

# **Distilling the key insights from Life Insurance complexity** **- *improving written life insurance communications***

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## Agenda : What will we cover today?

1. Context.
2. Principles for improving life insurance written communications.
3. Practical tips for applying these key principles.
4. Some life insurance examples:
  1. SOAP - Summary On A Page.
  2. Board Reports.
  3. Pricing Advice (LPS 320).
  4. Financial Condition Report.
5. Summary.

## 1. Context : Why do we need to make life insurance simpler to understand?



## 2. Principles for improving written life insurance communications

1. PLAN
2. CONTINUOUS IMPROVEMENT - *Incorporate feedback* from your audience on *what has worked well, what has not* and *continue to adapt it*.
3. BASICS COVERED – *Spelling, Grammar*, the *Formats/Templates* and the *Metrics of your organization* should all be correct.
4. ENJOYABLE TO READ – Is your document *easy to read* and a *jargon free zone*?
5. SELF CONTAINED – *All the important information* should be in the *right order* and *in the one document*.
6. TAILORED - Is it *relevant to* and *understandable by* the audience?
7. TAKEAWAYS - The *3 – 5 important insights* should be *summarized* for the reader.
8. ACTIONABLE – The reader should know from the document *What to do next? Why to do it?* and *in What timeframe?*

### 3. Practical Tips – Plan and Continuous Improvement

1. **PLAN** *Fail to Plan, Plan to Fail* also applies to writing.
  - Is there a standard format ?
  - For when?/For whom? – Make a timetable and include time for drafts, stakeholder input.
  - Are you drafting this document for someone else? What do they want to see in it? What is the style of writing/language that they have?
  
2. **CONTINUOUS IMPROVEMENT** - *Incorporate feedback* from your audience on *what worked well, what did not* and then *continue to adapt it*.
  - Is there a previous version of this document? For example: the FCR.
  - Is this the first report? – if so can another recent one be adapted e.g. LPS320?
  - Collect audience feedback – Any specific sections, graphics, formats, information that were helpful to the audience from this or other documents? Have any audience members such as some Board members changed since last time?
  - What else has changed? – Professional Standards, Company templates and/or updated metrics, updates to the ICAAP, Risk Management Strategy etc.

### 3. Practical Tips continued – Basics Covered and Enjoyable to Read

3. **BASICS COVERED** – *Spelling, Grammar*, the *Formats/Templates* and the *Metrics of your organization* should all be correct.

- Are you using the most recent template, colors, latest policies, metrics?
- Use the spelling and grammar check function.
- Proof read the document.
- Have you documented the sources of information?

4. **ENJOYABLE TO READ** – Is your document *easy to read* and a *jargon free zone*?

- How long is your document? Is it too technical?
- Are there graphs, charts, tables or only words?
- Have you explained the key concepts?
- Will the reader be informed enough to be able to explain this to someone else?
- Jargon free zone – Would a non-actuary be able to understand it?

### 3. Practical Tips continued – Self Contained and Tailored

5. SELF CONTAINED – *All the important information* should be in the *right order* and *in the one document*.

- All the *key facts* for the reader should be in the document.
- The reader should not have to reference multiple other documents and prior papers to understand the topic.
- Summarize the *key insights/conclusions towards the start of the document*.

6. TAILORED - Is it *relevant to* and *understandable by* the audience?

- *Who is the audience?* the Board, the BRC/BAC, Senior Management, Finance?
- Understand what this document be used for.
- Is it consistent with other documents on the topic? Does it have the latest available information.
- Finance & Management will be more interested in Budgets, Forecasts, Plans etc..  
– does it have the relevant KPIs. Are the main variances explained?

### 3. Practical Tips continued – Takeaways and Actionable

7. **TAKEAWAYS** - The *3 – 5 important insights* should be *summarized* for the reader.
- What are the *root causes* of the issue?
  - Are *changes required*? – e.g. product design (competitive/ profitability reasons).
  - Other impacts: on the Policy liabilities/ Profit & Loss and/or Capital.
  - Some scenarios may be difficult to quantify – illustrate with sensitivities.
  - There may be *multi year impacts*.
  - *For Finance* – it may mean that the *Budget/Forecast/Plan* will not be met.
  - Have you applied a *customer* and *commercial* lens to the topic?
8. **ACTIONABLE** – The reader should know from the document:
- *What to do next*? (Set out the issues to consider and/or next steps).
  - *Why to do it*? (As the key takeaways/insights will have been set out).
  - *What timeframe*? (As expected dates – e.g. update at the next Board meeting will have been included if necessary).



