Disability Income
The Price is Not Right. Nor is the Product.

Note: This pack was used for 2 March & 3 March sessions, and has a few updates from the pack used on 17 February.

17 February, 2 March, 3 March 2015
Brad Louis, Wallace Lee, Alex Threlfall, Graham Kelly
### Agenda

<table>
<thead>
<tr>
<th>Where is The Industry At Today?</th>
<th>Brad</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insights</td>
<td>Wallace</td>
</tr>
<tr>
<td>DI product – a new direction</td>
<td>Alex</td>
</tr>
<tr>
<td>Barriers to action</td>
<td>Brad, Graham</td>
</tr>
<tr>
<td>Q &amp; A</td>
<td>All</td>
</tr>
</tbody>
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Where is the industry at today?

![Industry Quarterly Profit for Retail DI Graph]

Source: APRA Quarterly Life Insurance Performance
Where is the industry at today?

Retail DI New Business
Premiums Rate Changes 2008-2013

Source: Rice Warner
Where is the industry at today?

Retail DI New Business
Premiums Rate Changes 2008-2013

Source: Rice Warner
Where is the industry at today?

Restrictive Product Changes 2009-2014

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Where is the industry at today?

Desired New Business Profit Margin

New Business Profit Margin

Source: APRA Quarterly Life Insurance Performance
Where is the industry at today?

Target Loss Ratio 50% - 35%
MRA INSIGHTS
Insights from IAD 89-93?

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Foundation of the MRA Table

**MRA Investigation**
- Covers 70% of the market
- 10 year analysis
- Credible data volumes
  - 19,321 incidences &
  - 15,616 terminations

**Drivers**
- Age (& Claim duration)
- Claim cause
- Waiting period
- Occupation
- Gender
- Others

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INSIGHT 1:
Sickness incidence increases by policy duration

Policy Duration - Sickness (no.)

A:E (MRA Table except Pol Dur.)

≈55%
INSIGHT 1:
Sickness incidence increases by policy duration

Policy Duration - Sickness (amt)

≈100%
INSIGHT 2: Accident incidence increasing
INSIGHT 3:
No systemic change in termination experience

Year 1 Claim Duration by Year

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INSIGHT 3:
No systemic change in termination experience

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DI PRODUCT – A NEW DIRECTION
Opportunity in the disability market

Language

Value proposition

Policy terms

≈35% reduction in claim costs
BARRIERS TO ACTION
Disability Income: The Price is Not Right. Nor is the Product.

<table>
<thead>
<tr>
<th>A 20%-35% Price Rise Is Not A (Big) Surprise</th>
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<tbody>
<tr>
<td>Changes Since 2008 We’ve Known About</td>
</tr>
<tr>
<td>Product “Enhancements”</td>
</tr>
<tr>
<td>Underwriting “Improvements”</td>
</tr>
<tr>
<td>Interest Rate Movements</td>
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<tr>
<td>15% - 20%</td>
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<tr>
<td>Changes Since 2008 We May Not Have Known</td>
</tr>
<tr>
<td>Accident Trends</td>
</tr>
<tr>
<td>Duration Trends</td>
</tr>
<tr>
<td>5% - 15%</td>
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6 Barriers to Action?

<table>
<thead>
<tr>
<th>Barriers</th>
<th>Barrier Busting?</th>
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</thead>
<tbody>
<tr>
<td>Lack of Knowledge / Analysis</td>
<td>KPMG/MRA/FSC</td>
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<tr>
<td>Reinsurers</td>
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<tr>
<td>Treating the Symptoms</td>
<td>Treating The Cause</td>
</tr>
<tr>
<td>Lump Sum Profitability</td>
<td>Acknowledge Risk</td>
</tr>
<tr>
<td>First Mover Disadvantage</td>
<td>Last Mover Disadvantage</td>
</tr>
<tr>
<td>Rating Houses</td>
<td>Risk Management</td>
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</tbody>
</table>
What Companies Must Do

- Increase prices
- New product t&c’s
What I Would Do If I Was an.....

AA / Experience Analysis Actuary

Pricing Actuary

Product Manager

Claims Manager Or Underwriter
<table>
<thead>
<tr>
<th>Name</th>
<th>Email</th>
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<tr>
<td>Brad Louis</td>
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