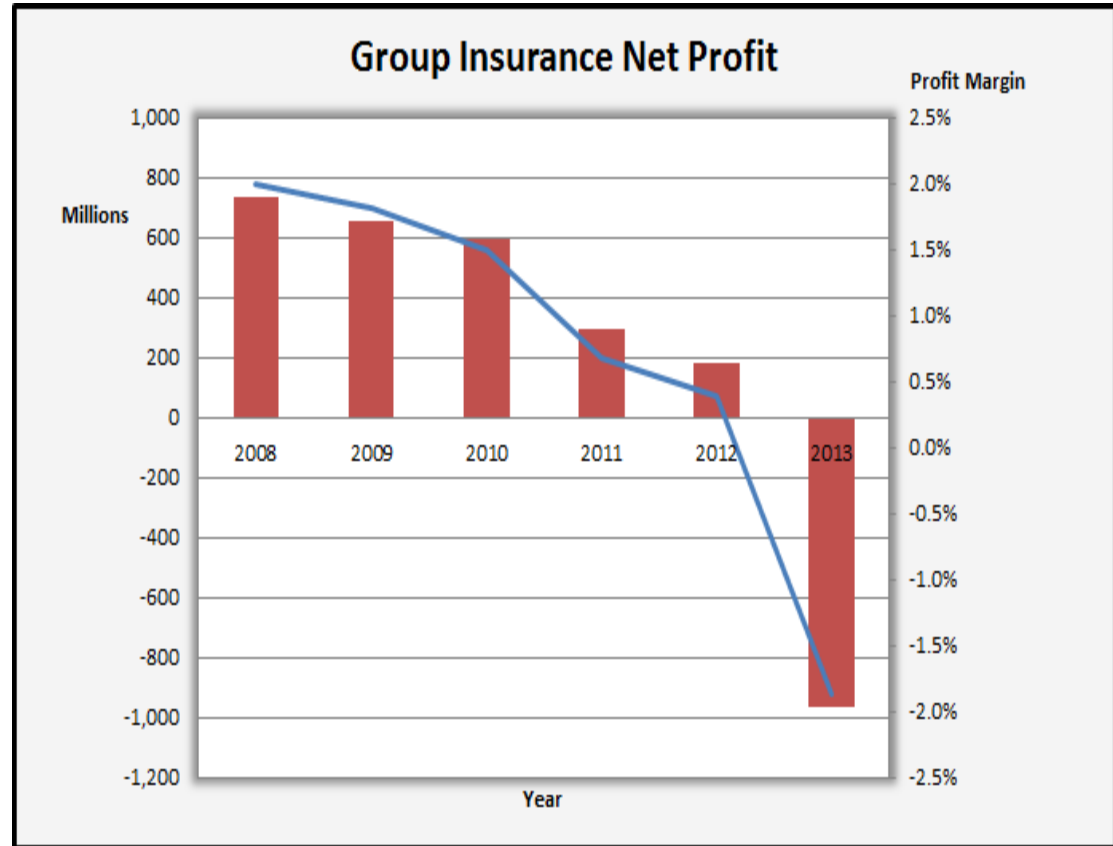
- Richard Land – Overview and trustee issues
- Damian Thornley – Sustainability
- Richard Weatherhead – Australian Super case study
- William Cone – Risk Management, Partnerships and Transparency
- Panel discussion and Q and A

Overview and Trustee Issues

RICHARD LAND

A year or two ago...

- Large industry losses¹
- Lack of capacity
- One year rate guarantees
- Loose eligibility and definitions encouraging anti-selection
- Concern from APRA²



¹ APRA Quarterly Life Insurance Performance Database – December 2014. Profits are for Group Disability Income Insurance and Group Lump Sum Risk