## 4. Examples – SOAP – Life Insurance Industry Claims

### Life Insurance Claims

*Claims management practices have recently become a key area of focus for life insurers following issues in the media.*



### Industry Topics

- ▶ Main focus is on insurance risk products.
- ▶ Use of outdated policy definitions in some products which may not necessarily reflect contemporary medical practice.
- ▶ Some potential gaps identified in claims governance processes.
- ▶ External reviews of a sample of past claims are now required.

### What does it mean for us?

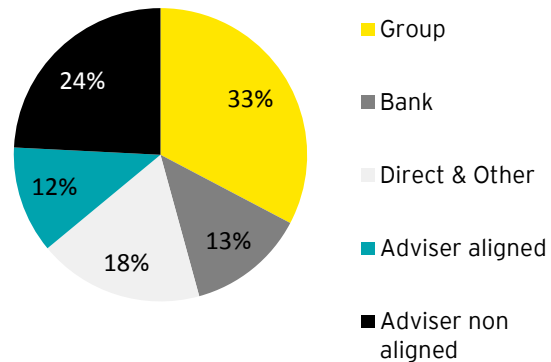
- ▶ Impacts on Business Line A and B. Business Line C unaffected.
- ▶ Review of Products 1,2 (BL A) Products 3,4 (BL B)
- ▶ Best estimate assumptions may require strengthening.
- ▶ Upgrade of policy definitions will increase the current year Budget loss ratio by X% and deteriorate the latest Forecast by \$YM in FY16.
- ▶ Pricing changes will not increase revenue until FY17.
- ▶ Additional costs to be budgeted for external claims reviews in FY16 – these are currently not in the Forecast.

### Next Steps – Timeframe by end Quarter 2 actuals and August forecast

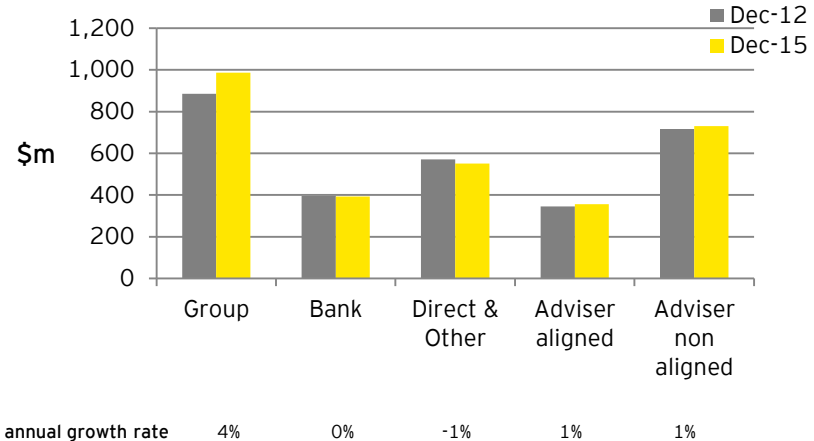
1. Confirm new business product definitions to be upgraded. Decide if these will be passed back to the in force.
2. Confirm estimates of impacts on the FY16 Budget loss ratio and any required changes to best estimate assumptions.
3. Estimate cost of external claims review to be included in FY16.
4. Confirm Q2 dividend unaffected.

## 4. Examples – SOAP – Trends in Industry New Business Premiums

Total New Premium for December 2015 by distribution channel



Change in total new premium by distribution channel



Source: Analysis of Plan for Life statistics

- Group channel premium growth reflects recent premium increases for Group risk products.
- Other sales channels have exhibited little new premium growth over the last three years – less than 1% growth in the advisor, bank and direct channels.
- The slow growth in the Advisor channel is reflective of uncertainty around industry wide Advice Reforms.