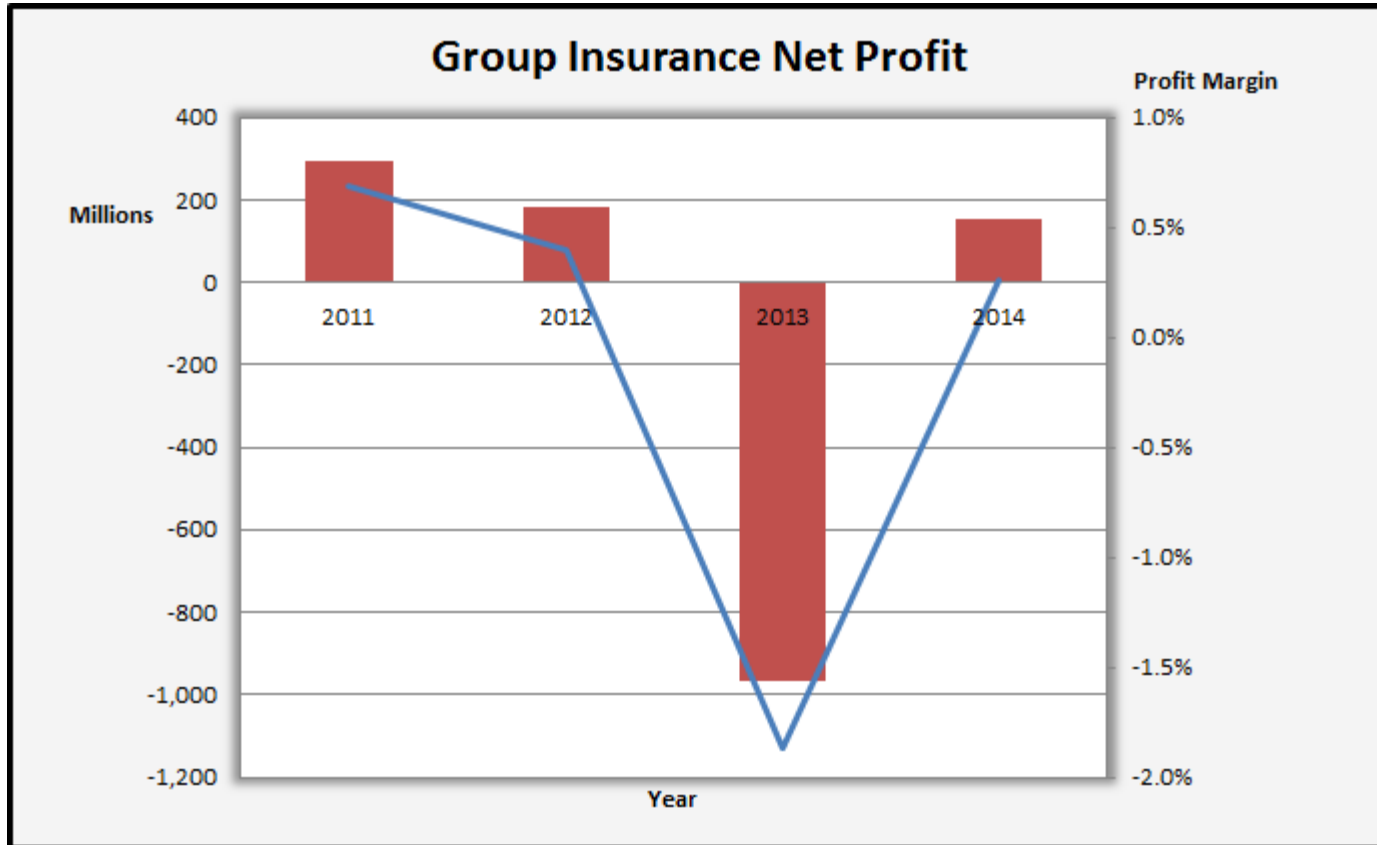
² e.g. APRA Insight, Issue 3 2013

The industry response so far...

- Price increases
- Disability Definitions
- Limited cover
- An exit (Zurich)
- Some new reinsurers (Partner, Arch, SCOR, Pacific)

and...

... a year of improved profitability!!



Still a lot to be done.

Trustee Issues...

1. Act in interests of ***all*** members

2. Affordability... “not to inappropriately erode the retirement income of beneficiaries³”.
 - Insurance “needs” vs retirement readiness
 - Based on averages and membership data segmentation

³ SIS section 52(7)(c)

Trustee Issues...

3. Benefit design
 - Life cycle needs
 - Cross subsidies

Trustee Issues...

4. Definitions vs SIS permanent incapacity

- SIS 1.03C: ***unlikely*** that the member will engage in gainful employment for which the member is ***reasonably qualified by education, training or experience***

VS:

- in the ***opinion of the insurer,***
- ***as a result of the disability***
- ***unable to ever...***
- advice of ***medical practitioner***
- ***retraining?***

Trustee Issues...

How justified?

- SIS section 68AA(3): “reasonable conditions”
- SIS section 68AA(4): Conditions are reasonable “if they are the same as the terms and conditions of the policy of insurance taken out to provide the benefit”

Trustee Issues...

5. Insurance partnerships / insurer selection
 - SPS250 para 23:
 - Arm's length selection
 - In members' best interests
 - Need for transparency
 - Understand the IBNR calculations
 - How much profit is reasonable
 - Testing the reinsurance market

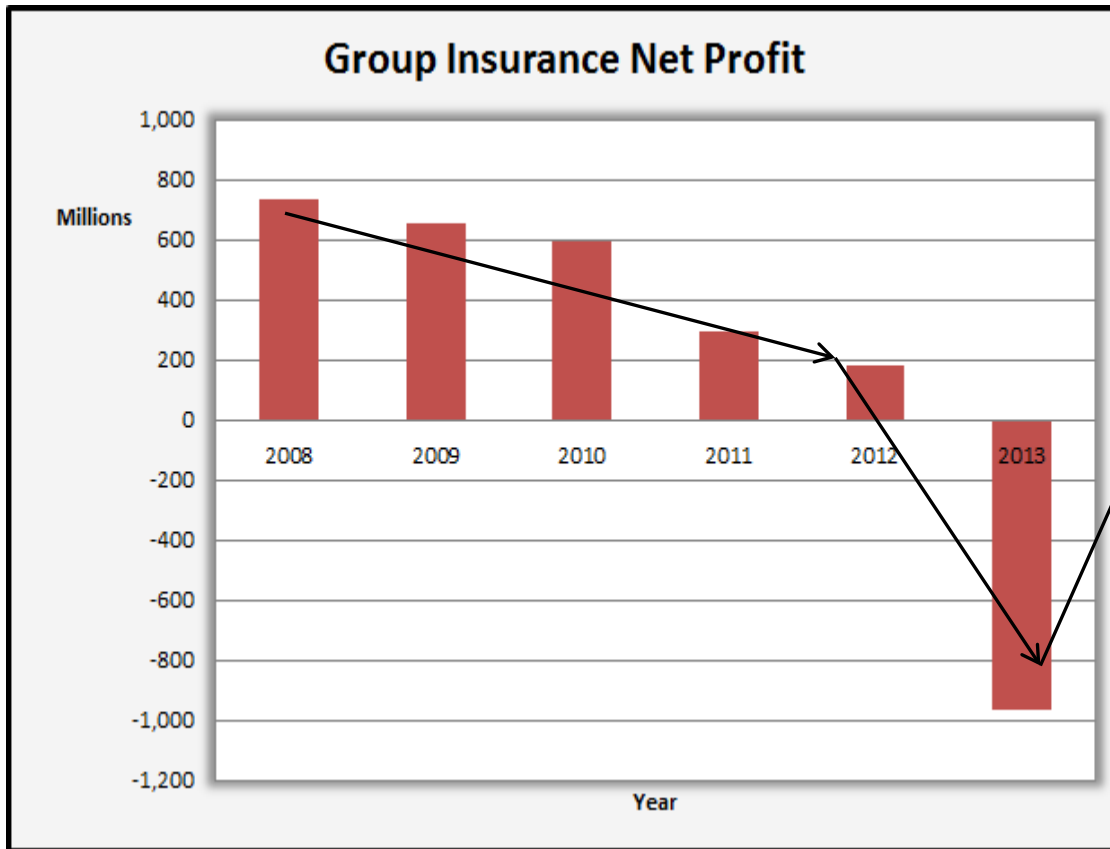
Sustainability

DAMIAN THORNLEY

Group Insurance Insights - Sustainability

- What is sustainability?
- Sustainability – linked to objectives of Group Insurance
- TPD / Work is Good
- Reinsurance capacity

What is not sustainable....