## 4. Examples – Board Reporting – Insights/Takeaways summary

**Extract of the Key Insights Section for a Board Paper describing the results of a scenario stress test.**

Item	Business impacts of the scenario
Business Line A	Reduction in sales, selective lapses, and increased claims.
Business Line B	Margin squeeze due to competitive pressures. Product ABC is close to loss recognition.
Asset Allocations	High % of growth assets. Rebalancing the portfolio may crystalize losses.
Expenses	Fixed costs remain stable despite reducing sales, so the unit costs will increase without management actions. Some project benefits may not be delivered.

### **Key Risks of the scenario and the limitations of the proposed Management Actions**

The key risks to the capital position are a severe market event or material strengthening of assumptions.

Product ABC has limited capacity to absorb assumption strengthening.

Rebalancing the assets away from growth assets improves the short term capital position but may impact the longer term recovery.

Reducing the fixed expenses to reduce the unit costs may be difficult in the short term.

## 4. Examples : LPS320 Pricing Advice sample format

1. **Introduction** Summary of why and when the LPS320 is required. Summarize the previous LPS320 and any quotes if available (self contained if possible).
2. **Background** – Recent developments, current profile, historic product changes.
3. **Product Design** – Current Product Design, Key Features (include **Low**, **Medium**, **High** Risk features), various options if several options being quoted.
4. **Claims Experience** – By Benefit Type, use Graphs, compare to Current best estimate assumptions, highlight Key trends – worsening/ improvements.
5. **Minimum Pricing Metrics** (If applicable). As per Product Management Policy – such as Profit Margins, Returns on Capital etc.
6. **Reinsurance** (if applicable). Reinsurance Quotation Summary, Insurance Risk Considerations, Capital Impacts, commercial considerations for reinsurance.

## 4. Examples : LPS320 Pricing Advice sample format

8. **Pricing and Profitability** by Benefit Type – Death (Terminal Illness), TPD, Critical Illness, Income Protection ( Short/Long term) and Gross/Net of Reinsurance.
9. **Capital Requirements** Needs to cover what additional capital is required.
10. **Sensitivities and Scenario Testing** – Tests the key financials when the key assumptions are varied.
11. **Key Risks** comments on main risks e.g. benefit design features, economic conditions, operational risks.
12. **Risk Appetite Statement** Will the company continue to be within its risk appetite?
13. **Opinion of the Appointed Actuary** Summary of the actuarial advice commenting on the key points such as the financials and the risks.

## 4. Examples : LPS320 Sample Format Section 10 - Sensitivities

### Extract from LPS320 - Section 10 on Sensitivities and Scenario Testing

- Show the **key sensitivities versus the baseline by benefit type based on risks**.
- Highlight when profit or capital metrics are negative or below minimum hurdles.
- In this example minimums: Profit Margin (PM) = 10% Return on Capital (ROC) = 8%.

Scenario	Assumptions	TOTAL	Benefit A	Benefit B
Baseline	<b>Best estimate assumptions</b>	PM = 12% ROC = 10%	PM = 13% ROC = 10%	PM = 11% ROC = 10%
Scenario 1	<b>Increase claims</b> by +10% , <b>reduce interest rates</b> by 1.0%	PM = 8 % ROC = 6%	PM = 10 % ROC = 9 %	PM = 6% ROC = 4%
Scenario 2	<b>Increase claims</b> by +5% , <b>new business volumes</b> – 20%	PM = 9 % ROC = 7%	PM = 9 % ROC = 7 %	PM = 9% ROC = 8%

## 4. Examples : FCR Sample Format – Volume 1 – Executive Summary

**Report :** Executive Summary of FCR **Audience:** Management/Board. **30 – 35 Pages**

1. **BACKGROUND AND SCOPE** – Identification & Purpose (period covered, AA details etc.), Structure of the Volumes, Scope.
2. **AA's OPINIONS & CERTIFICATIONS** – Distribution of Retained Profits, Apportionments, Actuarial Investigations, Minimum Termination, Surrender and Paid Up Values, Cost of Guarantees, ICAAP, Risk Management, Reinsurance.
3. **OVERVIEW** – Economic Conditions, Financial Performance, Capital, Key Risks.
4. **FINANCIAL CONDITION** – Financial Performance ( Sources of Profit, Operating Profits, Return on Capital).
5. **SIGNIFICANT EVENTS DURING THE YEAR** – Company wide, by Business Line/Channel (adapt for the Company's structure).
6. **BUSINESS PERFORMANCE** - Business Plan, Outlook for Shareholders, Outlook for Policyholders, New Business Profitability.