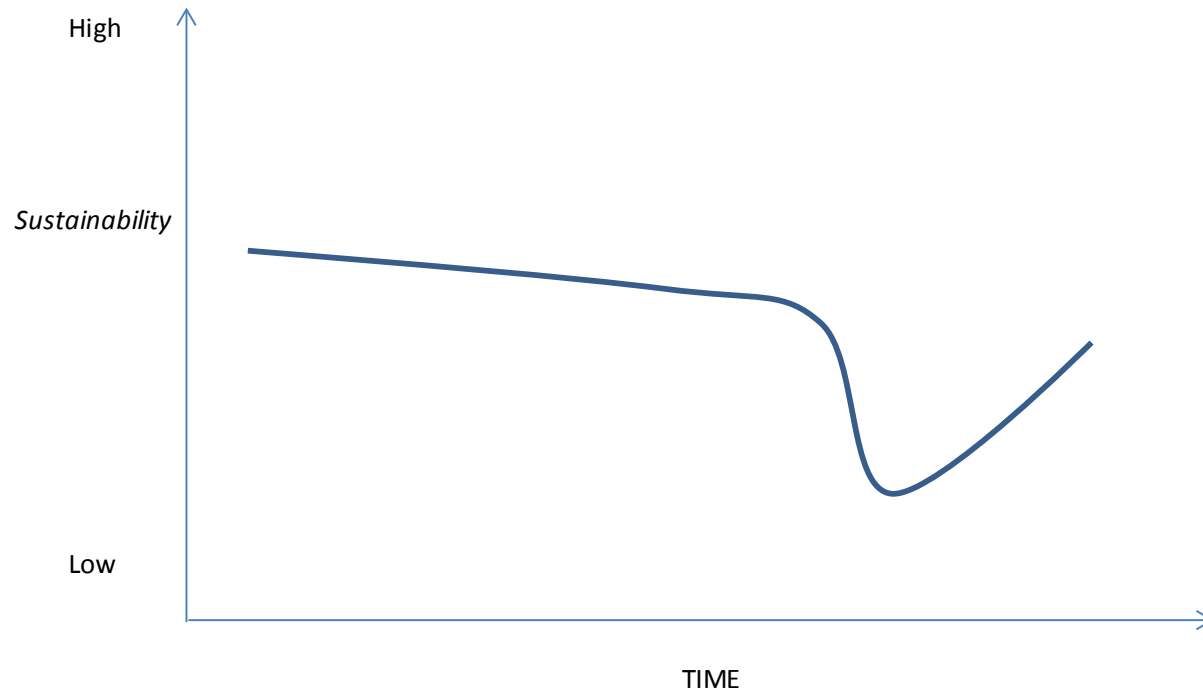


(Source: Richard Land presentation)

What is sustainable ?

- Promoting a set of insurance policies, procedures, management practices that expect to give rise to a stable claims experience across the medium term.
- Having particular regard to the principles of what is an Insurable risk
 - Fortuitous
 - Frequency & magnitude must be assessable
 - Circumstance of loss capable of definition
 - Must not be excessive exposure to loss (beware accumulations)
 - Premium must be affordable
 - Insurance must not threaten the public interest
 - *(Hart, Buchanan & Howe, "Actuarial Practice of General Insurance")*

Sustainability as a flow concept



Pricing sustainability: Group pools versus Retail pools

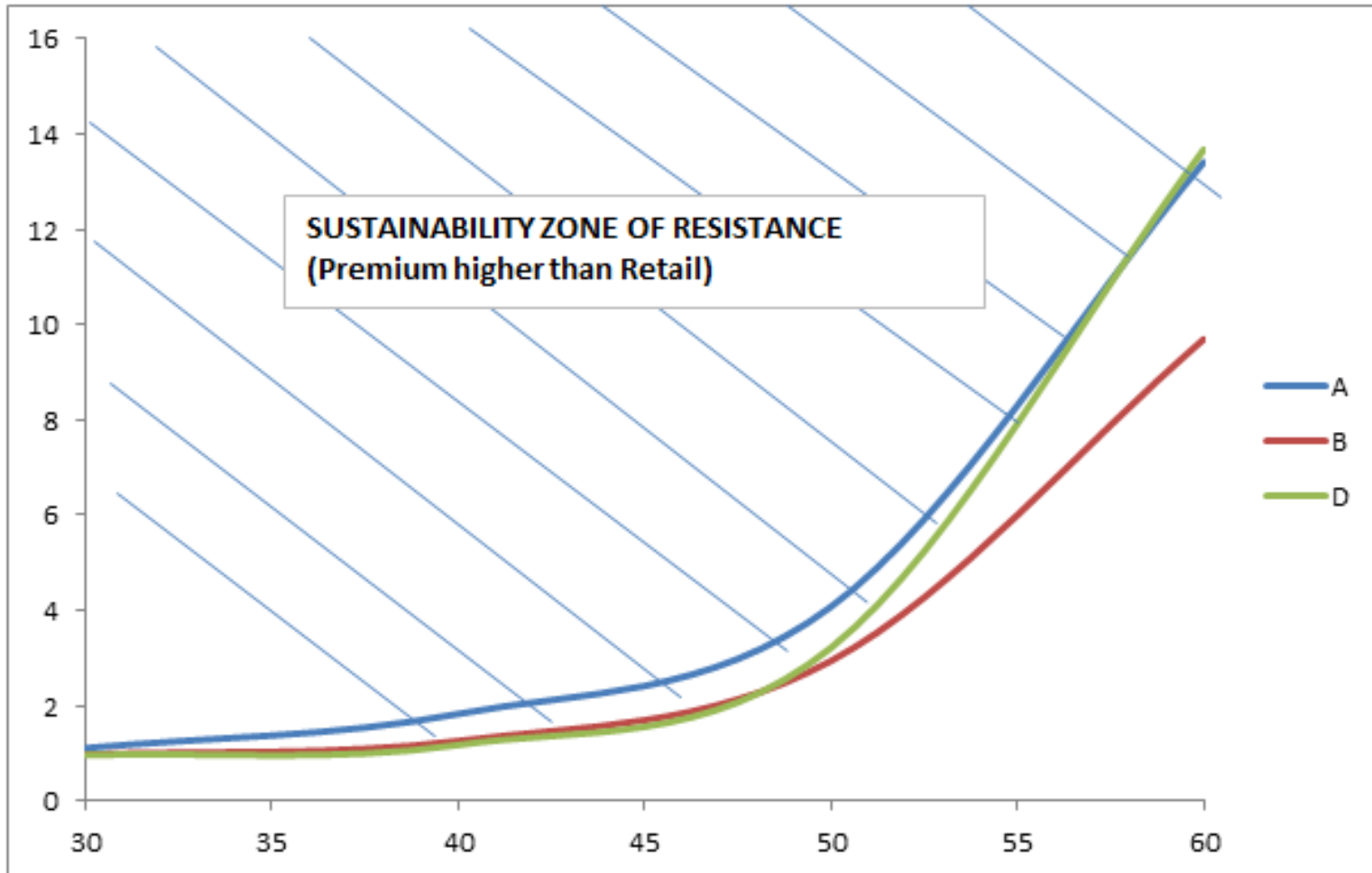
DTPD Rates per mille (Source: Retail, RiceWarner Comparator)

ANB	Fund A	Fund B	Retail D, MNS
30	1.1	1.0	1.0
40	1.8	1.3	1.2
50	4.1	2.9	3.2
60	13.4	9.9	13.7

Fund A, B all large Australian Super Funds with > 1m Members. Selecting white collar rates where available

Retail D - representative Retail Insurance rates (per mille)

Sustainability boundary is being tested



Sustainability - Purpose of Group Insurance

- Intended to be a hand-up, not a handout
- Income vs Lump Sum
- Providing a modest level of cover
- Affordable level of cover that doesn't erode retirement balance