## 4. Examples : FCR Sample Format – Volume 1 – Executive Summary

- 7. **DISTRIBUTION OF PROFITS** - Bonus Recommendations, Shareholder Dividends and Returns of Capital.
- 8. **RISK MANAGEMENT**– Risk Management Framework, Data, Asset Liability Management, Reinsurance, Unit Pricing.
- 9. **EMERGING TOPICS** – Commentary on topics that are impacting the industry or the company itself – IFRS4, Life Insurance Reforms, reorganization plans etc..
- 10. **PRIOR YEAR FCR ISSUES AND PROGRESS** – Categorize progress and significance.
- 11. **RECOMMENDATIONS** – Categorize by Significance and Timeframe (One year or Multi Year).

### **APPENDIX – Checklist for Compliance with PS200.**



## 4. Example: FCR Section 10 Prior Year FCR Issues and Progress

### Extract from FCR - Section 10 – Sample categories for recommendations

Significance	Description
Critical	Represents an immediate threat to financial condition and requires redress as a matter of high priority.
Significant	The identified issues whilst not representing an immediate threat to financial condition may become material in the future if not appropriately addressed.
Important	The identified issue is unlikely to pose a threat to financial condition on its own but processes could be improved toward best practice to reduce the likelihood of a future issue emerging.

Progress	Description
Completed	The issue has been adequately addressed.
Significant progress	Progress to resolving the issue is > 50% and a concrete plan is in place with resources to resolve the issue in the year ahead.
Limited progress	Progress to resolving the issue is < 50% and the issue is unlikely to be resolved in the year ahead without additional resources.

## 4. Example: Sample FCR Section 10 Prior Year FCR Issues and Progress

Figure X: Summary of Progress on Issues from FCR at 31 December 2014 (FY14)

Issue	Description	FY Classification and Progress
<b>Company Wide</b>		
<b>Expense management</b> – improved reporting and management of expense unit costs	Given that a material part of the expense base is fixed in nature, Management should enhance its capability to report unit costs when policy volumes change.	<b>FY14 Classification:</b> Important <b>FY15 Progress:</b> Significant  A new costing tool has been implemented and a number of new expense reports implemented.
<b>Business Unit XYZ</b>		
<b>Product ABC</b> – is currently below minimum profitability hurdles	Active management is required to return Product ABC to the minimum profitability hurdles in the Product Management Policy.	<b>FY14 Classification:</b> Significant <b>FY15 Progress:</b> Significant  During the year the product has been repriced and a number of product changes have been made.

## 4. Example: Sample FCR Section 11 Recommendations

Figure Y: FY15 Recommendations

Issue	Description	Classification
<b>Company Wide</b>		
<b>Restructure</b> – Implementation of the new organisational structure.	<p>The company has recently undergone a major restructure with several operational units being combined. Successful implementation of this new structure will require:</p> <ul style="list-style-type: none"> <li>• Rationalisation of products</li> <li>• Alignment of Claims Governance procedures</li> <li>• An Asset Allocation review</li> </ul> <p>These actions are outlined in the company's business plan.</p>	<p><b>Classification:</b> Significant <b>Timeframe:</b> FY16</p> <p>Management should ensure that the actions in the business plan associated with the implementation of the new structure are fully completed in the coming Financial Year.</p>

## Summary

1. **8 Key Principles** – Plan, Continuous Improvement, Basics Covered, Enjoyable to Read, Self-Contained, Tailored, Takeaways, Actionable.
2. **Practical Tips** – to apply the principles.
3. **We looked at a few examples**
  1. Summary On A Page (SOAP)
  2. Key Insights for Boards
  3. Pricing Advice (LPS 320)
    - Format.
    - Example on Sensitivities.
  4. Financial Condition Report
    - Suggested Volume 1 format.
    - Sample classification of recommendations.