TPD

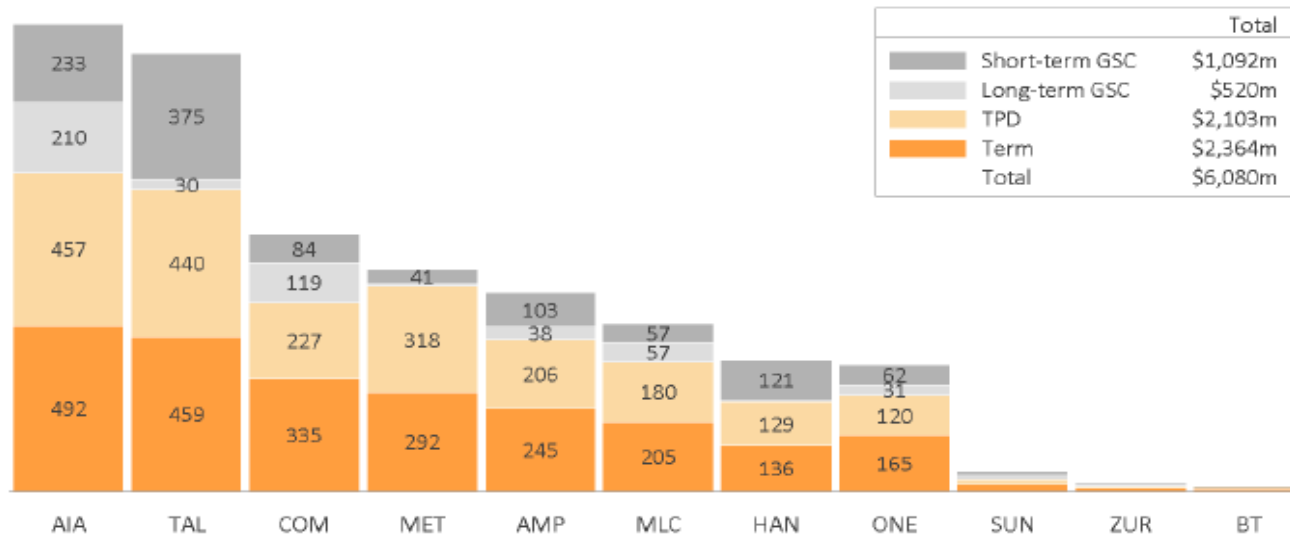
Benefit does not mesh with “Work is Good”

- Need reduce TPD cover down to a low multiple of salary
- Dichotomous outcomes - \$0 or \$ large
 - Moral hazard
- Incentive NOT to return to work
- Makes claims management very difficult
- Definitions no longer “Total” and “Permanent”
- Experience has proven that TPD is not achieving the Insurer / Fund objectives that we set out above (Return to Work)
 - Work is Good, medically proven
- Remaining disability assessment should focus on IP

Market capacity

Reinsurers willing to deploy capital to accept risks on terms that are acceptable

In-force premium by insurer and product type
31 Dec 2014



Gen Re	3%
hannover re	4%
Munich RE	21.7%
PACIFIC LIFE RE	20.8%



5.2%	8.6%	8.7%	5.5%	1.0%
RGA	0.3%	1.6%	0.3%	0.2%
SCOR	0.4%	0.3%		



A case study... Australian Super

RICHARD WEATHERHEAD

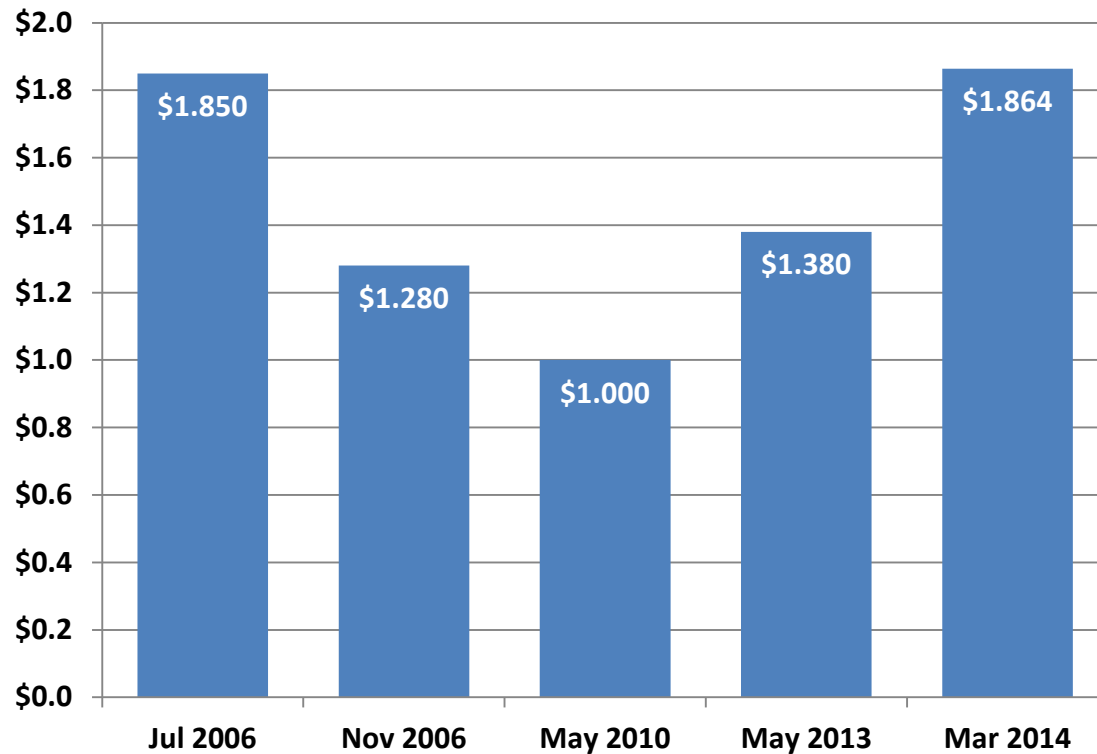
AustralianSuper

Some background on AustralianSuper

- 2.1 million member
- 1.3 million insured members
- Default death, TPD and Income Protection
- Three pillars of insurance
- Internal claims assessment team

AustralianSuper - Volatile prices

AustralianSuper weekly premium for 1 unit of death and TPD cover



AustralianSuper

- What happened?
 - Significant increase in disability claims
 - Lengthening reporting times
 - Increased lawyer involvement
- What caused it?
 - Product design
 - Increased awareness of cover
 - Evolution of the employment market and emerging social/health trends?
 - Some impact from increased unemployment in more recent years

AustralianSuper

AustralianSuper response

- Long term partnership
- Deep dive analysis of all risks and allocation of risk
 - ❑ The membership is the ultimate underwriter of claims experience
- Re-examination of what service we are providing
 - ❑ Insurance and insurability are important to members
- Product design changes

AustralianSuper

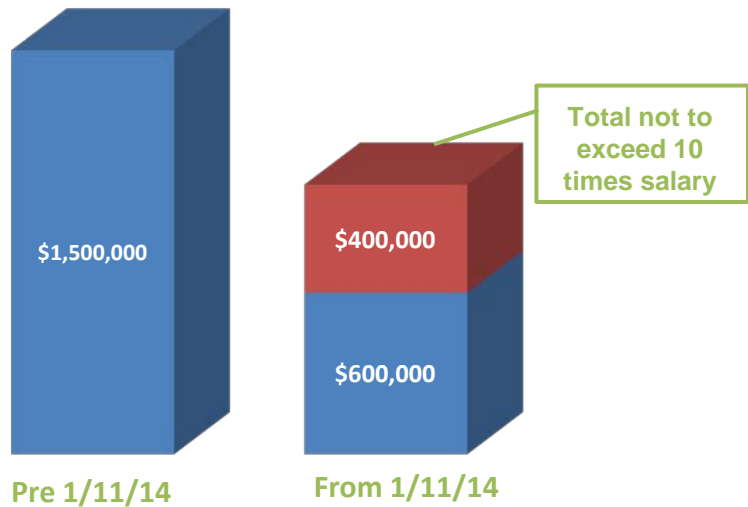
AustralianSuper response

- Change the foundations – agreement to align the interests of members, the insurer and the reinsurer through a new, long term partnership
- Benefit design* – default member aged 40:
 - ❑ Old: \$124,200 death, \$124,200 TPD, \$3,000 per month Income Protection
 - ❑ New: \$165,600 death, \$41,400 TPD, \$2,500 per month Income Protection
- Dial up on joining:
 - ❑ Old: Up to \$1,500,000 death/TPD, \$20,000 per month IP at any time with no questions asked
 - ❑ New: Up to \$600,000 death/TPD, \$10,000 per month IP at any time with no questions asked
 - ❑ New: Additional cover with short health questions or underwriting

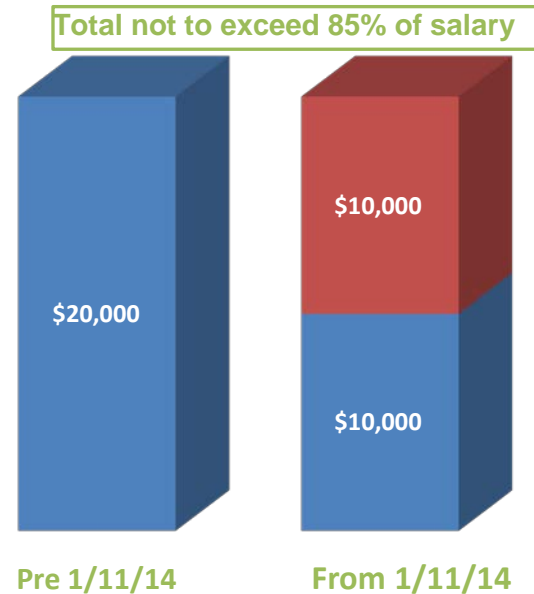
* Industry Division

AustralianSuper - Dial-up cover on joining

Death and TPD



Income Protection



- Once off dial-up with no health checks
- Once off dial-up must be within 120 days and subject to a short health questionnaire.

AustralianSuper

AustralianSuper response (Cont.)

- On risk rules – the key underwriting tool
 - Active employment test
 - Risk control questions
- TPD definition
 - Unable to incapable
 - Assess based on all the evidence available to the time we carry out our assessment
 - Member is not considered TPD if they refuse to engage in *reasonable* rehabilitation
- IP definition
 - One income producing duty to all income producing duties (20% threshold)
 - Member is not considered TD or PD if they refuse to engage in *reasonable* rehabilitation
- Rehabilitation (William)
- Others are moving too: MLC MasterKey, MTAA and more in the pipeline

AustralianSuper – What Next?

- Claim process! (William)
 - ❑ The way we handle claims is really important to members a key moment of truth
- Working with employers
- Rehab service
- Product design – further examination of income v lump sum benefits
- Alert to legislative, social and employment trends:
 - ❑ DisabilityCare
 - ❑ McClure Report
- Revolution in data capture and leverage - SPS250 (e.g. Offsets by type) (William)

Risk Management, Partnerships and Transparency

WILLIAM CONE

Partnerships and Transparency

- Is everything back to normal for insurers?
- Responses in partnership with group clients
 - Risk management
 - Data and pricing
 - Sustainability of terms
 - Claims service

Is everything back to normal?

- APRA statistics show recent return to profitability for the group insurance industry.
- Testing market conditions and deteriorating claims experience not over yet (for insurers):
 - Recent APRA reported profit margins fairly low for group lump sum and still negative for group DI
 - Weaker Australian employment and investment conditions
 - Potentially further claim increases due to member awareness and solicitor involvement
 - Reinsurance capacity still reduced
 - Future demographic changes

Risk management

- Explicit identification of risks
- Encouraged by APRA LPG270 which provides guidance on good practice risk management and specifically identifies some potential pricing risks
- Leading to:
 - Consideration of whether to proceed or accumulation of multiple risks in one scheme is too great
 - Greater discussion and choice of mitigating measures
 - Transparency with clients
 - Improved Actuarial advice

Data and Pricing

Data and pricing:

- Increased demand for data
- Increased focus on quality of data
- Analysis of experience by a broader range of factors
- Trend identification
- Improved pricing techniques, including more use of recent claims development and recent claims experience

Sustainability of terms

Discussion of tightening of terms or limiting size of benefits with funds:

- Eligibility terms, definitions among most significant
- Others terms discussed in the Australian Super example
- Court rulings

Claims Service

- Focus on rehabilitation for disability claims
 - Both dedicated rehabilitation staff and as BAU consideration for standard claims assessors
 - Must be a partnership between the claimant, employer and insurer
- Expect greater automation of claims process to
 - Speed notification of claims to the insurer
 - Stream line process for claimants to enter details
 - Assess complexity of claim case
 - Assign claims to most appropriate assessment team member

Panel Discussion and Q & A